

PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms*

Introduction

Scope of This Section

.01 This section contains general principles and responsibilities for reviewed firms. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*.

Effective Date

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

Objective

.03 The objective of the reviewed firm is to enhance its effectiveness and contribute to the quality of our profession by undergoing a peer 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.

Definitions

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

Requirements

Ethical Requirements Relating to a Peer Review

.05 A reviewed firm should maintain independence in fact and appearance from the reviewing firm or firms, reviewers, and any other individuals who participate in or are associated with the peer review.

Preparing for a Peer Review

Engage a Reviewer

.06 The firm should timely engage a reviewer to perform the peer review in accordance with the standards. The firm and the captain should agree on the commencement and anticipated exit conference dates. (Ref: par. .A1–.A2)

.07 The firm should consider whether the qualifications of the captain and team members, if applicable, are commensurate with the nature of the firm's practice.

.08 The firm should designate a partner from the firm as the peer review contact. The peer review contact should be knowledgeable about the nature of the firm's practice and is accountable for providing complete and accurate information to the peer review team and the administering entity (AE).

Licensure

.09 It is the reviewed firm's responsibility to understand and comply with its licensing requirements. Therefore, it should be prepared to respond to the reviewer's inquiries and requests for documentation. This is also important for out-of-state firm and individual licenses when licensing requirements may be more difficult to identify and understand.

Written Representations

.10 Written representations should be provided to the captain on firm letterhead from members of management of the firm whom the captain or AE believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. (Ref: par. .A3–.A4)

.11 The written representations should be in the form of a representation letter on firm letterhead, addressed to the captain, and signed by a member of management described in paragraph .10, as of the date of the peer review report. (Ref: par. .A5)

Cooperating and Complying With the Requirements of the Program

.12 A firm should cooperate with the reviewer, AE, and AICPA Peer Review Board (the board) in all matters related to the program. (Ref: par. .A6–.A7)

.13 A firm should ensure its peer review is submitted in compliance with the requirements of the program.

- a. A firm is considered not cooperating and its enrollment is subject to termination from the program for reasons including, but not limited to, the following: (Ref: par. .A7)
 - i. Once the review has commenced, not responding to inquiries or providing information necessary to ensure the review is accepted and completed
 - ii. Not providing documentation including the representation letter, quality control documents, engagement working papers, and all elements of the firm's system of quality control
 - iii. Not responding to matters for further consideration (MFCs) or findings for further consideration (FFCs) timely
 - iv. Limiting access to offices, personnel, or other once the review has commenced

- v. Not facilitating the arrangement for the exit conference on a timely basis
 - vi. Failing to timely file a letter of response, if applicable
 - vii. Failing to cooperate during oversight
 - viii. Failing to timely agree to and complete required corrective actions or implementation plans
 - ix. Failing to ensure that the firm's peer review is submitted to the AE timely
- b. A firm is considered not complying with the requirements of the program and its enrollment is subject to termination from the program for reasons including, but not limited to, the following:
- i. Withholding information significant to the peer review (Ref: par. .A8)
 - ii. Failing to correct deficiencies or significant deficiencies after consecutive non-pass (*pass with deficiencies* or *fail*) peer review reports (Ref: par. .A9)
 - iii. Failing to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the same peer review
 - iv. Receiving a peer review report with deficiencies or significant deficiencies that indicate the firm is so seriously deficient in its performance that the committee believes educational and remedial corrective actions or implementation plans would not be adequate
 - v. Failing to provide the AE with a substantive response, and the firm does not revise its response or provides additional responses that are not substantive as determined by the AE (Ref: par. .A10)
 - vi. Failing to provide substantive responses during the AE's process of determining if information provided by a firm was erroneous or omitted, which results in a significant change in the planning, performance, evaluation of results, or peer review report (Ref: par. .A11)
 - vii. Failing to timely notify the AE that it is performing a type of engagement or engagement in an industry that the firm had previously represented by written communication to the AE that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan and the corrective action or implementation plan was eliminated by the AE based on that representation

.14 If a firm is deemed not cooperating or not complying with the requirements of the program due to the reasons described in paragraph .13, it should be notified by a delivery method providing proof of delivery (including electronic means) that the board will appoint a hearing panel to

consider whether the firm's enrollment in the program should be terminated in accordance with fair procedures established by the board.

.15 If a firm has AICPA members, the fact that the firm's enrollment in the program has been terminated, whether with or without a hearing, should be published in such form and manner as AICPA Council may prescribe.

Reenrollment in the Program

.16 To reenroll in the program, a firm should submit a request to reenroll in the program through an AE. If the firm was dropped or terminated from the program, the firm should address and remediate the circumstances that caused the firm to be dropped or terminated to be considered for reenrollment in the program. Common criteria for reenrollment include, but are not limited to, submitting evidence to the AE or hearing panel that demonstrates the following: (Ref: par. .A12–.A14)

- a. Completion of the requested action in compliance with the requirements of the program
- b. Changes in the firm's system of quality control (such as personnel changes or procedural changes, methodologies to identify the complete population of engagements performed, access to technical resources or membership in quality centers, and voluntary changes in the practice or types of industries or engagements performed)
- c. Competency through completion of relevant CPE, training, or competency assessments
- d. Assessment of quality in the performance of engagements through internal or external monitoring results (such as pre-issuance reviews, post-issuance reviews, and internal inspections that reflect that engagements are materially performed and reported on in conformity with applicable professional standards)

.17 If reenrollment is approved and the firm is past its next peer review due date, the firm should complete its subsequent peer review

- a. within 90 days of reenrolling if the firm's most recent peer review is completed,
- b. within 90 days of the AE's report acceptance body (RAB) determining that actions taken are satisfactory to complete a commenced peer review, or
- c. by a later date set by the hearing panel or the AE.

Publicizing Peer Review Information

.18 The firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until the date of acceptance. (Ref: par. .A15–.A20)

Acquisitions and Divestitures

.19 If a firm has had an acquisition of another practice or a portion thereof or a divestiture of a significant portion of its practice during or subsequent to its peer review year, the reviewed firm or the reviewer should consult with the relevant AE and AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken. (Ref: par. .A21–.A22)

Resigning From the Program

.20 A firm may resign from the program when it is no longer performing engagements that require the firm to undergo a peer review. To resign from the program, a firm should submit a written request to the AE before the firm’s peer review has commenced. A firm should consult with its state board of accountancy to determine if there are rules that require enrollment in the program even if the firm does not perform services that include issuing reports or when it is no longer performing engagements that require a firm to undergo a peer review.

.21 A firm enrolled in the program that has been notified that it is the subject of a hearing should not resign until the matter causing the hearing has been resolved.

.22 To resign from the program once a firm’s peer review has commenced but has not been completed, a firm should submit a letter pleading guilty, acknowledging it has not cooperated with the program, waiving its right to a hearing, and for firms with AICPA members, agreeing to allow the AICPA to publish, in such form and manner as the AICPA Council may prescribe, the fact that the firm has resigned from the program before completion of its peer review, evidencing that it has not cooperated with the program. In addition, if (a) the firm has been notified of the reviewer’s or AE’s intent to issue or require a report with a peer review rating of *pass with deficiencies* or *fail* or (b) the reviewer or AE has knowledge of the discovery of an engagement that was not conducted in accordance with professional standards on which the firm must take, or would likely be required to take, action in accordance with professional standards, then the fact that the situation in item (a) or (b) existed would also be published for firms with AICPA members. If the firm does not sign the letter pleading guilty and waiving its right to a hearing, the firm will be referred to a board hearing panel. The panel will consider terminating the firm’s enrollment due to not cooperating with the program. (Ref: par. .A23)

Natural Disasters and Other Catastrophic Events

.23 If a firm experiences a natural disaster or other catastrophic event that affects its ability to comply with the requirements of the standards, the firm should consult with its AE.

.24 If the situation affected both the firm’s operations and its ability to comply with peer review requirements, the firm should discuss the following with the AE:

- a. The firm’s current peer review year-end and due date
- b. The extent of damage to the firm’s offices and the working papers subject to peer review, if applicable (This would include off-site storage or data-retention facilities that house working papers subject to peer review.)

- c. The availability, or lack thereof, of personnel that performed engagements subject to peer review
- d. The firm's ability to continue operating and performing engagements subject to peer review
- e. If known, whether the firm's scheduled peer reviewer was also affected
- f. The amount of time the firm deems necessary before it would be ready to undergo a peer review

The AE should assist in determining whether there could be a possible scope limitation due to the exclusion of any affected engagements or offices, the need for a change in year-end or an extension of due date, and the effect on the firm's continuing peer review cycle. These situations will be considered on a case-by-case basis.

.25 If the firm's scheduled reviewer was directly affected by a natural disaster or other catastrophic event and may no longer be able to perform the review, the firm should consult with its AE. The AE will assist the firm in determining whether it is appropriate to extend the peer review due date or if the firm should engage another reviewer to perform its peer review. (Ref: par. .A24)

Application and Other Explanatory Material

Preparing for a Peer Review

Engage a Reviewer (Ref: par. .06-.08)

.A1 *Timely* ordinarily means performing the review within three to five months after the peer review year-end; the firm may need to contact its reviewer in advance to meet this time frame. The review should be planned to provide the review team with sufficient time to perform the review and to provide the firm with sufficient time prior to the exit conference to determine appropriate responses to matters, findings, deficiencies, and significant deficiencies identified during the review.

.A2 The terms and conditions of the peer review may be summarized in an engagement letter between the reviewed firm and the reviewing firm.

Written Representations (Ref: par. .10-.11)

.A3 Written representations are necessary information that describe matters significant to the peer review to assist in the planning, performance of, and reporting on the peer review. The specific representations are detailed in section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*, and section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*, as applicable.

.A4 Members of management responsible for and knowledgeable about the required representations normally include the managing partner and partner in charge of the firm's system of quality control.

.A5 The representation letter is addressed to the captain because the captain is concerned with events occurring during the peer review period and through the date of the peer review report that may require an adjustment to the report or other peer review documents.

Cooperating and Complying With the Requirements of the Program (Ref: par. .12–.15)

.A6 Cooperation includes completing actions timely and in compliance with the requirements of the program.

.A7 A firm is considered not cooperating and is subject to being dropped from the program by the board for reasons including, but not limited to, failing to do the following:

- a. Timely file requested information with the AE, prior to the commencement of the peer review.
- b. Timely submit requested information to the reviewer that is necessary to plan or perform the firm's peer review, prior to the commencement of the peer review.
- c. Have a peer review by the due date.
- d. Accurately represent its accounting and auditing practice, as defined by the program, after notifying its AE that it does not perform engagements that require the firm to have a peer review.
- e. Timely pay in full the fees and expenses of the review team formed by an AE, or timely pay all fees related to the administration of the program that have been authorized by the governing body of an AE and the AICPA.

If a firm is deemed not cooperating as a result of any of the failures described, it will be notified by a delivery method providing proof of delivery (including electronic means) that its enrollment will be dropped after 30 days if the firm does not cooperate. The board may drop a firm's enrollment with or without holding a hearing. A firm whose enrollment has been dropped or terminated from the program may appeal within 30 calendar days of notification pursuant to fair procedures established by the board. If a firm's enrollment is dropped or terminated for not accurately representing its accounting and auditing practice, or for subsequent failure to submit a peer review by a required due date, this may result in an investigation of a possible violation by a regulatory, monitoring, or enforcement body.

.A8 Information significant to the peer review may include, but is not limited to, the following:

- a. Failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of accounting, auditing, or attestation engagements from regulatory, monitoring, or enforcement bodies
- b. Omission or misrepresentation of information relating to the reviewed firm's accounting and auditing practice as defined by the AICPA Standards for Performing and Reporting on Peer Reviews, including, but not limited to, 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)

.A9 A firm should be notified after receiving a non-pass (*pass with deficiencies* or *fail*) peer review report of its responsibility to correct the deficiencies or significant deficiencies. This notification will be via a delivery method providing proof of delivery (including electronic means).

.A10 The AE has the authority to determine if a firm's response is substantive.

.A11 The AE has the authority to determine if erroneously provided or omitted information by a firm that results in a significant change in the planning, performance, evaluation of results, or peer review report is a matter of not cooperating with the program.

Reenrollment in the Program (Ref: par. .16-.17)

.A12 Reenrollment in the program is subject to evaluation by either the AE or a hearing panel of the Peer Review Board. The hearing panel or AE's peer review committee may also require other actions as a condition of reenrollment.

.A13 Determination of final acceptance or completion of a review is subject to the AE's RAB.

.A14 Reenrollment decisions subject to approval by a hearing panel of the board include, but are not limited to, the following:

a. Drops for

- i. not accurately representing the reviewed firm's accounting and auditing practice as defined by the AICPA Standards for Performing and Reporting on Peer Reviews
- ii. failing to submit the reviewed firm's peer review by a required due date after being dropped for the preceding reason and subsequently being allowed to reenroll

b. Terminations for

- i. omitting or misrepresenting information related to the reviewed firm's accounting and auditing practice as defined by the AICPA Standards for Performing and Reporting on Peer Reviews
- ii. failing to receive a *pass* report rating subsequent to receiving notification via certified mail, or other delivery method providing proof of delivery (including electronic means), after a peer review rating of *pass with deficiencies* or *fail*
- iii. failing to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the reviewed firm's most recent peer review

Publicizing Peer Review Information (Ref: par. .18)

.A15 The firm's AE and AICPA staff may disclose to third parties the following information:

- a. The firm's name and address
- b. Whether the firm is enrolled in the program
- c. The date of acceptance and period covered by the firm's most recently accepted peer review
- d. The most recent date that the firm's enrollment in the program has been dropped or terminated, if applicable

This information is available in the AICPA public file for all firms enrolled in the program.

.A16 The firm may authorize its AE or AICPA staff to make its peer review results available to the public or to state boards of accountancy. Peer review results include, as applicable, the following:

- a. Peer review report
- b. Letter of response
- c. Acceptance letter
- d. Letters signed by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions
- e. Letter signed by the AE notifying the reviewed firm that certain required actions have been completed

The authorization ordinarily occurs during the firm's peer review scheduling process when the firm may choose not to opt out of the program's process for voluntary disclosure through Facilitated State Board Access (FSBA).

.A17 A firm may voluntarily become a member of one of the AICPA's audit quality centers or sections that require, as a condition of membership, making the firm's peer review results (described in paragraph .A16) open to public inspection.

.A18 When the firm's peer review is ongoing, the firm may give the AE or AICPA staff written authorization to provide specific information to third parties (in addition to the information in paragraph .A15). The following (or similar) types of objective information about the review may be provided, if known:

- a. The date the review is or was scheduled to take place
- b. The name of the reviewing firm, team captain, or review captain
- c. If the fieldwork on the peer review has commenced
- d. The date the exit conference was expected to or did occur

- e. A copy of any extension approval letters
- f. Whether the peer review working papers have been received by the AE
- g. Whether a must-select engagement was included in the scope as required by the standards
- h. If a technical review is in process
- i. Whether the review has been presented for acceptance
- j. The date the review is expected to be presented for acceptance
- k. The specific overdue letters (such as, but not limited to, scheduling the peer review or completion of remedial actions) requested by third parties

.A19 When there is evidence of an open ethics investigation and the firm knowingly makes an informed, voluntary, written waiver of the right to confidentiality, in those circumstances, AICPA Peer Review staff may provide information to the AICPA Professional Ethics Division. Information available for disclosure about the firm includes, but is not limited to, the following:

- a. Fieldwork commencement date
- b. Exit conference date
- c. Review acceptance date
- d. Levels of service and industries included in the firm's peer review information for prior or current peer reviews
- e. Levels of service and industries included in prior or current peer reviews and those determined not to be in conformity with professional standards in all material respects
- f. Signed confirmations by a firm representative that the enrolled firm did not perform any services or issue reports that would require the firm to undergo a peer review
- g. Other similar information related to a prior or current peer review

.A20 The firm may give the AE or AICPA staff other written requests to provide information or documents to a third party, which will be considered on a case-by-case basis by the AE or the AICPA. However, neither the AE nor the AICPA will provide information that is subjective (due to different definitions or interpretations by third parties), even with firm authorization, such as the following:

- a. Stating solely that the review is "in process" or responding to an inquiry solely regarding what the "general status" of a peer review is
- b. The peer review report rating prior to the peer review's acceptance

- c. Whether there are indications that the firm, reviewing firm, team captain, or review captain are cooperating (or not cooperating) with the AICPA or AE
- d. An indication of the quality or completeness of peer review working papers received by the AE
- e. Reasons why peer review working papers, implementation plans, or corrective actions are late
- f. Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- g. Reasons for or the likely outcome if the firm is going through fair procedures to determine whether it is cooperating with the AICPA or the AE

Acquisitions and Divestitures (Ref: par. .19)

.A21 A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm's name during that year.

.A22 Submission of the "Firm Structure Change" form may be considered a consultation with the AE and AICPA staff.

Resigning From the Program (Ref: par. .20–22)

.A23 The submission by the firm of a request to resign from the program once its peer review has commenced but has not been completed is considered not cooperating with the AE and may lead to the termination of the firm's enrollment in the program by a hearing panel of the board.

Natural Disasters and Other Catastrophic Events (Ref: par. .23–.25)

.A24 If a reviewer was affected by a natural disaster or other catastrophic event and is not able to complete a scheduled review, the AE will consider the following:

- a. The firm's peer review year-end and the timing of when engagements falling within the peer review year are performed
- b. The length of time between when the situation arose and the firm's due date
- c. The amount of time that the currently scheduled peer reviewer or review team would need before being able to perform the peer review
- d. Whether the firm has very specialized industries or engagements

PR-C Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*

Introduction

Scope of This Section

.01 This section contains requirements and application material for firms undergoing a system 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 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 PCAOB standards must have a system review. (Ref: par. .A1–.A2)

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 a system 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. .A3)

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 reviewer:

- a. Information regarding the firm’s audit and accounting practice for each engagement with a period end date during the peer review year (or each financial forecast, financial projection, or agreed-upon procedures engagement with a report dated during the peer review year) and that was issued by the commencement date of the review to allow the reviewer to be able to identify

- i. the level of service,
 - ii. the number of audit or accounting hours (actual, if available, or estimated),
 - iii. the engagement partner,
 - iv. the industry,
 - v. whether an engagement was an initial engagement,
 - vi. the office (if applicable), and
 - vii. whether an engagement was a must-select or must-cover engagement (if applicable) (Ref: par. .A4)
- b. A list of firm personnel (Ref: par. .A5)
- c. Responses to inquiries about the areas to be addressed in the written representations
- d. 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
- e. The firm's quality control documentation (Ref: par. .A6)

.07 The firm should assist the reviewer in meeting the objectives of performing a system review. The peer review contact should meet with the review team at the beginning of the review to orient them to firm policies and procedures and introduce them to appropriate personnel. (Ref: par. .A7–.A8)

Engagement Selection

.08 For each engagement selected for review, the reviewed firm should submit (masking client identity if it desires) the following: (Ref: par. .A9)

- a. The appropriate financial statements or information
- b. The accountant's or auditor's report, if applicable
- c. Engagement profile

- d. The documentation required by applicable professional standards for each engagement

Scope Limitations

.09 The firm should notify the team captain and the AE, prior to the commencement of the review, if it intends to exclude an engagement or elements of the firm’s system of quality control. This notification should indicate

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

Testing Compliance With the Firm’s System of Quality Control

.10 The firm should promptly respond to reviewer questions during the review. (Ref: par. .A10–.A12)

Responding to Matters, Findings, Deficiencies, and Significant Deficiencies

.11 The firm should discuss preliminary peer review results, including matters, findings, deficiencies, and significant deficiencies, with the reviewer. Ordinarily, this discussion occurs during the closing meeting. If the firm disagrees with one or more of the matters, 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. .A13)

.12 The firm should respond to

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

.13 Responses to matters, findings, deficiencies, or significant deficiencies should include an assessment of the systemic cause, which should provide enough detail for the reviewer to understand how the firm arrived at its conclusion.

.14 The firm’s responses to findings, deficiencies, or significant deficiencies should (Ref: par. .A14–.A19)

- a. include the firm’s actions taken or planned to remediate the findings or deficiencies in the firm’s system of quality control and nonconforming engagements, if applicable, 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 date in a letter of response, if applicable.
- e. be on firm letterhead in a letter of response, if applicable.

The reviewer 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 team captain as soon as possible after the closing meeting to allow the team captain enough time to assess the firm's responses prior to the exit conference. (Ref: par. .A20–.A21)

Written Representations

.16 The firm should provide to the team 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. .A22–.A23)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting and auditing 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 team 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 [*Matter for Further Consideration Form, Finding for Further Consideration Form, or Letter of Response*], 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 all of the team captain's inquiries.
- h.* Management has provided the team captain with all relevant information, which included
 - i.* all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.
 - ii.* all must-select engagements, as applicable.
- i.* Management has disclosed to the team captain if the firm performed must-select engagements for the period covered by the peer review, and, if so, at least one of each must-select engagement that was performed was selected and reviewed by the peer reviewer.
- 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 team 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, 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.
- 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 team captain determines that it is necessary to obtain other representations based on the circumstances and nature of the peer review, the team captain should request such other written representations.

Subsequent Events

.18 If a firm performs a must-select engagement in an industry not subject to the current review after the year-end and before the due date of its system review, the reviewed firm should (Ref: par. .A24–.A25)

- a. immediately notify the AE and
- b. determine if the due date should be extended to include the must-select 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.

.A2 Joint ventures formed specifically to perform certain engagements are not required to have a peer review provided that

- a. each of the firms that sign the joint venture report is required to have system reviews and agree to list the joint venture on its client rosters during its peer reviews.
- b. the joint venture is not operating and structured as a separate firm. (Joint ventures do not include part-time work arrangements, when only one firm issues the report.) If the letterhead used for the joint venture does not identify the separate firms that joined together to perform the engagement, then the joint venture is operating as a separate firm.

Objective (Ref: par. .04)

.A3 The reviewed firm may benefit from knowing the reviewer’s objectives in conducting a system review, which are to do the following:

- a. Obtain reasonable assurance that the reviewed firm’s system of quality control for its accounting and auditing practice has been designed and complied with to provide the firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects.
- b. Report on the reviewed firm’s system of quality control and communicate as required by the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the American Institute of Certified Public Accountants, in accordance with the reviewer’s conclusions.

Planning (Ref: par. .06–.07)

.A4 For more information regarding engagements that must be selected or that fall into the “must-cover” category, refer to section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, appendix C, “Additional Requirements for Must-Select and Must-Cover Engagements.”

.A5 The personnel list assists reviewers in performing their risk assessment procedures. The reviewer may request that the list include

- a. name,
- b. position, and
- c. years of experience
 - i. with the firm and
 - ii. in total.

.A6 Quality control documentation will likely include the firm's quality control document, evidence of the performance of the firm's monitoring procedures, and CPE documentation, among other documents. Upon reviewing such documentation, the reviewer may determine that the firm's current-year internal monitoring procedures could enable the reviewer to reduce the extent of the peer review procedures.

.A7 To obtain an understanding of the firm's accounting and auditing practice and system of quality control, the reviewer will do the following:

- a. Inquire of appropriate management and other personnel
- b. Review the firm's internal policies and procedures
- c. Review the firm's quality control documentation
- d. Inquire of the firm regarding elements of the system of quality control residing outside of the firm (Ref: par. .A11)
- e. Complete the applicable quality control checklists

.A8 Examples of elements that could reside outside of the firm include, but are not limited to, membership in associations, joint ventures, non-CPA-owned entities, alternative practice structures, arrangements with outside consultants, third-party quality control materials, or CPE.

Engagement Selection (Ref: par. .08)

.A9 To obtain reasonable assurance that the firm is complying with its quality control policies and procedures and applicable professional standards, the reviewer will review a reasonable cross section of the firm's accounting and auditing engagements, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk.

Testing Compliance With the Firm's System of Quality Control (Ref: par. .10)

.A10 To test the firm's compliance with its system of quality control and applicable professional standards, the reviewer will do the following:

- a. Review and evaluate highest-risk areas on selected engagements, including accounting and auditing documentation, and reports.
- b. Interview firm personnel at various levels to assess their understanding of, and compliance with, the firm's system of quality control.
- c. Review evidence to determine whether the firm has complied with its policies and procedures for each element of its system of quality control, which may include evidence since the previous peer review. (Ref: par. .A27 of section 210)
- d. Review other evidence as appropriate. (Ref: par. .A28–.A29 of section 210)
- e. Complete the applicable quality control checklists.

.A11 The reviewer's evaluation of each engagement submitted for review will include the following:

- a. Consideration of the financial statements or information and the related accountants' reports
- b. Review of accounting and audit documentation required by the applicable professional standards
- c. Consideration of the information related to the engagement obtained through the peer review including, but not limited to, engagement profile information, representations made by the firm, and other inquiries

.A12 When evaluating an audit engagement, the reviewer's procedures should include determining whether the reviewed firm has appropriately

- a. identified the significant risk areas on each audit engagement selected for the peer review,
- b. performed the necessary audit procedures related to the identified significant risk areas, and
- c. documented the auditing procedures performed in these significant risk areas.

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

.A13 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, deficiencies, or significant deficiencies, and the expected report rating if determinable at this point
- b. The firm's requirement to respond to the MFCs, FFCs, or deficiencies or significant deficiencies included in the peer review report
- c. The firm's required written representations
- d. Other suggestions and observations for the firm to consider

.A14 The purpose of the firm's response on the FFC form or in the letter of response is for a firm to document the specific actions that will be taken to correct findings, deficiencies, or significant deficiencies identified by the reviewer and to enhance the firm's current system of quality control.

.A15 If the firm's response is not deemed to be feasible, genuine, and comprehensive, the AE's technical reviewer or committee will request a revised response. If pervasive nonconformity has been identified by the reviewer, the firm's response may state that it has reviewed other engagements with similar attributes to determine if similar remediation is warranted on other engagements that were not selected by the reviewer.

.A16 Although it is ultimately the firm's responsibility, firms are encouraged to work with the team captain to develop remedial actions and responses that both parties believe will be effective in correcting the matters, findings, and deficiencies or significant deficiencies identified during the peer review. Improvement is more likely to occur when the responses describe specific actions to be taken. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" unless the firm is able to articulate why that is the appropriate response. As required by paragraph .40 of section 210, team captains or AEs should not dictate specific remediation to nonconforming engagements because those are decisions for the firm and its client to make.

.A17 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 response may affect monitoring actions the committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

.A18 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

.A19 Illustrations of letters of response are presented in exhibit B, "Illustrative Examples of a Firm's Letter of Response."

.A20 If the firm is unable to determine appropriate remediation of weaknesses in its system of quality control and nonconforming engagements, if applicable, prior to the exit conference, the

firm's response may indicate interim steps that have been taken and confirm its intent to remediate when an appropriate response is determined. In these situations, the RAB considering the review will ordinarily assign an implementation plan or corrective action for the firm to provide its final remediation.

.A21 After the firm has responded to the MFCs, FFCs, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, the team captain should communicate the results to the firm at an exit conference. The following is 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 or significant 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 to the acceptance and completion of the peer review, and the reviewed firm's enrollment in the program, including, but not limited to,
 - i. corrective actions for deficiencies or significant deficiencies and implementation plans for findings, if applicable;
 - ii. recommended report rating changes;
 - iii. oversight
- e. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable

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

.A22 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 team captain.

.A23 An illustrative example of a firm's written representation letter is provided in exhibit A, "Illustrative Representation Letter."

Subsequent Events (Ref: par. .18)

.A24 Before requesting a due date extension, the firm would need to consider the effect of the extension on any state boards of accountancy requirements or other regulatory peer review requirements.

.A25 If the circumstances described in paragraph .18 represent a long-term change in the nature of the firm's business, the firm may consult with its AE and consider requesting a change in peer review year-end.

Exhibit A — Illustrative Representation Letter

.A26 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 team captain.

[*Entity Letterhead*]

[*Date*]

To [*Name of Team Captain*]:

We are providing this letter in connection with the peer review of the system of quality control for the accounting and auditing practice of [*name of firm*] [*applicable to engagements not subject to PCAOB permanent inspection (if applicable)*] 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 and auditing 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 in each state in which it practices for the year under review.

We have provided to the team 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 as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1[®] and SOC 2[®] engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review 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 have completed the following must-select engagements and issued their respective reports. To the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Compliance audits under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Examinations of service organizations (SOC 1 and SOC 2 engagements)]

[We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the [Matter for Further Consideration, Finding for Further Consideration, or Letter of Response (as applicable)].

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable. We have also provided the team 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, to the best of our knowledge and belief, that 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 and auditing 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 in section 300, *General Principles and Responsibilities for Reviewed Firms*.

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

.A27 This exhibit contains various illustrations of a firm’s letter of response to a peer review report rating of *pass with deficiencies* or *fail* (system reviews).

Illustration 1 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies

Illustration 2 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation

Illustration 3 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail

Illustration 4 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail With a Scope Limitation