

PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*

Introduction

Scope of This Section

.01 This section contains requirements and application material for firms engaged to have an engagement review. The requirements and guidance in this section supplement the requirements and application guidance in section 100, *Concepts Common to All Peer Reviews*, and section 300, *General Principles and Responsibilities for Reviewed Firms*.

.02 Firms that perform only engagements under the Statements on Standards for Accounting and Review Services (SSARSS) or engagements under the Statements on Standards for Attestation Engagements (SSAEs) other than examinations are eligible to have engagement reviews. (Ref: par. .A1)

Effective Date

.03 The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

Objective

.04 The objective of the reviewed firm is to enhance its effectiveness and contribute to the quality of our profession by undergoing an engagement review performed in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants. (Ref: par. .A2)

Definitions

.05 Terms applicable to this section are defined in paragraph .11 of section 100.

Requirements

Planning

.06 The firm should make the following information available to the review captain:

- a.* The number of engagements performed by level of service and industry for each engagement partner

- b. Responses to inquiries about the areas to be addressed in the written representations
- c. The firm's prior
 - i. peer review report,
 - ii. letter of response (if applicable),
 - iii. letter of acceptance,
 - iv. findings for further consideration (FFCs) (if applicable), and
 - v. representation letter

Engagement Selection

.07 The firm should submit the engagements that meet the criteria of the review captain's selections. (Ref: par. .08 and .A3–.A7)

.08 For each engagement selected for review, the reviewed firm should submit the following (masking client identity if it desires):

- a. The appropriate financial statements or information
- b. The accountant's report, if applicable
- c. The engagement profile
- d. The firm's documentation required by applicable professional standards for each engagement

Scope Limitations

.09 The firm should notify the review captain and the administering entity (AE), prior to the commencement of the review, if it intends to exclude an engagement. This notification should indicate

- a. its plans to exclude one or more engagements from the peer review selection process,
- b. the reasons for the exclusion, and
- c. that it is requesting a waiver for the exclusion.

Evaluation of Engagements

.10 The firm should promptly respond to review captain questions during the review. (Ref: par. .A8)

Responding to Matters, Findings, and Deficiencies

.11 The firm should discuss matters, findings, and deficiencies with the review captain. Ordinarily, this discussion occurs during the closing meeting. If the firm disagrees with one or more of the findings or deficiencies, and the firm and reviewer can't come to a resolution, the firm should contact the AE for assistance and follow the guidance in section 100 to resolve the disagreement. (Ref: par. .A9)

.12 The firm should identify the appropriate remediation of findings and deficiencies. (Ref: par. .A10)

.13 The firm should respond to

- a.* matters via the matter for further consideration (MFC) form,
- b.* findings via the FFC form, and
- c.* deficiencies via a letter of response.

.14 The firm's responses on the FFCs and letter of response should (Ref: par. .A11–.A14)

- a.* include the firm's actions taken or planned to remediate the findings or deficiencies, including
 - i.* timing of the remediation and
 - ii.* additional procedures to ensure the finding or deficiency is not repeated in the future.
- b.* be feasible, genuine, and comprehensive.
- c.* be addressed to the AE's peer review committee (committee) in a letter of response, if applicable.
- d.* be dated as of the exit conference in a letter of response, if applicable.
- e.* be on firm letterhead in a letter of response, if applicable.

The review captain should review documentation of any action taken by the firm and consider whether the action is appropriate.

.15 The firm's draft responses should be provided to the review captain as soon as possible after the closing meeting to allow the review captain enough time to assess the firm's response prior to the exit conference. (Ref: par. .A15)

Written Representations

.16 The firm should provide to the review captain written representations on firm letterhead for the peer review year, dated as of the date of the peer review report, that state the following: (Ref: par. .A16–.A18)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the review captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which the firm practices for the year under review. If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.
- e. Management has fulfilled its responsibility to remediate nonconforming engagements as stated by the firm on the relevant form, if applicable.
- f. Management understands the intended uses and limitations of the quality control materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- g. Management has responded fully and truthfully to the review captain's inquiries.
- h. Management has provided the review captain with all relevant information including all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.
- i. Management has disclosed to the review captain that the firm did not perform any engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the SSAEs, or engagements under the Public Company Accounting Oversight Board (PCAOB) standards that are not subject to PCAOB permanent inspection.
- j. Management acknowledges that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.

- k. Management has provided to the review captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- l. Management has disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management has included a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

.17 If, in addition to the representations required by paragraph .16, the review captain determines that it is necessary to obtain other representations based on the circumstances and nature of the peer review, the review captain should request such other written representations.

Subsequent Events

.18 If, after the year-end of its engagement review, a firm performs an engagement requiring a system review, the reviewed firm should

- a. immediately notify the AE and
- b. undergo a system review.

The system review is due the earlier of 18 months from the year-end of the engagement (or, for financial forecasts and projections, 18 months from the date of the report) requiring a system review or by the firm's next scheduled due date.

.19 If the firm fails to immediately notify the AE of the performance of an engagement described in paragraph .18, the firm should participate in a system review with a peer review year-end that covers that engagement.

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01–.02)

.A1 Firms eligible to have an engagement review may elect to have a system review. See section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*, for the firm requirements of a system review.

Objective (Ref: par. .04)

.A2 The reviewed firm may benefit from knowing the review captain's objectives when performing an engagement review, which are to

- a. evaluate whether the engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects and
- b. report on the evaluation of selected engagements.

Engagement Selection (Ref: par. .07–.08)

.A3 The review captain will make selections based on the following criteria:

- a. One engagement from each of the following levels of service performed by the firm:
 - i. Review of financial statements (performed under SSARs)
 - ii. Compilation of financial statements with disclosures (performed under SSARs)
 - iii. Compilation of financial statements that omits substantially all disclosures (performed under SSARs)
 - iv. Engagements performed under the SSAEs other than examinations
- b. One engagement from each engagement partner responsible for the issuance of reports listed in item (a)
- c. At least two engagements, unless only one is performed

.A4 The review captain will select a preparation engagement only in one of the following instances:

- a. It is the only level of service performed by an engagement partner.
- b. It is the only engagement performed with disclosures.
- c. It is the only engagement performed without disclosures.
- d. The selection is needed to meet the minimum requirement that two engagements are selected for review.

.A5 The objective of the engagement-selection requirements is to select one engagement for each engagement partner and one engagement from each level of service listed in paragraph .A3a for the firm. Review captains will not select more engagements than necessary to meet this objective.

.A6 Engagement selection may also include consideration of industries.

.A7 As an example, a firm may have indicated that engagement partner A issues review reports on 4 construction contractors, 2 retailers, and 10 manufacturers, but engagement partner B issues compilation reports on 30 medical practices and review reports on 5 restaurants. The firm may be asked to submit one of engagement partner A's review reports on a construction contractor and

one of engagement partner B's compilation reports on a medical practice. The firm will choose the engagements based on those selections.

Evaluation of Engagements (Ref: par. .10)

.A8 The review captain's evaluation of each engagement submitted for review will include the following:

- a. Consideration of the financial statements or information and the related accountant's report on the engagements performed under the SSARs and SSAEs
- b. Review of all other documentation required by applicable professional standards on the engagements
- c. Consideration of the information related to the engagement obtained through the peer review including, but not limited to, engagement profile information and other inquiries

Responding to Matters, Findings, and Deficiencies (Ref: par. .11–.15)

.A9 The closing meeting is designed to provide sufficient time for the firm to determine the appropriate responses to peer review results and for the reviewer to evaluate the firm's responses. The following are discussed during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, or deficiencies, and the expected report rating, if determinable at this point
- b. The firm's requirement to respond to any MFCs, FFCs, or deficiencies included in the peer review report
- c. The firm's required written representations
- d. Other suggestions and observations for the firm to consider

.A10 Although it is ultimately the firm's responsibility, the review captain and firm may collaborate to determine the remediation. As required by paragraph .19 of section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, review captains or AEs should not require firms to perform omitted procedures, reissue accounting reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make.

.A11 The purpose of the firm's response on the FFC or in the letter of response is for a firm to document the specific actions that will be taken to correct findings and deficiencies noted by the review captain.

.A12 The committee may require the firm to make and document appropriate considerations regarding nonconforming engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

.A13 Examples of actions a firm may take in response to nonconforming engagements include, but are not limited to, the following:

- a. Omitted procedures performed (including documentation)
- b. Reissued report and financial statements
- c. Notification to users to discontinue use of previously issued reports

.A14 Illustrative letters of response are presented in exhibit B, “Illustrative Examples of a Firm’s Letter of Response.”

.A15 After the firm has responded to the MFCs, FFCs, and deficiencies in the report and the review captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, the review captain should communicate the results to the firm at an exit conference. The following are discussed during the exit conference:

- a. Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm’s responses to MFCs, FFCs, and deficiencies in the report
- b. The appropriateness of the firm’s response
- c. The firm’s representation letter
- d. Potential implications of the RAB acceptance process and their impact on the acceptance and completion of the peer review and on the reviewed firm’s enrollment in the program, including
 - i. corrective actions for deficiencies and implementation plans for findings, if applicable;
 - ii. recommended report rating changes; and
 - iii. oversight
- e. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable

Written Representations (Ref: par. .16–.17)

.A16 The reviewed firm is not prohibited from making additional representations and may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the review captain. For example, the list of engagements in paragraph .16*i* is a minimum required representation, and therefore, these engagements should not be removed if the firm does not perform any such engagements.

.A17 An illustrative example of a firm’s written representation letter is provided in exhibit A, “Illustrative Representation Letter.”

.A18 On committee-appointed review team reviews, the representation letter may be addressed “To the Review Captain.”

Exhibit A — Illustrative Representation Letter

.A19 The following illustrative letter includes written representations that are required by paragraphs .16 and .17 of this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.

[*Entity Letterhead*]

[*Date of the Report*]

To [*Name of Review Captain*]:

We are providing this letter in connection with the peer review of [*name of firm*] as of the date of this letter and for the year ended June 30, 20XX.

Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [*no knowledge of*][*disclosed to you all known*] situations in which [*name of firm*] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements through the issuance dates of the reviewed engagements in each state in which it practices for the year under review.

We have provided to the review captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1[®] and SOC 2[®] engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under Public Company Accounting Oversight Board (PCAOB) standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[*We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the Letter of Response (if applicable).*]

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm that, to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,

[Name of Reviewed Firm Representative(s)]^{fn 1}

^{fn 1} Firm representatives are members of management as described in paragraph .10 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

Exhibit B — Illustrative Example of a Firm’s Letter of Response

.A20 This exhibit contains an illustration of a firm’s letter of response to a peer review report rating of *pass with deficiencies* or *fail* (engagement reviews).

Illustration — A Firm’s Letter of Response to a Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass With Deficiencies or Fail

[Reviewed firm’s letterhead]

[Date of the report]

[Addressed to the peer review committee of the administering entity]^{fn 1}

Ladies and Gentlemen:

This letter represents our^{fn 2} response to the report on the engagement review of our firm’s accounting practice for engagements submitted for review with periods ending during the year ended *[peer review year-end date]*.

- 1.^{fn 3} We have recalled and reissued the review report. The entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a pre-issuance review by a partner not associated with the engagement to make sure that the accountant’s report is appropriately modified when the financial statements depart from applicable professional standards.
2. We subsequently obtained a management representation letter and documented the matters covered in our inquiry and analytical procedures. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant’s inquiry and analytical procedures, is included in the working papers.

We believe these actions are responsive to the deficiencies noted on the review.

^{fn 1} The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the National Peer Review Committee.”

^{fn 2} The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

^{fn 3} The numbering of responses to coincide with the numbered comments in the report is optional.