

Memorandum

PROC Agenda Item III.
November 9, 2010

To : PROC Members

Date : October 29, 2010

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From : Nicholas Ng, Manager
Administrative Services



Subject : Economic Travel – Official State Business

Attached is a memorandum provided to CBA members at the March 2010 meeting. The purpose of this document is to provide and define the basic travel reimbursement rules for individuals who are required to travel on official state business, methods of travel that are available, and how to use them.

At the meeting, I will provide an overview of the attached documents and will be available to answer any questions PROC members may have related to travel.

Should you need assistance with travel reservations in the meantime, please contact April Freeman at (916) 561-1720 or Veronica Daniel at (916) 561-1716.

Attachments

Memorandum

Attachment #1

Board Agenda Item X.F.
March 25-26, 2010

To : CBA Members

Date : March 8, 2010

Telephone : (916) 561-1713

Facsimile : (916) 263-3674

E-mail : drich@cba.ca.gov

From : Dan Rich
Assistant Executive Officer

Subject : Compliance with DCA Travel Guidelines

As a result of the recent direction provided by the Legislature during the Accountability and Administrative Review Hearing, the Department of Consumer Affairs (DCA) is committed to ensuring that only the most economical mode of transportation is reimbursed when employers are required to travel. Additionally, staff have been apprised that every travel claim submitted to DCA is being closely examined before any reimbursement is approved. Consequently, the issue of travel has been scheduled at this meeting to assure that all CBA members are aware of travel guidelines and do not incur travel expenses that are not reimbursable.

Attached is the Department of Consumer Affairs' Travel Guide (Travel Guide; Attachment 1). The purpose of this guide is to provide and define the basic travel reimbursement rules for employees who are required to travel on official state business, methods of travel that are available, and how to use them.

Per Diem Allowances – Please refer to page three and four in the Travel Guide.

Distance and time are two criteria that need to be considered when determining the appropriate amount of reimbursement allowed for meals, lodging and incidentals. Employees on travel status must be at least 50 miles from home/headquarters. The most direct route determines this distance. There are no flat reimbursement rates for meals. All items claimed are to be for the actual amount of the expense, up to the maximum reimbursement amounts. Time requirements are applicable when determining which meals are reimbursable.

The state rate only will be reimbursed for lodging. Please see page three of the travel guide for state rates related to specific counties.

Transportation – Please refer to page nine in the Travel Guide.

When determining the most economical mode of transportation, the following costs should be considered:

- Expenses for transportation (airline, bus, train, mileage for private vehicles, gasoline for rental cars, parking, shuttle, tolls, etc.).

Compliance with DCA Travel Guidelines

March 8, 2010

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- The most economical parking should be used at an airport (i.e., economy or long-term parking rather than daily or hourly parking).
- Valet parking will not be reimbursed.
- The urgency of the situation.
- The number of persons to be transported.
- Driving time one-way (consider alternate transportation if over 2 hours).
- If flying, the availability of transportation to and from the destination.

CBA staff are still seeking DCA guidance regarding those travel expenses that should be included when comparing alternate means of travel. For assistance in comparing costs to ensure the most economical mode of transportation is used, as noted on page 10 of the Travel Guide, please contact Veronica Daniel at (916) 561-1716. Please be aware that only the least expensive method of transportation will be reimbursed.

Rental Cars – Please refer to page 12 and 13 in the Travel Guide and the attached Department of General Services' Travel Bulletin #09-09 (Attachment 2).

The State currently contracts with Enterprise Rent A Car for vehicle rental while on official State business. In the event that Enterprise is unable to provide service, there are two secondary vendors: Alamo and National. Employees who use a non-contract vendor when a contract vendor is available, or exceed the maximum rates, will be responsible for the difference unless valid written justification is provided. Please refer to the attached Travel Bulletin for maximum rates.

The rental car requirements state that employees must NOT:

- Extend rental agreements for personal business and pay the difference.
- Agree to purchase insurance. Insurance is included in the state contracted rates.
- Agree to purchase the fuel service option or prepaid fuel. Employees are required to fill the vehicle up with gas before returning the vehicle.
- Agree to purchase higher rate, non-economy cars.
- Carry unauthorized, non-state employees, in rental vehicles.

Receipts – Please refer to pages 17 and 18 in the Travel Guide.

Receipts shall be submitted for every item of expense except for the following:

- Per Diem Meals and Incidentals.
- Overtime Meals.
- Up to the published railroad and bus fares of less than \$10.00, when travel is within the State of California.
- Street car, ferry fares, bridge and road tolls, local rapid transit system, taxi shuttle or hotel bus fares, and parking fees of \$10.00 or less for each continuous period of parking or each separate transportation expense.

CBA staff are currently making modifications to CBA communications, new CBA member orientation materials and policy manuals to include information regarding the importance of selecting the most economical mode of travel.

For assistance with travel reservations, please contact Marina Olivarez-Fuentes at (916) 561-1712 or Miatra Smith at (916) 561-1719. Please submit your travel claim information to Barbara Coleman within 30 days after travel.

Attachments



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PROC Agenda Item IV
November 9, 2010

**CONTINUED CONSIDERATION OF KEY POLICY ISSUES RELATED TO
MANDATORY PEER REVIEW**

INTRODUCTION

At the January 2008 Board meeting, the Board adopted the Committee on Professional Conduct's (CPC) recommendation to create a Peer Review Oversight Committee (PROC) to independently oversee California's Peer Review Program. As part of the recommendation, staff outlined possible responsibilities for the PROC; however, the composition of the PROC and the number of meetings the committee would hold each year were deferred for deliberation until the special February 2008 Board meeting.

Below are the PROC responsibilities as adopted by the Board at the January Board meeting:

- Oversee the activities of sponsoring organizations related to how peer reviews are processed and evaluated.
- Ensure the sponsoring organizations are adhering to the American Institute of Certified Public Accountants (AICPA) *Standards for Performing and Reporting on Peer Reviews* (Standards).
- Ensure that peer reviewers are properly qualified.
- Ensure that peer reviews are being accepted in a consistent manner by the sponsoring organization's report acceptance body.
- Conduct sight visits of sponsoring organizations and their peer review committees.
- Perform random sampling of peer review reports.
- Represent the Board at the AICPA's Peer Review Board meetings.
- Evaluate organizations outside the AICPA structure that desire to administer peer reviews in California.

Provided that enabling legislation is signed in 2009, the PROC will be established in 2010, with the peer review requirement becoming operative for firms beginning January 1, 2011. It is anticipated that during the PROC's first year of existence (2010), committee members will be responsible for drafting forms, checklists, procedures for performing random samples of peer review reports, and policies and procedures for performing oversight responsibilities including the reviewing of organizations applying to administer a peer review program (other than the AICPA).

This issue paper is provided to assist the Board in its deliberations, and outlines the following in relation to the PROC: (1) purpose of the PROC; (2) oversight of the California Society of Certified Public Accountants' (CalCPA) Peer Review Program;

(3) oversight of organizations not affiliated with the AICPA's program; (4) representing the Board at the AICPA's Peer Review Board meetings; (5) conducting meetings and reporting to the Board; and (6) committee composition.

1. Purpose of the PROC

- The PROC is intended to engender confidence in the California Peer Review Program from the profession and consumers by performing oversight of the program and providing recommended actions to the Board on the effectiveness and continued reliance of the program.

The above-stated purpose, as well as the authority of the PROC, will be defined in statute.¹ Specifically, related to its authority, the PROC will be authorized to request information from any Board-approved organization involved in California's Peer Review Program. Should an organization not provide the necessary information or materials upon request by the PROC, the PROC will refer the matter to the Board for further action, which could include restrictions relative to administering peer reviews in California or even termination as an administering organization.

The type of documentation the PROC may request would be identified in regulation. It is anticipated that, at a minimum, organizations would be required to make the following materials/information available to the PROC upon request:

- Standards, procedures, guidelines, training materials, and similar documents prepared for the use of reviewers, reviewed firms, and administering organizations.
- Information concerning the extent to which an administering organization has reviewed the quality of reviewers' working papers in connection with the acceptance of reviews.
- Statistical data concerning the results of the reviews in California including number and type of corrective actions required and the number, nature, and extent of the monitoring procedures applied.
- Information concerning the extent to which an administering organization has reviewed the qualifications of its reviewers.
- Sufficient documents to conduct sample reviews of peer reviews accepted by the administering organization. These may include the report; Matter for Further Consideration Form; Finding for Further Consideration Form; reviewed firm's letter of response; firm-wide summary review memorandum; team captain checklist; work papers, notes, or other documentation – including reviewer working papers prepared or reviewed by the administering organization's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required corrective actions, the monitoring procedures applied, and the results.

¹ Previously, staff had indicated that the PROC would be identified in regulation; however, it is now believed that its purpose and authority should be codified in statute, and the specifics relative to carrying out its purpose and authority should be drafted in regulation.

- Meeting minutes of all meetings conducted by an administering organization related to its administering the program and any meetings during which peer review reports are considered.

Staff believe that if the Board establishes a PROC with the purpose and authority outlined in this section, the Board will provide the PROC with the tools necessary to offer recommendations to the Board related to the effectiveness of, and the continued reliance on, the California Peer Review Program.

2. Oversight of CalCPA's Peer Review Program

At the January 2008 Board meeting, the Board adopted the CPC recommendation to incorporate by reference the AICPA's Standards as the minimum standards for administering a peer review program. In adopting this recommendation, the Board accepts all AICPA-approved organizations authorized to administer the AICPA Peer Review Program. This constitutes, at present, 41 organizations. The PROC will have the authority to request information and materials from all organizations; however, its primary oversight responsibilities will focus on CalCPA. As such, staff have identified those duties that, at a minimum, are fundamental in order for the PROC to fulfill its charge of ensuring that CalCPA adheres to the AICPA Standards.

Staff have outlined the minimum number of meetings and reviews that the PROC will perform relative to its oversight of CalCPA. These are designed to ensure that the PROC will be able to perform the responsibilities outlined in the Introduction.

- Attend all CalCPA Peer Review Committee (PRC) meetings.²
- Attend four CalCPA Report Acceptance Body (RAB) meetings.
- Conduct, at a minimum, an annual administrative site visit of CalCPA's Peer Review Program. This visit will be to gauge the knowledge of CalCPA's professional staff relative to its administration of the AICPA's Peer Review Program.
- Perform, at a minimum, an annual review of CalCPA's Peer Review Committee.
- Perform, at a minimum, four annual reviews of CalCPA's Report Acceptance Body. This is designed to ensure that reviews and acceptance of peer review reports are done consistently and in accordance with AICPA Standards.

Using the above-stated activities as minimum functions, the PROC will need to evaluate if these are sufficient to accommodate an effective oversight of CalCPA. Should the PROC select, it could increase these activities. Additionally, as more firms are required to undergo peer reviews and the program expands, the PROC will need to assess the need to increase its oversight activities.

² At this time, CalCPA holds two two-day PRC meetings annually.

3. Oversight of Organizations not Affiliated with the AICPA's Program

In addition to the decision to allow the AICPA to administer the California Peer Review Program, the Board also indicated that it will allow for other organizations to administer a peer review program. Further, the Board adopted the CPC's recommendation to require that the PROC serve as the evaluation body for any organization desiring to administer a program in California.

It is anticipated that during its first year, the PROC will hold meetings to discuss drafting regulations, and develop policies and procedures for reviewing and recommending approval to the Board relative to these organizations. Furthermore, it is anticipated that the PROC will be required to attend a similar number of meetings and perform a similar number of reviews of these organizations, as needed relative to its oversight of CalCPA.

4. Representing the Board at the AICPA's Peer Review Board Meetings

The PROC will attend all of the public-session AICPA Peer Review Board (PRB) meetings – generally, four per year. This will allow the PROC to better understand any key issues before the AICPA PRB, as well as provide an opportunity for the PROC to ask questions, provide feedback, and voice concerns relative to the program. The PROC will report to the Board related to the future direction of the AICPA Peer Review Program.

5. Conducting Meetings and Reporting to the Board

The PROC will be responsible for conducting four one-day meetings each year. The meetings will be public and held quarterly. At the meetings, the PROC will discuss, within the parameters of members' confidentiality stipulations, business matters related to information obtained as part of its oversight. Further, similar to the Administrative and Qualifications Committees, the PROC Chair would appear before the Board to report on activities undertaken by the PROC. As part of the appearance, the Chair would provide recommendations and present reports to the Board for action on any matters on which it is authorized to act. This would include the annual report to the Board regarding the results of its independent oversight of the California Peer Review Program.³

6. Committee Composition

Staff recommend that the Board consider staffing the PROC with five to seven voluntary committee members, who would be appointed to one-year terms, with a maximum of eight consecutive terms – consistent with the term limits of the Administrative and Qualifications Committees.

³ The report will include the PROC's scope of work, findings, and conclusions. The Board will use the report as a basis for determining continued confidence in the peer review program.

Below are staff-proposed minimum qualifications for an individual seeking appointment as a member of the PROC. Staff drew from multiple sources to identify the proposed qualifications. Specifically, staff looked at qualifications for appointment on the Board's Qualifications Committee, the AICPA *Standards for Performing and Reporting on Peer Reviews*, and a document provided by NASBA outlining a proposed compliance assurance oversight committee (**Attachment 1**).⁴

Qualifications

All members of the PROC, at a minimum, must:

- Be a California-licensed CPA with an active license to practice in good standing in this state, with the authority to sign attest reports.
- Be currently active in the practice of public accounting in the accounting and auditing function of a firm enrolled in the AICPA Peer Review Program as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities.
- Regularly sign attest reports and have extensive experience in performing accounting and auditing engagements.
- Have completed the 24-hour Accounting and Auditing and eight-hour Fraud continuing education requirement for license renewal, as prescribed by Section 87 of the Accountancy Regulations.
- Be associated with a firm, or all firms if associated with multiple firms, that received a report with the peer review rating of pass for its most recent peer review.
- Have extensive knowledge of the AICPA's *Standards for Performing and Reporting on Peer Reviews*.

Additionally, no member of the PROC may be a current member of the Board, an employee of the Board, an employee of CalCPA, other program administrator or sponsoring organization, or a member of the ethics committee of the AICPA or CalCPA.

If the Board were to consider appointing a public member to the PROC, an alternate set of qualifications would need to be developed. Specifically, the Board would need to identify those attributes that would be required of an individual to sit as a public member on the PROC.

It should be noted that whenever the Board establishes a committee, a staff member is needed in order to coordinate various tasks associated with a committee. Generally, these include, but are not limited to, maintaining the committee roster, compiling meeting minutes, contracting venues for meetings, calendaring committee events, and providing the necessary materials for committee review. The Board's current staffing situation would be unable to absorb the tasks outlined above; therefore, it is anticipated

⁴ This NASBA document was Attachment 2 of the January 2008 issue paper on mandatory peer review.

that an additional staff member would need to be obtained through a Budget Change Proposal in order to perform these functions.

CONCLUSION

Provided the Board reaches a final decision at the February 2008 Board meeting related to the PROC's oversight of the California Peer Review Program, all known critical policy issues related to mandatory peer review will have been decided. Staff will then incorporate the PROC into the materials being provided to the Board for the May 2008 meeting. These materials will include the following: draft report to the Legislature, conceptual California Peer Review Program – including draft statutes and regulations, fiscal impact, and staffing needs. At the May 2008 CPC and Board meetings, the Board will have the opportunity to provide comments and feedback related to the material so all can be finalized and presented for approval at the July 2008 CPC and Board meetings. The final report will be submitted to the Legislature no later than September 1, 2008.

California Board of Accountancy



**PEER REVIEW
OVERVIEW**

**TUESDAY,
NOVEMBER 9, 2010**

CBA & Peer Review

- Began examination in 2000
- Task Forces from 2002-2005
- Two previous reports to Legislature
 - 2003 & 2005

What is a Peer Review?

- Peer review is a study, appraisal, or review of the accounting and auditing work of a firm by a licensed CPA who is unaffiliated with the firm being reviewed, and is done in accordance with applicable professional standards.

Types of Peer Reviews

- System Review
 - › Firms providing audits and examination of prospective financial statements
- Engagement Review
 - › Firms providing review and compilation services

Types of Peer Reviews Ratings

- Pass (Unmodified)
- Pass w/deficiencies (Modified)
- Substandard (*Fail*, Adverse)

Who Must Undergo a Peer Review?

- Any California-licensed firm providing accounting and auditing services must undergo a peer review.
- Business and Professions Code Section 5035.1 defines a firm as a corporation, partnership, or sole proprietorship.

What are Considered Accounting and Auditing Services?

- CBA Regulation Section 39 states that any services using the below professional standards qualify as accounting and auditing.
 - Statements on Auditing Standards (SASs)
 - Statements on Standards for Accounting and Review Services (SSARS)
 - Statements on Standards on Attestation Engagements (SSAEs)
 - Government Auditing Standards (Yellow Book)
 - Audits of non-SEC Issuers performed pursuant to the standards of the PCAOB.

How Often Must a Firm Undergo a Peer Review?

- A firm must undergo a peer review once every three years.
- Possibility of an accelerated peer review

Who Administers Peer Review?

- The CBA relies upon Board-recognized peer review program providers to administer peer reviews.
- AICPA only Board-recognized peer review program provider
 - CBA Regulations 48.1

Reporting Requirements

- Every three years
- Must report via the Peer Reporting Form (Form PR-1 (1/10))
- Firms receiving a substandard (fail) must submit report within 45 days of peer review report acceptance
- Must report within 30 days of expulsion from a peer review program

What is the CBA's Role in Peer Review?

- Establish the regulations governing the program
 - > CBA Regulation Sections 38-48.6 (eventually)
- Establish minimum requirements for a Peer Review Program
- Establish reporting requirements for firms
- Maintain a Peer Review Oversight Committee

Peer Review Oversight Committee (PROC)

- Seven-member committee
- Active licensees
- Purpose: oversee the Board-recognized peer review program providers (AICPA) to ensure the effectiveness and continued reliance of peer review

Peer Review Oversight Committee (PROC)

- Primary oversight emphasis – CalCPA
- Participate in CalCPA Peer Review Committee & RAB meetings
- Ensure peer reviews administered in conformity with standards

Impact of Peer Review on the CBA

- > 10,600 – Estimated number of California-licensed firms and sole proprietorships
- > 6,000 – Estimated number of firms performing accounting and auditing services subjecting them to peer review
- > 3,000 – Estimated number of firms not presently voluntarily undergoing peer review
- > 100 – Estimated number of firms that will receive a substandard (*fail*) peer review report rating

Statistics

As of November 1, 2010, 12,535 licensees have reported peer review information as follows:

- Peer Review Required: 835
- Peer Review Not Required: 2,118
- Peer Review Not Applicable: 9,582

Impact of Peer Review on the CBA

- Two new staff
 - > AGPA – assist in administrative aspects for peer review, including drafting letters and forms, staffing PROC
 - > ICPA – handle increased caseload arising from peer review

Impact of Peer Review on the CBA

- Newly-developed On-line Peer Review Reporting Form
 - > Live on July 1, 2010
 - > Hardcopy with instruction available on-line – See Handout #1
- Outreach
 - > Web page development
 - > Brochure – See Handout #2
 - > FAQs – See Handout #3
 - > UPDATE articles – See Handout #4
 - > Radio spots:
 - > August 1st – August 31st in Los Angeles, San Diego, San Francisco
 - > August 1st – September 10th in Sacramento
 - > Letters to licensees – See Handout #5

Impact of Peer Review on the CBA

- Newly created telephone number and e-mail account
 - > (916) 561-1706
 - > peerreviewinfo@cba.ca.gov

Questions



Handouts

- Handout #1 – Hardcopy Peer Review Reporting Form & Instructions
- Handout #2 – Peer Review Brochure
- Handout #3 – Peer Review FAQs
- Handout #4 – Peer Review *UPDATE* Articles
- Handout #5 – Peer Review Letters to Licensees



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**PEER REVIEW
 REPORTING FORM**

Handout #1

ACCOUNTING FIRM INFORMATION

Do you operate as a firm (including a sole proprietorship)? Yes
 No (If no, please sign and date on the reverse of the form.)

Firm Name: _____

License #: _____ Expiration Date (optional): _____

Business Telephone # (optional): _____ Business E-mail Address (optional): _____

Firm Type (check one): (optional)
 Sole Proprietorship
 General Partnership
 Limited Liability Partnership
 Corporation

Number of shareholders, partners, owners, and full-time licensees of the firm (optional):
 1 2 3 4
 5-10 11-99 100+

Did your firm perform any accounting and auditing services that require you to undergo a peer review? Yes
 No (If no, please sign and date on the reverse of the form.)

PEER REVIEW INFORMATION

1. Date Peer Review Report Accepted: _____

2a. Peer Review Report Rating: Pass (Go to question 3.)
 Pass w/deficiencies (Go to question 3.)
 Substandard (Go to question 2b.)

2b. Did your firm submit the peer review report to the Board within the required 45-day reporting period? (optional) Yes
 No (If no, please attach a written explanation as to why the report was not submitted timely.)

PEER REVIEW INFORMATION (continued)

3a. Was the peer review administered by the California Society of Certified Public Accountants using the American Institute of Certified Public Accountants Peer Review Program ? (optional)

- Yes
 No (If no, see question 3b.)

3b. Was the peer review administered by another organization using the American Institute of Certified Public Accountants Peer Review Program? (optional)

- Yes (If yes, please provide the name of the American Institute of Certified Public Accountants administering entity.)

- No (If no, please provide the name of the Board-recognized peer review program that administered the peer review.)

4. What was the highest level of accounting and auditing service your firm provided during the three-year period encompassing your peer review? (optional)

- Audit
 Review
 Compilations w/disclosures
 Compilations w/o disclosures prepared using GAAP
 Compilations w/o disclosures prepared using OCBOA

5. What was the cost to have the peer review performed? (optional)

\$ _____

6. How much time did your firm spend preparing for the peer review? (optional)

- 0 days
 1-5 days
 6-10 days
 10+ days

Signature

Date



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PEER REVIEW REPORTING FORM INSTRUCTIONS

ACCOUNTING FIRM INFORMATION

Please provide all of the contact and firm composition information requested in this section of the reporting form.

Firm Type: Business and Professions Code Section 5035.1 defines a firm as a sole proprietorship, a corporation, or a partnership.

- **Sole Proprietorship:** A business entity which is owned by one individual and where there is no legal distinction between the owner and the business. A single shareholder corporation is not a sole proprietorship.
- **General Partnership:** A partnership comprised of two or more licensees which has not filed articles of incorporation filed with the Secretary of State's office.
- **Limited Liability Partnership:** A partnership comprised of two or more licensees which has filed articles of incorporation filed with the Secretary of State's office.
- **Corporation:** A business entity which has filed articles of incorporation with the Secretary of State's office.

Accounting and Auditing Services that require you to undergo a peer review are any services performed using the following professional standards:

- Statements on Auditing Standards (SASs),
- Statements on Standards for Accounting and Review Services (SSARS),
- Statements on Standards on Attestation Engagements (SSAEs),
- Government Auditing Standards,
- Audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

Exclusions from peer review are provided for the following two circumstances:

- Any of a firm's engagements subject to inspection by the Public Company Accounting Oversight Board as part of its inspection program.
- Firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provisions of the Statements on Standards for Accounting and Review Services (SSARS).

PEER REVIEW INFORMATION

1. Enter the date the peer review report was accepted by a Board-recognized peer review program provider, not the date the peer review was performed.

Peer Review Reporting Form Instructions

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2. (a) Check the box that corresponds to the rating received on your firm's peer review report. If your firm's peer review report was accepted under the American Institute of Certified Public Accountants' *Standards for Performing and Reporting on Peer Reviews, 2005*, for unmodified select pass, for modified select pass w/deficiency, and for adverse select fail.
- (b) If your firm received a rating of substandard on its peer review report, you are required to submit a copy of the peer review report, including any materials documenting the prescription of remedial or corrective actions imposed by the Board-recognized peer review program provider, within 45 days of the peer review report being accepted.

If you complied with this requirement, please answer "yes". If you did not comply with this requirement, please answer "no" and attach a written explanation as to why the report was not submitted timely.

3. (a) If your firm's peer review was not administered by the California Society of Certified Public Accountants using the American Institute of Certified Public Accountants Peer Review Program, please answer "no" and go to question 3b.
- (b) If your firm's peer review was administered by another organization using the American Institute of Certified Public Accountants Peer Review Program, please answer "yes" and write the name of the administering organization on the line provided.

If your firm's peer review was not performed using the American Institute of Certified Public Accountants Peer Review Program, please answer "no" and write the name of the Board-recognized peer review program provider on the line provided.

4. Check only the box that corresponds to the highest level of accounting and auditing services provided by your firm during the three-year period encompassing your peer review.
5. Enter the actual fees charged by the peer review provider. Do not include costs related to preparation time, lost work time, or any other related expenses.
6. Check the box that corresponds to the number of days your firm spent preparing for the peer review. Do not include the number of days it took the peer reviewer to perform the peer review.



For more information, visit the California Board of Accountancy Web site at www.cba.ca.gov.

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Peer REVIEW

CALIFORNIA BOARD OF ACCOUNTANCY



Mandatory peer review is part of the California Board of Accountancy's commitment to consumer protection by enhancing the quality of accounting services in California.

What is a peer review?

A peer review is a study of a firm's accounting and auditing work, by an unaffiliated CPA following professional standards. Tax practice is not required to be monitored by peer review.

Peer review promotes quality.

With ongoing changes to professional standards that are designed to deliver accuracy and quality of accounting and auditing engagements, products and services provided to consumers must meet specific standards. Peer review better equips firms to deliver high quality accounting and auditing services to consumers and helps in designing quality control systems to ensure that work products meet professional standards.

Peer review promotes knowledge.

A peer review provides firms an opportunity to learn new or better ways to improve services, so they can provide up-to-date methods and practices to consumers. It provides an educational opportunity for firms to learn best-practice techniques. Peer review helps keep CPA firms knowledgeable.



Peer review promotes trust.

In an ever-changing financial climate, peer review gives consumers an extra measure of assurance by knowing the CPA firm they hire has successfully completed a peer review and meets the profession's standards.

Peer review benefits everyone.

A peer review provides firms an opportunity to improve services and stay competitive; enhances consumer protection for Californians, and builds trust in the quality and integrity of California's Certified Public Accountants.

Created by statute in 1901, the CBA's mandate requires that protection of the public shall be its highest priority in exercising licensing, regulatory, and disciplinary functions. The CBA regulates the largest group of licensed accounting professionals in the nation.

Peer Review FAQs

What is peer review?

Peer review is a systematic review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards.

Who is required to undergo peer review?

Peer review is required for all California-licensed firms, including sole proprietorships, that perform accounting and auditing services using the following professional standards:

- Statements on Auditing Standards (SASs)
- Statements on Standards for Accounting and Review Services (SSARS)
- Statements on Standards on Attestation Engagements (SSAEs)
- Government Auditing Standards (Yellow Book)
- Audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB)

If a firm only performed one accounting and auditing engagement, will it still be required to undergo a peer review?

Yes. There is no exclusion from the peer review requirement based solely on the number of engagements performed.

Are there any exclusions from the peer review requirement?

There are two exclusions from the peer review requirement.

1. Any of a firm's engagements subject to inspection by the Public Company Accounting Oversight Board's inspection program.
2. A firm, which as their highest level of work, perform only compilations where no report is issued in accordance with the provisions of Statements on Standards for Accounting and Review Services (SSARS).

Is a sole proprietorship considered a firm in California?

Yes. Section 5035.1 of the Business and Professions Code defines a firm to include a sole proprietorship.

When does a firm have to report peer review information?

Firms will be phased into the reporting requirement over a three-year period. The following schedule will be used for the phase-in period:

- Firms with a license number ending in 01-33 will need to submit peer review information no later than July 1, 2011.
- Firms with a license number ending in 34-66 will need to submit peer review information no later than July 1, 2012.
- Firms with a license number ending in 67-00 will need to submit peer review information no later than July 1, 2013.

Firms will be required to report peer review information every three years thereafter.

For licensees that operate as a sole proprietorship, the firm number will be the last two digits of your individual CPA license number.

Does a firm need to submit its peer review report?

A firm that receives a peer review rating of pass or pass with deficiencies is not required to submit the peer review report. The firm will only need to complete the *Peer Review Reporting Form* and submit it to the California Board of Accountancy.

A firm that receives a substandard peer review rating is required to submit the peer review report, along with any materials documenting prescription of remedied or corrective actions, within 45 days after the report is accepted by the Board-recognized peer review program provider.

What are Board-recognized peer review program providers?

A Board-recognized peer review program provider is an organization that is recognized to administer peer reviews in California. Board-recognized peer review program providers will work with firms to ensure peer reviews are completed timely, firms select peer reviewers with a currency of knowledge of the professional standards to the type of practice to be reviewed, and review and accept the peer review report.

What organizations are presently recognized by the California Board of Accountancy (CBA) to perform peer reviews?

Presently, only the American Institute of Certified Public Accountants (AICPA) is recognized by the CBA to perform peer reviews. The AICPA uses several administering entities nationally, usually state certified public accountant societies, to administer its peer review program.

How does a firm select a peer reviewer?

A firm is required to enroll in a Board-recognized peer review provider's program. Once enrolled, a recognized provider will assist in a firm's selection of a qualified peer reviewer to ensure that the peer reviewer has a currency of knowledge of the professional standards related to the type of practice to be reviewed.

How can a firm receive an extension of time to undergo a peer review?

Should an extension of time be needed to have a peer review report accepted by a Board-recognized peer review program, the firm shall submit the request to the Board-recognized peer review program provider with which the firm is enrolled. If the extension granted extends past the firm's reporting date, the firm shall notify the California Board of Accountancy of the extension and provide proof of the extension. The firm shall then report the results of the peer review to the CBA within 45 days of the peer review report being accepted by the Board-recognized peer review program.

Do You Know What's Public In Your CPA License File?

The California Legislature has mandated that access to information concerning the conduct of the people's business is a fundamental and necessary right of every person in this state. The California Public Records Act, Government Code, Section 6250 *et seq.*, requires that public records be made available to the public upon request.

After editing out personal information such as social security number, birth date, residence address and residence phone number, copies of the following items which are maintained in your CPA License file are available to the public:

- Examination Application
- Examination Application Remittance Form
- Examination Application Processing Checklist
- Application for CPA Licensure
- Certificates of Experience
- Name and Address Change Forms
- Filed Accusations
- Disciplinary Action
- Certificate of Moral Character
- Correspondence (Except for Client-Attorney Privileged)
- Criminal Conviction Disclosure Form
- License Renewal Applications
- Continuing Education Worksheets

Peer Review... It's Alive!

The CBA's Online Peer Review Reporting Form went "live" on July 1, 2010. The online version of the Peer Review Reporting Form is a user friendly, convenient way to fulfill the peer review reporting requirement within a matter of minutes. To announce the availability of the new online version of the Peer Review Reporting Form, we recently mailed a letter to over 28,000 Certified Public Accountants, Public Accountants, corporations, and partnerships with a license number ending in 01 through 33.

If you were a licensee who received the letter, you were provided a unique pin number for logging into the online form and reminded of the requirement to report peer review information to the CBA no later than July 1, 2011. We understand that many Certified Public Accountant and Public Accountant licensees who received this letter may not be operating as sole proprietorships (a business entity which is owned by one individual and where there is no legal distinction between the owner and the business) and, therefore, are not required to undergo peer review. However, since we do not maintain a record of individual licensees that operate as a sole proprietorship, you are required to respond even if only to inform us that you are not operating as a sole proprietorship. ♦

Information

Each issue of **Update** contains important information about the public accounting profession, including proposed new regulatory language, notices of hearings on proposed regulation changes, and CBA and committee meetings. For your convenience, all issues of **Update** for the past seven years also are posted on the CBA's Web site at www.cba.ca.gov.

What You May Not Know About Peer Review

Mandatory peer review took effect January 1, 2010. For many firms, the institution of peer review will have only a minor impact as they already participate in the American Institute of Certified Public Accountants (AICPA) Peer Review Program. For the rest, however, the CBA understands that the new peer review requirement will have a greater impact and may even seem like a daunting process. It is our hope that the information provided in this article will ease your transition into peer review.

You may be surprised to learn that all firms will have a peer review reporting requirement and that peer review information will not be required at the time of license renewal. Rest assured, if you are not subject to peer review your reporting requirement will be quick and easy. The CBA is diligently working to create two options for reporting peer review information. The first is a database that will be accessible on-line where you can login and report the results of your peer review. The second is a peer review reporting form, which will be mailed to your address of record prior to your reporting due date, for those of you who prefer to report peer review information via hard copy. If you do not perform any services that would make you subject to peer review, you will simply check the appropriate box on-line or on the reporting form and submit it to the CBA.

Under the new law all firms performing accounting and auditing services using generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS) must undergo a peer review, administered by a Board-recognized peer review program provider. The initial reporting requirement will be phased-in over a three-year period based on the last two digits of your firm license number or, for a sole proprietor, the last two digits of your CPA license number. The initial reporting dates will be as follows: license number ending in 01-33 due by July 1, 2011, license number ending in 34-66 due by July 1, 2012, and license number ending in 67-00 due by July 1, 2013. You will then be required to report peer review information every three years thereafter.

Presently, the only Board-recognized peer review program provider is the AICPA Peer Review Program. The AICPA relies on administering entities, generally state CPA societies, to administer its program nationally. In California, the administering entity is the California Society of Certified Public Accountants (CalCPA). You will be required to enroll with the Board-recognized peer review program provider and the provider will assist you in preparing for a peer review, selecting a peer reviewer, and ensuring the peer review is completed timely. If your firm is licensed in another state where you are also required to undergo peer review using the AICPA Peer Review Program, there is no need to undergo a second peer review. You may report the results of the peer review performed in another state so long as it was performed within three years of your reporting due date using the AICPA Peer Review Program.

If you have questions regarding the peer review process or the administrative aspects of enrolling in a peer review program, please contact the CalCPA at (650) 802-2486 or the AICPA at (919) 402-4502. If you have questions regarding your reporting requirements or need assistance in determining if you are subject to peer review, please contact the CBA Renewal and Continuing Competency Unit by telephone at (916) 561-1702 or by e-mail at renewalinfo@cba.ca.gov. ❖

Spring 2010

Peer Review Becomes Law

With the passage of AB 138 (Peer Review), accounting firms performing accounting and auditing services, including sole proprietorships, will now be required to undergo a peer review once every three years as a condition for license renewal.

Over the coming weeks and months, the California Board of Accountancy (CBA) will be posting important peer review-related information on its Web site. This information will provide licensees with specific guidance on the peer review reporting requirements and necessary steps on how to coordinate undergoing a peer review. It is important that all licensees become familiar with the new peer review requirement and begin making preparations for reporting peer review information to the CBA, as required.

Also, included in this *Update* on pages 16-22 are two Regulation Notices related to the new regulations for the Peer Review Program. The exact regulation text and the Initial Statement of Reasons explaining the need for the Peer Review Program are available on the CBA's Web site. For each set of proposed regulations, the CBA will be holding a regulation hearing on January 20, 2010 at the Hilton Irvine/Orange County Airport. Individuals interested in offering public comments regarding the peer review regulations may supply written comments during the public comment period, or in person at the regulation hearing.

Additionally, AB 138 requires the CBA to appoint an advisory committee to oversee the Peer Review Program. The Peer Review Oversight Committee (PROC) will be comprised of California licensees and will be appointed by the CBA. The PROC will provide recommendation to the CBA on the effectiveness and continued reliance of the Peer Review Program.

The PROC will meet, at a minimum, four times yearly; generally for one day, alternating between a northern and southern California city. PROC members will also be responsible for conducting site visits of CBA-recognized peer review programs and participating in person and telephonically in program providers' peer review committee and report acceptance body meetings.

PROC members will be selected from all size firms. The following characteristics will be sought for members of the PROC:

- Knowledge of SSARS through experience in performing compilation and review services.
- Current knowledge of accounting and auditing pronouncements through the experience in accounting or attest services.
- Regularly sign attest reports and have extensive experience in performing accounting and auditing engagements.
- Currently is a partner, shareholder, or manager or person with equivalent supervisory responsibilities in a firm's accounting and auditing practice.
- Completed the 24-hour Accounting and Auditing and eight-hour Fraud continuing education requirement for license renewal.

If membership on the PROC interests you, please see pages 8 and 9 of the *Update* for information on how to apply. ❖

Protect Consumers
Educate Licensees
Enforce Standards
Raise the Bar
R E V I E W

The California Board of Accountancy (Board) is sponsoring legislation it believes will protect consumers, educate licensees, enforce standards, and raise the bar for the accounting profession in California. Assembly Bill 138 (AB 138), introduced in January by Assembly Member Mary Hayashi (D-Hayward), will implement a peer review program in which all California licensed firms performing accounting and auditing services will participate.

“Peer review is designed to educate licensees and help them maintain a currency of knowledge,” said Patti Bowers, the Executive Officer of the Board. “It is also an important tool for consumer protection. Consumers can be sure that their Certified Public Accountant is up to date on professional standards.”

Under AB 138, all California firms providing accounting and auditing services will complete a periodic peer review. Peer review is a study of a firm’s accounting and auditing practice by an independent Certified Public Accountant using professional standards. Forty-one other jurisdictions have already implemented a peer review requirement, and AB 138 will raise the bar to keep California on par with this trend for the profession.

The Board sees the measure as a way to protect consumers in an ever-changing financial climate by keeping accounting firms knowledgeable of current professional standards, thereby promoting consumer confidence in these firms.

“AB 138 will enhance the quality of accounting and auditing services provided by firms in California,” explained Ms. Bowers. “It is educational for the licensee, and it helps boost consumer confidence. Mandatory peer review benefits everyone.”

The text of the bill, as well as additional legislative information, can be found on the Internet at www.leginfo.ca.gov. If you would like to express your opinion regarding this legislation, please write a letter to your Assembly Member or State Senator at State Capitol, Sacramento, CA 95814. ♦



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
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WEB ADDRESS: <http://www.cba.ca.gov>



October 2009

Handout #5

Dear Licensee:

Two pieces of legislation recently signed by the Governor, specifically Assembly Bills (AB) 117 and 138, in addition to regulations presently being promulgated by the California Board of Accountancy (Board), will directly impact all California licensees.

We believe that these legislative and regulatory changes will benefit all of the Board's stakeholders – consumers and licensees. Peer review, inactive license disclosure, and modifications to the CE requirements will create increased consumer protection, while also enhancing licensees' ability to provide high-quality accounting services to their clients.

AB 117, sponsored by the California Society of Certified Public Accountants and carried by Assembly Member Roger Niello, will require licensees who maintain a license in an inactive status to clearly designate on business cards, name plaques, Web sites, and other materials that their license is in an inactive status. This new requirement takes effect January 1, 2010.

AB 138, sponsored by the Board and carried by Assembly Member Mary Hayashi, will require all California-licensed accounting firms, including sole proprietorships, performing accounting and auditing services to undergo a peer review once every three years. The new peer review requirement takes effect January 1, 2010, with the first firms required to submit peer review information no later than July 31, 2011.

In addition to the recently passed legislation, the Board has proposed regulation changes that affect the continuing education (CE) requirements for license renewal. The most notable regulatory changes require licensees to complete: (1) four hours of ethics education for each license renewal period, (2) a two-hour course specific to the Accountancy Act and Board of Accountancy Regulations every six years, and (3) a minimum number of CE hours yearly. The Board anticipates that these regulations will be approved in mid November with an operative date of January 1, 2010.

Over the coming weeks, we encourage you to visit our Web site as we will be posting important information on inactive license disclosure, peer review, and CE regulation changes. When you visit the Web site, be sure to subscribe to the newly created E-News. This will allow you to receive e-mail notifications containing important information regarding Board programs and activities.

If you have any questions regarding inactive license disclosure, peer review, or CE regulation changes, please visit the Board's Web site at www.dca.ca.gov/cba.

Sincerely,

Handwritten signature of Robert Petersen in black ink.

Robert Petersen, President
California Board of Accountancy

Handwritten signature of Patti Bowers in black ink.

Patti Bowers, Executive Officer
California Board of Accountancy



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July 2010

Name
Address
City, State Zip

Dear (Firm or Full Licensee Name):

On January 1, 2010, mandatory peer review became effective for all California-licensed firms, including sole proprietorships, performing specified accounting and auditing services. You are receiving this letter because you have been identified as having a license number ending in 01-33, which places you in the first group of licensees required to report peer review information to the California Board of Accountancy (CBA) **no later than July 1, 2011.**

The requirement to undergo a peer review applies to all California-licensed firms, including sole proprietorships, that perform one or more accounting and auditing service using any of the following professional standards:

- Statements on Auditing Standards (SASs);
- Statements on Standards for Accounting and Review Services (SSARS);
- Statements on Standards on Attestation Engagements (SSAEs);
- Government Auditing Standards (Yellow Book);
- Audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

The only exclusions from the peer review requirement are for any of a firm's engagements subject to inspection by the PCAOB's inspection program; and firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provisions of SSARS.

Though the requirement to undergo peer review applies only to firms, the CBA does not maintain a listing of Certified Public Accountants operating as sole proprietorships. As such, all licensees receiving this letter are required to respond, even if only to inform the CBA you are not operating as a sole proprietorship and are therefore not subject to the peer review requirement. Likewise, firms not performing the specified accounting and auditing services also must respond in order that the CBA can evaluate the applicability of peer review to the services provided by each firm.

The CBA has developed a peer review reporting database, available on the CBA Web site at www.cba.ca.gov, where you can log-in and fulfill your peer review reporting requirement by simply answering a few questions and submitting your information.

Please find below your license number and unique pin number. It is very important that you maintain this information as it is required for logging into the reporting database.

License #:

Pin:

You will only be able to log-in to the database one time, so it is also important that you complete the reporting process in its entirety when you log-in, which should require no more than 10 minutes of your time. As an alternative, you may elect to report the required peer review information in hard copy by downloading a copy of the *Peer Review Reporting Form*, from the forms page of the CBA Web site or requesting it from the CBA by telephone at (916) 561-1706 or by e-mail at peerreviewinfo@cba.ca.gov.

Please remember that firms that have received a substandard peer review rating are required to submit a copy of the peer review report to the CBA, along with any materials documenting prescription of and compliance with remedial or corrective actions, within 45 days after the report is accepted by the Board-recognized peer review program provider. Firms that have received a peer review rating of pass or pass with deficiencies are not required to submit a copy of the peer review report.

Presently, the only peer review program recognized by the CBA to perform peer reviews is the American Institute of Certified Public Accountants (AICPA). If you have any questions regarding the peer review process, please contact the California Society of Certified Public Accountants, the administering entity of the AICPA's peer review program in California, by telephone at (650) 802-2486 or by e-mail at peerreview@calcpa.org.

If you have any questions regarding your peer review reporting requirements, please contact the CBA via telephone at (916) 561-1706.

Sincerely,

Patti Bowers
Executive Officer

MISSISSIPPI STATE BOARD OF PUBLIC ACCOUNTANCY

BOARD OVERSIGHT COMMITTEE

Summary of Oversight Visit - Administrative

Oversight Committee Member
performing this review _____
Date performed _____

1. Obtain the following from the State Board staff before visiting the MSCPA:
 - A. Prior annual reports.
 - B. Other information pertinent to the oversight visit: e.g. statistical reports, correspondence and records of conversations with the Peer Review Committee.
2. Contact MSCPA to obtain arrange visit to office and review of administrative records.
3. Meet with the person(s) responsible for the MSCPA Peer Review Program, discuss and document the:
 - A. Review process and procedures.
 - B. Committee acceptance process and the educational and remedial philosophy of the Peer Review Program.
 - C. The percentage of reviews scheduled and the follow-up on firms that do not respond to scheduling requests.
 - D. Monitoring of reviews through completion.
 - E. Receipt of review documents on a timely basis.

4. Please list program staff interviewed as part of the oversight visit:

Name _____ Title _____

Name _____ Title _____

5. Do MSCPA administrative personnel appear knowledgeable about their Peer Review Program manuals?

	Yes	No
Peer Review Program Manual	_____	_____
Peer Review Administrative Manual	_____	_____
Peer Review Computer System User Manual	_____	_____

Summary of Oversight Visit - Administrative

Date _____

Page 2

- 6. Are actions taken to monitor the completion of follow-up actions?
Yes _____ No _____
- 7. Are program letters generated to advise reviewers of poor performance or tardiness when warranted?
Yes _____ No _____
- 8. Are acceptance letters being sent in a timely manner? Yes _____ No _____
- 9. Does the administrative staff require any additional assistance from program support staff?
Yes _____ No _____
- 10. Please rate the administrative staff's knowledge of administrative and computer procedures:
_____ Poor
_____ Adequate; needs some improvement
_____ Excellent
- 11. In what areas does the administrative staff need improvement or training?

- 12. Were any specific solutions to problems discussed? _____
- 13. Has the administrative staff demonstrated improvement from any prior oversight visit?
Yes _____ No _____

Comments: _____

Memorandum

PROC Agenda Item VIII
November 9, 2010

To : Nancy Corrigan, Chair, PROC
PROC Members

Date: October 18, 2010
Telephone : (916) 561-1725
Facsimile : (916) 263-3673
E-mail: pfisher@cba.ca.gov

From : Paul Fisher 
Supervising ICPA, Enforcement Division

Subject : AICPA Peer Review Program Exposure Draft, June 1, 2010

On June 1, 2010, the AICPA issued an Exposure Draft titled "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing And Reporting On Peer Reviews Of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs".

Staff noted that the Exposure Draft appears to be "standards-based" as opposed to regulatory in nature and deals with the peer reviews of CPE programs and quality control materials. The "thrust" of the issues covered in the Exposure Draft relate to these specific peer reviewers' qualifications and independence, and are summarized in three points outlined in the Explanatory Memorandum at the front of the Exposure Draft. The three major changes, as iterated on pages 6 – 8 of the Exposure Draft are as follows:

- "Revises and clarifies the guidance for those involved in the development and maintenance of QCM or CPE programs such that they are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs (user firms)."
- "Removal of the requirements for providers to undergo triennial peer reviews of the system to develop and maintain QCM or CPE programs, and of the resultant materials."
- "Revises the procedures for performing a CPE program peer review for those providers that elect to undergo such a review."

Staff presented the Exposure Draft to CBA members at the September 22-23, 2010 board meeting. The CBA voted to:

1. Refer the Exposure Draft to the CBA Peer Review Oversight Committee for comments.

Given that the original comment period ended August 31st, and the entire AICPA Peer Review Board met on October 7th the comments will be prepared in order for the CBA to go on record with respect to California's perspective regarding the issues contained in the document.

AICPA Peer Review Program Exposure Draft, June 1, 2010
October 18, 2010
Page 2 of 2

Attached to this memorandum is a copy of the AICPA Peer Review Exposure Draft, dated June 1, 2010 (Attachment I).

EXPOSURE DRAFT

PROPOSED REVISIONS TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS:

Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs

June 1, 2010

**Prepared by the AICPA Peer Review Board for comment
from persons interested in the AICPA Peer Review Program**

**Comments should be received by August 31, 2010 and addressed to
LaShaun King, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110
or via the Internet to PR_expdraft@aicpa.org**

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June 1, 2010

This exposure draft has been approved for issuance by the AICPA Peer Review Board, and contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the *Standards for Performing and Reporting on Peer Reviews* and related *Interpretations*. Changes to the *Interpretations* are developed and discussed in open Board meetings and do not require exposure for public comment; however, changes to the applicable *Interpretations* have been included here for review and comment as they provide clarification of revisions within the *Standards* that are a part of this exposure draft.

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by August 31, 2010. Electronic submissions of comments or suggestions in Microsoft Word should be sent to PR_expdraft@aicpa.org by August 31, 2010.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program and will be available for public inspection at the offices of the AICPA after August 31, 2010 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards* and *Interpretations*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* and *Interpretations* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* are struck through, and new items are underlined).

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review Web site at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

Dan Hevia

Dan Hevia
Chair
AICPA Peer Review Board

Gary Freundlich

Gary Freundlich
Technical Director
AICPA Peer Review Program

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2009 - 2010**

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Susan Rowley
Senior Technical Manager
AICPA Peer Review Program

LaShaun King
Technical Manager
AICPA Peer Review Program

Explanatory Memorandum

Introduction

There has been growing public interest in the process used to evaluate quality control materials (QCM) and continuing professional education (CPE) programs. The AICPA Peer Review Board (PRB) delegated to the National Peer Review Committee (NPRC) the responsibility for the administration of QCM and CPE peer reviews. In response to the public interest, the NPRC formed the QCM and CPE Programs Task Force which, among other things, evaluates and determines the need for enhancements to the guidance related to QCM and CPE peer reviews, including relevant portions of the *Standards for Performing and Reporting on Peer Reviews* and related *Interpretations* (collectively “Standards”).

Through feedback from various stakeholders, the task force identified necessary revisions to the *Standards* related to independence and scope considerations. The PRB’s Standards Task Force agreed with the need to revise the *Standards*, and recommended this exposure draft to the PRB for consideration. The PRB has approved and issued this exposure draft to propose those revisions to the *Standards*. The proposed revisions contained in this exposure draft are limited to the issues raised herein.

This proposal:

1. Revises and clarifies the guidance for those involved in the development and maintenance of QCM or CPE programs such that they are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs (*user firms*). This impacts firms that develop and maintain QCM or CPE programs (*provider firms*) as well as an association of CPA firms that develop and maintain QCM or CPE programs (*provider association*).
2. Removes the provision requiring providers to undergo a triennial peer review of the system to develop and maintain QCM or CPE programs, and the resultant materials. However, providers can still elect to undergo such a review voluntarily. This is applicable for provider firms as well as provider associations.
3. Revises the procedures for performing a CPE program peer review for those providers that elect to undergo such a review. There are no changes proposed to the procedures for performing a QCM peer review, although some clarifications to those procedures are included.

Explanation of Changes to Existing Standards

1. Revises and clarifies the guidance for those involved in the development and maintenance of QCM or CPE programs such that they are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs (user firms).

The PRB recognizes the significance of QCM and CPE program peer reviews, particularly those that are widely utilized by many CPA firms. Such materials usually encompass a large portion of firms' systems of quality control. The current *Standards* contain detailed guidance related to the performance of and reporting for QCM and CPE program peer reviews. That guidance discusses which types of providers are required to undergo peer reviews of their systems and materials or programs, how these types of reviews are performed and reported on, and independence concerns with respect to the review team. The PRB has revisited that guidance to evaluate whether the provisions it contains are aligned with the overall nature and objectives of the Peer Review Program.

As a result of this examination, the PRB determined that certain changes and revisions were warranted. The primary concern was clarifying the stance on independence and objectivity with respect to providers of QCM and CPE programs by making revisions to the guidance explaining who may serve on the peer review team of a user firm undergoing its triennial peer review.

Any person that is involved in the development or maintenance of a provider's QCM or CPE programs has an interest in a user firm. Because of the nature of QCM and CPE programs, a provider's success relies in part on the success of firms that use the provider's materials; by extension, the provider becomes a part of the user firm's system of quality control. Someone who participated in the development or maintenance of the materials or programs also becomes a part of the user firm's system of quality control. Further, the relationship between a provider and a user firm creates a conflict of interest with respect to the user firm, both in terms of the successfulness of the user firm and the economic dependency that a provider (and by extension, someone that is a part of the provider's system of quality control) has on its user firms. For peer review purposes, this becomes an issue when someone that is a part of the provider's system of quality control is also a peer reviewer that participates on the review team to peer review a user firm. The *Standards* define independence and objectivity in paragraph 22, stating that "the reviewing firm, the review team, and any other individuals who participate on the peer review should be free from an obligation to, or interest in, the reviewed firm or its personnel." With respect to objectivity, paragraph 22 further states "the principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest."

This issue is already recognized in Interpretation 21-1, which addresses the independence impact when a peer reviewer, for example, performs a firm's preissuance reviews or internal inspection. From a peer review independence standpoint, those types of situations are remedied by ensuring they do not occur either in the year immediately preceding or the year of peer review. However, there isn't an adequate remedy to restore independence for a reviewer involved in the development or maintenance of QCM or CPE programs used by a firm subject to review. The current guidance attempted a remedy by requiring certain types of providers to undergo a triennial peer review of their system of quality control to develop and maintain the QCM and/or CPE programs, and the resulting materials or programs. However, having such a review does not remove the potential for a lack of objectivity in fact and/or appearance on the part of a peer reviewer that is also a part of the provider's

system of quality control. The PRB concluded that the consequence of allowing a peer reviewer that is also a part of the provider's system of quality control to peer review a user firm conflicts with a peer reviewer maintaining the independence, integrity and objectivity that the *Standards* embody. This was not the intent of the PRB. The proposed revisions would conform the guidance to the underlying intent of paragraphs 21 – 22 of the *Standards*. These revisions will apply to both provider firms and provider associations.

The proposed revisions would preclude any personnel from a provider firm from participating on the review team of a firm that uses QCM or CPE programs that provider firm developed, regardless of whether the review team is formed by a different reviewing firm or by an association (association formed review team). In addition, the proposed revisions would preclude any personnel from an association member firm that participated in the development or maintenance of the association's QCM or CPE programs from serving on the review team of a firm that uses the association's QCM or CPE programs, regardless of whether the review team is formed by a different reviewing firm or by the association. In other words, a provider firm or a firm affiliated to a provider (whether a firm or association) that assisted with the development or maintenance of the materials or programs cannot participate on the peer review team of a firm that uses the materials as an integral part of its system of quality control. Further, CPA owners of a provider (whether a firm or another entity) that are also peer reviewers cannot participate on the review team of a user firm.

While the PRB has reached the above conclusions based on the information it currently has, it is still open to the viewpoints of peer review stakeholders. The PRB has developed questions that follow later in this document to which interested parties are asked to provide responses.

The proposed change affects paragraphs 156, 159, 160, and 164 of the *Standards*. It also affects Interpretations 21-1, 21-7 and 21-9.

2. Removal of the requirements for providers to undergo triennial peer reviews of the system to develop and maintain QCM or CPE programs, and of the resultant materials.

The original intent of requiring peer reviews for certain classes of providers was to mitigate potential independence impairments. Provider firms were required to undergo peer reviews of their system to develop and maintain QCM or CPE programs, and the resultant materials or programs, in order to remove potential independence concerns if the provider firm wished to peer review a user firm. Similarly, provider associations were required to undergo peer reviews of their system and resultant materials or programs to remove independence concerns amongst its member firms if those firms chose to peer review each other or if the association formed review teams. As the proposed revisions clarifies the PRB's stance on independence and objectivity with respect to these types of reviews, there was no reason to continue to require either class of provider to submit to triennial QCM or CPE program peer reviews. Instead, providers may voluntarily elect to undergo QCM or CPE program peer reviews to provide reasonable assurance to user firms that the system to develop QCM or CPE programs are reliable aids to assist them in conforming to those professional standards the materials purport to encompass, and so that peer reviewers of user firms can place reliance on the QCM or CPE program peer review to reduce the scope of planning procedures in certain situations (which includes a review of the firm's QCM or CPE programs, among other procedures).

The proposed change affects *Standards* paragraphs 159 and 160.

3. Revises the procedures for performing a CPE program peer review for those providers that elect to undergo such a review.

A CPE program is intended to increase or maintain the proficiency of an individual. The majority of CPE programs are presented as classes offered live or via the internet, with a course instructor that verbally provides much of the needed information. Any aids that are developed and used as a part of a CPE program are intended for use or reference during the CPE program, and generally cannot be used as a stand-alone aid absent the instruction or lecture it's meant to accompany. These aids can range from being very general and short to specific and lengthy. Therefore, a key component of any CPE program is the information and guidance provided by the course instructor. The delivery of information is an important difference between CPE programs and QCM (which are generally intended to be stand-alone aids for their specified purposes).

The *Standards* do not address the instruction component of CPE programs. However, they do currently require the peer reviewer to evaluate and opine on the system to develop and maintain the CPE programs and the resultant aids. The PRB considered how users rely on peer review reports of CPE programs, and whether any further reliance is gained because the report opines on both the system to develop and maintain CPE programs and the resultant CPE program aids, absent of the accompanying instruction. The PRB determined that since the instruction component of a CPE program is key to the program as a whole, users of CPE program peer review reports are not served by an opinion on the program aids alone. Further, there is no practical and efficient way that the instruction component (which is often provided verbally) can be appropriately evaluated and opined upon. Yet, a peer reviewer can evaluate and opine on the system in place to develop and maintain the CPE program, which would include evaluating the provider's process for ensuring that the appropriate information is gathered and ultimately delivered to CPE program participants. As a result, the PRB determined that the report for CPE programs should be revised to only opine on the system to develop and maintain the CPE programs, and that the peer review procedures in the *Standards* performed in support of the report should similarly be revised so that the procedures focus on the system.

The proposed revisions would result in separate yet similar procedures for peer reviews of CPE programs as compared to peer reviews of QCM. The procedures for peer reviews of QCM will continue to focus on both the system to develop and maintain the materials, and the resultant aids. The procedures for peer reviews of CPE programs will focus on the system to develop and maintain the programs; any review of aids or materials designed to be used during the program will be encompassed in the evaluation of the system and whether it was suitably designed and complied with during the period under review. The proposed revisions will also result in different report language for opining on peer reviews of CPE programs as compared to peer reviews of QCM.

The proposed change affects *Standards* paragraphs 156, 158 – 160, 166, and 168 – 173, and renumbers the paragraphs beginning with 170.

4. Other Changes

There are additional revisions throughout paragraphs 154 – 182 (as renumbered) of the *Standards* to provide clarification consistent with current practices to perform these types of reviews, fix minor

grammar errors, and correct inconsistencies between these paragraphs and the remainder of the *Standards*.

Guide for Respondents

The PRB is seeking comments specifically on the peer review relationship described in paragraph 159 of the *Standards* and whether there are any potential conflicts with the guidance provided in paragraphs 21 and 22 and related *Interpretations*. Respondents are asked to specifically respond to the following questions:

1. Do you believe that the peer review relationship currently permitted by paragraph 159 is appropriate (e.g. if Firm A develops and markets QCM or CPE programs that has been independently peer reviewed and Firm B uses those materials or programs, is it appropriate for Firm A to perform the peer review of Firm B)?
2. Are there any independence concerns that arise as a result of the peer review relationship currently permitted by paragraph 159?
 - a) If no, please explain why you do not have any independence concerns.
 - b) If yes, please list your concerns and discuss whether you believe they represent an impairment of independence in fact, appearance, or both.
 - c) If yes, do the proposed revisions appropriately address your independence concerns?
3. Do you believe that the proposed revisions are necessary to serve the main goal of the AICPA Peer Review Program (promoting quality in the accounting and auditing services provided by AICPA members and their CPA firms in order to serve the public interest and enhance the significance of AICPA membership)?
4. Is it more appropriate to have safeguards instead of prohibition? For example, using the scenario in question #1 between Firms A and B, would independence concerns be mitigated if the peer reviewers from Firm A were not involved in any way in the development or maintenance of the QCM or CPE programs? Or if there were periodic oversight of reviews performed by Firm A when the reviewed firm uses Firm A's materials or programs? Please provide your suggestions as to any appropriate safeguards you believe mitigate independence concerns.
5. If the proposed revisions are implemented, do you believe there will be a negative impact on your firm's ability to obtain QCM or CPE programs and/or ability to find qualified peer reviewers?

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

When a respondent agrees with proposals in the exposure draft, it will be helpful for the PRB to be made aware of this view and the reasons for agreement.

Please limit any submitted comments to the items presented within this exposure draft.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after August 31, 2010, for one year. Responses should be sent to LaShaun King at PR_expdraft@aicpa.org and received by August 31, 2010.

Comment Period

The comment period for this exposure draft ends on August 31, 2010.

Effective Date

Unlike previous revisions to the *Standards*, the effective date for the revisions related to the removal of the provisions 1) allowing provider firms to peer review user firms and 2) requiring provider firms to undergo triennial peer reviews is based on the scheduling date (instead of commencement date). This was done to avoid unfairly impacting those firms that use QCM or CPE programs and have potentially engaged peer reviewers that the revisions prohibit from being able to perform those peer reviews in the future.

After exposure and consideration of the comments received, revisions to the *Standards* that are adopted will be effective for peer reviews scheduled on or after November 1, 2010, with the exception of the revisions to the procedures for performing CPE peer reviews (item 3 above), which are effective immediately upon issuance of the revised *Standards*.

Proposed Revisions to the Peer Review Standards

Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs

Introduction

.154 Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm's system of quality control. Such materials provide guidance to assist firms in performing and reporting in conformity with professional standards and may include, but are not limited to, such items as:

a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams

b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms, and other materials related to the functional areas of quality control.

.155 Occasionally, organizations (hereinafter referred to as *providers*) may sell or otherwise distribute to CPA firms (hereinafter referred to as *user firms*) QCM that they have developed. They may also sell or distribute CPE programs that they have developed.

.156 ~~Providers may elect voluntarily or be required (see paragraph 159) to have an independent review of their system of quality control for the development and maintenance of the QCM or CPE programs they have developed, and of the materials themselves. Providers may also elect to have an independent review of their system of quality control for the development and maintenance of the CPE programs they have developed.~~ Providers may also elect to have an independent review of their system of quality control for the development and maintenance of the CPE programs they have developed. The reasons for having such a review include but are not limited to:

a. ~~Providing reasonable assurance to user firms that the system used by the provider to develop and maintain QCM or CPE programs they have acquired is appropriately designed and complied with, and that the QCM themselves they acquire are reliable aids to assist them in conforming to those professional standards the materials purport to encompass.~~ To provide assurance to user firms that the system used by the provider to develop and maintain QCM or CPE programs they have acquired is appropriately designed and complied with, and that the QCM themselves they acquire are reliable aids to assist them in conforming to those professional standards the materials purport to encompass.

b. ~~Providing more cost-effective peer reviews for firms that acquire or use such materials by allowing the peer reviewers of user firms to place reliance on the QCM or CPE review to reduce the scope of the review of the user firm's QCM or CPE programs in certain situations (see Interpretations).~~ To provide more cost-effective peer reviews for firms that acquire or use such materials by allowing the peer reviewers of user firms to place reliance on the QCM or CPE review to reduce the scope of the review of the user firm's QCM or CPE programs in certain situations (see Interpretations).

c. Providing reasonable assurance

e. ~~To ensure that independence and objectivity on peer reviews of user firms is maintained when such peer reviews are performed by providers or other user firms in the same association of CPA firms.~~

.157 A summary of the nature, objectives, scope, limitations of, and procedures performed on QCM or CPE programs is included in appendix A.

Objectives of a Peer Review of QCM or CPE Programs

.158 ~~The objective objectives of a peer review of QCM or CPE programs developed by a provider is determining are:~~ The objective objectives of a peer review of QCM or CPE programs developed by a provider is determining are:

a. ~~To determine whether the provider's system for the development and maintenance of the QCM or the CPE programs was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials or programs are reliable aids to assist them in conforming with those professional standards the materials or programs purport to encompass.~~ To determine whether the provider's system for the development and maintenance of the QCM or the CPE programs was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials or programs are reliable aids to assist them in conforming with those professional standards the materials or programs purport to encompass.

In addition, a peer review of QCM has the further objective of determining whether the resultant materials are reliable aids.

Applicability

.159 An independent review of the system for the development and maintenance of QCM or CPE programs (and the resultant materials (the QCM peer review or CPE programs peer review) and the resultant materials (QCM peer review only) is voluntary required for all providers. The following classes of providers include:

a. A firm providing QCM or CPE programs to other firms another firm for which the provider firm will perform the peer review

b. An association of CPA firms providing QCM or CPE programs

c. A third party organization that provides QCM or CPE programs as firms' provider when a primary function of its business user firm in the association will perform a peer review of another user firm in the association

.160 A provider of QCM or CPE programs that voluntarily elects to have such a review falling into either of these categories should consult with the National PRC. A QCM or CPE review should ordinarily occur once every three years, be and should arrange to have such a peer review administered by the National PRC, and be performed in accordance with these standards. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the National PRC to determine whether an accelerated peer review is warranted.

.161 Providers Any other provider of QCM or CPE programs that voluntarily elects to have a peer QCM or CPE review under performed in accordance with these standards must comply with all provisions should also consult with the National PRC. A provider may have a review voluntarily so that peer reviewers of user firms can place reliance on the QCM or CPE review to reduce the scope of the review of the firm's QCM or CPE programs.

.162 A QCM or CPE review under these standards may not include materials relating to audits of SEC issuers performed pursuant to the standards of the PCAOB.

.163 All providers that plan to have a QCM or CPE review performed in accordance with these standards must notify the National PRC in advance of that review so that the review team can be approved and the review can be appropriately scheduled. Once a QCM or CPE review has commenced, providers must also notify the National PRC before a review is terminated prior to completion.

Qualifications for Serving as QCM or CPE Peer Reviewers

.164 A QCM or CPE review team may be formed by a firm engaged by the provider under review or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team). Peer reviews of association QCM or CPE programs may not be performed by a member of the association whose materials or programs are being reviewed. The QCM or CPE review team is not considered qualified until approved by the NPRC. Furthermore, the National PRC will not appoint to the QCM or CPE review team a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the QCM or CPE review, such as someone who assisted in the development or review of such materials, or uses the materials as an integral part of their the firm's system of quality control (see Interpretations). Final approval of QCM or CPE review teams is at the NPRC's discretion.

.165 A QCM or CPE reviewer shall possess the qualifications set forth in the paragraphs under "Organizing the System or Engagement Review Team" and "Qualifying for Service as a Peer Reviewer" (see paragraphs 26-35).

Procedures for Performing QCM Provider or CPE Reviews

~~.166~~ The provider should identify the materials subject, whether QCM or CPE program materials, to review ~~be reviewed and covered by the on which an opinion is to be expressed.~~ A QCM ~~or CPE~~ review should include a study and evaluation of the system for the development and maintenance of the QCM ~~or CPE program~~ that have been identified and a review of the materials themselves. Where not otherwise addressed in the following list, the peer reviewer should refer to the guidance for performing and reporting on System Reviews (see paragraphs 36–101) and accepting System and Engagement Reviews (see paragraphs 132–140) for additional guidance on performing, reporting on, and accepting QCM ~~and CPE~~ reviews.

.167 A provider's system for the development and maintenance of the materials normally should include:

- a. A requirement that the materials be developed by individuals qualified in the subject matter.
- b. A requirement that the materials be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass.
- c. Procedures to ensure the currency and relevancy of the materials.
- d. Procedures for soliciting and evaluating feedback from users of the materials.
- e. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider's policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating.
- f. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

.168 A study and evaluation of the system for the development and maintenance of the materials normally should include the following procedures:

- a. Reviewing and evaluating the procedures established for developing and maintaining the materials.
- b. Reviewing and evaluating the procedures established for updating (including distributing) the materials to ensure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials, ~~(and for communicating any relevant changes in professional standards to program participants if new professional standards are issued prior to updating the CPE programs).~~
- c. Reviewing the technical competence of the developer(s) or updater(s) of the materials.
- d. Obtaining evidence that the materials were reviewed for technical accuracy by qualified person(s) other than the developer(s) or updater(s).
- e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's intention to update the materials.
- f. Reviewing the system developed for soliciting and evaluating feedback from users of the materials.

~~.169~~ The scope of the A QCM peer or CPE review includes all of team should review the resultant materials covered in, to the opinion extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass. The extent to which individual manuals, guides, checklists, etc. are reviewed is subject to the peer review team's judgment and should be documented in the risk assessment.

Procedures for Performing CPE Provider Reviews

.170 A CPE review should include a study and evaluation of the system for the development and maintenance of the CPE programs. Where not otherwise addressed in the following list, the peer reviewer should refer to the guidance for performing and reporting on System Reviews (see paragraphs 36–101) and accepting System and Engagement Reviews (see paragraphs 132–140) for additional guidance on performing, reporting on, and accepting CPE reviews.

.171 A provider's system for the development and maintenance of the programs normally should include:

a. A requirement that the programs be developed by individuals qualified in the subject matter.

b. A requirement that the programs be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the programs are reliable aids to assist users in conforming to those professional standards the programs purport to encompass.

c. Procedures to ensure the currency and relevancy of the programs.

d. Procedures for soliciting and evaluating feedback from users of the programs.

e. Procedures for communicating the period and the professional standards encompassed by the programs (and for communicating any relevant changes in professional standards to program participants if new professional standards are issued prior to revising the CPE programs).

f. Procedures to ensure that instructors are qualified with respect to the program content and subject matter, and to evaluate the instructor's performance on a periodic basis.

.172 A study and evaluation of the system for the development and maintenance of the programs normally should include the following procedures:

a. Reviewing and evaluating the procedures established for developing and maintaining the programs.

b. Reviewing and evaluating the procedures established to ensure the programs are current and relevant.

c. Reviewing the technical competence of the programs' developer(s).

d. Obtaining evidence that the programs were reviewed for technical accuracy by qualified person(s) other than the developer(s).

e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the programs and the professional standards they purport to encompass.

f. Reviewing the system developed for soliciting and evaluating feedback from users.

g. Reviewing the technical competence and qualifications of the program instructors.

.173 A CPE review team should make a risk-based selection of programs offered during the year and review them, to the extent deemed necessary, to evaluate whether the system to develop and maintain the CPE programs was complied with by determining that the CPE programs selected are an accurate reflection of the professional standards the programs purport to encompass, in all material respects. The extent to which individual manuals, guides, checklists, etc. are reviewed is subject to the peer review team's judgment and should be documented in the risk assessment.

Reporting on QCM or CPE Reviews

General

~~.174170~~ The QCM or CPE review team should furnish the provider with a written report and the final FFC forms within 30 days of the date of the exit conference or by the provider's review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the team captain performing the review. The report in a QCM or CPE review ordinarily should be dated as of the date of the exit conference. See interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

Preparing the Report in a QCM or CPE Review

~~.175171~~ The standard forms for a peer review report on QCM ~~or CPE programs~~ with a peer review rating of *pass*, *pass with deficiencies*, and *fail* are included in appendixes R, "Illustration of a Report With a Peer Review Rating of *Pass* in a Peer Review of Quality Control Materials ~~or CPE Programs~~;" S, "Illustration of a Report with a Peer Review Rating of *Pass with Deficiencies* in a Peer Review of Quality Control Materials ~~or CPE Programs~~;" and T, "Illustration of a Report with a Peer Review Rating of *Fail* in a Peer Review of Quality Control Materials," respectively. The standard form for a peer review report on CPE programs with a peer review rating of *pass*, *pass with deficiencies*, and *fail* are included in appendixes U, "Illustration of a Report With a Peer Review Rating of *Pass* in a Peer Review of CPE Programs;" V, "Illustration of a Report with a Peer Review Rating of *Pass with Deficiencies* in a Peer Review of CPE Programs;" and W, "Illustration of a Report with a Peer Review Rating of *Fail* in a Peer Review of ~~or~~ CPE Programs," respectively. Additional paragraphs included for scope limitations follow the illustrations for System Reviews with scope limitations (see appendixes D, G, and K).

~~.176172~~ A QCM or CPE report with a rating of *pass*, *pass with deficiencies*, or *fail* shall contain elements similar to those in a System Review report. As such, the written report in a QCM or CPE System Review should:

a. State at the top of the page the title "Quality Control Materials Review Report" or "CPE Programs Review Report."

b. In a QCM report, state ~~State~~ that the system of quality control for the development and maintenance of the materials and the resultant materials in effect at the year-end covered by the peer review were reviewed.

c. In a CPE report, state that the system of quality control for the development and maintenance of the programs in effect at the year-end covered by the peer review was reviewed.

c. State that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.

d. State that the organization is responsible for designing a system of quality control and complying with it to provide users of the materials or programs with reasonable assurance that the materials or programs are reliable aids to assist them in performing and reporting in conformity with ~~applicable professional standards in all material respects~~ those professional standards that the materials or programs purport to encompass, in all material respects.

e. State that the reviewer's responsibility is to express an opinion on the design of the system of quality control and the organization's compliance therewith based on the review.

f. State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials review or CPE review are described in the standards.

g. Include a URL reference to the AICPA Web site where the standards are located.

h. Identify the different peer review ratings that the ~~provider~~ organization could receive.

i. In a report with a peer review rating of *pass*:

- Express an opinion that the system of quality control for the development and maintenance of the quality control materials or CPE ~~programs~~ program was suitably designed and was being complied with during the

year ended to provide users of the materials or programs with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.

- Express an opinion that the quality control materials ~~or CPE program~~ were reliable aids at the year-end (QCM report only).-
- State at the end of the opinion paragraph that therefore the report reflects a peer review rating of *pass*.
- ~~Include an additional paragraph, in~~ the event of a scope limitation, ~~include an additional paragraph~~ before the opinion paragraph that describes the scope limitation, including the relationship of the excluded steps to the full system, and the affect on the scope and results of the review.
- ~~Do not include~~ Reports with a peer review rating of *pass* ~~do not contain~~ any findings, deficiencies, significant deficiencies, or recommendations.

j. In a report with a peer review rating of *pass with deficiencies*:

- Express an opinion that, except for the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials or CPE ~~programs~~ program was suitably designed and was being complied with during the year ended to provide users of the materials with reasonable assurance that the materials or programs are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- State at the end of the opinion paragraph that therefore the report reflects a peer review rating of *pass with deficiencies*.
- ~~Include an additional paragraph, in~~ the event of a scope limitation, ~~include an additional paragraph~~ before the deficiencies that describes the scope limitation, including the relationship of the excluded steps to the full system, and the affect on the scope and results of the review.

k. In a report with a peer review rating of *fail*:

- Express an opinion that as a result of the significant deficiencies described above, the system of quality control for the development and maintenance of the quality control materials or CPE ~~programs~~ program was not suitably designed and being complied with during the year ended to provide users of the materials with reasonable assurance that the materials or programs are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of *fail*.
- ~~Include an additional paragraph, in~~ the event of a scope limitation, ~~include an additional paragraph~~ before the significant deficiencies that describes the scope limitation, including the relationship of the excluded steps to the full system, and the affect on the scope and results of the review.

l. Include, for reports with a peer review rating of *pass with deficiencies* or *fail*, systemically written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered).

m. Identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of *pass with deficiencies* or *fail* any that were also made in the report²¹ issued on the organization's previous peer review. This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

Forming Conclusions on the Type of Report to Issue in a QCM or CPE Review

.177173 The following circumstances ordinarily would be considered deficiencies or significant deficiencies and would require a report with a peer review rating of *pass with deficiencies* or *fail*:

~~a.~~ The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.

~~b.~~ The provider's system of quality control for the development and maintenance of QCM or CPE programs, as designed, did not provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.

~~b.e.~~ The degree of compliance with the provider's system of quality control for the development and maintenance of QCM or CPE programs was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.

~~c.~~ The resultant QCM or CPE programs are not reliable aids to assist user firms in conforming to those professional standards the materials purport to encompass (QCM review only).

.178174 In those instances in which the QCM or CPE review team determines that a report with a peer review rating of *pass with deficiencies* or *fail* is required, all the reasons should be disclosed, and the QCM or CPE review team should consult with the National PRC prior to the issuance of the report.

Provider Responses on QCM and CPE Program Reviews

.179175 If the provider receives a report with a peer review rating of *pass with deficiencies* or *fail*, then the provider should respond in writing to the deficiencies and significant deficiencies and related recommendations identified in the report, if applicable. The letter of response should be addressed to the AICPA National PRC Peer Review Board and should describe the action(s) planned (including timing) or taken by the provider with respect to each deficiency in the report. If the provider disagrees with one or more of the deficiencies or significant deficiencies, its response should describe the reasons for such disagreement. In the event that a material error or omission in the QCM or CPE programs is uncovered by the QCM or CPE review team, the response also should describe the provider's plan for notifying known users of that error or omission. The provider should submit the letter of response for review and comment to the team captain prior to submitting the response to the National PRC.

.180176 The provider should submit a copy of the report and its letter of response to the National PRC within 30 days of the date it received the report or by the provider's peer review due date, whichever date is earlier. Prior to submitting the response to the National PRC, the reviewed firm should submit the response to the team captain for review, evaluation, and comment. If the provider receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the provider does not submit a copy of the report to the National PRC.

.181177 The provider should also respond on the FFC forms, if any are developed, to findings and related recommendations. These responses should describe the plan (including timing) the provider has implemented or will implement with respect to each finding. They should be submitted to the team captain no later than two weeks after the exit conference or by the peer review's due date, whichever is earlier. FFC forms are submitted by the team captain with the applicable working papers to the National PRC.

.182178 If, after a discussion with the team captain, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph 93). If the provider still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.

Appendix A

Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials and Continuing Professional Education Program Reviews (as Referred to in a Peer Review Report) [excerpted]

Quality Control Materials or CPE Program Reviews

17. A Quality Control Materials (QCM) or CPE Program Review is a type of peer review that is a study and appraisal by an independent evaluator(s) (known as a *peer reviewer*), of an organization's (hereinafter referred to as *provider*) system of quality control to develop and maintain accounting and auditing quality control materials or continuing professional education programs. Materials or programs designed to aid practitioners with tax or other services is outside of the scope of this type of review. ~~quality control materials ("materials").~~ The system represents the provider's policies and procedures that the provider has designed, and is expected to follow, when developing the materials or programs. The peer reviewer's objective is to determine whether the system is designed and whether the organization is complying with its system appropriately so that users of the materials or programs, primarily CPA firms and their employees, know that they can rely on the them. ~~For instance, materials.~~ The materials can be part or all of a firm's documentation of their system, such as in the form of, for example, manuals, programs, and practice aids (forms and questionnaires). As such, the users rely on the materials to assist them in performing and reporting in conformity with professional standards (as described in the preceding paragraphs) in conducting their accounting and auditing practices.

18. A QCM or CPE review is similar to a System Review. ~~However however,~~ the focus is on the system for developing the materials, instead of on the system for the performance of accounting and auditing work. A reviewer obtains an understanding of the design of the provider's system, including its policies and procedures and how the provider checks itself that it is complying with them. The reviewer obtains this understanding through inquiry of provider personnel and review of documentation on the system. In a QCM review, the ~~The~~ reviewer also reviews the materials to determine if they are reliable. The objectives of obtaining an understanding of the system and then reviewing the materials forms the basis for the reviewer's conclusions in the peer review report.

19. The extent of a provider's policies and procedures and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the provider and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

20. When a provider receives a QCM or CPE review report from a peer reviewer with a peer review rating of *pass*, this means the system is designed and being complied with appropriately to provide users of the materials with reasonable assurance that the materials are reliable. If a provider receives a report with a peer review rating of *pass with deficiencies*, this means the system is designed and complied with appropriately to provide users of the materials with reasonable assurance that the materials are reliable, except in certain situations that are explained in detail in the peer review report. When a provider receives a report with a peer review rating of *fail*, the peer reviewer has determined that the provider's system is not suitably designed or being complied with to provide users of the materials with reasonable assurance that the materials are reliable, and the reasons why are explained in detail in the report.

21. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A QCM or CPE peer review is based on judgmental ~~selective~~ review of the materials. It is directed at assessing whether the design of and compliance with the provider's system provides the provider with reasonable, not absolute, assurance of the materials conforming with the professional standards they purport to encompass. Consequently, it would not necessarily detect all weaknesses in the system, all instances of noncompliance with it, or that each aspect of the materials is accurate or reliable. Projection of any evaluation of a system to future periods is subject to the risk that the system may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Appendix U

Illustration of a Report with a Peer Review Rating of *Pass* in a Peer Review of Continuing Professional Education Programs

Continuing Professional Education Programs System Review Report

April 30, 20XX

Executive Board
XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of the continuing professional education programs (hereafter referred to as *programs*) of XYZ Organization (the organization) in effect at December 31, 20XX. Our continuing professional education peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the programs with reasonable assurance that the programs developed under the system of quality control are reliable aids to assist them in conforming with those professional standards that the programs purport to encompass. Our responsibility is to express an opinion on the design of the system and the organization's compliance with that system based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a Continuing Professional Education Programs Review are described in the standards at www.aicpa.org/prsummary.

In our opinion, the system of quality control for the development and maintenance of the continuing professional education programs of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX, to provide users of the programs with reasonable assurance that the programs developed under the system of quality control are reliable aids to assist them in conforming with those professional standards the programs purport to encompass. Organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ Organization has received a peer review rating of *pass*.

ABC & Co.¹

¹ The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

Proposed Revisions to the Peer Review Interpretations

21-1 Question—Paragraph .21 of the standards states that independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review and that the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities. What criteria have been established by the board?

Interpretation—c. Relationships With the Reviewed Firm

Reviewing firms should consider any family or other relationships between the management at organizational and functional levels of the reviewing firm, affiliate relationships, and common ownership of entities that provide products or services and the firm to be reviewed, and should assess the possibility of an impairment of independence.

If the fees for any services provided between firms, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team are material to any of those firms, independence for the purposes of this program is impaired.

If arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby expenses, office facilities, or personnel are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent CPE programs, extensive consultation, preissuance reviews of financial statements and reports, or audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their systems of quality control. ~~However, the impairment would be removed if an independent peer review was made aware of the shared materials (such as CPE programs or an audit and accounting manual) before the peer review commenced and if that independent peer review was accepted by an approved body (determined by the board) before that date.~~

If the reviewed firm uses quality control materials (QCM) or CPE programs that any member of the review team helped to develop or maintain, the independence of the reviewing firm is impaired. Development and maintenance activities with respect to QCM and CPE programs include but are not limited to authoring or writing the materials and programs or any portion thereof, performing technical reviews, assessments or evaluations of the materials and programs, performing any type of editorial services on the materials and programs, etc. This is applicable regardless of whether the materials or programs are provided by a CPA firm, association, or any other type of entity. Additionally, if an entity that develops and maintains materials or programs is affiliated with a reviewing firm, the independence of the reviewing firm to peer review a firm that uses those materials is impaired.

21-7 Question—Firm A has an arrangement with Firm B whereby Firm A sends its staff to CPE programs developed by Firm B. Can Firm B perform a peer review of Firm A?

Interpretation—No, ~~unless Firm B has had its CPE programs peer reviewed by an independent party (see standards for guidance in “Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs”). If such a peer review is not undertaken and reported on before the peer review of Firm A commences, Firm B would not be considered independent for purposes of conducting the peer review of Firm A. In addition, peer reviewers from Firm B cannot serve on Firm A’s review team.~~ However, occasional (infrequent and not part of Firm A’s regular CPE training plan) attendance by representatives of Firm A at programs developed by Firm B would not preclude Firm B from reviewing Firm A.

21-9 Question—Firm B uses Firm A’s accounting and auditing manual as its primary reference source. Can Firm A perform a peer review of Firm B, or can Firm B perform a peer review of Firm A?

Interpretation—No, unless Firm A has had its accounting and auditing manual and any other of its reference material used by Firm B as a primary reference source peer reviewed by an independent party.

The peer review of the materials should be similar to the review of quality control materials in associations and should meet the same peer review performance and reporting standards. If such a peer review is not undertaken and reported on before the peer review commences, Firm A would not be considered independent for purposes of conducting the peer review. In addition, no peer reviewers from Firm A can serve on Firm B's review team. In addition, if Firm B uses the manual as an integral part of its system of quality control, it would be precluded from performing the peer review of Firm A. However, if the manual is used only as a part of the firm's overall reference library (not an integral part of Firm B's system of quality control), independence would not be impaired. ~~This interpretation also applies to providers of quality control materials or CPE programs.~~

21-20 Question—Firm A purchases an accounting and auditing manual developed by an association that it belongs to as its primary reference source. Personnel from Firm B that are also peer reviewers aided the association with the development of the manual by authoring sections of the materials. The association forms review teams for its member firms. Can the association include reviewers from Firm B on the review team to peer review Firm A?

Interpretation—No, peer reviewers from Firm B would not be considered independent for purposes of serving on the peer review team for Firm A. This is applicable for both association-formed review teams and firm-on-firm review teams. However, if the manual is used only as a part of the firm's overall reference library (not an integral part of Firm A's system of quality control), independence would not be impaired.

26-1 Question—Paragraph .26 of the standards states that a review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team). What criteria have been established by the board for association formed review teams?

Interpretation—Associations of CPA firms include any group, affiliations, or alliances of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services.

A member firm of an association may conduct a peer review of another association-member firm enrolled in the program, provided that the association receives annual approval from the board. The National PRC administers this process on behalf of the board. The association must submit an AIF to the National PRC that must be approved by the board prior to any aspect of the review being planned, scheduled, or performed.

The AIF contains questions regarding general information about the association, independence matters, and whether the association requests to be approved to assist its members in the formation of review teams, provide technical assistance to such review teams, or do both. All review teams must still be approved by the administering entity. The AIF is subject to oversight by the board.

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other AICPA members in the same association enrolled in the program. Furthermore:

- a. Annual approval of the AIF does allow, where the association has answered the specific questions making such a request, the association the ability to assist its members in the formation of review teams (association formed review teams) or to provide technical assistance to such review teams.
- b. The reviewed firm and administering entity, not the association, is ultimately responsible for ensuring that its peer review is scheduled, performed, and completed in a timely manner.
- c. Annual approval of the AIF does not grant the association the authority to administer the program; therefore, the association is not deemed an approved administering entity.

d. Approval of the AIF is not an endorsement of, approval of, or has any applicability to a separate peer review program that an association may conduct or administer for non-AICPA members.

e. If the association makes any representations (in brochures, directories, pamphlets, Web pages, or any marketing or selling materials regarding its member firms in obtaining engagements) such representations are objective and quantifiable.

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the program, in addition to other peer review independence requirements, the association and its member firms must meet the following independence criteria:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. For purposes of this requirement, *professional services* include accounting, tax, personal financial planning, litigation support, and professional services for which standards are promulgated by bodies designated by AICPA Council.

b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

c. Referral or participating work among member firms is arranged directly by the firms involved.

d. The association does not have any direct or material indirect financial interest or involvement in its member firms in sharing fees generated by members through the sale of products or services.

e. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

~~An For a member firm of an association may voluntarily elect to have an independent triennial conduct a peer review of its system of quality control to develop and maintain another association member firm enrolled in the program when quality control materials or CPE programs used by its member firms members constitute association materials, the association shall arrange for an independent triennial peer review of those materials (see paragraphs .154-.182-.178 of the standards). An association may wish to have such a review to enable its member Therefore, firms that use the materials or programs it develops to have more efficient peer reviews. Associations that elect to have this type of review should share such materials are advised to consult with AICPA program staff if an independent review of the shared materials appears necessary.~~

An association formed review team,

a. requires that a majority of the review team members, including the team captain in a System Review, and all members in an Engagement Review, be from association member firms.

b. performs peer reviews in accordance with these standards, interpretations, and other guidance and the peer review report is issued on the letterhead of the team captain or review captain's firm and signed in the name of the team captain or review captain's firm (not the association).

Peer reviews performed by association-formed review teams are subject to oversight by the board and the administering entities and other bodies agreed upon by the board and the administering entity.

42-2 Question—Many firms rely on third party quality control materials (QCM) and continuing professional education (CPE) programs as integral portions of the firm's system of quality control. As the system for developing and maintaining the third party materials lies outside of the reviewed firm, how should the review team evaluate the adequacy of the materials relied upon by the reviewed firm?

Interpretation—The review team should determine whether a provider of QCM or CPE programs had an independent peer review. This type of review would entail an assessment of the provider's system to develop and maintain the QCM or CPE programs, and in a QCM review, include an assessment of—and the resultant materials. Since the review team ordinarily assesses the suitability of the QCM or CPE programs as a part of its evaluation of the design of the reviewed firm's system of quality control, placing reliance on the provider's peer review results affects the assessment of peer review risk and impacts the nature, timing, and extent of the review team's evaluation of the firm's system of quality control. The review team should obtain the peer review results (i.e. the report, LOR (if applicable), etc.) to consider the impact on the reviewed firm's system of quality control. The provider's peer review results may be obtained from either the AICPA's website, the provider's website or from the reviewed firm.

- If the provider received a pass report, then the review team can place reliance on the provider's peer review results with respect to that portion of the reviewed firm's design of its system.
- If the provider received a pass with deficiencies report, the review team should consider the reasons for the deficiencies identified in the report and assess their relevance to the reviewed firm. Once this assessment is made, the review team can determine the degree of reliance it can place on the provider's results.
- If the provider received a fail report, no reliance can be placed on the results, and the review team should determine the impact on the reviewed firm's system of quality control.

Peer reviews of providers of QCM or CPE programs generally occur on a triennial basis. If the report date is three years or older, it loses its usability and no reliance can be placed upon it.

In addition, the review team should consider 1) the version date of the materials relative to the period covered by the report, and 2) the amount of time that's passed since the period covered by the report in determining the degree of reliance that can be placed on the report. Factors to consider include:

- The issuance of new standards
- Changes in regulatory requirements
- Changes in economic conditions that impact the provider
- Limitations or restrictions on authors of the materials
- Any substantial changes to the materials used by the firm

Regardless of the degree of reliance placed on the provider's peer review results, the review team is still responsible for determining which forms, checklists, programs, etc. are used by the reviewed firm as a part of its system of quality control, how often the materials are updated, the degree of reliance placed on the materials, and assessing compliance with their use. The results of the provider's peer review should weigh in the assessment of control risk, and be documented in the risk assessment.

If a ~~peer review of the system to develop and maintain the~~ QCM or CPE ~~peer review~~ programs and the resultant materials was not performed, the review team will need to perform its own evaluation to determine if the materials or programs were suitably designed. This includes third party materials as well as materials that were designed by the reviewed firm. This evaluation is a part of the review team's overall assessment of the design of the reviewed firm's system of quality control, and should be documented in the risk assessment.

For additional information on peer reviews of QCM or CPE programs, please see paragraphs .154-.182, and Appendix A of the Standards.