



**PEER REVIEW**  
ALLIANCE

# Peer Review Q&A

Administering peer reviews for the following:

Illinois CPA Society | Indiana CPA Society | Iowa Society of CPAs | Kentucky Society of CPAs  
South Carolina Association of CPAs | West Virginia Society of CPAs | Wisconsin Institute of CPAs

## INTRODUCTION

This booklet has been prepared as a service for enrolled firms in states administered by the Peer Review Alliance (“Alliance”) – Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia, and Wisconsin. It contains answers to some of the more frequently asked questions about the program.

We welcome your comments about the program or the booklet. Please contact any member of our team for additional information.

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## WHAT'S NEW?

### Clarified Peer Review Standards

In February 2022, the AICPA Peer Review Board (PRB) approved Clarified AICPA *Standards for Performing and Reporting on Peer Reviews*. The PRB believes the clarified standards will make peer review guidance easier to read, understand, and apply while not substantially changing what is already required by the existing standards.

The clarified standards are effective for peer reviews commencing on or after May 1, 2022. The changes that will be reflected in the clarified standards include:

- The majority of procedures in a system review are not required to be performed at the reviewed firm's office. Instead, the extent of procedures will be determined by assessing peer review risk.
- The number of office visits on system reviews will also be determined by assessing peer review risk.
- A surprise engagement selection will not be required but still may be selected based on assessment of peer review risk.
- The term "significant deficiencies" was eliminated in fail reports on engagement reviews because it created confusion. Moving forward, fail reports on engagement reviews will identify only "deficiencies."
- While not required by the clarified standards, administering entities may adopt policies to include peer review documents for single audit engagements in materials for their Report Acceptance Body (RAB) meetings.
- Guidance for performing and reporting on quality control materials (QCM) reviews is no longer included. Instead, QCM providers may choose to have an examination of the materials conducted in accordance with the attestation standards established by the AICPA.

## **PRACTICE-MONITORING**

### **What is practice-monitoring?**

Practice-monitoring, which includes peer review, focuses on monitoring individuals' and firms' conformity with professional standards and is one of the self-regulatory tools used by the profession to protect the CPA hallmark and the public interest. Self-regulation includes —

- The establishment of membership requirements.
- The establishment of behavioral and technical standards.
- Monitoring adherence to the standards.
- A disciplinary system to deal with violations of the standards.

### **What is the AICPA practice-monitoring requirement?**

AICPA members active in the practice of public accounting must be associated with a firm (or firms) that participates in an AICPA practice-monitoring program if the firm performs services within the scope of the peer review standards (essentially audits, reviews, compilations and/or attestation engagements) and issues reports purporting to be in accordance with AICPA professional standards.

A member can meet the requirement if his or her firm is enrolled in the AICPA Peer Review Program (hereinafter referred to as the “Program”), the objective of which is to help CPAs improve the services provided to clients and raise the quality and prestige of the CPA profession.

### **Does my firm need to enroll in a practice-monitoring program if we do not have an accounting or auditing practice?**

No. Your firm is not required to enroll if you do not have an accounting or auditing practice. However, if your firm is engaged to perform an audit, review, compilation, or attestation engagement, you should notify the AICPA Peer Review Division or Peer Review Alliance staff as soon as you accept such an engagement to schedule a peer review.

### **Is enrollment in a practice-monitoring program a licensing requirement?**

Yes. Firms and sole practitioners who provide licensed services in one or more states must complete a peer review every three years. Firms and sole practitioners should verify with their state board(s) of accountancy to determine which services require a CPA license in their state(s).

### **How and when does my firm enroll?**

Firms and sole practitioners who provide licensed services should enroll in the program and submit an enrollment form by the report date of their first accounting or auditing (A&A) engagement. Peer review due dates will be established based on the report dates and client period-ends for the first engagements issued by the firm or sole practitioner. To begin the enrollment process, you should request and complete a Public Accounting Firm Creation Form.

**After enrolling, when might I expect my firm to have its first peer review and each subsequent review?**

For AICPA membership purposes, your firm's first peer review is due within eighteen months of the report date of your firm's initial engagement. If your firm fails to enroll in a timely manner, your firm's due date will be within 90 days of enrolling in the Program.

For Illinois state licensing purposes, firms and sole practitioners must have satisfactorily completed a peer review prior to their license renewal period. Thus, the due date for their first peer review may be less than eighteen months of enrolling in the Program.

For all other states administered by the Peer Review Alliance, firms and sole practitioners must complete a peer review every three years.

Subsequent peer reviews ordinarily have a due date of three years and six months from the previous peer review year-end.

**Will my peer review documents remain confidential?**

A peer review must be conducted in conformity with the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information concerning the reviewed firm or any of its clients or personnel, including the findings of the review is confidential. Such information may not be disclosed by review team members to anyone not involved in carrying out the review or administering the Program or used in any way not related to meeting the objectives of the Program. However, if your firm has enrolled in one or more of the voluntary audit quality centers of the AICPA, the results of your peer review will be made available to the general public in the [Public File](#) on the AICPA website.

## GENERAL REVIEW INFORMATION

### What types of peer review are available?

Under the Clarified *AICPA Standards for Performing and Reporting on Peer Reviews* (hereinafter referred to as the “Standards”), there are two types of reviews – system and engagement.

#### System Review

The objective of a system review is to provide the reviewer or review team with a reasonable basis for expressing an opinion on whether, during the year under review – (a) the reviewed firm’s system of quality control for its accounting and auditing practice has been **designed** in accordance with quality control standards established by the AICPA and (b) the reviewed firm’s quality control policies and procedures were being **complied with** to provide the firm reasonable assurance of conforming with professional standards.

In a system review, the reviewer will study and evaluate a CPA firm’s quality control policies and procedures in effect during the peer review year. This includes interviewing firm personnel and examining administrative files. To evaluate the effectiveness of the system and the degree of compliance with the system, the reviewer will test a reasonable cross-section of the firm’s engagements with a focus on high-risk engagements in addition to significant risk areas where the possibility exists of engagements not being performed and/or reported on in accordance with professional standards in all material respects.

#### Engagement Review

The objective of an engagement review is to provide the reviewer with a reasonable basis for expressing limited assurance that (a) the financial statements or information and the related accountant’s report on the accounting engagements submitted for review conform, in all material respects, with professional standards and (b) the reviewed firm’s documentation conforms with the requirements of professional standards, in all material respects.

An engagement review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with required documentation, firm representations, and certain other background information on the engagements submitted for review.

### Who will administer my peer review?

The AICPA Peer Review Program is administered in cooperation with the state CPA societies who elect to participate.

Firms performing engagements subject to permanent inspection by the Public Company Accounting Oversight Board (PCAOB) will have their peer reviews administered by the AICPA National Peer Review Committee (NPRC).

Firms performing engagements that are **not required** to be inspected by the PCAOB will have their peer reviews administered by the entity approved to administer peer reviews for the state in which the firm’s main office is located. However, if your firm issues any engagements purporting to have been conducted under PCAOB auditing standards, as opposed to auditing standards generally accepted in the United States of America (i.e., U.S. GAAS), your peer review will be administered by the NPRC.

Non-AICPA member firms may enroll with the Peer Review Alliance, AICPA or any other administering entity approved by the applicable state boards of accountancy.

**What happens if my firm is engaged to perform an audit after my engagement review has been completed?**

When a firm, subsequent to the year-end of its engagement review, performs an engagement that would require it to have a system review, the firm should (a) immediately notify Alliance staff and (b) undergo a system review within eighteen months of the year-end of the engagement or by the firm's next scheduled due date, whichever is earlier. Firms that fail to notify the Alliance of the performance of such engagement will be required to have a system review with a year-end that includes such engagement. The firm's subsequent peer review will be due three years and six months from this peer review year-end.

**When should my firm's peer review take place?**

Your review should be arranged in advance and take place at a time mutually acceptable and convenient to both you and the reviewer. A reviewer will not arrive at your firm's office unannounced, nor should the review begin unless approved in advance by Alliance staff.

Please note that your firm's peer review **must be** scheduled sufficiently ahead of your firm's due date to allow time for submission of all peer review documents to the Peer Review Alliance prior to the due date. The reviewer has up to 30 days to get the report and Finding for Further Consideration (FFC) form(s), if any, to you following the exit conference. If the peer review report includes deficiencies or significant deficiencies, you have an additional 30 days to submit your letter of response (LOR) to your peer reviewer. **However, all submissions must be made before your due date.**

If you are unsure of your firm's due date, please contact the Alliance staff member responsible for scheduling your review as shown on the Introduction page.



## COST INFORMATION

### How much will this cost me?

#### Direct costs

Your direct peer review costs will have two components: (1) an annual administrative fee paid to the Peer Review Alliance (c/o Illinois CPA Society) to cover the costs of running the Program and (2) the fee paid to the peer reviewer for the actual review. Fees paid to the peer reviewer can vary greatly depending on the nature of your practice. Your firm's client demographics have a greater impact on the cost of your review than the firm's size. For instance, a sole practitioner whose practice is 70% accounting & auditing and 30% tax work, and who conducts several audits of governmental entities, will have a more costly peer review than a firm with ten professionals performing mostly compilation and review engagements.

#### Indirect costs

There are also indirect costs associated with preparing your firm for the review and subsequent monitoring procedures. However, preparation costs can be controlled and kept to a minimum, especially if your system of quality control and records are in good order. If, however, your firm finds the opposite is true, you should consider the time well spent since making needed changes may result in providing better service to your clients, and in most cases, providing those services more efficiently. At the very least, preparation costs should diminish after your first review as you establish better quality control procedures.

### Annual Peer Review Administrative Fees

The Peer Review Alliance administrative fees for the year ending May 31, 2025 are based on the following formula —

	Engagement Review	System Review
(1) Flat fee charged to firms with accounting or auditing practice:	\$ 250	\$ 275
(2) Plus, a per-professional charge of:	120	120
(3) With a maximum cap of:	2,500	2,525

### OR

(4) If you are a firm that does not perform any accounting or auditing services, a flat fee of:	\$ 25
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The per-professional charge begins after the first professional. For example, a sole practitioner with no professional staff that undergoes an engagement review will pay a flat fee of \$250. A firm with two professionals that undergoes a system review will pay \$395, a \$275 flat fee plus \$120 for the second professional. **Firms and sole practitioners that begin performing engagements requiring a system review when they previously had an engagement review, or no longer perform engagements requiring a system review when they previously had a system review, will be billed for the type of review at the time of their most recently accepted peer review.**

## **Reinstatement Fee**

If for any reason a firm rejoins the Peer Review Program after it had previously been **dropped** or **terminated** from the program, a reinstatement fee of \$250 may be charged and must be remitted to the Peer Review Alliance prior to reinstatement in the program.

## **How do I count the number of professionals?**

A firm should count as professionals (i.e., personnel) all CPAs and other individuals performing accounting and/or auditing services. This includes all partners, shareholders, members, proprietors, etc. It also includes all full and part-time staff and per diem employees if they are doing professional level work in accounting and/or auditing. Full-time equivalents are no longer applicable.

## **Are there any ways to reduce the costs of my peer review?**

Yes. The best ways to reduce costs are —

- Have complete, accurate information available for the reviewer early enough so that the review can be completed by the review due date – 30 to 40 days before the review is set to begin.
- Prepare for the review early by making sure everyone in the firm understands the importance of performing engagements “by the book,” properly documenting engagement planning issues, key procedures, and conclusions, etc.
- Fewer engagement deficiencies and the reviewer’s ability to evaluate what was done without waiting for engagement staff to recount what they did from memory result in fewer reviewer hours and lower costs.
- Solicit proposals from more than one firm.
- Correctly calculate your firm’s accounting and auditing hours on engagements. Proposals are based on these hours. Do not include hours spent on taxes, consulting, payroll, or bookkeeping services.
- If your firm has received a report rating of “pass,” it may participate in the Program as a reviewing firm and members of your firm may participate as peer reviewers. Firms use these revenues to help offset the costs of their own peer review, and many reviewers believe the experience and knowledge gained from being involved in the peer review process benefits their own firms.
- Firms in the same geographic area can "piggy-back" their reviews with the same reviewer and thus split travel costs.

## **Do I have to pay the state administrative fee?**

Yes. Firms that choose not to pay this fee will be removed from the Program by the AICPA and individual CPAs working at the firm will not be allowed to have or retain their AICPA membership.

Non-AICPA member firms will be removed from the Program which may impede their ability to renew or retain their state CPA license(s).

## PREPARING YOUR QUALITY CONTROL SYSTEM

### How do I develop a quality control system?

First, you should place someone in charge of your quality control procedures and preparation for the review. Next, decide how important your accounting and auditing practice is to your firm. Doing **just one engagement** under the SASs, *Government Auditing Standards* (GAGAS), and/or examinations of prospective financial information under the SSAEs will require you to have a system review. You may wish to alter the type of services you provide if you are doing a small number of these engagements.

The remaining steps are straightforward, but can potentially take time —

1. Review the relevant professional literature and other sources to understand the six elements of quality control (See **Appendixes A & B**).
2. Summarize and evaluate your current policies and procedures in each of the six areas. For each area ask yourself the following —
  - a) Is the material (e.g., form, checklist, write-up) current?
  - b) Is the material able to be updated by the firm or through other publications or sources?
  - c) Does it provide an adequate level of quality?
  - d) Is it appropriate for a firm of our size and our practice?
  - e) Does it satisfy the requirements of Statement of AICPA Professional Standards QC Section 10?
3. Implement monitoring procedures to identify and communicate circumstances that may necessitate changes to or the need to improve compliance with your system of quality control and professional standards.
4. A firm should have a system of quality control and an effective means of communicating that system to its staff in writing. A written quality control document is **required** under QC §10.
5. Evaluate whether you should develop other related documents for quality control, accounting and auditing procedures, and/or personnel policies (for smaller firms this may be one simple document). Remember the key is to have workable, consistent documents. See **Appendix A** for organizations that sell programs you can tailor for your firm.

Most firms have rough edges or areas for improvement. Hopefully, peer review can help identify those areas before they become significant problems.

## CHOOSING A REVIEW TEAM

### What types of review teams are available to do my review?

You may choose the type of review team you would like to conduct your firm's peer review:

*Firm-On-Firm Review*<sup>1</sup>— You hire another qualified CPA firm or practitioner to conduct the review. This option gives you a degree of personal assurance that the reviewers' qualifications fit your firm's needs. It also gives you more control over the cost of the review.

*Association Review* — You ask the association to which your firm belongs to assemble a review team. That association must be authorized by the AICPA Peer Review Board to assemble such review teams.

### How does the AICPA national peer review database work?

The AICPA maintains a database of individuals interested in serving as reviewers. All reviewers involved in the AICPA practice-monitoring programs are included in the database. The database lists information the individual provides to the AICPA on a *Reviewer Resume Form*. The database includes information such as the individual's firm, the program to which his or her firm belongs, the last training course attended, the industries in which the individual has expertise and how that expertise was obtained. Reviewers are asked to update this information every year. Information on the database is available to peer review administering entities for verifying the qualifications of firm-on-firm and association reviewers.

### Who can perform a peer review?

**Appendix C** lists the qualifications to be a reviewer for the two different types of reviews. A reviewer must be qualified and registered in the AICPA national peer review database before he/she can conduct a review.

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<sup>1</sup> Includes a firm in the same association of CPA firms.

### **Who is responsible for making sure the review team is qualified to perform my firm's peer review?**

**You are.** No matter which type of review you choose, the Alliance will compare the scheduling information provided by your firm with information provided by the reviewer on his/her reviewer resume form to determine whether the review team **appears** to have the qualifications required by the peer review program standards. However, since you have the actual contact with the reviewer and pay for the review, you must make the final determination. The reviewer needs to not only have experience in the right industries, but he or she must have the right amount and type of experience. For example, a reviewer with expertise in various industries may have enough governmental experience to perform a peer review of a firm with one small governmental audit; but the same reviewer may not have enough experience to perform a review beneficial to a firm with a heavy concentration in governmental audits.

### **Is there an easy way to "match" the reviewer's experience with my firm's specialty areas?**

Yes. Each firm is asked to complete certain scheduling information approximately seven months prior to your firm's peer review due date. The information asks you to mark areas in which your firm practices as well as industries in which **over ten percent** of the firm's auditing hours are concentrated. Reviewers are asked on their "Reviewer Resume Form" to mark, from the same list, areas where they believe they have sufficient familiarity to be qualified as a reviewer. When you choose a firm to conduct your review, make sure that the review team's experience covers the areas you marked on your scheduling information. The review cannot take place until the review team's experience matches the areas and industry concentrations of your firm.

### **If I choose a firm-on-firm review, how do I find a qualified firm to perform my peer review?**

There are several ways to find qualified reviewers. First, look to the [Peer Review Directory](#) on the Illinois CPA Society website or the [Reviewer Search](#) tool on the AICPA website. Firms have also found reviewers by asking members of their MAP Forum Groups and/or firm associations for recommendations. When choosing a reviewer, you should decide if you want a firm from the same state or from a different region of the country. If you choose the latter option, you may need to contact the appropriate state CPA society or practitioners in that region for recommendations. Finally, many peer reviewers direct market their services and you'll learn about them through the mail or other advertising.

**Next, develop a list of firms that interest you and arrange for interviews. Some of the questions you should ask include —**

1. Has your firm been reviewed? What was the outcome? You may wish to read the firm's peer review report to examine the firm's quality.
2. How many qualified reviewers and team captains does the firm have and do their qualifications match my specialty areas?
3. Will the firm view me as a client?
4. Can the firm meet my timing and scheduling requirements?
5. Has the reviewer attended the appropriate AICPA reviewer training courses?
6. Ask for references from the firm on other reviews it has conducted. When talking to these references make sure that the review was conducted professionally and efficiently. Also did the team share helpful insights or did they just complete checklists? Most firms find reviews to be more rewarding if there is an informal exchange of information.

7. Will the firm work out a budget for the review? Many firms quote fees at a time and expense rate not to exceed a certain dollar amount. You do not want to be surprised at the end of the review with a bill larger than you expected.
8. What is the firm's attitude toward doing reviews? Do I feel comfortable with it?

Finally, select a firm and indicate in PRIMA, the name and AICPA member number of the peer review team members.

**If I've already arranged or plan to arrange for another firm or association to perform my peer review, do I need to notify the Peer Review Alliance?**

Absolutely!! THE REVIEW MAY NOT TAKE PLACE UNTIL WE HAVE CONFIRMED THAT THE REVIEW TEAM IS QUALIFIED TO CONDUCT THE REVIEW. Using PRIMA, you will tell us information about the team, such as the name of the reviewing firm and the members of the review team, the date the review will begin, and the date of the exit conference. The Alliance should also be promptly notified of any changes in this information. We encourage you to submit this information **as soon as practicable**, but certainly no later than 30 days prior to your review. After receiving this form, we'll notify the reviewer that they are approved and may start to gather the information needed to perform the review. In fact, your reviewer is required to confirm that the Alliance has been notified about your arrangements **before he or she starts the review**. Your reviewer will need this information at least 30 days prior to your review **due date**.

## PREPARING FOR THE REVIEW

### When should my firm's peer review be completed?

The due date is the date by which all peer review documents must be submitted to the Peer Review Alliance. To complete the review on time, you need to start the review two to three months before the due date. You should plan so that the review takes place at a convenient time for your firm. For example, if you have a heavy tax practice and your due date falls between January and April, you should plan to start the review in October or November to make sure it is completed before your busy season begins.

### What if my firm cannot complete its review by the due date?

If your firm cannot have its review on time, an extension request may be made in PRIMA. The request should be made at least sixty days before the due date, explain why your firm cannot have its review on time, and offer an alternative date for the review. The Alliance considers extension requests on a case-by-case basis. Extensions beyond the end of the calendar year will not be granted except in extreme circumstances. Extensions are not granted simply because a firm believes it needs more time to prepare for the review.

For firm performing engagements subject to *Government Auditing Standards* (GAGAS), standards require that the audit organization (i.e., firm or sole practitioner) “obtain an external peer review at least once every 3 years” and that “The audit organization should obtain its first peer review covering a review period ending no later than 3 years from the date an audit organization begins its first engagement in accordance with GAGAS.”

Standards further indicate that “extensions of the deadlines for submitting the peer review reports exceeding 3 months beyond the due date are granted by the entity that administers the peer review program **with concurrence of GAO** {emphasis added}”. If your firm performs GAGAS engagements, don't forget to take these requirements into account when requesting an extension. The GAO is not required to recognize extensions granted by the AICPA or the Peer Review Alliance.

### What period should be covered by my peer review?

Your peer review should cover a one-year period mutually agreed upon by you and the peer reviewer. Ordinarily, the review should be conducted within three to five months following the end of the year to be reviewed. Engagements selected for both types of peer review will be those with client period-ends during the year under review (except for attestation engagements which will be reports dated during the year under review). Peer review program standards also anticipate that a firm will keep the same peer review year-end from review-to-review. If your peer review year-end is not convenient or an unnatural fit for your firm's practice, you may request a permanent year-end change in PRIMA to one that is a more natural fit for your firm. Your request should describe the reasons for the change.

### When should I contact my system reviewer and what will he/she want from me?

A system review team consists of one or more individuals. One member of the review team is designated the team captain. Persons assisting the team captain are called team members. If there is only one reviewer that individual is still referred to as the team captain. You should contact your team captain and begin planning the review early enough to make sure all documents will be submitted to the Peer Review Alliance by the firm's due date. The team captain will ask for —

1. Relevant manuals, checklists, etc. that your firm uses in its practice.

2. Summary information on the nature of your practice — services provided, clients served, industry concentrations and the number of accounting and auditing hours for these clients/industries. This summary information does not have to identify your clients. You may use codes.
3. Personnel statistics — names, positions, and years of experience in total and with the firm.
4. A brief history of the firm and the number and location of offices.
5. Any communications relating to allegations or investigations (including litigation) in the conduct of an accounting, audit or attestation engagement performed and reported on by the firm, whether the matter related to the firm or its professional personnel, within three years preceding the firm's current peer review year-end.
6. A representation letter that contains negative assurance that the firm is not aware of any situations where the firm or its personnel has not complied with state board(s) of accountancy or other regulatory bodies' rules and regulations (including firm and individual licensing requirements) or has notified the reviewer of such situations.
7. Any other pertinent information.

Based on this information, the team captain will make a preliminary selection of the offices and engagements he or she intends to review. The initial selection of engagements to be reviewed will be provided no earlier than two weeks prior to the commencement of the review. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. If deemed necessary, a peer reviewer may decide to make a surprise selection and not reveal the name of one or more engagements from his or her initial selection until the peer review commences. As a result, all engagements performed and issued by the firm should be available to the team captain at the start of fieldwork.

**What if my client does not want their financial statements reviewed by the peer reviewer and/or I have other reasons for excluding an engagement from the review?**

Firms may have legitimate reasons for excluding an engagement from the scope of their peer review. The AICPA Peer Review Board has determined that the following explanations are reasonable for exclusion of an engagement from the review –

- The client is subject to litigation.
- The client will not permit the firm to make the engagement available.

In these situations, you should submit a written statement to the Peer Review Alliance, **prior to commencement of the review**, indicating it (a) plans to exclude an engagement(s) from the peer review selection process, (b) the reasons for the exclusion and (c) that it is requesting a waiver from the scope limitation in the peer review report. The Alliance will decide if the reviewed firm's request is reasonable and whether a waiver should be granted.

The AICPA Peer Review Board has determined that the following explanations are unacceptable reasons –

- The engagement workpapers are in a warehouse.
- The firm no longer performs the audit for that client (and still has access to the documentation).
- The firm decided to no longer perform audits.



- The client was selected during the firm's last peer review.
- The partner on that engagement will not be available during the peer review.
- The firm no longer performs engagements in that industry.

These reasons will result in a scope limitation. A peer review report with a rating of *pass with deficiencies* will ordinarily be issued when the scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures.

**What should my firm do to prepare for its subsequent peer review?**

In preparing for its next review, your firm should —

- Read the report and, if applicable, Finding for Further Consideration (FFC) forms issued in connection with your firm's prior review and, if applicable, your firm's Letter of Response (LOR) thereto, and be certain that your firm has taken the appropriate measures.
- Continually monitor the firm's system of quality control and document this monitoring as required by the Quality Control Standards.

## HAVING THE REVIEW

### How are engagements selected for a system review?

Under the peer review standards, your review team must select at least one of the following types of engagements, if performed by your firm —

- Engagements subject to the Yellow Book and/or OMB Uniform Guidance.
- Audits of financial institutions subject to FDICIA (total assets in excess of \$500 million).
- Audits of employee benefit plans subject to ERISA.
- Examination of service organizations (SOC1 or SOC2 reports).

Other considerations include —

- Engagements in which there is significant public interest, such as financial and lending institutions and specialized industries.
- Engagements that are large, complex, or higher risk or that are the reviewed firm's initial audits of clients.
- A cross-section of your firm's accounting and auditing practice.
- Engagements required to be selected under other regulatory requirements.

### How are engagements selected for engagement reviews?

Under the peer review standards, engagements will be selected based on the following guidelines —

- One engagement should be selected from each area of service performed by the firm:
  - Review of financial statements
  - Compilation of financial statements with disclosures
  - Compilation of financial statements that omit substantially all disclosures required by generally accepted accounting principles (GAAP) or other financial reporting framework (FRF)
  - Attestation engagement
- One engagement should be selected from each owner, or individual of the firm if not an owner, responsible for the issuance of reports listed above.
- Preparation engagements should only be selected if the owner, or individual responsible for issuance of engagements, does not perform any disclosure or non-disclosure compilations OR the firm's only disclosure or non-disclosure engagements are preparation engagements.
- Ordinarily, at least two engagements should be selected for review.

The above criteria are not mutually exclusive; one of every type of engagement that an owner performs does not have to be reviewed as long as for the firm taken as a whole, all types of engagements performed by the firm are covered. An attempt should be made to include clients operating in different industries.

The firm will be informed of the types of engagements to select and from which industries they should be selected. The firm will select the actual engagements and submit to the reviewer, the reports, financial statements, any documentation required by professional standards (e.g., management representation letters, inquiry and analytical review checklists and working papers, etc.), along with an engagement questionnaire for each selection. The peer reviewed firm will also submit a firm representation letter and copies of any communications relating to allegations or investigations.

### **What does a system review team look for?**

The team will evaluate your firm's system of quality control. They want to make sure that your system is properly **designed** and that you are **complying with** your system. They will —

- Review selected engagements, including the working paper files and reports, to evaluate your conformity with professional standards and compliance with relevant firm quality control policies and procedures.
- Interview firm professional staff at various levels and, if applicable, other people responsible for a function or activity to assess their understanding of and compliance with the firm's quality control policies and procedures.
- Obtain other evidential matter as appropriate, for example, by review of selected administrative or personnel files, correspondence files documenting consultation on technical or ethical questions, files evidencing compliance with CPE requirements, and the firm's library.

### **What is included in an engagement review?**

An engagement review consists only of reading selected financial statements or information, the accountant's report thereon as well as certain documentation required by professional standards, together with certain written representations by your firm and copies of communications related to allegations or investigations. These reviews do not include a review of the firm's administrative or personnel files, interviews of firm personnel or other procedures normally performed on a system review.

### **What if I don't agree with the review team's conclusions?**

The reviewer will inform you of any matters noted during the peer review and will generally document such items on a form entitled, Matter for Further Consideration (MFC) form. You will have the opportunity to discuss the identified matters during the peer review and to respond in writing in the response section of the MFC form.

Because peer review is a subjective process, there may be differences of opinion between you and the reviewer as to whether a finding or deficiency exists and/or how it is reported in the review. In such circumstances, ask the reviewer to cite the applicable section(s) in professional standards that supports his or her conclusion.

Ordinarily, disagreements are resolved by the exit conference. If you are still not satisfied with the reviewer's conclusions, you and your reviewer should consult with the AICPA's Issue Advisory Hotline – (919) 402-4502, option 4. If the disagreement is not resolved, you should cite applicable section(s) of professional standards that support your views on the FFC form(s) or, in the case of a *pass with deficiencies* or *fail* report, in your formal, written Letter of Response (LOR). The Peer Review Alliance Report Acceptance Committee will attempt to resolve the disagreement.

Many professional standards require the use of professional judgment. Accordingly, you should not assume that the reviewer's interpretation is always the correct one. It is in your best interest to read the applicable

section of professional standards to broaden your knowledge of the subject matter and verify that the finding or deficiency is applicable to the particular situation.

## TYPES OF REPORTS

### What types of peer review reports are issued on system reviews?

There are three opinions that can be issued on the firm's system of quality control – *pass*, *pass with deficiencies* or *fail*.

#### Pass

A report rating of *pass* is issued when the review team believes that the reviewed firm's system of quality control is appropriately **designed** and being **complied with** to provide the firm reasonable assurance of complying with professional standards.

A pass report may be accompanied by one or more Finding for Further Consideration (FFC) forms if the reviewer noted matters that he or she believed resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards.

#### Pass with deficiencies

A report rating of *pass with deficiencies* is issued when the review team believes the reviewed firm's system is appropriately **designed** and being **complied with** to provide the firm reasonable assurance of complying with professional standards except for one or more deficiencies noted by the reviewer. A *pass with deficiencies* report indicates that there are some failures to adhere to professional standards. The reasons for the *pass with deficiencies* rating will be included in the body of the report.

The *pass with deficiencies* report may be accompanied by one or more Finding for Further Consideration (FFC) forms if the reviewer noted other matters that were not considered of sufficient significance to affect the opinion expressed in the report.

#### Fail

A report rating of *fail* is issued when the review team believes the firm's system is **not appropriately designed or being complied with** to provide the firm reasonable assurance of complying with professional standards. A *fail* report indicates that there are several significant failures to adhere to professional standards. The reasons for the *fail* report will be included in the body of the report.

The *fail* report may be accompanied by one or more Finding for Further Consideration (FFC) forms if the reviewer noted other matters that were not considered of sufficient significance to affect the opinion expressed in the report.

## What types of peer review reports are issued on engagement reviews?

Like a system review, there are three types of reports that can be issued on an engagement review – *pass*, *pass with deficiencies* and *fail*.

### Pass

A report rating of *pass* is issued when the reviewer believes the reports submitted for review were in conformity with professional standards in all material respects. A *pass* report may be accompanied by one or more Finding for Further Consideration (FFC) forms if the reviewer noted other departures from professional standards that were not deemed to be significant but that should be considered by the reviewed firm in evaluating its quality control policies and procedures.

### Pass with deficiencies

A report rating of *pass with deficiencies* is issued in such instances as:

1. The firm did not adhere to generally accepted accounting principles (GAAP) or other financial reporting framework (FRF). This failure could have a significant effect on the user's understanding of the financial information.
2. A misleading or incomplete report has been issued on a compilation, review, or attestation engagement.
3. Each page of the financial statements for a preparation engagement did not include a statement that "no assurance is provided" and the accountant did not take appropriate measures.
4. There is a failure to obtain an engagement letter on a preparation, compilation, review, or attestation engagement.
5. There is a failure to obtain a management representation letter or document the matters covered in the accountant's inquiry and analytical procedures on a review engagement.
6. There is a failure to document other matters required to be documented by professional standards.
7. There are other departures from professional standards noted in a significant number of engagements submitted for review that individually may not be considered a significant departure from professional standards but collectively would warrant the issuance of a *pass with deficiencies* report.

The reasons for the *pass with deficiencies* report and recommendation will be included in the body of the report. A *pass with deficiencies* report may be accompanied by one or more Finding for Further Consideration (FFC) forms if the reviewer noted other departures from professional standards that were not deemed to be significant but that should be considered by the reviewed firm in evaluating its quality control policies and procedures.

### Fail

A report rating of *fail* is issued when all engagements submitted for review had significant departures from professional standards. The reasons for the *fail* report and recommendations will be included in the body of the report. A *fail* report may be accompanied by one or more Finding for Further Consideration (FFC) forms if the reviewer noted other departures from professional standards that were not deemed to be significant but that should be considered by the reviewed firm in evaluating its quality control policies and procedures.

### **What types of follow-up actions or implementation plans are required on peer reviews?**

The objective of a peer review is to help improve the quality of your practice. When deficiencies are noted, the firm is expected to identify and take corrective measures to prevent the same type of deficiencies from recurring in the future. Some type of corrective action or implementation plan is often required by the Peer Review Alliance Report Acceptance Committee when your firm has repeat findings or deficiencies, or when you receive a peer review report rating of *pass with deficiencies* or *fail*. Depending on the circumstances, your firm may be asked to do actions such as the following:

- Attend certain CPE courses.
- Submit a copy of the firm's license.
- Submit its next monitoring report for approval by the Committee or team captain.
- Permit an outside party, acceptable to the Committee chair, to visit your firm's offices or review a specific type of engagement issued subsequent to the peer review.

## COMMITTEE REVIEW AND ACCEPTANCE

### Who is responsible for submitting peer review documents to the Peer Review Alliance?

Your peer reviewer is responsible for uploading to PRIMA, a copy of the report, supporting working papers, and your firm's letter of response (LOR), if applicable, within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier. Your firm's letter of response **must be** approved by your peer reviewer prior to submission to the Alliance.

**Please remember that it is your firm's peer review, and you are ultimately responsible for ensuring all submissions are made timely.**

### When are the results of my peer review communicated to me?

The review team should communicate the results of the peer review at the closing meeting and/or exit conference. The purpose of the closing meeting is to discuss with senior members of your firm, the review team's observations, matters, findings, deficiencies, and significant deficiencies identified; the expected type of report to be issued; and the firm's responsibilities related to such matters. After your firm has responded to matters identified in the peer review, an exit conference will be held with senior members of the firm to discuss a summary of the peer review results, the firm's responses, and the type or report to be issued. For peer reviews with few or no matters or findings, the closing meeting and exit conference may be one and the same.

### When are the results of my system or engagement review final?

Once **all** of the peer review documents have been received from you or your reviewer as detailed above, your review will then undergo a "technical review." This process ensures that your review team conducted the review according to the peer review standards and that they were neither too lenient nor too harsh. This step is performed by one of the Peer Review Alliance's technical reviewers, who will work with your reviewer to resolve any questions or problems that may arise during the evaluation of your review. The technical reviewer then prepares the review for committee approval.

Your review is not considered accepted until the Peer Review Alliance Report Acceptance Committee has voted to accept the peer review documents and, if required, your firm has signed the letter from the committee agreeing to perform required corrective actions. This final step ensures that a panel of your peers agrees with the conclusions of the review team. Committee members recuse themselves from discussions when they have, or perceive to have, a conflict of interest or familiarity threat with respect to the reviewed firm or the review team members.

**You** can appeal the report acceptance committee's decision to the Peer Review Alliance Executive Committee. If the Executive Committee is unable to resolve the disagreement, **they** can refer the matter to the AICPA Peer Review Board. The decision at this level is final unless recommendation to remove AICPA membership is involved. In this case, the decision can be appealed to the AICPA Joint Trial Board.

**You should not publicize the results of the peer review or distribute copies of the peer review report to your personnel, clients, or others until you have been advised that the report has been accepted by the Peer Review Alliance Report Acceptance Committee.** On a few occasions, report ratings have been changed from *pass* to *pass with deficiencies* or *fail*, and vice versa. The completion date for your review will be the date it is accepted by committee, or if your firm is required to complete certain corrective actions, the date your firm completes the corrective actions to the committee's satisfaction.



On average, it takes 90 days to process a review once we receive the peer review documents. This length of time is necessary because we strive to keep the administrative costs of the Program low.

**What is the structure of the Peer Review Alliance Report Acceptance Committee?**

The Peer Review Alliance Report Acceptance Committee consists of an Executive Committee and eight report acceptance bodies (RABs). RABs are subcommittees consisting of five or six members that are charged with the acceptance of peer reviews. The Executive Committee is charged with appeals of RAB decisions, administrative and oversight matters. A minimum of three members must consider each review. The qualifications to be on the Committee are detailed in **Appendix D**. A member may not participate in any discussion or decision of a peer review of a firm when the member lacks independence or has a real or perceived conflict of interest or familiarity threat (such as the reviewer's firm having performed or been a member of the team that performed the most recent or previous review).

**Can my firm resign from the Program at any time?**

A firm may resign from the Program provided a peer review has not commenced, and your firm submits a resignation request in PRIMA. A peer review commences when the review team begins the review of engagements or other documentation and/or is able to draw conclusion regarding the firm's system of quality control. Once a peer review commences, a firm may not resign from the Program unless it submits a letter waiving its right to a hearing and agrees to allow the AICPA to publish, in such form and manner as the AICPA may prescribe, the fact the firm has resigned from the Program.

**If my firm is terminated from the Program, how can I get reinstated?**

Your firm should submit a reinstatement request in PRIMA. The firm will be reinstated provided that the actions that caused the firm to be terminated have been waived or corrected to the satisfaction of the AICPA or Peer Review Alliance Report Acceptance Committee. The AICPA may require a firm that has been terminated to have another review by the date originally assigned or within 90 days of reenrolling, whichever is earlier.

## OTHER MATTERS

### AICPA Risk Alerts – A Good Way to Keep Current

A good way to keep current on professional and industry developments is to obtain the AICPA audit risk alerts pertinent to your firm's practice. Each year, the AICPA publishes a general audit risk alert and risk alerts for various industries to advise auditors of current economic, industry and professional developments they should be aware of as they perform audits in the current period. Risk alerts also assist reviewers and firms in identifying high risk areas of audit engagements that should be reviewed during a peer review.

Risk alerts can be purchased by calling the AICPA's Member Satisfaction Department at (888) 777-7077 or <https://www.aicpa.org/search/aicpa+audit+risk+alerts>.

\* \* \* \* \*

We hope we have answered most of your questions about the peer review program. If your question was not answered here, please contact a member of the Alliance's Peer Review Department, as listed on the introduction page.

You may also visit the AICPA Peer Review website - <https://us.aicpa.org/interestareas/peerreview>.

## APPENDIX A

### OTHER RESOURCES TO ASSIST YOU

AICPA Peer Review Website – <https://us.aicpa.org/interestareas/peerreview>

Clarified AICPA Standards for Performing and Reporting on Peer Reviews – <https://us.aicpa.org/content/dam/aicpa/research/standards/peerreview/downloadabledocuments/56175896-clarifiedpeerreviewstandards.pdf>

AICPA System of Quality Control Practice Aid – <https://www.aicpa.org/content/dam/aicpa/interestareas/frc/downloadabledocuments/eaqpa/practice-aid-small-medium.pdf>

#### **RESOURCES AVAILABLE FOR PURCHASE**

- **AICPA Professional Standards** – AICPA (QC Section includes the *Statements on Quality Control Standards* and the PR Section includes the *Standards for Performing and Reporting on Peer Reviews* and Interpretations) – <https://future.aicpa.org/search/aicpa+professional+standards>
- **Peer Review Program Manual** – AICPA – <https://future.aicpa.org/cpe-learning/publication/aicpa-peer-review-program-manual-OPL>
- **PPC's Guide to Quality Control** – Thomson Reuters – <https://store.tax.thomsonreuters.com/accounting/Audit-and-Accounting/PPCs-Practice-Aids-Quality-Control/p/100200419>
- **PPC's Guide to Quality Control: Compilation and Review** – Thomson Reuters – <https://store.tax.thomsonreuters.com/accounting/Audit-and-Accounting/PPCs-Guide-to-Quality-Control-Compilation-and-Review/p/100201690>

## APPENDIX B

### Six Elements of Quality Control

#### **Leadership Responsibilities for Quality Within the Firm**

The firm should promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require that the firm's leadership (managing partner or board of managing partners, chief executive officer, or equivalent) assume ultimate responsibility for the firm's system of quality control.

#### **Relevant Ethical Requirements**

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The AICPA Code of Conduct establishes the fundamental principles of professional ethics, which include:

- Responsibilities
- The public interest
- Integrity
- Objectivity and independence
- Due care
- Scope and nature of services

#### **Acceptance and Continuance of Client Relationships and Specific Engagements**

The firm should establish policies and procedures for the acceptance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only where the firm:

- a. Has considered the integrity of the client, including the identity and business reputation of the client's principal owners, key management, related parties, and those charged with its governance, and the risks associated with providing professional services in the particular circumstances;
- b. Is competent to perform the engagement and has the capabilities and resources to do so; and
- c. Can comply with legal and ethical requirements.

**Human Resources**

The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and enable the firm to issue reports that are appropriate in the circumstances. Such policies and procedures should address the following:

- Recruitment and hiring, if applicable.
- Determining capabilities and competencies.
- Assigning personnel to engagements, if applicable.
- Professional development.
- Performance evaluation, compensation, and advancement.

**Engagement Performance**

The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are consistently performed in accordance with professional standards and regulatory and legal requirements, and that the firm or engagement partner issues reports that are appropriate in the circumstances. Required policies and procedures should address:

- a. Engagement performance.
- b. Supervision responsibilities.
- c. Review responsibilities.

**Monitoring**

The firm should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process should:

- a. include an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements.
- b. require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.
- c. assigns the performance of monitoring the firm's system of quality control to qualified individuals.

The firm should prepare appropriate **documentation** to provide evidence of the operation of each element of its system of quality control.

**Documentation should be retained** for a period of time sufficient to enable those performing monitoring procedures and peer review to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

## APPENDIX C

### Qualifications for Becoming a Reviewer

Qualification	-----System Review-----		Engagement Review Captain
	Team Captain	Team Member	
AICPA Member	X	X	X
Licensed to Practice as a CPA	X	X	X
Has current knowledge of applicable professional standards and of the current rules & regulations of the industries for which engagements are reviewed	X	X	X
Proprietor, partner, or shareholder	X	X	X
Manager or equivalent supervisory responsibilities		X	X
Currently active in public practice with the last five years in the accounting & auditing function	X	X	X
Currently active in public practice at the supervisory level in the accounting or auditing function for an enrolled firm	X	X	X
Associated with a firm that has received, within the last three years, a system or engagement review with a report rating of “pass”	X	X	X
If reviewer is associated with more than one firm, then each of the firms the reviewer is associated with should have received, within the last three years, a system or engagement review with a report rating of “pass”	X	X	X
Must have completed an appropriate AICPA reviewer training course within 12 months prior to the commencement of the review	X		X
Must have completed an appropriate AICPA must-select course if reviewing must-select engagements on a system review	X	X	

## **APPENDIX D**

### **Qualifications of Committee Members**

1. Each member of a committee charged with the responsibility for acceptance of peer reviews should be:
  - a. Currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program as a partner of the firm or as a manager or person with equivalent supervisory responsibilities.
  - b. Associated with a firm (or all firms if associated with more than one firm) that has received a system or engagement review with a report rating of “pass.”
  - c. Trained in the Standards, Interpretations, and guidance of the Program by completing a course that meets the team or review captain training requirements established by the Board within 12 months prior to serving on the committee or during the first year of service on the committee.
2. A majority of the committee members and the chairperson charged with the responsibility for acceptance of reviews should possess the qualifications required of a system review team captain.



## APPENDIX E

### DEFINITION OF AN ACCOUNTING AND AUDITING PRACTICE FOR THE AICPA PEER REVIEW PROGRAM

The following engagements are included within the definition of an accounting and auditing practice for the purposes of having a peer review in the AICPA peer review program:

<u>Standards</u>	<u>Report<sup>2</sup></u>	<u>Information</u>
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Statements on Auditing Standards (SASs) —

Audit <sup>3</sup>	Historical or Personal Financial Statements
All Other Engagements Performed under the SASs <sup>3</sup>	Various

Statements on Standards for Accounting and Review Services (SSARS)

Review <sup>4</sup>	Historical or Personal Financial Statements
Compilation With Disclosures <sup>4</sup>	Historical or Personal Financial Statements
Compilation That Omits Substantially All Disclosures, However Selected Disclosures are Presented <sup>4</sup>	Historical or Personal Financial Statements
Compilation Without Disclosures <sup>4</sup>	Historical or Personal Financial Statements
Compilation of Prospective Financial Statements <sup>4</sup>	Prospective Financial Statements
Preparation Engagement With or Without Disclosures <sup>5</sup>	Historical or Personal Financial Statements

Statements on Standards for Attestation Engagements (SSAEs) —

Examination <sup>3</sup>	Prospective Financial Statements
Agreed-Upon Procedures <sup>4</sup>	Historical or Prospective Financial Statements
Examination <sup>3</sup>	Written Assertions
Review <sup>4</sup>	Written Assertions
Agreed-Upon Procedures <sup>4</sup>	Written Assertions
Examination <sup>3</sup>	Reporting on Controls at a Service Organization

<sup>2</sup> The firm is responsible for determining what type of engagements it performs. If the firm is uncertain of how to classify an engagement, it should consult its reviewer (if already selected), another CPA firm that performs a similar engagement, the AICPA Technical Hotline at 888/777-7077 or Heather Lindquist, Assistant Director at 312.517.7624.

<sup>3</sup> A firm that performs these engagements must have a system peer review.

<sup>4</sup> A firm that performs these engagements as its highest level of service must, at a minimum, have an engagement review. The firm may optionally choose to have a system review.

<sup>5</sup> A firm that performs these engagements as its highest level of service is not required to enroll in the peer review program.

## APPENDIX F

### DESCRIPTION OF ENGAGEMENTS INCLUDED IN THE DEFINITION OF AN ACCOUNTING AND AUDITING PRACTICE FOR THE AICPA PEER REVIEW PROGRAM

#### Statements on Auditing Standards (SASs)

*Audit of Historical or Personal Financial Statements* — The auditor performs procedures to provide him or herself with a basis for expressing an opinion as to the conformity of the client's financial statements with generally accepted accounting principles (GAAP) or other financial reporting framework (FRF).<sup>6</sup>

*All Other Engagements Performed Under the SASs*<sup>6</sup>

#### Statements on Standards for Accounting and Review Services (SSARS)

*Review of Historical or Personal Financial Statements* — The accountant performs inquiry and analytical procedures to provide him or herself with a reasonable basis for expressing limited assurance that there are no material modifications needed to be made to the financial statements in order for them to be in conformity with GAAP or other FRF.<sup>7</sup>

*Compilation of Historical or Personal Financial Statements* — The accountant presents in the form of financial statements, information that is the representation of management without expressing any opinion/assurance as to their conformity with GAAP or other FRF.<sup>7</sup>

*Compilation of Historical or Personal Financial Statements that Omit Substantially All Disclosures, However Selected Disclosures are Presented* — Same as in the preceding description except that selected disclosures are presented with the financial statements.<sup>7</sup>

*Compilation of Historical or Personal Financial Statements that Omit Substantially All Disclosures* — Same as in the two preceding descriptions except that no disclosures are presented with the financial statements.<sup>7</sup>

*Compilation of Prospective Financial Statements* — The accountant assembles the prospective financial information and considers whether the assumptions or presentation are obviously inappropriate without expressing any assurance on the financial forecast or projection or the underlying assumptions.<sup>7,9</sup>

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<sup>6</sup> A firm that performs these engagements must have a system peer review.

<sup>7</sup> A firm that performs these engagements as its highest level of service must, at a minimum, have an engagement review. The firm may optionally choose to have a system review.

*Preparation Engagement* — Engagement performed under the SSARS No. 21 where no report is issued and the financial statements include a statement clearly identifying that they were not auditing, reviewed, or compiled.<sup>8</sup>

### **Statements on Standards for Attestation Engagements (SSAEs)**

*Examination of Prospective Financial Statements* — The accountant evaluates the preparation of the prospective financial information, the supporting underlying assumptions, and the conformity of the presentation with AICPA guidelines, in order to provide him or herself with a reasonable basis for expressing an opinion as to the conformity of the financial forecast or projection with AICPA guidelines and on the reasonableness of the assumptions.<sup>6,9</sup>

*Agreed-Upon Procedures of Prospective Financial Statements* — The accountant performs procedures that have been agreed to by the specified users to the financial forecast or projection and issues a report describing the procedures applied and the results of their application.<sup>7,9</sup>

*Agreed-Upon Procedures* — The accountant performs procedures that have been agreed to by the specified users to specified elements, accounts or items of a financial statement and issues a report describing the accountant's procedures and findings.<sup>7</sup>

*Examination of Written Assertions* — The accountant performs substantial procedures to provide the accountant with a basis for expressing an opinion about whether the assertions are presented in conformity with the criteria.<sup>6</sup>

*Review of Written Assertions* — The accountant performs inquiries and analytical procedures to provide the accountant with a basis for expressing limited assurance that nothing caused the accountant to believe the presentation did not conform to the presentation criteria.<sup>7</sup>

*Agreed-Upon Procedures of Written Assertions* — The accountant performs procedures that have been agreed to by the specified users to specified matters and issues a report describing the procedures applied and the results of their application.<sup>7</sup>

*Reporting on Controls at a Service Organization* — In a type 1 report, the service auditor expresses an opinion on management's description of a service organization's system and the suitability of the design of controls. In a type 2 report, the service auditor expresses an opinion on the same matters included in a type 1 report plus an opinion on the operating effectiveness of such controls.<sup>6</sup>

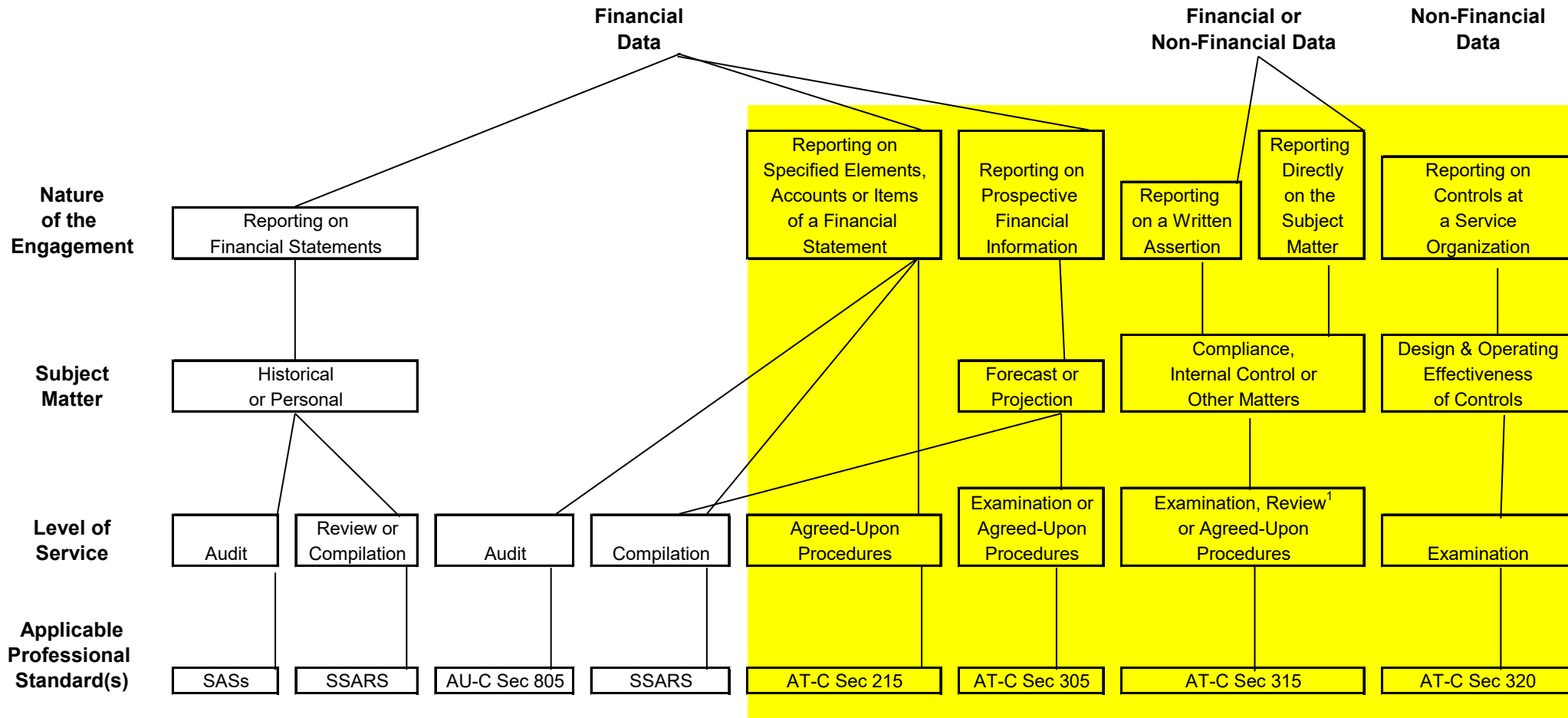
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<sup>8</sup> A firm that performs these engagements at its highest level of service is not required to enroll in the peer review program.

<sup>9</sup> A financial forecast is prospective financial statements that present an entity's expected financial position, results of operations and cash flows. A financial projection is similar to a forecast except that it presents an entity's expected financial position, results of operations and cash flows, given one or more hypothetical assumptions.

## Appendix G

### DETERMINING THE APPLICABLE AICPA PROFESSIONAL STANDARDS FOR ATTESTATION AND OTHER MORE TRADITIONAL ACCOUNTING AND AUDITING ENGAGEMENTS



#### Definitions:

The shaded area represents engagements performed under the Statements on Standards for Attestation Engagements (SSAEs). An attestation engagement is one in which a CPA in the practice of public accounting is engaged to issue, or does issue, a practitioner's examination, review, or agreed-upon procedures report on subject matter or an assertion about subject matter that is the responsibility of another party. An assertion is a declaration or set of declarations about whether the subject matter is in accordance with (or based on) the criteria.

Some of the more common attestation engagements include:

- \* *Reporting on an Entity's Internal Controls Over Financial Reporting*
- \* *Compliance Attestation*
- \* *Reporting on Controls at a Service Organization (formerly SAS No. 70)*

Attestation engagements do not include:

- \* Any other engagement covered under the SASs or the SSARSs
- \* Consulting services covered under the *Statement on Standards for Consulting Services* (AICPA Professional Standards, CS sec. 100) -- fraud auditing is generally performed as a consulting service
- \* Preparation of a Medicare cost report
- \* Other engagements described in AT-C Sec. 105.A2-A3

#### Notes:

<sup>1</sup> The SSAEs prohibit a practitioner from issuing a review report on compliance or on the effectiveness of an entity's internal control over financial reporting. Those engagements must be an examination or agreed-upon procedures engagement.