



**SOUTH DAKOTA  
BOARD OF ACCOUNTANCY**  
 301 E. 14<sup>th</sup> Street, Suite 200  
 Sioux Falls, SD 57104  
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Agenda  
 South Dakota Board of Accountancy Meeting  
 Conference Call  
 9:00 a.m. (CT)  
 January 15, 2016

A=Action  
 D=Discussion  
 I=Information

	PAGE
A-Approval of Minutes of Meeting December 10, 2015.....	2-3
A-Approval of Certificates.....	4
A-Approval of Financial Statements through November 2015.....	5-32
A-Report to Board on NASBA ED & Legal Counsel Conference.....	33
A-Report to Board on Grades.....	34-35
D-Executive Director’s Report.....	36
 <b>AICPA</b>	
D-Exposure Draft, Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews.....	37-177
 <b>NASBA</b>	
D-Exposure Draft – Revisions to the UAA.....	178-185
 <b>EXECUTIVE SESSION</b>	
Equivalent Reviews, follow-ups and complaints for Board Approval.....	Spt. Pkt.
 <b>FUTURE MEETING DATES (all times CT)</b>	
March 24, 2016 – 9:00 Conference Call	



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South Dakota Board of Accountancy  
Minutes of Meeting-Conference Call  
December 10, 2015 - 9:00 a.m.

The Board of Accountancy held a meeting by conference call on Thursday, December 10, 2015. Chair David Pummel called the meeting to order at 9:24 a.m.

Roll call was taken to confirm that the following members were present: David Pummel, Marty Guindon, Jeff Smith, John Linn, Jr., Holly Brunick and John Mitchell. A quorum was present.

Also present were Nicole Kasin, Executive Director, Julie Iverson, Sr. Secretary, and Aaron Arnold, Legal Counsel and Department of Labor & Regulation.

Chair David Pummel asked if there were any additions to the agenda. The following were added:  
Additions to Firm Permits  
Additions to Peer Review  
AICPA Exposure Draft on proposed changes to Peer Review

A motion was made by Holly Brunick and seconded by John Linn, Jr. to approve the agenda and additions to the agenda. A roll call vote was taken. The motion unanimously carried. (Linn, Jr.-yea; Mitchell-yea; Guindon-yea; Smith-yea; Brunick-yea; Pummel-yea)

A motion was made by Holly Brunick and seconded by John Linn, Jr. to approve the November 5, 2015 meeting minutes. A roll call vote was taken. The motion unanimously carried. (Linn, Jr.-yea; Mitchell-yea; Guindon-yea; Smith-yea; Brunick-yea; Pummel-yea)

A motion was made by Marty Guindon and seconded by Jeff Smith to approve the issuance of individual certificates and firm permits through December 9, 2015. A roll call vote was taken. The motion unanimously carried. (Linn, Jr.-yea; Mitchell-yea; Guindon-yea; Smith-yea; Brunick-yea; Pummel-yea)

Executive Director Kasin discussed her report with an update on the new database and CPE audits.

The board discussed the AICPA's Board of Examiners October 1-2, 2015 meeting highlights. The board reviewed state responses to the CPE exam exposure draft.

The exposure draft on Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews discussion was tabled to the next meeting.

Information was reviewed by the Board on the NC Dental Case Decision, Implications for State Boards of Accountancy.

The board discussed the Candidate Care Concerns 3Q15, the NASBA Board of Directors July 17, 2015 meeting minutes and the NASBA Board of Directors October 23 and October 27, 2015 meeting highlights.

The board discussed the Exposure Draft on revisions to the UAA. The topic was tabled for further discussion at the next meeting.

The Board reviewed the Executive Summary and Responses to Quarterly Focus Questions from Regional Directors.

The Board answered the Quarterly Focus Questions.

A motion was made by Marty Guindon and seconded by Holly Brunick to enter into executive session for the deliberative process for peer reviews, peer review follow-ups, and off-site requests for Board approval. A roll call vote was taken. The motion unanimously carried. (Linn, Jr.-yea; Mitchell-yea; Guindon-yea; Smith-yea; Brunick-yea; Pummel-yea).

The Board came out of executive session.

A motion was made by Marty Guindon and seconded by John Mitchell to accept the peer reviews, peer review follow-ups, and off-site requests as discussed in executive session. A roll call vote was taken. The motion unanimously carried. (Linn, Jr.-yea; Mitchell-yea; Guindon-yea; Smith-yea; Brunick-yea; Pummel-yea)

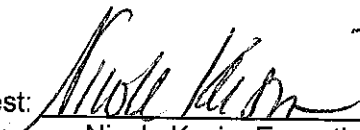
**FUTURE MEETING DATES** (all times CT)  
January 15, 2016 – 9 a.m. Conference call  
March 24, 2016 – 9 a.m. Conference call

A motion was made by Jeff Smith and seconded by Holly Brunick to adjourn the meeting. A roll call vote was taken. The motion unanimously carried. (Linn, Jr.-yea; Mitchell-yea; Guindon-yea; Smith-yea; Brunick-yea; Pummel-yea)

All business having come before the board was concluded and Chair Pummel adjourned the meeting at 9:55 a.m.



David Pummel, CPA, Chair

Attest:   
Nicole Kasin, Executive Director



Jeff Smith, Sec/Treasurer

**CERTIFIED PUBLIC ACCOUNTANT CERTIFICATES  
BOARD COPY**

**Issued Through January 8, 2016**

<b>Number</b>	<b>Name</b>	<b>Date Issued</b>	<b>Location</b>
3236	Travis Lee Vogel	12/10/15	Rapid City, SD
3237	Rebecca Nicole Portlock	12/15/15	Rapid City, SD
3238	Kennalyne Jn Baptiste	12/15/15	Bronx, NY
3239	Ethan Thomas Littlejohn	12/21/15	Aberdeen, SD
3240	James A. Wigdahl	12/31/15	Sioux Falls, SD
3241	Paul Ryan Claar	12/31/15	Sioux Falls, SD

STATE OF SOUTH DAKOTA  
CASH CENTER BALANCES  
AS OF: 09/30/2015

AGENCY: 10 LABOR & REGULATION  
BUDGET UNIT: 1031 BOARD OF ACCOUNTANCY

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	454,478.70	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			454,478.70	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			454,478.70	DR **	
BUDGET UNIT TOTAL 1031			454,478.70	DR ***	

STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 09/30/2015

AGENCY	BUDGET UNIT	UNIT	BOARD OF ACCOUNTANCY	COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
10	1031	10310	LABOR & REGULATION BOARD OF ACCOUNTANCY	6503										
COMPANY NO 6503														
COMPANY NAME PROFESSIONAL & LICENSING BOARDS														
6503	103100061802	51010100					CGEX150826	09/02/2015					2,906.23	DR
6503	103100061802	51010100					CGEX150911	09/16/2015					2,409.35	DR
OBJECT: 5101010 F-T EMP SAL & WAGERS														
6503	103100061802	51010200					CGEX150826	09/02/2015					5,315.58	DR
6503	103100061802	51010200					CGEX150911	09/16/2015					914.54	DR
OBJECT: 5101020 P-T/TEMP EMP SAL & WAGERS														
6503	103100061802	51010300					CGEX150826	09/02/2015					1,152.12	DR
OBJECT: 5101030 BOARD & COMM MBRS FEES														
6503	103100061802	51020100					CGEX150826	09/02/2015					360.00	DR
6503	103100061802	51020100					CGEX150911	09/16/2015					7,742.24	DR
OBJECT: 5102010 EAST-EMPLOYER'S SHARE														
6503	103100061802	51020200					CGEX150826	09/02/2015					533.56	DR
6503	103100061802	51020200					CGEX150911	09/16/2015					229.28	DR
OBJECT: 5102020 RETIREMENT-ER SHARE														
6503	103100061802	51020600					CGEX150826	09/02/2015					438.02	DR
6503	103100061802	51020600					CGEX150911	09/16/2015					702.78	DR
OBJECT: 5102060 HEALTH/LIFE INS.-ER SHARE														
6503	103100061802	51020800					CGEX150826	09/02/2015					1,313.17	DR
6503	103100061802	51020800					CGEX150911	09/16/2015					3.01	DR
OBJECT: 5102080 WORKER'S COMPENSATION														
6503	103100061802	51020900					CGEX150826	09/02/2015					5.86	DR
6503	103100061802	51020900					CGEX150911	09/16/2015					1.56	DR
OBJECT: 5102090 UNEMPLOYMENT COMPENSATION														
6503	103100061802	51020900					CGEX150826	09/02/2015					2.95	DR
6503	103100061802	51020900					CGEX150911	09/16/2015					2,293.56	DR
OBJECT: 5102090 EMPLOYEE BENEFITS														
6503	103100061802	51020900					CGEX150826	09/02/2015					10,035.80	DR
6503	103100061802	51020900					CGEX150911	09/16/2015					78.65	DR
OBJECT: 5102090 PERSONAL SERVICES														
6503	103100061802	52030300					CGEX150914	09/16/2015					347348	DR
OBJECT: 5203030 AUTO-STATE OWNED-IN STATE														
6503	103100061802	52030300					CGEX150914	09/16/2015					78.65	DR
6503	103100061802	52030300					CGEX150914	09/16/2015					336.84	DR
6503	103100061802	52030300					CGEX150914	09/16/2015					286.44	DR
6503	103100061802	52030300					CGEX150914	09/16/2015					189.84	DR
6503	103100061802	52030300					CGEX150914	09/16/2015					189.84	DR
6503	103100061802	52030300					CGEX150914	09/16/2015					55.44	DR
OBJECT: 5203030 AUTO-PRIV (IN-ST.) H/RTT														
6503	103100061802	52031000					CGEX150914	09/16/2015					1,058.40	DR
6503	103100061802	52031000					CGEX150914	09/16/2015					78.65	DR
6503	103100061802	52031000					CGEX150914	09/16/2015					78.65	DR

STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 09/30/2015

AGENCY BUDGET CENTER	UNIT	LABOR & REGULATION BOARD OF ACCOUNTANCY	BOARD OF ACCOUNTANCY	DOCUMENT NUMBER	POSTING DATE	JY APPL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
6503	1031000061802	52031000	CGEX150914	CGEX150914	09/16/2015	347345				78.65	DR
6503	1031000061802	52031000	CGEX150918	CGEX150918	09/18/2015	360473				83.65	DR
OBJSUB: 5203100 LODGING/IN-STATE											
6503	103100061802	52031200	CGEX150914	CGEX150914	09/16/2015	347347				319.60	DR *
6503	103100061802	52031200	CGEX150914	CGEX150914	09/16/2015	347345				5.00	DR
6503	103100061802	52031200	CGEX150914	CGEX150914	09/16/2015	347346				5.00	DR
6503	103100061802	52031200	CGEX150914	CGEX150914	09/16/2015	347348				5.00	DR
OBJSUB: 5203120 INCIDENTALS-TRAVEL- IN ST.											
6503	103100061802	52031500	CGEX150914	CGEX150914	09/16/2015	347345				20.00	DR *
6503	103100061802	52031500	CGEX150914	CGEX150914	09/16/2015	347347				58.00	DR
6503	103100061802	52031500	CGEX150914	CGEX150914	09/16/2015	347346				58.00	DR
6503	103100061802	52031500	CGEX150914	CGEX150914	09/16/2015	347348				47.00	DR
6503	103100061802	52031500	CGEX150914	CGEX150914	09/16/2015	347344				11.00	DR
6503	103100061802	52031500	CGEX150918	CGEX150918	09/18/2015	360473				47.00	DR
OBJSUB: 5203150 NON-TAXABLE MEALS/IN-ST TRAVEL											
6503	103100061802	52040200	04536	04536	09/02/2015	00234485	NATIASSNST	12005047		1,744.65	DR **
OBJSUB: 5204020 DUES & MEMBERSHIP FEES											
6503	103100061802	52041600	04834	04834	10/02/2015	00244077	NATIASSNST	12005047		3,200.00	DR *
OBJSUB: 5204160 WORKSHOP REGISTRATION FEE											
6503	103100061802	52041800	DP608100	DP608100	09/23/2015					695.00	DR *
OBJSUB: 5204180 COMPUTER SERVICES-STATE											
6503	103100061802	52042000	PL608054	PL608054	10/02/2015					302.65	DR *
OBJSUB: 5204200 CENTRAL SERVICES											
6503	103100061802	52042200	IN212133	IN212133	09/16/2015	00238763	ABBUSINESS	12036980		58.32	DR *
OBJSUB: 5204220 EQUIPMENT SERV & MAINT											
6503	103100061802	52042300	16-018 AUG-JUN16	16-018 AUG-JUN16	09/02/2015	00234920	SUNSETOFFI	12043890		75.80	DR *
6503	103100061802	52042300	16-018 AUG-JUN16	16-018 AUG-JUN16	09/30/2015	00242191	SUNSETOFFI	12043890		126.55	DR
OBJSUB: 5204230 JANITORIAL & MAINT SERV											
6503	103100061802	52044600	N5487747	N5487747	09/11/2015	02132099	MALIFINANC	12219369		253.10	DR *
OBJSUB: 5204460 EQUIPMENT RENTAL											
6503	103100061802	52044900	ACCOUNTRENT2015	ACCOUNTRENT2015	09/30/2015	02133840	MCGINNISRO	12074040		603.00	DR *
OBJSUB: 5204490 RENTS-PRIVATE OWNED PROP.											
6503	103100061802	52045300	TL607153	TL607153	09/23/2015					1,269.45	DR *
6503	103100061802	52045300	TL608151	TL608151	10/02/2015					114.34	DR
6503	103100061802	52045300	111109001 ADG15	09/04/2015	00235878	MIDCONTLINE	12023782			116.79	DR
6503	103100061802	52045300	2872483814160815	09/11/2015	00238364	ATMOBILIT	12279233			95.00	DR
6503	103100061802	52045300								55.99	DR

STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 09/30/2015

AGENCY BUDGET CENTER	UNIT	LABOR & REGULATION BOARD OF ACCOUNTANCY BOARD OF ACCOUNTANCY	COMP CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPVL OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
103100061802	5204530	TELECOMMUNICATIONS SRVCS	5204530	5159417006	0815	09/04/2015	02131236	XCELENERGY	12023853		382.12	DR *
103100061802	5204540	ELECTRICITY	5204540	C1106A-022		09/23/2015	244745				24.10	DR *
103100061802	5204740	BANK FEES AND CHARGES	5204740	13647631		09/23/2015	00240571	NATLASSNST	12005047		373.51	DR *
103100061802	5204960	OTHER CONTRACTUAL SERVICE	5204960	450579		09/04/2015	02131586	OFFICEMAXI	12162845		6,911.00	DR *
103100061802	5205028	OFFICE SUPPLIES	5205028	40147		09/02/2015	00234478	BUSINESSPR	12003048		31.18	DR *
103100061802	5205320	PRINTING-COMMERCIAL SUPPLIES & MATERIALS	5205320	T106-017		09/16/2015					31.05	DR *
5228000	5228	OPER TRANS OUT -NON BUDGT	5228000								184.67	DR **
52	52	NONOP EXP/NONBGTD OP TR	52								16.139.60	DR ***
6503	6503	OPERATING EXPENSES	6503								26,175.40	DR *****
103100061802			103100061802								26,175.40	DR *****
1031			1031								25,175.40	DR *****



**South Dakota Board of Accountancy**  
**Balance Sheet**  
As of September 30, 2015

	Sep 30, 15
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
1130000 · Local Checking - Great Western	3,019.78
1140000 · Pool Cash State of SD	454,478.70
<b>Total Checking/Savings</b>	457,498.48
<b>Other Current Assets</b>	
1131000 · Interest Income Receivable	4,392.05
1213000 · Investment Income Receivable	981.51
<b>Total Other Current Assets</b>	5,373.56
<b>Total Current Assets</b>	462,872.04
<b>Fixed Assets</b>	
1670000 · Computer Software	
Original Cost	140,063.23
1770000 · Depreciation	-140,063.23
<b>Total 1670000 · Computer Software</b>	0.00
<b>Total Fixed Assets</b>	0.00
<b>TOTAL ASSETS</b>	<b>462,872.04</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
2110000 · Accounts Payable	2,519.34
<b>Total Accounts Payable</b>	2,519.34
<b>Other Current Liabilities</b>	
2430000 · Accrued Wages Payable	6,729.32
2810000 · Amounts Held for Others	21,898.15
<b>Total Other Current Liabilities</b>	28,627.47
<b>Total Current Liabilities</b>	31,146.81
<b>Long Term Liabilities</b>	
2960000 · Compensated Absences Payable	18,468.75
<b>Total Long Term Liabilities</b>	18,468.75
<b>Total Liabilities</b>	49,615.56
<b>Equity</b>	
3220000 · Unrestricted Net Assets	252,447.33
3900 · Retained Earnings	11,248.06
Net Income	149,561.09
<b>Total Equity</b>	413,256.48
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>462,872.04</b>

# South Dakota Board of Accountancy

## Profit & Loss Budget vs. Actual

### July through September 2015

	Jul - Sep 15	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	625.00	2,800.00	-2,175.00	22.3%
4293551 · Certificate Renewals-Active				
5208002 · Refunds	-75.00			
4293551 · Certificate Renewals-Active - Other	60,225.00	58,000.00	2,225.00	103.8%
<b>Total 4293551 · Certificate Renewals-Active</b>	<b>60,150.00</b>	<b>58,000.00</b>	<b>2,150.00</b>	<b>103.7%</b>
4293552 · Certificate Renewals-Inactive	20,000.00	21,000.00	-1,000.00	95.2%
4293553 · Certificate Renewals-Retired	1,030.00	800.00	230.00	128.8%
4293554 · Initial Firm Permits	50.00	700.00	-650.00	7.1%
4293555 · Firm Permit Renewals	13,600.00	15,500.00	-1,900.00	87.7%
4293557 · Initial Audit	210.00	900.00	-690.00	23.3%
4293558 · Re-Exam Audit	540.00	2,460.00	-1,920.00	22.0%
4293560 · Late Fees-Initial Certificate	0.00	0.00	0.00	0.0%
4293561 · Late Fees-Certificate Renewals	2,800.00	3,000.00	-200.00	93.3%
4293562 · Late Fees-Firm Permits	0.00	0.00	0.00	0.0%
4293563 · Late Fees-Firm Permit Renewals	350.00	600.00	-250.00	58.3%
4293564 · Late Fees-Peer Review	200.00	1,300.00	-1,100.00	15.4%
4293566 · Firm Permit Owners	91,435.00	105,000.00	-13,565.00	87.1%
4293567 · Peer Review Admin Fee	150.00	5,650.00	-5,500.00	2.7%
4293568 · Firm Permit Name Change	50.00	100.00	-50.00	50.0%
4293569 · Initial FAR	150.00	1,140.00	-990.00	13.2%
4293570 · Initial REG	60.00	660.00	-600.00	9.1%
4293571 · Inital BEC	90.00	930.00	-840.00	9.7%
4293572 · Re-Exam FAR	360.00	1,860.00	-1,500.00	19.4%
4293573 · Re-Exam REG	450.00	2,310.00	-1,860.00	19.5%
4293574 · Re-Exam BEC	540.00	2,310.00	-1,770.00	23.4%
4491000 · Interest and Dividend Revenue	4,714.96	6,500.00	-1,785.04	72.5%
4896021 · Legal Recovery Cost	1,200.00	1,000.00	200.00	120.0%
<b>Total Income</b>	<b>198,754.96</b>	<b>234,520.00</b>	<b>-35,765.04</b>	<b>84.7%</b>
<b>Gross Profit</b>	<b>198,754.96</b>	<b>234,520.00</b>	<b>-35,765.04</b>	<b>84.7%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	14,154.29	73,420.00	-59,265.71	19.3%
5101020 · P-T/Temp Emp Sal & Wages	5,751.16	27,319.00	-21,567.84	21.1%
5101030 · Board & Comm Mbrs Fees	1,320.00	2,595.00	-1,275.00	50.9%
5102010 · OASI-Employer's Share	1,516.63	8,102.00	-6,585.37	18.7%
5102020 · Retirement-ER Share	1,188.74	6,044.00	-4,855.26	19.7%
5102060 · Health /Life Ins.-ER Share	4,010.59	26,052.00	-22,041.41	15.4%
5102080 · Worker's Compensation	15.86	218.00	-202.14	7.3%
5102090 · Unemployment Insurance	7.84	91.00	-83.16	8.6%
5203010 · Auto--State Owned	78.65	1,000.00	-921.35	7.9%
5203020 · Auto-Private-Owned Low Mileage	0.00	400.00	-400.00	0.0%
5203030 · In State-Auto- Priv. High Miles	1,058.40	1,500.00	-441.60	70.6%
5203100 · In State-Lodging	319.60	1,000.00	-680.40	32.0%
5203120 · In State-Incidentals to Travel	20.00	100.00	-80.00	20.0%
5203140 · InState-Tax Meals Not OverNigt	0.00	100.00	-100.00	0.0%
5203150 · InState-Non-Tax Meals OverNigt	268.00	400.00	-132.00	67.0%
5203230 · OS-Auto Private High Mileage	0.00	100.00	-100.00	0.0%
5203260 · OS-Air Commercial Carrier	0.00	6,000.00	-6,000.00	0.0%
5203280 · OS-Other Public Carrier	0.00	500.00	-500.00	0.0%
5203300 · OS-Lodging	0.00	7,800.00	-7,800.00	0.0%
5203320 · OS-Incidentals to Travel	0.00	450.00	-450.00	0.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	1,300.00	-1,300.00	0.0%
5204010 · Subscriptions	0.00	1,000.00	-1,000.00	0.0%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	300.00	-300.00	0.0%
5204040 · Consultant Fees-Accounting	0.00	7,100.00	-7,100.00	0.0%
5204080 · Consultant Fees--Legal	0.00	0.00	0.00	0.0%
5204160 · Workshop Registration Fees	1,390.00	6,000.00	-4,610.00	23.2%
5204180 · Computer Services-State	270.75	600.00	-329.25	45.1%
5204181 · Computer Development Serv-State	1,254.90	10,400.00	-9,145.10	12.1%
5204200 · Central Services	1,669.33	7,000.00	-5,330.67	23.8%

# South Dakota Board of Accountancy

## Profit & Loss Budget vs. Actual

July through September 2015

	Jul - Sep 15	Budget	\$ Over Budget	% of Budget
5204220 · Equipment Service & Maintenance	8.55	300.00	-291.45	2.9%
5204230 · Janitorial/Maintenance Services	379.65	1,560.00	-1,180.35	24.3%
5204340 · Computer Software Maintenance	614.50	2,000.00	-1,385.50	30.7%
5204360 · Advertising-Newspapers	0.00	1,000.00	-1,000.00	0.0%
5204440 · Newsletter Publishing	0.00	1,100.00	-1,100.00	0.0%
5204460 · Equipment Rental	816.00	4,000.00	-3,184.00	20.4%
5204480 · Microfilm and Photography	0.00	0.00	0.00	0.0%
5204490 · Rents Privately Owned Property	3,808.35	15,234.00	-11,425.65	25.0%
5204510 · Rent-Other	0.00	500.00	-500.00	0.0%
5204530 · Telecommunications Services	774.89	3,500.00	-2,725.11	22.1%
5204540 · Electricity	107.02	865.00	-757.98	12.4%
5204560 · Water	22.35	240.00	-217.65	9.3%
5204590 · Insurance Premiums/Surety Bonds	0.00	1,710.00	-1,710.00	0.0%
5204740 · Bank Fees and Charges	3,789.24	6,000.00	-2,210.76	63.2%
5204960 · Other Contractual Services	0.00	0.00	0.00	0.0%
5205020 · Office Supplies	411.17	2,000.00	-1,588.83	20.6%
5205028 · OFFICE SUPPLIES-2	0.00	0.00	0.00	0.0%
5205310 · Printing State	0.00	500.00	-500.00	0.0%
5205320 · Printing/Duplicating/Binding Co	48.30	1,000.00	-951.70	4.8%
5205330 · Supplemental Publications	0.00	700.00	-700.00	0.0%
5205340 · Microfilm Supplies/Materials	0.00	0.00	0.00	0.0%
5205350 · Postage	0.00	2,500.00	-2,500.00	0.0%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207900 · Computer Hardware	85.00	4,800.00	-4,715.00	1.8%
5207950 · System Development	0.00	1,000.00	-1,000.00	0.0%
5207955 · Computer Hardware Other	0.00	500.00	-500.00	0.0%
5207960 · Computer Software Expense	0.00	500.00	-500.00	0.0%
5228000 · Operating Transfers Out-NonBudg	834.11	7,400.00	-6,565.89	11.3%
5228030 · Depreciation Expense	0.00	0.00	0.00	0.0%
<b>Total Expense</b>	<b>49,193.87</b>	<b>259,800.00</b>	<b>-210,606.13</b>	<b>18.9%</b>
<b>Net Ordinary Income</b>	<b>149,561.09</b>	<b>-25,280.00</b>	<b>174,841.09</b>	<b>-591.6%</b>
<b>Net Income</b>	<b>149,561.09</b>	<b>-25,280.00</b>	<b>174,841.09</b>	<b>-591.6%</b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR MONTHLY COMPARISON**  
**September 2015**

	Sep 15	Sep 14	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	250.00	525.00	-275.00	-52.4%
4293551 · Certificate Renewals-Active	300.00	100.00	200.00	200.0%
4293552 · Certificate Renewals-Inactive	150.00	100.00	50.00	50.0%
4293553 · Certificate Renewals-Retired	20.00	0.00	20.00	100.0%
4293554 · Initial Firm Permits	50.00	50.00	0.00	0.0%
4293557 · Initial Audit	90.00	90.00	0.00	0.0%
4293558 · Re-Exam Audit	270.00	240.00	30.00	12.5%
4293561 · Late Fees-Certificate Renewals	450.00	200.00	250.00	125.0%
4293566 · Firm Permit Owners	1,000.00	65.00	935.00	1,438.5%
4293567 · Peer Review Admin Fee	0.00	75.00	-75.00	-100.0%
4293569 · Initial FAR	60.00	60.00	0.00	0.0%
4293570 · Initial REG	30.00	120.00	-90.00	-75.0%
4293571 · Initial BEC	60.00	120.00	-60.00	-50.0%
4293572 · Re-Exam FAR	210.00	150.00	60.00	40.0%
4293573 · Re-Exam REG	210.00	90.00	120.00	133.3%
4293574 · Re-Exam BEC	240.00	180.00	60.00	33.3%
4491000 · Interest and Dividend Revenue	4,714.96	3,578.78	1,136.18	31.8%
4896021 · Legal Recovery Cost	200.00	100.00	100.00	100.0%
<b>Total Income</b>	<b>8,304.96</b>	<b>5,843.78</b>	<b>2,461.18</b>	<b>42.1%</b>
<b>Gross Profit</b>	<b>8,304.96</b>	<b>5,843.78</b>	<b>2,461.18</b>	<b>42.1%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	5,315.58	2,046.00	3,269.58	159.8%
5101020 · P-T/Temp Emp Sal & Wages	2,066.66	1,333.91	732.75	54.9%
5101030 · Board & Comm Mbrs Fees	360.00	0.00	360.00	100.0%
5102010 · OASI-Employer's Share	533.56	243.94	289.62	118.7%
5102020 · Retirement-ER Share	438.02	202.80	235.22	116.0%
5102060 · Health /Life Ins.-ER Share	1,313.17	1,077.75	235.42	21.8%
5102080 · Worker's Compensation	5.86	2.03	3.83	188.7%
5102090 · Unemployment Insurance	2.95	1.52	1.43	94.1%
5203100 · In State-Lodging	83.65	0.00	83.65	100.0%
5203150 · InState-Non-Tax Meals OverNight	47.00	0.00	47.00	100.0%
5203260 · OS-Air Commercial Carrier	0.00	609.70	-609.70	-100.0%
5203280 · OS-Other Public Carrier	0.00	13.85	-13.85	-100.0%
5203300 · OS-Lodging	0.00	173.44	-173.44	-100.0%
5203320 · OS-Incidentals to Travel	0.00	16.00	-16.00	-100.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	34.00	-34.00	-100.0%
5204010 · Subscriptions	0.00	313.00	-313.00	-100.0%
5204160 · Workshop Registration Fees	695.00	2,085.00	-1,390.00	-66.7%
5204180 · Computer Services-State	87.00	156.00	-69.00	-44.2%
5204181 · Computer Development Serv-State	215.65	619.20	-403.55	-65.2%
5204200 · Central Services	58.32	250.45	-192.13	-76.7%
5204220 · Equipment Service & Maintenance	4.80	2.30	2.50	108.7%
5204230 · Janitorial/Maintenance Services	126.55	122.86	3.69	3.0%
5204360 · Advertising-Newspapers	0.00	561.33	-561.33	-100.0%
5204460 · Equipment Rental	71.00	57.00	14.00	24.6%
5204490 · Rents Privately Owned Property	1,269.45	1,269.45	0.00	0.0%
5204530 · Telecommunications Services	382.12	166.93	215.19	128.9%
5204540 · Electricity	39.72	46.65	-6.93	-14.9%
5204740 · Bank Fees and Charges	373.51	397.28	-23.77	-6.0%
5205020 · Office Supplies	0.00	59.34	-59.34	-100.0%
5205320 · Printing/Duplicating/Binding Co	0.00	30.00	-30.00	-100.0%
5205350 · Postage	0.00	1,000.00	-1,000.00	-100.0%
5228000 · Operating Transfers Out-NonBudg	0.00	565.87	-565.87	-100.0%
5228030 · Depreciation Expense	0.00	1,005.86	-1,005.86	-100.0%
<b>Total Expense</b>	<b>13,489.57</b>	<b>14,463.46</b>	<b>-973.89</b>	<b>-6.7%</b>
<b>Net Ordinary Income</b>	<b>-5,184.61</b>	<b>-8,619.68</b>	<b>3,435.07</b>	<b>39.9%</b>
<b>Net Income</b>	<b>-5,184.61</b>	<b>-8,619.68</b>	<b>3,435.07</b>	<b>39.9%</b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
**July through September 2015**

	Jul - Sep 15	Jul - Sep 14	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	625.00	850.00	-225.00	-26.5%
4293551 · Certificate Renewals-Active	60,150.00	57,450.00	2,700.00	4.7%
4293552 · Certificate Renewals-Inactive	20,000.00	19,900.00	100.00	0.5%
4293553 · Certificate Renewals-Retired	1,030.00	970.00	60.00	6.2%
4293554 · Initial Firm Permits	50.00	350.00	-300.00	-85.7%
4293555 · Firm Permit Renewals	13,600.00	13,960.00	-360.00	-2.6%
4293557 · Initial Audit	210.00	180.00	30.00	16.7%
4293558 · Re-Exam Audit	540.00	570.00	-30.00	-5.3%
4293561 · Late Fees-Certificate Renewals	2,800.00	2,450.00	350.00	14.3%
4293563 · Late Fees-Firm Permit Renewals	350.00	250.00	100.00	40.0%
4293564 · Late Fees-Peer Review	200.00	250.00	-50.00	-20.0%
4293566 · Firm Permit Owners	91,435.00	89,150.00	2,285.00	2.6%
4293567 · Peer Review Admin Fee	150.00	450.00	-300.00	-66.7%
4293568 · Firm Permit Name Change	50.00	75.00	-25.00	-33.3%
4293569 · Initial FAR	150.00	330.00	-180.00	-54.6%
4293570 · Initial REG	60.00	180.00	-120.00	-66.7%
4293571 · Initial BEC	90.00	240.00	-150.00	-62.5%
4293572 · Re-Exam FAR	360.00	330.00	30.00	9.1%
4293573 · Re-Exam REG	450.00	510.00	-60.00	-11.8%
4293574 · Re-Exam BEC	540.00	510.00	30.00	5.9%
4491000 · Interest and Dividend Revenue	4,714.96	3,578.78	1,136.18	31.8%
4896021 · Legal Recovery Cost	1,200.00	100.00	1,100.00	1,100.0%
<b>Total Income</b>	<b>198,754.96</b>	<b>192,633.78</b>	<b>6,121.18</b>	<b>3.2%</b>
<b>Gross Profit</b>	<b>198,754.96</b>	<b>192,633.78</b>	<b>6,121.18</b>	<b>3.2%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	14,154.29	12,276.01	1,878.28	15.3%
5101020 · P-T/Temp Emp Sal & Wages	5,751.16	7,880.76	-2,129.60	-27.0%
5101030 · Board & Comm Mbrs Fees	1,320.00	840.00	480.00	57.1%
5102010 · OASI-Employer's Share	1,516.63	1,518.50	-1.87	-0.1%
5102020 · Retirement-ER Share	1,188.74	1,209.42	-20.68	-1.7%
5102060 · Health /Life Ins.-ER Share	4,010.59	6,466.50	-2,455.91	-38.0%
5102080 · Worker's Compensation	15.86	12.11	3.75	31.0%
5102090 · Unemployment Insurance	7.84	9.09	-1.25	-13.8%
5203010 · Auto--State Owned	78.65	0.00	78.65	100.0%
5203020 · Auto-Private-Ownes Low Mileage	0.00	180.80	-180.80	-100.0%
5203030 · In State-Auto- Priv. High Miles	1,058.40	694.86	363.54	52.3%
5203100 · In State-Lodging	319.60	340.50	-20.90	-6.1%
5203120 · In State-Incidentals to Travel	20.00	10.00	10.00	100.0%
5203150 · InState-Non-Tax Meals OverNight	268.00	198.00	70.00	35.4%
5203260 · OS-Air Commercial Carrier	0.00	609.70	-609.70	-100.0%
5203280 · OS-Other Public Carrier	0.00	13.85	-13.85	-100.0%
5203300 · OS-Lodging	0.00	173.44	-173.44	-100.0%
5203320 · OS-Incidentals to Travel	0.00	16.00	-16.00	-100.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	34.00	-34.00	-100.0%
5204010 · Subscriptions	0.00	313.00	-313.00	-100.0%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204160 · Workshop Registration Fees	1,390.00	2,085.00	-695.00	-33.3%
5204180 · Computer Services-State	270.75	234.00	36.75	15.7%
5204181 · Computer Development Serv-State	1,254.90	1,032.00	222.90	21.6%
5204200 · Central Services	1,669.33	2,432.74	-763.41	-31.4%
5204220 · Equipment Service & Maintenance	8.55	14.22	-5.67	-39.9%
5204230 · Janitorial/Maintenance Services	379.65	368.58	11.07	3.0%
5204340 · Computer Software Maintenance	614.50	122.50	492.00	401.6%
5204360 · Advertising-Newspapers	0.00	561.33	-561.33	-100.0%
5204440 · Newsletter Publishing	0.00	444.00	-444.00	-100.0%
5204460 · Equipment Rental	816.00	768.00	48.00	6.3%
5204490 · Rents Privately Owned Property	3,808.35	3,808.35	0.00	0.0%
5204510 · Rent-Other	0.00	230.80	-230.80	-100.0%
5204530 · Telecommunications Services	774.89	727.00	47.89	6.6%
5204540 · Electricity	107.02	140.68	-33.66	-23.9%
5204560 · Water	22.35	22.35	0.00	0.0%
5204740 · Bank Fees and Charges	3,789.24	3,515.62	273.62	7.8%

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
**July through September 2015**

	<u>Jul - Sep 15</u>	<u>Jul - Sep 14</u>	<u>\$ Change</u>	<u>% Change</u>
5205020 · Office Supplies	411.17	87.35	323.82	370.7%
5205320 · Printing/Duplicating/Binding Co	48.30	63.00	-14.70	-23.3%
5205350 · Postage	0.00	1,906.50	-1,906.50	-100.0%
5207900 · Computer Hardware	85.00	175.00	-90.00	-51.4%
5228000 · Operating Transfers Out-NonBudg	834.11	1,157.23	-323.12	-27.9%
5228030 · Depreciation Expense	0.00	3,017.66	-3,017.66	-100.0%
<b>Total Expense</b>	<u>49,193.87</u>	<u>58,910.45</u>	<u>-9,716.58</u>	<u>-16.5%</u>
<b>Net Ordinary Income</b>	<u>149,561.09</u>	<u>133,723.33</u>	<u>15,837.76</u>	<u>11.8%</u>
<b>Net Income</b>	<u><u>149,561.09</u></u>	<u><u>133,723.33</u></u>	<u><u>15,837.76</u></u>	<u><u>11.8%</u></u>

AGENCY: 10 LABOR & REGULATION  
BUDGET UNIT: 1031 BOARD OF ACCOUNTANCY

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	447,745.96	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			447,745.96	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			447,745.96	DR **	
BUDGET UNIT TOTAL 1031			447,745.96	DR ***	

STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 10/31/2015

AGENCY 10 LABOR & REGULATION  
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY  
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP CENTER ACCOUNT DOCUMENT NUMBER POSTING DATE JY APPL # SHORT NAME VENDOR NUMBER VENDOR GROUP AMOUNT DR/CR

COMPANY NO 6503  
COMPANY NAME PROFESSIONAL & LICENSING BOARDS

6503 103100061802 51010100 CGEX150928 10/02/2015 2,521.19 DR  
6503 103100061802 51010100 CGEX151014 10/16/2015 2,331.22 DR  
6503 103100061802 51010100 CGEX151028 10/31/2015 2,200.68 DR

OBJSUB: 5101010 F-T EMP SAL & WAGES  
6503 103100061802 51010200 CGEX150928 10/02/2015 7,053.09 DR  
6503 103100061802 51010200 CGEX151014 10/16/2015 1,079.22 DR  
6503 103100061802 51010200 CGEX151028 10/31/2015 1,991.40 DR  
1,185.28 DR

OBJSUB: 5101020 P-T/TEMP EMP SAL & WAGES  
OBJECT: 5101 EMPLOYEE SALARIES  
6503 103100061802 51020100 CGEX150928 10/02/2015 3,255.90 DR  
6503 103100061802 51020100 CGEX151014 10/16/2015 10,308.99 DR  
6503 103100061802 51020100 CGEX151028 10/31/2015 239.48 DR  
218.45 DR  
223.48 DR

OBJSUB: 5102010 OASI-EMPLOYER'S SHARE  
6503 103100061802 51020200 CGEX150928 10/02/2015 681.41 DR  
6503 103100061802 51020200 CGEX151014 10/16/2015 213.02 DR  
6503 103100061802 51020200 CGEX151028 10/31/2015 199.36 DR  
193.26 DR

OBJSUB: 5102020 RETIREMENT-ER SHARE  
6503 103100061802 51020600 CGEX150928 10/02/2015 605.64 DR  
6503 103100061802 51020600 CGEX151014 10/16/2015 642.28 DR  
6503 103100061802 51020600 CGEX151028 10/31/2015 622.47 DR  
608.82 DR

OBJSUB: 5102060 HEALTH/LIFE INS.-ER SHARE  
6503 103100061802 51020800 CGEX150928 10/02/2015 1,873.57 DR  
6503 103100061802 51020800 CGEX151014 10/16/2015 2.84 DR  
6503 103100061802 51020800 CGEX151028 10/31/2015 2.65 DR  
2.72 DR

OBJSUB: 5102080 WORKER'S COMPENSATION  
6503 103100061802 51020900 CGEX150928 10/02/2015 8.21 DR  
6503 103100061802 51020900 CGEX151014 10/16/2015 1.37 DR  
6503 103100061802 51020900 CGEX151028 10/31/2015 1.30 DR  
1.31 DR

OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION  
OBJECT: 5102 EMPLOYER BENEFITS  
GROUP: 51 PERSONAL SERVICES  
6503 103100061802 52041600 CGEX151008 10/09/2015 378339 DR  
3.98 DR  
3,172.81 DR  
13,481.80 DR  
695.00 DR

OBJSUB: 5204160 WORKSHOP REGISTRATION FEE  
6503 103100061802 52041800 DP609101 10/27/2015 695.00 DR  
6503 103100061802 52041800 DP609101 10/27/2015 125.15 DR  
6503 103100061802 52041800 DP609101 10/27/2015 53.15 DR  
53.15 CR

OBJSUB: 5204180 COMPUTER SERVICES-STATE 125.15 DR \*



STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 10/31/2015

AGENCY 10 LABOR & REGULATION  
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY  
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL. #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/ CR
6503	103100061802	52042000	PL609057	10/21/2015					171.19	DR
6503	103100061802	52042000	RM609051	10/21/2015					80.96	DR
6503	103100061802	52042200	CENTRAL SERVICES IN220750	10/21/2015	00249172	ABBUSINESS	12036980		252.15	DR *
6503	103100061802	52042200	EQUIPMENT SERV & MAINT 16-018 AUG-JUN16	10/31/2015	00250960	SUNSETOFFT	12043890		72.69	DR *
6503	103100061802	52042300	JANITORIAL & MAINT SERV ACCOUNTRENT2015	10/31/2015	02137512	MCGINNISRO	12074040		126.55	DR *
6503	103100061802	52044900	RENTS-PRIVATE OWNED PROP. TL609155	10/31/2015	00244791	MIDCONTLINE	12023782		91.38	DR *
6503	103100061802	52045300	111109001 SERP15	10/07/2015	00249935	ATMOBILIT	12279233		55.99	DR
6503	103100061802	52045300	2872483814160915	10/21/2015					1,269.45	DR *
6503	103100061802	52045400	TELECOMMUNICATIONS SRVCS 5159417006 0915	10/21/2015	02136428	XCELENERGY	12023853		242.37	DR *
6503	103100061802	52047400	ELECTRICITY CI106A-026	10/21/2015	246699				39.72	DR *
6503	103100061802	52047400	CI106A-026	10/21/2015	246699				109.28	DR
6503	103100061802	52047400	CI106A-026	10/21/2015	246699				109.28	CR
6503	103100061802	52047400	BANK FEES AND CHARGES CONTRACTUAL SERVICES 200204	10/31/2015	02137889	OFFICEMAXI	12162845		109.28	DR *
6503	103100061802	52050280	OFFICE SUPPLIES SUPPLIES & MATERIALS T106-027	10/07/2015					2,932.36	DR **
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						160.41	DR **
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						403.44	DR **
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						160.41	DR *
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						403.44	DR **
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						3,496.21	DR ***
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						16,978.01	DR *****
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR OPERATING EXPENSES						16,978.01	DR *****

**South Dakota Board of Accountancy**  
**Balance Sheet**  
As of October 31, 2015

	Oct 31, 15
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
1130000 · Local Checking - Great Western	3,205.28
1140000 · Pool Cash State of SD	447,746.16
<b>Total Checking/Savings</b>	450,951.44
<b>Other Current Assets</b>	
1131000 · Interest Income Receivable	4,392.05
1213000 · Investment Income Receivable	981.51
<b>Total Other Current Assets</b>	5,373.56
<b>Total Current Assets</b>	456,325.00
<b>Fixed Assets</b>	
1670000 · Computer Software	
Original Cost	140,063.23
1770000 · Depreciation	-140,063.23
<b>Total 1670000 · Computer Software</b>	0.00
<b>Total Fixed Assets</b>	0.00
<b>TOTAL ASSETS</b>	<b>456,325.00</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
2110000 · Accounts Payable	9,024.09
<b>Total Accounts Payable</b>	9,024.09
<b>Other Current Liabilities</b>	
2430000 · Accrued Wages Payable	6,729.32
2810000 · Amounts Held for Others	23,987.85
<b>Total Other Current Liabilities</b>	30,717.17
<b>Total Current Liabilities</b>	39,741.26
<b>Long Term Liabilities</b>	
2960000 · Compensated Absences Payable	18,468.75
<b>Total Long Term Liabilities</b>	18,468.75
<b>Total Liabilities</b>	58,210.01
<b>Equity</b>	
3220000 · Unrestricted Net Assets	252,447.33
3900 · Retained Earnings	11,248.06
Net Income	134,419.60
<b>Total Equity</b>	398,114.99
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>456,325.00</b>

# South Dakota Board of Accountancy

## Profit & Loss Budget vs. Actual

July through October 2015

Ordinary Income/Expense	Jul - Oct 15	Budget	\$ Over Budget	% of Budget
<b>Income</b>				
4293550 · Initial Individual Certificate	825.00	2,800.00	-1,975.00	29.5%
4293551 · Certificate Renewals-Active				
5208002 · Refunds	-75.00			
4293551 · Certificate Renewals-Active - Other	60,275.00	58,000.00	2,275.00	103.9%
<b>Total 4293551 · Certificate Renewals-Active</b>	<b>60,200.00</b>	<b>58,000.00</b>	<b>2,200.00</b>	<b>103.8%</b>
4293552 · Certificate Renewals-Inactive	20,050.00	21,000.00	-950.00	95.5%
4293553 · Certificate Renewals-Retired	1,040.00	800.00	240.00	130.0%
4293554 · Initial Firm Permits	50.00	700.00	-650.00	7.1%
4293555 · Firm Permit Renewals	13,600.00	15,500.00	-1,900.00	87.7%
4293557 · Initial Audit	330.00	900.00	-570.00	36.7%
4293558 · Re-Exam Audit	870.00	2,460.00	-1,590.00	35.4%
4293560 · Late Fees-Initial Certificate	0.00	0.00	0.00	0.0%
4293561 · Late Fees-Certificate Renewals	2,900.00	3,000.00	-100.00	96.7%
4293562 · Late Fees-Firm Permits	0.00	0.00	0.00	0.0%
4293563 · Late Fees-Firm Permit Renewals	350.00	600.00	-250.00	58.3%
4293564 · Late Fees-Peer Review	200.00	1,300.00	-1,100.00	15.4%
4293566 · Firm Permit Owners	91,435.00	105,000.00	-13,565.00	87.1%
4293567 · Peer Review Admin Fee	150.00	5,650.00	-5,500.00	2.7%
4293568 · Firm Permit Name Change	75.00	100.00	-25.00	75.0%
4293569 · Initial FAR	360.00	1,140.00	-780.00	31.6%
4293570 · Initial REG	180.00	660.00	-480.00	27.3%
4293571 · Initial BEC	210.00	930.00	-720.00	22.6%
4293572 · Re-Exam FAR	660.00	1,860.00	-1,200.00	35.5%
4293573 · Re-Exam REG	720.00	2,310.00	-1,590.00	31.2%
4293574 · Re-Exam BEC	810.00	2,310.00	-1,500.00	35.1%
4491000 · Interest and Dividend Revenue	4,714.96	6,500.00	-1,785.04	72.5%
4896021 · Legal Recovery Cost	200.00	1,000.00	-800.00	20.0%
<b>Total Income</b>	<b>199,929.96</b>	<b>234,520.00</b>	<b>-34,590.04</b>	<b>85.3%</b>
<b>Gross Profit</b>	<b>199,929.96</b>	<b>234,520.00</b>	<b>-34,590.04</b>	<b>85.3%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	21,207.38	73,420.00	-52,212.62	28.9%
5101020 · P-T/Temp Emp Sal & Wages	9,007.06	27,319.00	-18,311.94	33.0%
5101030 · Board & Comm Mbrs Fees	1,320.00	2,595.00	-1,275.00	50.9%
5102010 · OASI-Employer's Share	2,198.04	8,102.00	-5,903.96	27.1%
5102020 · Retirement-ER Share	1,794.38	6,044.00	-4,249.62	29.7%
5102060 · Health /Life Ins.-ER Share	5,884.16	26,052.00	-20,167.84	22.6%
5102080 · Worker's Compensation	24.07	218.00	-193.93	11.0%
5102090 · Unemployment Insurance	11.82	91.00	-79.18	13.0%
5203010 · Auto--State Owned	78.65	1,000.00	-921.35	7.9%
5203020 · Auto-Private-Ownees Low Mileage	0.00	400.00	-400.00	0.0%
5203030 · In State-Auto- Priv. High Miles	1,058.40	1,500.00	-441.60	70.6%
5203100 · In State-Lodging	319.60	1,000.00	-680.40	32.0%
5203120 · In State-Incidentals to Travel	20.00	100.00	-80.00	20.0%
5203140 · InState-Tax Meals Not Overnigt	0.00	100.00	-100.00	0.0%
5203150 · InState-Non-Tax Meals OverNight	268.00	400.00	-132.00	67.0%
5203230 · OS-Auto Private High Mileage	0.00	100.00	-100.00	0.0%
5203260 · OS-Air Commercial Carrier	0.00	6,000.00	-6,000.00	0.0%
5203280 · OS-Other Public Carrier	0.00	500.00	-500.00	0.0%
5203300 · OS-Lodging	0.00	7,800.00	-7,800.00	0.0%
5203320 · OS-Incidentals to Travel	0.00	450.00	-450.00	0.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	1,300.00	-1,300.00	0.0%
5204010 · Subscriptions	0.00	1,000.00	-1,000.00	0.0%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	300.00	-300.00	0.0%
5204040 · Consultant Fees-Accounting	0.00	7,100.00	-7,100.00	0.0%
5204080 · Consultant Fees--Legal	0.00	0.00	0.00	0.0%
5204160 · Workshop Registration Fees	1,390.00	6,000.00	-4,610.00	23.2%
5204180 · Computer Services-State	357.75	600.00	-242.25	59.6%
5204181 · Computer Development Serv-State	1,293.05	10,400.00	-9,106.95	12.4%
5204200 · Central Services	1,921.48	7,000.00	-5,078.52	27.4%

**South Dakota Board of Accountancy**  
**Profit & Loss Budget vs. Actual**  
 July through October 2015

	<u>Jul - Oct 15</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
5204220 · Equipment Service & Maintenance	10.24	300.00	-289.76	3.4%
5204230 · Janitorial/Maintenance Services	506.20	1,560.00	-1,053.80	32.4%
5204340 · Computer Software Maintenance	614.50	2,000.00	-1,385.50	30.7%
5204360 · Advertising-Newspapers	0.00	1,000.00	-1,000.00	0.0%
5204440 · Newsletter Publishing	0.00	1,100.00	-1,100.00	0.0%
5204460 · Equipment Rental	887.00	4,000.00	-3,113.00	22.2%
5204480 · Microfilm and Photography	0.00	0.00	0.00	0.0%
5204490 · Rents Privately Owned Property	5,077.80	15,234.00	-10,156.20	33.3%
5204510 · Rent-Other	0.00	500.00	-500.00	0.0%
5204530 · Telecommunications Services	1,022.26	3,500.00	-2,477.74	29.2%
5204540 · Electricity	152.87	865.00	-712.13	17.7%
5204560 · Water	44.70	240.00	-195.30	18.6%
5204590 · Insurance Premiums/Surety Bonds	0.00	1,710.00	-1,710.00	0.0%
5204740 · Bank Fees and Charges	3,898.52	6,000.00	-2,101.48	65.0%
5204960 · Other Contractual Services	0.00	0.00	0.00	0.0%
5205020 · Office Supplies	571.58	2,000.00	-1,428.42	28.6%
5205028 · OFFICE SUPPLIES-2	0.00	0.00	0.00	0.0%
5205310 · Printing State	0.00	500.00	-500.00	0.0%
5205320 · Printing/Duplicating/Binding Co	48.30	1,000.00	-951.70	4.8%
5205330 · Supplemental Publications	0.00	700.00	-700.00	0.0%
5205340 · Microfilm Supplies/Materials	0.00	0.00	0.00	0.0%
5205350 · Postage	0.00	2,500.00	-2,500.00	0.0%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207900 · Computer Hardware	85.00	4,800.00	-4,715.00	1.8%
5207950 · System Development	0.00	1,000.00	-1,000.00	0.0%
5207955 · Computer Hardware Other	0.00	500.00	-500.00	0.0%
5207960 · Computer Software Expense	0.00	500.00	-500.00	0.0%
5228000 · Operating Transfers Out-NonBudg	1,237.55	7,400.00	-6,162.45	16.7%
5228030 · Depreciation Expense	0.00	0.00	0.00	0.0%
<b>Total Expense</b>	<u>65,510.36</u>	<u>259,800.00</u>	<u>-194,289.64</u>	<u>25.2%</u>
<b>Net Ordinary Income</b>	<u>134,419.60</u>	<u>-25,280.00</u>	<u>159,699.60</u>	<u>-531.7%</u>
<b>Net Income</b>	<u><u>134,419.60</u></u>	<u><u>-25,280.00</u></u>	<u><u>159,699.60</u></u>	<u><u>-531.7%</u></u>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR MONTHLY COMPARISON**  
**October 2015**

	Oct 15	Oct 14	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	200.00	450.00	-250.00	-55.6%
4293551 · Certificate Renewals-Active	50.00	0.00	50.00	100.0%
4293552 · Certificate Renewals-Inactive	50.00	150.00	-100.00	-66.7%
4293553 · Certificate Renewals-Retired	10.00	0.00	10.00	100.0%
4293554 · Initial Firm Permits	0.00	50.00	-50.00	-100.0%
4293555 · Firm Permit Renewals	0.00	50.00	-50.00	-100.0%
4293557 · Initial Audit	120.00	60.00	60.00	100.0%
4293558 · Re-Exam Audit	330.00	180.00	150.00	83.3%
4293561 · Late Fees-Certificate Renewals	100.00	150.00	-50.00	-33.3%
4293563 · Late Fees-Firm Permit Renewals	0.00	50.00	-50.00	-100.0%
4293566 · Firm Permit Owners	0.00	130.00	-130.00	-100.0%
4293568 · Firm Permit Name Change	25.00	0.00	25.00	100.0%
4293569 · Initial FAR	210.00	120.00	90.00	75.0%
4293570 · Initial REG	120.00	0.00	120.00	100.0%
4293571 · Initial BEC	120.00	0.00	120.00	100.0%
4293572 · Re-Exam FAR	300.00	150.00	150.00	100.0%
4293573 · Re-Exam REG	270.00	210.00	60.00	28.6%
4293574 · Re-Exam BEC	270.00	150.00	120.00	80.0%
4896021 · Legal Recovery Cost	-1,000.00	0.00	-1,000.00	-100.0%
<b>Total Income</b>	<b>1,175.00</b>	<b>1,900.00</b>	<b>-725.00</b>	<b>-38.2%</b>
<b>Gross Profit</b>	<b>1,175.00</b>	<b>1,900.00</b>	<b>-725.00</b>	<b>-38.2%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	7,053.09	6,138.01	915.08	14.9%
5101020 · P-T/Temp Emp Sal & Wages	3,255.90	4,200.30	-944.40	-22.5%
5101030 · Board & Comm Mbrs Fees	0.00	240.00	-240.00	-100.0%
5102010 · OASI-Employer's Share	681.41	744.10	-62.69	-8.4%
5102020 · Retirement-ER Share	605.64	606.18	-0.54	-0.1%
5102060 · Health /Life Ins.-ER Share	1,873.57	3,233.25	-1,359.68	-42.1%
5102080 · Worker's Compensation	8.21	6.21	2.00	32.2%
5102090 · Unemployment Insurance	3.98	4.66	-0.68	-14.6%
5203030 · In State-Auto- Priv. High Miles	0.00	398.12	-398.12	-100.0%
5203100 · In State-Lodging	0.00	333.25	-333.25	-100.0%
5203150 · InState-Non-Tax Meals OverNight	0.00	165.00	-165.00	-100.0%
5204040 · Consultant Fees-Accounting	0.00	6,390.00	-6,390.00	-100.0%
5204180 · Computer Services-State	87.00	87.75	-0.75	-0.9%
5204181 · Computer Development Serv-State	38.15	268.00	-229.85	-85.8%
5204200 · Central Services	252.15	132.91	119.24	89.7%
5204220 · Equipment Service & Maintenance	1.69	4.23	-2.54	-60.1%
5204230 · Janitorial/Maintenance Services	126.55	122.86	3.69	3.0%
5204360 · Advertising-Newspapers	0.00	212.20	-212.20	-100.0%
5204460 · Equipment Rental	71.00	57.00	14.00	24.6%
5204490 · Rents Privately Owned Property	1,269.45	1,269.45	0.00	0.0%
5204530 · Telecommunications Services	247.37	257.64	-10.27	-4.0%
5204540 · Electricity	45.85	58.08	-12.23	-21.1%
5204560 · Water	22.35	22.35	0.00	0.0%
5204740 · Bank Fees and Charges	109.28	129.37	-20.09	-15.5%
5205020 · Office Supplies	160.41	0.00	160.41	100.0%
5205320 · Printing/Duplicating/Binding Co	0.00	30.00	-30.00	-100.0%
5205330 · Supplemental Publications	0.00	387.50	-387.50	-100.0%
5205350 · Postage	0.00	21.02	-21.02	-100.0%
5228000 · Operating Transfers Out-NonBudg	403.44	183.07	220.37	120.4%
5228030 · Depreciation Expense	0.00	1,005.86	-1,005.86	-100.0%
<b>Total Expense</b>	<b>16,316.49</b>	<b>26,708.37</b>	<b>-10,391.88</b>	<b>-38.9%</b>
<b>Net Ordinary Income</b>	<b>-15,141.49</b>	<b>-24,808.37</b>	<b>9,666.88</b>	<b>39.0%</b>
<b>Net Income</b>	<b>-15,141.49</b>	<b>-24,808.37</b>	<b>9,666.88</b>	<b>39.0%</b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
 July through October 2015

	<u>Jul - Oct 15</u>	<u>Jul - Oct 14</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	825.00	1,300.00	-475.00	-36.5%
4293551 · Certificate Renewals-Active	60,200.00	57,450.00	2,750.00	4.8%
4293552 · Certificate Renewals-Inactive	20,050.00	20,050.00	0.00	0.0%
4293553 · Certificate Renewals-Retired	1,040.00	970.00	70.00	7.2%
4293554 · Initial Firm Permits	50.00	400.00	-350.00	-87.5%
4293555 · Firm Permit Renewals	13,600.00	14,010.00	-410.00	-2.9%
4293557 · Initial Audit	330.00	240.00	90.00	37.5%
4293558 · Re-Exam Audit	870.00	750.00	120.00	16.0%
4293561 · Late Fees-Certificate Renewals	2,900.00	2,600.00	300.00	11.5%
4293563 · Late Fees-Firm Permit Renewals	350.00	300.00	50.00	16.7%
4293564 · Late Fees-Peer Review	200.00	250.00	-50.00	-20.0%
4293566 · Firm Permit Owners	91,435.00	89,280.00	2,155.00	2.4%
4293567 · Peer Review Admin Fee	150.00	450.00	-300.00	-66.7%
4293568 · Firm Permit Name Change	75.00	75.00	0.00	0.0%
4293569 · Initial FAR	360.00	450.00	-90.00	-20.0%
4293570 · Initial REG	180.00	180.00	0.00	0.0%
4293571 · Initial BEC	210.00	240.00	-30.00	-12.5%
4293572 · Re-Exam FAR	660.00	480.00	180.00	37.5%
4293573 · Re-Exam REG	720.00	720.00	0.00	0.0%
4293574 · Re-Exam BEC	810.00	660.00	150.00	22.7%
4491000 · Interest and Dividend Revenue	4,714.96	3,578.78	1,136.18	31.8%
4896021 · Legal Recovery Cost	200.00	100.00	100.00	100.0%
<b>Total Income</b>	<u>199,929.96</u>	<u>194,533.78</u>	<u>5,396.18</u>	<u>2.8%</u>
<b>Gross Profit</b>	199,929.96	194,533.78	5,396.18	2.8%
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	21,207.38	18,414.02	2,793.36	15.2%
5101020 · P-T/Temp Emp Sal & Wages	9,007.06	12,081.06	-3,074.00	-25.4%
5101030 · Board & Comm Mbrs Fees	1,320.00	1,080.00	240.00	22.2%
5102010 · OASI-Employer's Share	2,198.04	2,262.60	-64.56	-2.9%
5102020 · Retirement-ER Share	1,794.38	1,815.60	-21.22	-1.2%
5102060 · Health /Life Ins.-ER Share	5,884.16	9,699.75	-3,815.59	-39.3%
5102080 · Worker's Compensation	24.07	18.32	5.75	31.4%
5102090 · Unemployment Insurance	11.82	13.75	-1.93	-14.0%
5203010 · Auto--State Owned	78.65	0.00	78.65	100.0%
5203020 · Auto-Private-Ownes Low Mileage	0.00	180.80	-180.80	-100.0%
5203030 · In State-Auto- Priv. High Miles	1,058.40	1,092.98	-34.58	-3.2%
5203100 · In State-Lodging	319.60	673.75	-354.15	-52.6%
5203120 · In State-Incidentals to Travel	20.00	10.00	10.00	100.0%
5203150 · InState-Non-Tax Meals OverNight	268.00	363.00	-95.00	-26.2%
5203260 · OS-Air Commercial Carrier	0.00	609.70	-609.70	-100.0%
5203280 · OS-Other Public Carrier	0.00	13.85	-13.85	-100.0%
5203300 · OS-Lodging	0.00	173.44	-173.44	-100.0%
5203320 · OS-Incidentals to Travel	0.00	16.00	-16.00	-100.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	34.00	-34.00	-100.0%
5204010 · Subscriptions	0.00	313.00	-313.00	-100.0%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204040 · Consultant Fees-Accounting	0.00	6,390.00	-6,390.00	-100.0%
5204160 · Workshop Registration Fees	1,390.00	2,085.00	-695.00	-33.3%
5204180 · Computer Services-State	357.75	321.75	36.00	11.2%
5204181 · Computer Development Serv-State	1,293.05	1,300.00	-6.95	-0.5%
5204200 · Central Services	1,921.48	2,565.65	-644.17	-25.1%
5204220 · Equipment Service & Maintenance	10.24	18.45	-8.21	-44.5%
5204230 · Janitorial/Maintenance Services	506.20	491.44	14.76	3.0%
5204340 · Computer Software Maintenance	614.50	122.50	492.00	401.6%
5204360 · Advertising-Newspapers	0.00	773.53	-773.53	-100.0%
5204440 · Newsletter Publishing	0.00	444.00	-444.00	-100.0%
5204460 · Equipment Rental	887.00	825.00	62.00	7.5%
5204490 · Rents Privately Owned Property	5,077.80	5,077.80	0.00	0.0%
5204510 · Rent-Other	0.00	230.80	-230.80	-100.0%
5204530 · Telecommunications Services	1,022.26	984.64	37.62	3.8%
5204540 · Electricity	152.87	198.76	-45.89	-23.1%
5204560 · Water	44.70	44.70	0.00	0.0%

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
**July through October 2015**

	<u>Jul - Oct 15</u>	<u>Jul - Oct 14</u>	<u>\$ Change</u>	<u>% Change</u>
5204740 · Bank Fees and Charges	3,898.52	3,644.99	253.53	7.0%
5205020 · Office Supplies	571.58	87.35	484.23	554.4%
5205320 · Printing/Duplicating/Binding Co	48.30	93.00	-44.70	-48.1%
5205330 · Supplemental Publications	0.00	387.50	-387.50	-100.0%
5205350 · Postage	0.00	1,927.52	-1,927.52	-100.0%
5207900 · Computer Hardware	85.00	175.00	-90.00	-51.4%
5228000 · Operating Transfers Out-NonBudg	1,237.55	1,340.30	-102.75	-7.7%
5228030 · Depreciation Expense	0.00	4,023.52	-4,023.52	-100.0%
<b>Total Expense</b>	<u>65,510.36</u>	<u>85,618.82</u>	<u>-20,108.46</u>	<u>-23.5%</u>
<b>Net Ordinary Income</b>	<u>134,419.60</u>	<u>108,914.96</u>	<u>25,504.64</u>	<u>23.4%</u>
<b>Net Income</b>	<u><u>134,419.60</u></u>	<u><u>108,914.96</u></u>	<u><u>25,504.64</u></u>	<u><u>23.4%</u></u>

AGENCY: 10 LABOR & REGULATION  
BUDGET UNIT: 1031 BOARD OF ACCOUNTANCY

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	438,097.51	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			438,097.51	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			438,097.51	DR **	
BUDGET UNIT TOTAL 1031			438,097.51	DR ***	



AGENCY 10 LABOR & REGULATION  
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY  
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL. # OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
COMPANY NO 6503 COMPANY NAME PROFESSIONAL & LICENSING BOARDS									
6503	103100061802	51010100	CGEX151112	11/18/2015				1,971.64	DR
6503	103100061802	51010100	CGEX151123	11/24/2015				120.00	DR
OBSUB: 5101010 F-T EMP SAL & WAGES CGEX151112									
6503	103100061802	51010200	CGEX151112	11/18/2015				2,091.64	DR *
OBSUB: 5101020 P-T/TEMP EMP SAL & WAGES CGEX151112									
6503	103100061802	51010300	CGEX151112	11/18/2015				868.42	DR *
OBSUB: 5101030 BOARD & COMM MBRS FEES OBSUB: 5101 EMPLOYER SALARIES CGEX151112									
6503	103100061802	51020100	CGEX151112	11/18/2015				720.00	DR *
6503	103100061802	51020100	CGEX151123	11/24/2015				3,680.06	DR **
6503	103100061802	51020100	CGEX151123	11/24/2015				236.87	DR
6503	103100061802	51020100	CGEX151123	11/24/2015				9.18	DR
OBSUB: 5102010 OAST-EMPLOYER'S SHARE CGEX151112									
6503	103100061802	51020200	CGEX151112	11/18/2015				246.05	DR *
6503	103100061802	51020200	CGEX151112	11/24/2015				170.41	DR
6503	103100061802	51020200	CGEX151123	11/24/2015				7.20	DR
OBSUB: 5102020 RETIREMENT-ER SHARE CGEX151112									
6503	103100061802	51020600	CGEX151112	11/18/2015				177.61	DR *
6503	103100061802	51020600	CGEX151112	11/18/2015				605.11	DR *
OBSUB: 5102060 HEALTH/LIFE INS.-ER SHARE CGEX151112									
6503	103100061802	51020800	CGEX151112	11/18/2015				605.11	DR *
6503	103100061802	51020800	CGEX151123	11/24/2015				2.27	DR
6503	103100061802	51020800	CGEX151123	11/24/2015				.10	DR
OBSUB: 5102080 WORKER'S COMPENSATION CGEX151112									
6503	103100061802	51020900	CGEX151112	11/18/2015				2.37	DR *
6503	103100061802	51020900	CGEX151123	11/24/2015				1.10	DR
6503	103100061802	51020900	CGEX151123	11/24/2015				.05	DR
OBSUB: 5102090 UNEMPLOYMENT COMPENSATION EMPLOYEE BENEFITS PERSONAL SERVICES 16SCI000022 6466 11/20/2015 00258653 GLSOLUTION 12290765									
6503	103100061802	52040500	DP610101	11/24/2015				1,032.29	DR **
6503	103100061802	52040500	DP610101	11/24/2015				4,712.35	DR ***
6503	103100061802	52042000	FM609070	12/02/2015				96.75	DR *
6503	103100061802	52042000	FM609070	12/02/2015				1,224.21	DR
6503	103100061802	52042000	FM609070	12/02/2015				1,224.12	DR
6503	103100061802	52042000	PL610059	11/27/2015				1,224.12	CR
6503	103100061802	52042000	PL610059	11/27/2015				154.62	DR
OBSUB: 5204200 CENTRAL SERVICES IN229436									
6503	103100061802	52042200	IN229436	11/18/2015	00257059	ABBUSINESS	12036980	1,378.83	DR *
6503	103100061802	52042200	IN229436	11/18/2015	00257059	ABBUSINESS	12036980	72.26	DR *

STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 11/30/2015

AGENCY 10 LABOR & REGULATION  
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY  
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL. #	OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
6503	1031000061802	5204220	EQUIPMENT SERV & MAINT	12/02/2015	00259948		SUNSETOFFI	12043890		72.26	DR *
6503	1031000061802	5204230	JANITORIAL & MAINT SERV	12/02/2015	02141068		MCGINNISRO	12074040		126.55	DR *
6503	1031000061802	5204490	RENTS-PRIVATE OWNED PROP.	11/27/2015	00254057		MIDCONTINE	12023782		1,269.45	DR *
6503	1031000061802	5204530	TELECOMMUNICATIONS SVCS	11/06/2015	00254827		ATTMOBILLIT	12279233		90.04	DR *
6503	1031000061802	5204530	TELECOMMUNICATIONS SVCS	11/06/2015	00254827		ATTMOBILLIT	12279233		100.00	DR *
6503	1031000061802	5204530	TELECOMMUNICATIONS SVCS	11/06/2015	00254827		ATTMOBILLIT	12279233		55.96	DR *
6503	1031000061802	5204540	ELECTRICITY	11/18/2015	00257045		ECOWATER	12035896		246.00	DR *
6503	1031000061802	5204560	WATER	11/13/2015	248924					45.85	DR *
6503	1031000061802	5204740	BANK FEES AND CHARGES	11/04/2015	00252859		NATLASSNST	12005047		22.35	DR *
6503	1031000061802	5204960	OTHER CONTRACTUAL SERVICE	11/27/2015	00259706		BUSINESSPR	12003048		129.56	DR *
6503	1031000061802	5205320	PRINTING-COMMERCIAL	12/02/2015	02141148		SHINTERNA	12011614	01	1,511.73	DR *
6503	1031000061802	5207901	COMPUTER HARDWARE	11/06/2015						12,899.33	DR **
6503	1031000061802	5228000	OPER TRANS OUT -NON BUDGT							34.50	DR *
			NONOP EXP/NONBGTD OP TR							34.50	DR **
			OPERATING EXPENSES							32.12	DR **
										541.97	DR **
										541.97	DR **
										13,507.92	DR **
										18,220.27	DR **
										18,220.27	DR **
										18,220.27	DR **
										18,220.27	DR **

**South Dakota Board of Accountancy**  
**Balance Sheet**  
As of November 30, 2015

	Nov 30, 15
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
1130000 · Local Checking - Great Western	2,217.73
1140000 · Pool Cash State of SD	438,097.51
<b>Total Checking/Savings</b>	440,315.24
<b>Other Current Assets</b>	
1131000 · Interest Income Receivable	4,392.05
1213000 · Investment Income Receivable	981.51
<b>Total Other Current Assets</b>	5,373.56
<b>Total Current Assets</b>	445,688.80
<b>Fixed Assets</b>	
1670000 · Computer Software	
Original Cost	140,063.23
1770000 · Depreciation	-140,063.23
<b>Total 1670000 · Computer Software</b>	0.00
<b>Total Fixed Assets</b>	0.00
<b>TOTAL ASSETS</b>	445,688.80
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	
2110000 · Accounts Payable	21,723.61
<b>Total Accounts Payable</b>	21,723.61
<b>Other Current Liabilities</b>	
2430000 · Accrued Wages Payable	6,729.32
2810000 · Amounts Held for Others	19,355.19
<b>Total Other Current Liabilities</b>	26,084.51
<b>Total Current Liabilities</b>	47,808.12
<b>Long Term Liabilities</b>	
2960000 · Compensated Absences Payable	18,468.75
<b>Total Long Term Liabilities</b>	18,468.75
<b>Total Liabilities</b>	66,276.87
<b>Equity</b>	
3220000 · Unrestricted Net Assets	252,447.33
3900 · Retained Earnings	11,248.06
Net Income	115,716.54
<b>Total Equity</b>	379,411.93
<b>TOTAL LIABILITIES &amp; EQUITY</b>	445,688.80

# South Dakota Board of Accountancy

## Profit & Loss Budget vs. Actual

### July through November 2015

	Jul - Nov 15	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	1,075.00	2,800.00	-1,725.00	38.4%
4293551 · Certificate Renewals-Active				
5208002 · Refunds	-75.00			
4293551 · Certificate Renewals-Active - Other	60,275.00	58,000.00	2,275.00	103.9%
<b>Total 4293551 · Certificate Renewals-Active</b>	<b>60,200.00</b>	<b>58,000.00</b>	<b>2,200.00</b>	<b>103.8%</b>
4293552 · Certificate Renewals-Inactive	20,050.00	21,000.00	-950.00	95.5%
4293553 · Certificate Renewals-Retired	1,040.00	800.00	240.00	130.0%
4293554 · Initial Firm Permits	100.00	700.00	-600.00	14.3%
4293555 · Firm Permit Renewals	13,650.00	15,500.00	-1,850.00	88.1%
4293557 · Initial Audit	360.00	900.00	-540.00	40.0%
4293558 · Re-Exam Audit	990.00	2,460.00	-1,470.00	40.2%
4293560 · Late Fees-Initial Certificate	0.00	0.00	0.00	0.0%
4293561 · Late Fees-Certificate Renewals	2,900.00	3,000.00	-100.00	96.7%
4293562 · Late Fees-Firm Permits	0.00	0.00	0.00	0.0%
4293563 · Late Fees-Firm Permit Renewals				
5208012 · REFUNDS	-50.00			
4293563 · Late Fees-Firm Permit Renewals - Other	450.00	600.00	-150.00	75.0%
<b>Total 4293563 · Late Fees-Firm Permit Renewals</b>	<b>400.00</b>	<b>600.00</b>	<b>-200.00</b>	<b>66.7%</b>
4293564 · Late Fees-Peer Review	250.00	1,300.00	-1,050.00	19.2%
4293566 · Firm Permit Owners	93,000.00	105,000.00	-12,000.00	88.6%
4293567 · Peer Review Admin Fee	150.00	5,650.00	-5,500.00	2.7%
4293568 · Firm Permit Name Change	100.00	100.00	0.00	100.0%
4293569 · Initial FAR	420.00	1,140.00	-720.00	36.8%
4293570 · Initial REG	210.00	660.00	-450.00	31.8%
4293571 · Initial BEC	270.00	930.00	-660.00	29.0%
4293572 · Re-Exam FAR	780.00	1,860.00	-1,080.00	41.9%
4293573 · Re-Exam REG	930.00	2,310.00	-1,380.00	40.3%
4293574 · Re-Exam BEC	960.00	2,310.00	-1,350.00	41.6%
4491000 · Interest and Dividend Revenue	4,714.96	6,500.00	-1,785.04	72.5%
4896021 · Legal Recovery Cost	200.00	1,000.00	-800.00	20.0%
<b>Total Income</b>	<b>202,749.96</b>	<b>234,520.00</b>	<b>-31,770.04</b>	<b>86.5%</b>
<b>Gross Profit</b>	<b>202,749.96</b>	<b>234,520.00</b>	<b>-31,770.04</b>	<b>86.5%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	23,299.02	73,420.00	-50,120.98	31.7%
5101020 · P-T/Temp Emp Sal & Wages	9,875.48	27,319.00	-17,443.52	36.1%
5101030 · Board & Comm Mbrs Fees	2,040.00	2,595.00	-555.00	78.6%
5102010 · OASI-Employer's Share	2,444.09	8,102.00	-5,657.91	30.2%
5102020 · Retirement-ER Share	1,971.99	6,044.00	-4,072.01	32.6%
5102060 · Health /Life Ins.-ER Share	6,489.27	26,052.00	-19,562.73	24.9%
5102080 · Worker's Compensation	26.44	218.00	-191.56	12.1%
5102090 · Unemployment Insurance	12.97	91.00	-78.03	14.3%
5203010 · Auto--State Owned	78.65	1,000.00	-921.35	7.9%
5203020 · Auto-Private-Ownes Low Mileage	103.96	400.00	-296.04	26.0%
5203030 · In State-Auto- Priv. High Miles	1,108.80	1,500.00	-391.20	73.9%
5203100 · In State-Lodging	319.60	1,000.00	-680.40	32.0%
5203120 · In State-Incidentals to Travel	20.00	100.00	-80.00	20.0%
5203140 · InState-Tax Meals Not OverNigt	11.00	100.00	-89.00	11.0%
5203150 · InState-Non-Tax Meals OverNight	268.00	400.00	-132.00	67.0%
5203230 · OS-Auto Private High Mileage	0.00	100.00	-100.00	0.0%
5203260 · OS-Air Commercial Carrier	1,190.40	6,000.00	-4,809.60	19.8%
5203280 · OS-Other Public Carrier	124.00	500.00	-376.00	24.8%
5203300 · OS-Lodging	1,730.46	7,800.00	-6,069.54	22.2%
5203320 · OS-Incidentals to Travel	158.00	450.00	-292.00	35.1%
5203350 · OS-Non-Taxable Meals Overnight	234.00	1,300.00	-1,066.00	18.0%
5204010 · Subscriptions	208.98	1,000.00	-791.02	20.9%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	300.00	-300.00	0.0%
5204040 · Consultant Fees-Accounting	0.00	7,100.00	-7,100.00	0.0%
5204080 · Consultant Fees--Legal	0.00	0.00	0.00	0.0%

**South Dakota Board of Accountancy**  
**Profit & Loss Budget vs. Actual**  
**July through November 2015**

	Jul - Nov 15	Budget	\$ Over Budget	% of Budget
5204160 · Workshop Registration Fees	1,390.00	6,000.00	-4,610.00	23.2%
5204180 · Computer Services-State	531.75	600.00	-68.25	88.6%
5204181 · Computer Development Serv-State	1,312.85	10,400.00	-9,087.15	12.6%
5204200 · Central Services	3,300.31	7,000.00	-3,699.69	47.1%
5204220 · Equipment Service & Maintenance	11.50	300.00	-288.50	3.8%
5204230 · Janitorial/Maintenance Services	632.75	1,560.00	-927.25	40.6%
5204340 · Computer Software Maintenance	614.50	2,000.00	-1,385.50	30.7%
5204360 · Advertising-Newspapers	0.00	1,000.00	-1,000.00	0.0%
5204440 · Newsletter Publishing	0.00	1,100.00	-1,100.00	0.0%
5204460 · Equipment Rental	1,561.00	4,000.00	-2,439.00	39.0%
5204480 · Microfilm and Photography	0.00	0.00	0.00	0.0%
5204490 · Rents Privately Owned Property	6,347.25	15,234.00	-8,886.75	41.7%
5204510 · Rent-Other	248.80	500.00	-251.20	49.8%
5204530 · Telecommunications Services	1,353.95	3,500.00	-2,146.05	38.7%
5204540 · Electricity	201.97	865.00	-663.03	23.3%
5204560 · Water	44.70	240.00	-195.30	18.6%
5204590 · Insurance Premiums/Surety Bonds	0.00	1,710.00	-1,710.00	0.0%
5204740 · Bank Fees and Charges	4,028.08	6,000.00	-1,971.92	67.1%
5204960 · Other Contractual Services	0.00	0.00	0.00	0.0%
5205020 · Office Supplies	591.58	2,000.00	-1,408.42	29.6%
5205028 · OFFICE SUPPLIES-2	0.00	0.00	0.00	0.0%
5205310 · Printing State	0.00	500.00	-500.00	0.0%
5205320 · Printing/Duplicating/Binding Co	82.80	1,000.00	-917.20	8.3%
5205330 · Supplemental Publications	0.00	700.00	-700.00	0.0%
5205340 · Microfilm Supplies/Materials	0.00	0.00	0.00	0.0%
5205350 · Postage	0.00	2,500.00	-2,500.00	0.0%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207900 · Computer Hardware	85.00	4,800.00	-4,715.00	1.8%
5207950 · System Development	0.00	1,000.00	-1,000.00	0.0%
5207955 · Computer Hardware Other	0.00	500.00	-500.00	0.0%
5207960 · Computer Software Expense	8,000.00	500.00	7,500.00	1,600.0%
5228000 · Operating Transfers Out-NonBudg	1,779.52	7,400.00	-5,620.48	24.0%
5228030 · Depreciation Expense	0.00	0.00	0.00	0.0%
<b>Total Expense</b>	<b>87,033.42</b>	<b>259,800.00</b>	<b>-172,766.58</b>	<b>33.5%</b>
<b>Net Ordinary Income</b>	<b>115,716.54</b>	<b>-25,280.00</b>	<b>140,996.54</b>	<b>-457.7%</b>
<b>Net Income</b>	<b>115,716.54</b>	<b>-25,280.00</b>	<b>140,996.54</b>	<b>-457.7%</b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR MONTHLY COMPARISON**  
November 2015

	Nov 15	Nov 14	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	250.00	0.00	250.00	100.0%
4293554 · Initial Firm Permits	50.00	50.00	0.00	0.0%
4293555 · Firm Permit Renewals	50.00	0.00	50.00	100.0%
4293557 · Initial Audit	30.00	0.00	30.00	100.0%
4293558 · Re-Exam Audit	120.00	150.00	-30.00	-20.0%
4293563 · Late Fees-Firm Permit Renewals	50.00	0.00	50.00	100.0%
4293564 · Late Fees-Peer Review	50.00	0.00	50.00	100.0%
4293566 · Firm Permit Owners	1,565.00	585.00	980.00	167.5%
4293568 · Firm Permit Name Change	25.00	0.00	25.00	100.0%
4293569 · Initial FAR	60.00	60.00	0.00	0.0%
4293570 · Initial REG	30.00	30.00	0.00	0.0%
4293571 · Initial BEC	60.00	0.00	60.00	100.0%
4293572 · Re-Exam FAR	120.00	30.00	90.00	300.0%
4293573 · Re-Exam REG	210.00	60.00	150.00	250.0%
4293574 · Re-Exam BEC	150.00	150.00	0.00	0.0%
<b>Total Income</b>	<u>2,820.00</u>	<u>1,115.00</u>	<u>1,705.00</u>	<u>152.9%</u>
<b>Gross Profit</b>	2,820.00	1,115.00	1,705.00	152.9%
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	2,091.64	2,156.00	-64.36	-3.0%
5101020 · P-T/Temp Emp Sal & Wages	868.42	1,073.66	-205.24	-19.1%
5101030 · Board & Comm Mbrs Fees	720.00	1,020.00	-300.00	-29.4%
5102010 · OASI-Employer's Share	246.05	315.67	-69.62	-22.1%
5102020 · Retirement-ER Share	177.61	187.85	-10.24	-5.5%
5102060 · Health /Life Ins.-ER Share	605.11	718.50	-113.39	-15.8%
5102080 · Worker's Compensation	2.37	1.94	0.43	22.2%
5102090 · Unemployment Insurance	1.15	1.45	-0.30	-20.7%
5203010 · Auto--State Owned	0.00	123.12	-123.12	-100.0%
5203020 · Auto-Private-Ownes Low Mileage	103.96	0.00	103.96	100.0%
5203030 · In State-Auto- Priv. High Miles	50.40	44.40	6.00	13.5%
5203140 · InState-Tax Meals Not Overnigt	11.00	0.00	11.00	100.0%
5203260 · OS-Air Commercial Carrier	1,190.40	1,558.10	-367.70	-23.6%
5203280 · OS-Other Public Carrier	124.00	87.46	36.54	41.8%
5203300 · OS-Lodging	1,730.46	3,148.75	-1,418.29	-45.0%
5203320 · OS-Incidentals to Travel	158.00	152.00	6.00	4.0%
5203350 · OS-Non-Taxable Meals Overnight	234.00	296.00	-62.00	-21.0%
5204010 · Subscriptions	208.98	250.58	-41.60	-16.6%
5204040 · Consultant Fees-Accounting	0.00	710.00	-710.00	-100.0%
5204180 · Computer Services-State	174.00	87.75	86.25	98.3%
5204181 · Computer Development Serv-State	19.80	254.60	-234.80	-92.2%
5204200 · Central Services	1,378.83	261.52	1,117.31	427.2%
5204220 · Equipment Service & Maintenance	1.26	5.32	-4.06	-76.3%
5204230 · Janitorial/Maintenance Services	126.55	122.86	3.69	3.0%
5204360 · Advertising-Newspapers	0.00	164.80	-164.80	-100.0%
5204460 · Equipment Rental	674.00	654.00	20.00	3.1%
5204490 · Rents Privately Owned Property	1,269.45	1,269.45	0.00	0.0%
5204510 · Rent-Other	248.80	0.00	248.80	100.0%
5204530 · Telecommunications Services	331.69	257.72	73.97	28.7%
5204540 · Electricity	49.10	51.96	-2.86	-5.5%
5204740 · Bank Fees and Charges	129.56	83.64	45.92	54.9%
5205020 · Office Supplies	20.00	28.01	-8.01	-28.6%
5205320 · Printing/Duplicating/Binding Co	34.50	0.00	34.50	100.0%
5205330 · Supplemental Publications	0.00	280.00	-280.00	-100.0%
5207900 · Computer Hardware	0.00	67.62	-67.62	-100.0%
5207960 · Computer Software Expense	8,000.00	0.00	8,000.00	100.0%
5228000 · Operating Transfers Out-NonBudg	541.97	565.94	-23.97	-4.2%
5228030 · Depreciation Expense	0.00	1,005.86	-1,005.86	-100.0%
<b>Total Expense</b>	<u>21,523.06</u>	<u>17,006.53</u>	<u>4,516.53</u>	<u>26.6%</u>
<b>Net Ordinary Income</b>	-18,703.06	-15,891.53	-2,811.53	-17.7%
<b>Net Income</b>	<u>-18,703.06</u>	<u>-15,891.53</u>	<u>-2,811.53</u>	<u>-17.7%</u>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
 July through November 2015

	<u>Jul - Nov 15</u>	<u>Jul - Nov 14</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	1,075.00	1,300.00	-225.00	-17.3%
4293551 · Certificate Renewals-Active	60,200.00	57,450.00	2,750.00	4.8%
4293552 · Certificate Renewals-Inactive	20,050.00	20,050.00	0.00	0.0%
4293553 · Certificate Renewals-Retired	1,040.00	970.00	70.00	7.2%
4293554 · Initial Firm Permits	100.00	450.00	-350.00	-77.8%
4293555 · Firm Permit Renewals	13,650.00	14,010.00	-360.00	-2.6%
4293557 · Initial Audit	360.00	240.00	120.00	50.0%
4293558 · Re-Exam Audit	990.00	900.00	90.00	10.0%
4293561 · Late Fees-Certificate Renewals	2,900.00	2,600.00	300.00	11.5%
4293563 · Late Fees-Firm Permit Renewals	400.00	300.00	100.00	33.3%
4293564 · Late Fees-Peer Review	250.00	250.00	0.00	0.0%
4293566 · Firm Permit Owners	93,000.00	89,865.00	3,135.00	3.5%
4293567 · Peer Review Admin Fee	150.00	450.00	-300.00	-66.7%
4293568 · Firm Permit Name Change	100.00	75.00	25.00	33.3%
4293569 · Initial FAR	420.00	510.00	-90.00	-17.7%
4293570 · Initial REG	210.00	210.00	0.00	0.0%
4293571 · Initial BEC	270.00	240.00	30.00	12.5%
4293572 · Re-Exam FAR	780.00	510.00	270.00	52.9%
4293573 · Re-Exam REG	930.00	780.00	150.00	19.2%
4293574 · Re-Exam BEC	960.00	810.00	150.00	18.5%
4491000 · Interest and Dividend Revenue	4,714.96	3,578.78	1,136.18	31.8%
4896021 · Legal Recovery Cost	200.00	100.00	100.00	100.0%
<b>Total Income</b>	<b>202,749.96</b>	<b>195,648.78</b>	<b>7,101.18</b>	<b>3.6%</b>
<b>Gross Profit</b>	<b>202,749.96</b>	<b>195,648.78</b>	<b>7,101.18</b>	<b>3.6%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	23,299.02	20,570.02	2,729.00	13.3%
5101020 · P-T/Temp Emp Sal & Wages	9,875.48	13,154.72	-3,279.24	-24.9%
5101030 · Board & Comm Mbrs Fees	2,040.00	2,100.00	-60.00	-2.9%
5102010 · OASI-Employer's Share	2,444.09	2,578.27	-134.18	-5.2%
5102020 · Retirement-ER Share	1,971.99	2,003.45	-31.46	-1.6%
5102060 · Health /Life Ins.-ER Share	6,489.27	10,418.25	-3,928.98	-37.7%
5102080 · Worker's Compensation	26.44	20.26	6.18	30.5%
5102090 · Unemployment Insurance	12.97	15.20	-2.23	-14.7%
5203010 · Auto--State Owned	78.65	123.12	-44.47	-36.1%
5203020 · Auto-Private-Ownes Low Mileage	103.96	180.80	-76.84	-42.5%
5203030 · In State-Auto- Priv. High Miles	1,108.80	1,137.38	-28.58	-2.5%
5203100 · In State-Lodging	319.60	673.75	-354.15	-52.6%
5203120 · In State-Incidentals to Travel	20.00	10.00	10.00	100.0%
5203140 · InState-Tax Meals Not OverNigt	11.00	0.00	11.00	100.0%
5203150 · InState-Non-Tax Meals OverNigt	268.00	363.00	-95.00	-26.2%
5203260 · OS-Air Commercial Carrier	1,190.40	2,167.80	-977.40	-45.1%
5203280 · OS-Other Public Carrier	124.00	101.31	22.69	22.4%
5203300 · OS-Lodging	1,730.46	3,322.19	-1,591.73	-47.9%
5203320 · OS-Incidentals to Travel	158.00	168.00	-10.00	-6.0%
5203350 · OS-Non-Taxable Meals Overnight	234.00	330.00	-96.00	-29.1%
5204010 · Subscriptions	208.98	563.58	-354.60	-62.9%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204040 · Consultant Fees-Accounting	0.00	7,100.00	-7,100.00	-100.0%
5204160 · Workshop Registration Fees	1,390.00	2,085.00	-695.00	-33.3%
5204180 · Computer Services-State	531.75	409.50	122.25	29.9%
5204181 · Computer Development Serv-State	1,312.85	1,554.60	-241.75	-15.6%
5204200 · Central Services	3,300.31	2,827.17	473.14	16.7%
5204220 · Equipment Service & Maintenance	11.50	23.77	-12.27	-51.6%
5204230 · Janitorial/Maintenance Services	632.75	614.30	18.45	3.0%
5204340 · Computer Software Maintenance	614.50	122.50	492.00	401.6%
5204360 · Advertising-Newspapers	0.00	938.33	-938.33	-100.0%
5204440 · Newsletter Publishing	0.00	444.00	-444.00	-100.0%
5204460 · Equipment Rental	1,561.00	1,479.00	82.00	5.5%
5204490 · Rents Privately Owned Property	6,347.25	6,347.25	0.00	0.0%
5204510 · Rent-Other	248.80	230.80	18.00	7.8%
5204530 · Telecommunications Services	1,353.95	1,242.36	111.59	9.0%
5204540 · Electricity	201.97	250.72	-48.75	-19.4%

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
**July through November 2015**

	<u>Jul - Nov 15</u>	<u>Jul - Nov 14</u>	<u>\$ Change</u>	<u>% Change</u>
5204560 · Water	44.70	44.70	0.00	0.0%
5204740 · Bank Fees and Charges	4,028.08	3,728.63	299.45	8.0%
5205020 · Office Supplies	591.58	115.36	476.22	412.8%
5205320 · Printing/Duplicating/Binding Co	82.80	93.00	-10.20	-11.0%
5205330 · Supplemental Publications	0.00	667.50	-667.50	-100.0%
5205350 · Postage	0.00	1,927.52	-1,927.52	-100.0%
5207900 · Computer Hardware	85.00	242.62	-157.62	-65.0%
5207960 · Computer Software Expense	8,000.00	0.00	8,000.00	100.0%
5228000 · Operating Transfers Out-NonBudg	1,779.52	1,906.24	-126.72	-6.7%
5228030 · Depreciation Expense	0.00	5,029.38	-5,029.38	-100.0%
<b>Total Expense</b>	<u>87,033.42</u>	<u>102,625.35</u>	<u>-15,591.93</u>	<u>-15.2%</u>
<b>Net Ordinary Income</b>	<u>115,716.54</u>	<u>93,023.43</u>	<u>22,693.11</u>	<u>24.4%</u>
<b>Net Income</b>	<u><u>115,716.54</u></u>	<u><u>93,023.43</u></u>	<u><u>22,693.11</u></u>	<u><u>24.4%</u></u>



**REPORT TO BOARD ON NASBA ED/LEGAL COUNSEL CONFERENCE**

Nicole Kasin

The NASBA Executive Directors Conference will be held in Tucson, AZ, March 15-17, 2016. The NASBA Legal Counsel Conference will be held in Tucson, AZ, March 15-17, 2016.

This is a request for the Board to approve travel for the Executive Director and Legal Counsel to attend the conference.

## REPORT TO BOARD ON GRADES

Nicole Kasin

The grades were posted for review for the 47<sup>th</sup> window. These grades are through December 2015. I have included the average scores per school since CBT started along with the number of students that have sat for their school respectively. The last chart shows the averages for the past 8 windows.

Overall Average Window 1-47

Window	(All)
--------	-------

Average of Score	Section					Grand Total
School	AUD	BEC	FAR	REG		
Augie	75	72	73	74	73	
BHSU	71	71	70	72	71	
COTech	66	69	69	75	69	
DSU	70	70	63	68	68	
DWU	68	65	63	76	68	
Mt. Marty	65	69	72	68	68	
NAU	68	63	67	69	67	
NSU	73	70	74	71	72	
OS	73	73	70	73	72	
SDSU	75	75	77	77	75	
USD	77	75	75	75	75	
USF	73	75	73	77	74	
Grand Total	74	73	72	73	73	

Students per section per school since CBT Began (3 or more parts)

Window	(All)
--------	-------

Count of Score	Section					Grand Total
School	AUD	BEC	FAR	REG		
Augie	81	91	74	90	336	
BHSU	107	112	97	94	410	
COTech	22	20	14	13	69	
DSU	15	15	15	12	57	
DWU	17	15	16	13	61	
Mt. Marty	23	25	16	19	83	
NAU	11	15	23	19	68	
NSU	94	103	68	87	352	
OS	224	228	217	206	875	
SDSU	35	34	27	31	127	
USD	234	241	243	230	948	
USF	74	75	74	53	276	
Grand Total	937	974	884	867	3662	

Average for past 8 windows (3 or more parts)

Window	(Multiple Items)
--------	------------------

Average of Score	Section					Grand Total
School	AUD	BEC	FAR	REG		Grand Total
Augie		74	75	74	75	75
BHSU		75	73	69	73	73
COTech			67	68		68
DWU		63	64	62	77	65
Mt. Marty		55	75	72		68
NAU		74	73	75	76	74
NSU		81	80	81	76	79
OS		74	78	71	76	75
SDSU		78	79	81	77	78
USD		77	77	75	74	75
USF		72	77	73	75	74
Grand Total		75	75	73	75	74

The Board needs to Approve the 2015-4 (47<sup>th</sup> Window) grades.

## EXECUTIVE DIRECTOR'S REPORT

Nicole Kasin

### Database update

The board staff has had weekly meetings with GL Solutions for training during the month of December. The week of January 4, 2016, a business analyst was on site for information gathering of the boards' business functions and interaction with the current database. Future calls will be scheduled for bi-weekly meetings in regards to the outputs and design process. The timeline is being developed with the goal of a "Go Live" date in 2016, most likely after our renewal period in August.

### CPE Audits

The list of licensees has been selected for CPE audits and letters were sent out to those selected on September 4, 2015. The documentation is due in our office no later than October 30, 2015. The following chart shows the status of the audits as of January 4, 2016.

	Selected	Complied	Not Complied	Granted Extension	Approved CPE Audit	Failed CPE Audit
CPA (Active)	54	54	0	0	44	0
CPA (Active in Firm)	50	50	0	0	40	0

### Board Discussion

- Any New Business/topics?

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# **EXPOSURE DRAFT**

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## **PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS**

### **Improving Transparency and Effectiveness of Peer Review**

**November 10, 2015**

**Comments are requested by January 31, 2016**

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

**Comments should be received by January 31, 2016, and addressed to  
Rachelle Drummond, Senior Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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## AICPA Peer Review Board

### Peer Review Board Members 2015 – 2016

Anita M. Ford, Chair  
Jeannine Birmingham  
Dawn Brenner\*  
William Calder\*  
James Clausell\*  
Albert Denny  
Michael Fawley  
Karen Kerber  
William Lajoie  
Michael LeBlanc

Barbara Lewis\*  
G. Alan Long\*  
Thomas Parry\*  
Andrew Pope\*  
Robert Rohweder\*  
Keith Rowden  
Debra Seefeld  
Todd Shapiro  
Thomas W. Whittle III

*\*Member—Peer Review Board Standards Task Force*

### Non-Peer Review Board Standards Task Force Members 2015 – 2016

Jerry Cross

Heather Reimann

### AICPA Staff

Susan S. Coffey  
Senior Vice President  
Public Practice and Global Alliances

James Brackens, Jr.  
Vice President  
Ethics and Practice Quality

Gary Freundlich  
Technical Director  
AICPA Peer Review Program

Frances McClintock  
Associate Director  
AICPA Peer Review Program

Susan Lieberum  
Associate Director  
AICPA Peer Review Program

Rachelle Drummond  
Senior Technical Manager  
AICPA Peer Review Program

**Letter From the Chair of the Peer Review Board**

November 10, 2015

The AICPA Peer Review Board (board) approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)*.

Written comments or suggestions on any aspect of this exposure draft will be appreciated and must meet the following criteria:

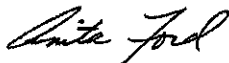
- Must be received by January 31, 2016
- Should be sent to Rachelle Drummond or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)
- Should refer to the specific paragraphs and include supporting reasons for each comment or suggestion
- Should be limited to those items presented in the exposure draft
- Will become part of the public record of the AICPA Peer Review Program and will be available on the AICPA website after January 31, 2016 for a period of one year

The exposure draft includes the following:

- An explanatory memorandum of the proposed revisions to the current *Standards*
- Explanations, background and other pertinent information
- Marked excerpts from the current *Standards* to allow the reader to see all changes:
  - Items that are being deleted from the *Standards* are struck through
  - New items are underlined
  - Items relocated are double struck through in the original location and double underlined in the new location)

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 website at [www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx](http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx).

Sincerely,



Anita M. Ford  
Chair  
AICPA Peer Review Board

## Explanatory Memorandum

### Introduction

This memorandum provides background on the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes are as follows:

- Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer and Report Acceptance Body (RAB) responsibilities for nonconforming engagements.
- Enhance the peer review of the firm's system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and systemic weaknesses
- Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation
- Clarify the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies
- Clarify the peer review report model and provide greater transparency on the results of the review
- Clarify the required firm representations for System and Engagement Reviews
- Clarify information the AICPA and administering entities may provide about a review to third parties

This memorandum solicits input on the proposal from all interested parties.

### Background

In 2012, the AICPA began a comprehensive and visionary exploration of the next generation of its practice monitoring efforts. The AICPA Peer Review Program (Program) monitors the quality of reviewed firms' accounting and auditing engagements and evaluates the systems under which those engagements are performed. Participation in the peer review program is mandatory for AICPA membership. In addition, peer review is now required for licensure in nearly all states.

Much has changed over the 35 years that the AICPA's Peer Review Program has been in existence, including the complexity of business, the volume and intricacy of Standards and the expectations of financial reporting stakeholders. At the same time, recent technological innovations afford the profession the opportunity to make dramatic upgrades to peer review that will enable adaptation to an ever-changing environment.

The Board approved a plan in early 2014 to implement substantive changes to the current peer review process. The changes are part of the AICPA's Enhancing Audit Quality (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

Peer review is an integral element of the AICPA's EAQ initiative. This exposure draft is being issued by the Peer Review Board to further the EAQ efforts to move the audit quality needle in a positive way. The Peer Review Board has and will continue to enact near and long-term changes to the Program and its Standards as part of this initiative, including additional exposure drafts, as necessary.

The proposals included in this exposure draft are intended to enhance the peer review process by incorporating best practices of effective peer reviewers into the Peer Review Standards, Interpretations, and related guidance. They are also intended to reinforce the need for adequate planning and preparation for a peer review by both firms and peer reviewers to allow sufficient time for proper identification of systemic causes and appropriate remediation, when necessary. Refer to Exhibit 1 for a visual representation of the peer review process including the proposals in this exposure draft.

## **Explanation of Proposed Changes**

### **Nonconforming Engagements (System and Engagement Reviews)**

#### *Summary of Existing Guidance*

As currently stated in Section 3100 of the Peer Review Program Manual, Supplemental Guidance, and Interpretation No. 67-1, the firm should make appropriate considerations to address engagements that are identified during the peer review that are not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming). The primary responsibility is on the firm to follow professional standards to address these types of engagements. Auditing and accounting standards provide guidance for firms when this information comes to the attention of the firm subsequent to the report release date, such as information identified as a result of a peer review. The relevant professional standards include AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, (AICPA, *Professional Standards*), SSARS No. 19, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*, AR secs. 60, 80, and 90), or SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*, AR-C secs. 60, 70, 80, and 90) as applicable, or, if the firm's work does not support the report issued, as addressed in AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* (AICPA, *Professional Standards*). Interpretation No. 67-1 indicates that the reviewer should remind the firm of its responsibilities to follow the relevant professional standards to address these situations.

The firm should make and document comprehensive assessments about whether it is necessary to perform omitted procedures, or whether a material reporting error necessitates reissuance of an accounting or auditing report, revision to the financial statements, or remediation of the subsequent engagement. The firm should thoroughly consider the continued reliance by third-party users on reports issued and procedures performed. Particularly, the firm should consider the expectations of regulatory bodies that the firm will perform the omitted procedures or correct reports in a timely manner.

The firm is expected to follow applicable professional standards regarding documentation of the omitted procedures, if performed, document performance or reissuance considerations, and provide a response to the peer reviewer. The firm's initial assessment should be timely and generally take place during the peer review to enable the peer reviewer to reach a proper conclusion about the engagement and evaluate the firm's response to the situation. If the firm does not have time to determine the appropriate remediation prior to the exit conference, the firm may indicate interim steps taken while it explores the best approach. The firm's response should be documented on the Matter for Further Consideration (MFC) form that appropriately describes the most significant matters indicating the engagement is nonconforming.

The peer reviewer should evaluate the firm's actions planned or taken or its reasons for concluding that no action is required for each nonconforming engagement. The peer reviewer should thoroughly document these situations in the Summary Review Memorandum for System Reviews and Review Captain's Summary for Engagement Reviews, including whether they believe the firm's considerations support its decision and whether a monitoring action is suggested to follow up on the remediation of the specific engagement. These peer review documents should be submitted for consideration during the peer review acceptance process. A firm's appropriately documented considerations in response to such an engagement and documentation of the reviewer's assessment of the firm's response are conditions of acceptance by the peer review committee. If the firm and peer reviewer considerations are not properly performed or documented, the RAB may defer acceptance of the peer review subject to appropriate considerations or peer review documentation.

Peer reviewers and administering entities should not require or instruct firms to perform omitted procedures, reissue accounting or auditing reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. It is not expected that omitted procedures will be performed, that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer's conclusion on the engagement or conclusion on the peer review. However, the firm's response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm's follow through on the intended or alternative steps taken.

In a System Review, if the team captain or RAB concludes that the firm's response and consideration of the applicable standards is not appropriate to address the nonconforming engagement, the team captain should evaluate whether there are other weaknesses in the firm's system. For example, an inappropriate response may be indicative of a potential failure to comply with the leadership or tone at the top element in the firm's system of quality control. A failure to properly consider how to address nonconforming engagements may indicate an internal firm culture that fails to promote that quality is essential in performing engagements.

In System and Engagement Reviews, if the peer reviewer concludes that the firm's considerations and response are appropriately documented related to such an engagement and the firm indicates in its response that it intends to complete omitted procedures, reissue the auditor's or accountant's report, or have previously issued financial statements revised and reissued, the RAB will consider whether the firm's response is genuine, comprehensive, and feasible. The RAB may consider requesting the firm to submit evidence to an outside party acceptable to the RAB of performing and documenting the previously omitted procedures, reissuance of the report, or revision to the financial statements, if appropriate.

The firm's actions, taken or planned, may affect other monitoring actions that the RAB may impose. Additional guidance for determining when and what type of corrective action(s) or implementation plan(s) a RAB may require is provided in chapters 4 and 5 of the *Report Acceptance Body Handbook*.

The existing guidance discussed previously will be reinforced through training courses. The proposals in this exposure draft are intended to supplement the existing guidance for peer reviewer, firm, technical reviewer, and RAB responsibilities for nonconforming engagements.

*Key Changes Proposed*

- Clarify guidance regarding peer reviewer and firm responsibilities when there are nonconforming engagements. This includes the following:
  - Clarify that the firm should provide details of remediation of nonconforming engagements on the MFC form, Finding for Further Consideration (FFC) form, or in its letter of response, as applicable
  - For System Reviews, clarify that the team captain should consider expanding scope to determine pervasiveness of the nonconforming engagements to properly assess the systemic cause and impact on the peer review.
- Explain evaluation of nonconforming engagements by the peer reviewer to determine a peer review rating (see proposed changes to Appendix A discussed in the text that follows).
- Add a representation to the firm representation letter that addresses remediation of nonconforming engagements (see proposed changes to Appendix B discussed in the text that follows).

*Key Future Complimentary and Conforming Guidance to be Proposed*

- Strengthen expectation of details about nonconforming engagements to be provided in the Summary Review Memorandum for consideration by the RAB.

This change is expected to be proposed at the May 2016 Board meeting, along with other complimentary and conforming guidance changes related to nonconforming engagements.

*Revisions to Standards and Interpretations*

Standards .09	Incorporate firm responsibility to remediate nonconforming engagements into the introduction and scope of the Peer Review Program
Standards .66 Interpretations 66-1	For reference only
Standards .67	Minor clarifying or conforming changes
Interpretations 67-1 67-2	Clarify guidance regarding peer reviewer and firm responsibilities when there are nonconforming engagements

**Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)**

*Summary of Existing Guidance*

The focus of a System Review is on the design and compliance with the firm's system of quality control. This requires the team captain to obtain a sufficient understanding of the firm's system of quality control for all of the elements discussed in the Statements on Quality Control Standards No. 8 (SQCS No. 8). This understanding is obtained by performing a variety of procedures to determine if the system is designed appropriately and that the firm's degree of compliance is acceptable. The focus is not simply determining how many engagements are nonconforming. Team captains must understand the firm's system of quality control to perform a proper risk assessment and to make appropriate engagement, office, and partner selections. A proper understanding of the firm's system of quality control is also necessary to determine the systemic cause of matters identified.

For example, if several firm personnel tell the team captain they were unaware of a new audit or accounting standard, that probably explains much about the design (or lack thereof) of the firm's system of quality control, or the firm's compliance with an appropriately designed system, and should provide a clue as to what else the team captain may discover. Likewise, if through interviewing the leadership of the firm and its staff, the team captain determines that the leadership in the firm has done nothing to promote an internal culture recognizing that quality is essential in performing engagements, and there are no established policies to support that culture, then the firm's system of quality control is not designed appropriately in accordance with professional standards.

These are just two examples in which firms have weaknesses in their systems of quality control. More often, a firm has an appropriately designed system of quality control but fails to comply with that system and, as a result of its noncompliance, one or more engagements are nonconforming. The team captain, in collaboration with the firm, should determine the weakness in the firm's system of quality control that allowed a matter, such as a nonconforming engagement, to occur or go undetected and then will determine if the matter is pervasive or isolated. RABs are responsible for ensuring that the team captain has performed the peer review in accordance with the Standards, and this includes ensuring, when possible, that team captains, in collaboration with the firm, have identified the "why" (systemic cause) before a System Review is accepted.

Conceptually, the Peer Review Standards have always focused on the system of quality control. Proper application of the Standards assists team captains in evaluating matters and, as a result, the type of report to issue. This is a difficult process that always requires professional judgment, but there is an expectation that team captains will determine why a firm is not complying with professional standards in all material respects, in each circumstance in which it is reasonably possible to do so. By following the Peer Review Standards, the team captain is led through the thought process of how the identified systemic causes affect the nature of the peer review report. This synthesis process is also critical to facilitate a fair and more consistent evaluation of peer review results.

The proposals in this exposure draft are intended to enhance the peer review of the firm's system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and systemic weaknesses.

#### *Key Changes Proposed*

- Define systemic cause as a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected.
- Apply consistent usage of the term "systemic cause" throughout the Peer Review Program Manual. The current Standards and Interpretations refer to "cause", "underlying cause", "systemic cause", and "underlying systemic cause" interchangeably.
- Clarify that identification of the systemic cause of matters, findings, deficiencies and significant deficiencies is determined by the team captain, in collaboration with the firm.
- Clarify that when the team captain may not have identified nonconforming engagements, there could still be deficiencies in the firm's system of quality control. Current guidance states that in the absence of findings in the engagements reviewed, quality control issues ordinarily would result in FFCs, rather than deficiencies
- Create guidance that allows a team captain to inquire about and review evidence prior to the peer review year to support assessment of the design and compliance with system controls. For example, it may be necessary to look at client acceptance from two years ago if that was the last time a new engagement was accepted.

When applicable, these changes were applied to reviews of quality control materials (QCM).

*Key Future Complimentary and Conforming Guidance to Be Proposed*

- Remove Sections 4300 and 4400, Quality Control Policies and Procedures Questionnaires for Sole Practitioners with No Personnel and Firms With Two or More Personnel, respectively, from the Peer Review Program Manual due to some firms' inappropriate reliance upon these forms and failure to timely update. The Auditing Standards Board is developing a free, interactive tool that is designed to assist firms in developing a system of quality control. The tool is intended to replace the current Practice Aids for Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice. These sections will remain in the Peer Review Program Manual until the new tool is released.
- Enhance Sections 4500 and 4600 Guidelines for Review of Quality Control Policies and Procedures for Sole Practitioners with No Personnel and Firms With Two or More Personnel, respectively, with guidance for assisting team captains and firms in identifying risks that a firm's system of quality control would not provide the firm with reasonable assurance of conformity with professional standards. The checklist assists in identifying quality control risks through
  - an expanded analysis of the design of the firm's system of quality control to assess whether certain best practice policies and procedures have been adopted by the firm; and
  - an enhanced risk based assessment of the firm's compliance with its quality control policies and procedures through new sample tests and procedures.

These changes are expected to be proposed at the May 2016 Board meeting, along with other complimentary and conforming guidance changes related to enhancing peer review of the firm's system of quality control.

*Revisions to Standards and Interpretations*

Standards .39 .169	Clarify team captain or QCM reviewer's responsibility for evaluating the firm's responses in the prior peer review
Interpretations 39-1	
Standards .44 .68 .69 .70 .72 .81 .84 .85 .86 .87 .88 .89 .90 .109	Minor clarifying or conforming changes



.179 .183 .185  Interpretations 84-1	
Standards .53 .71 .78 .80 .82	For reference only
Standards .54  Interpretations 54d-2	Clarify review of evidential materials in the periods after the previous review is appropriate.
Standards .75 .76 .77	Define systemic cause and clarifying consideration of the systemic cause when determining appropriate aggregation of matters
Standards .79  Interpretations 79-1	Clarify that when the team captain may not have identified nonconforming engagements, there could still be deficiencies in the firm's system of quality control.
Standards .83  Interpretations 83-1 83-2 83-3	Clarify that identification of the systemic cause of matters, findings, deficiencies, and significant deficiencies is determined by the team captain, in collaboration with the firm.

**FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)**

The proposals in this exposure draft are intended to

- clarify the timing of when results of the peer review should be communicated to the firm to allow time for firms to identify appropriate remediation
- clarify the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies
- clarify the peer review report model and provide greater transparency on the results of the review.

As previously stated, the proposals included in this exposure draft are intended to enhance the peer review process by incorporating best practices of effective peer reviewers into the Peer Review Standards, Interpretations, and related guidance. They are also intended to reinforce the need for adequate planning and preparation for a peer review by both firms and peer reviewers to allow sufficient time for proper identification of systemic causes and appropriate remediation,

when necessary. Refer to Exhibit 1 for a visual representation of the peer review process including the proposals in this exposure draft.

The proposals include an emphasis on a collaborative effort of the team captain and the firm for the identification of systemic causes and the appropriate remediation of findings, deficiencies, and significant deficiencies in the firm's system of quality control and nonconforming engagements, if any. Based on the sophistication of the firm's system of quality control, identification may be more heavily weighted on the team captain's shoulders than the firm's shoulders but should be a collaborative process. Particularly for System Reviews as the team captain is opining on the system, he or she should also agree with and include systemic causes, when known.

Likewise, the team captain is not opining on the proper remediation by the firm as remediation will likely occur after the peer review due date and, therefore, the firm should shoulder the responsibility for communicating its remediation plans. However, both the systemic cause and remediation steps planned or taken should be considered by the RAB when determining whether to accept the peer review report and if implementation plans or corrective actions are necessary.

Additionally, one of the steps in achieving the EAQ goal is to make peer review results more informative. Input was obtained from peer review stakeholders on the transparency of the peer review report. The board continues to explore ways to make peer review results more informative, and is currently proposing the following changes based on input received in an effort to clarify the peer review report and make the results of the peer review easier to understand.

#### *Key Changes Proposed*

- For System Reviews:
  - Clarify that team captains should include a link to the requirements of SQCS No. 8 in the descriptions of findings, deficiencies, and significant deficiencies.
  - Add a requirement that when a deficiency or significant deficiency in the quality control system resulted in a nonconforming engagement in a must select industry or practice area, the resulting nonconformance and the industry/practice area is included in the description. Note that this requirement is in addition to the current guidance that requires descriptions to identify the industry when the deficiency or significant deficiency is industry specific.
  - Remove the team captain's responsibility to provide an explanation of how the firm remediated nonconforming engagements described in the report ("closing the loop").
  - Remove the team captain's responsibility to provide a recommendation to remediate the systemic cause and place that responsibility on the firm in collaboration with the team captain.
  - Clarify the information a firm should include in its response to an FFC form or in a letter of response to the report. The response should address the following:
    - Nonconforming engagements, including
      - the firm's actions taken or planned to remediate the engagements identified on the FFC form or in the report as nonconforming.
      - the firm's actions taken or planned to remediate findings, deficiencies, and significant deficiencies in the firm's system of quality control
    - Systemic issues unrelated to nonconforming engagements, including

- the firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control
        - Timing of the remediation
- For Engagement Reviews:
  - Remove the review captain's responsibility to provide a recommendation to remediate the finding, deficiency, or significant deficiency.
  - Clarify the information a firm should include in its response to a FFC form or in a letter of response to the report. The response should address the following:
    - The firm's actions taken or planned to remediate the findings, deficiencies, or significant deficiencies
    - Timing of the remediation
    - Additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future
- For System and Engagement Reviews:
  - Create guidance for a closing meeting as the suggested timing for discussion of peer review preliminary results. The firm will then have time to assess appropriate remediation, if applicable, prior to the exit conference. The exit conference should still be the discussion of the final peer review results and the date of the peer review report.
  - Clarify guidance that the peer reviewer should assess the firm's response to findings, deficiencies, and significant deficiencies to determine the impact on the peer review, if any.
  - Clarify the peer review report by
    - restructuring the placement of information under appropriate headings, similar to the clarified audit report
    - clarifying the purpose of the report with a descriptive report title
    - clarifying the required selections paragraph of the report by appropriately indicating when singular selections were made
  - Apply the proposed revised guidance to the list of items that should be included in a peer review report
  - Apply the proposed revised guidance to the report and letter of response illustrations

When applicable, these changes were applied to reviews of QCM.

*Revisions to Standards and Interpretations*

Standards .16 .93 .94 .95 .101 .116 .120 .127 .190	For reference only
Standards .17 .91 .92	For System Reviews, create guidance for a closing meeting, clarifying what should be discussed at the closing meeting versus the exit conference, and addressing the timing of when those meetings should occur.

.115 .120  Interpretations 17-1 91-1	For Engagement Reviews, introduce the closing meeting and exit conference with similar guidance to a System Review, including dating of the report on the exit conference date.
Standards .38 .74 .117 .139 .142 .178	Minor clarifying or conforming changes
Standards .73 .113	Clarify that the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies
Standards .96 .122 .194  Interpretations 96n-1 96p-1	Apply the proposed revised guidance to the list of items that should be included in a peer review report
Standards .97 .123 .195	Clarify that prior to responding to a matter, finding, deficiency or significant deficiency, the firm should resolve any disagreement in accordance with paragraphs .93 and .116 of the Standards.
Standards .98 .124 .196	Clarify where a firm's response should be documented and when it should be provided to the peer reviewer.
Standards .99 .125 .197  Interpretations 99-1 99-2	Clarify that it is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond and provide guidance for what should be included in the firm's response.
Standards .100 .126 .198  Interpretations 100-1	Clarify guidance that the peer reviewer should assess the firm's response to findings, deficiencies, and significant deficiencies to determine the impact on the peer review, if any.
Standards .209 .210	Apply the proposed revised guidance to the report and letter of response illustrations

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Interpretations 94-1	Clarify that the firm's letter of response should be included with the reviewer's working papers

**Appendix A – Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews**

Appendix A of the Standards is also located at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary) and the URL is referenced in the peer review report. The proposals in this exposure draft are intended to provide readers of the peer review report with a complete, succinct, summary of the nature, objectives, scope, limitations of, and procedures performed in System, Engagement, and QCM Reviews, as referred to in the peer review report.

*Key Changes*

- Conform language in the summary to the Standards about the scope of engagements included in the AICPA Peer Review Program
- Summarize how engagements identified as nonconforming, if any, are evaluated by a peer reviewer to determine a peer review rating.
- Summarize firm responsibilities with respect to nonconforming engagements and systemic weaknesses.

*Revisions to Standards*

Standards .207	Revised to address the key changes discussed previously
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**Appendix B – Considerations and Illustrations of Firm Representations**

Over the last couple of years, several required representations have been added to the firm representation letter illustrations. The Peer Review Board has received feedback that it is unclear if tailoring of the representations specific to each firm or by type of peer review is appropriate. The proposals in this exposure draft are intended to clarify the required firm representations for System and Engagement Reviews.

*Key Changes*

- Restructure the guidance so that it is clear what applies to System Reviews, Engagement Reviews, or both
- For Engagement Reviews, add a requirement to state that the firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB
- Align the required representations in the guidance to those shown in the illustration
- Add a representation for firm remediation of nonconforming engagements
- Provide separate illustrations for System Reviews and Engagement Reviews

*Revisions to Standards and Interpretations*

Standards .208	Revise to address the key changes discussed previously
Interpretations 208-1-1	

**Transparency of Review Status**

This proposal includes clarification of what information can be provided to third parties regarding a firm’s peer review that has not been completed. The AICPA and administering entities regularly receive requests by regulators and others for letters indicating the progress at different stages of firms’ peer reviews. Ordinarily, these requests are to assist regulators in determining a firm’s compliance with its licensure requirements when it appears a firm’s peer review is late. The board wants to assist firms in meeting their licensure requirements and provide appropriate transparency to third parties to accomplish this. A firm may be late in completing its peer review due to unforeseen circumstances, oversight, its own actions, the peer reviewer’s actions, a combination of each, or for other multiple reasons being considered by the administering entity or the AICPA. In some cases, a firm may be close to completing its peer review and in some cases the firm may be going through the fair procedures process to determine if it is cooperating with the AICPA and administering entity.

The proposals in this exposure draft are not intended to incorporate additional information into or to revise the information provided through Facilitated State Board Access (FSBA) reporting.

*Key Changes*

- Create an interpretation that addresses reasons why a peer review committee may not approve a peer review report within 120 days, including the following:
  - Determination during technical review or presentation that an oversight should be performed
  - Significant revisions are required to the submitted peer review documentation
  - Necessary inquiries that are a result of technical review or presentation
  - Enhanced oversight procedures.

- Create an interpretation that addresses information the administering entity can publicize about the progress of a peer review and clarifying the type of information that the AICPA and administering entities are able to provide.
- The revisions to paragraph .133 and .146 and Interpretations 133a-1 and 146-3 are proposed to be effective upon approval by the board.

*Revisions to Standards and Interpretations*

Standards .133	Address reasons why a peer review committee may not approve a peer review report within 120 days
Interpretations 133a-1	
Standards .146	Address what information the administering entity can publicize about the progress of a peer review
Interpretations 146-3	

**Additional Complimentary and Conforming Guidance to Be Proposed**

Additional complimentary and conforming guidance to the Interpretations and the rest of the Peer Review Program Manual are expected to be proposed at the May 2016 Board meeting.

**Comment Period**

The comment period for this exposure draft ends on January 31, 2016.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after January 31, 2016, for a period of one year.

**Guide for Respondents**

The board welcomes feedback from all interested parties on this proposal. Comments are most helpful when they refer to specific paragraphs or interpretations, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. The proposed revisions to the Standards and Interpretations are listed by topic in the preceding Explanation of Proposed Changes and in numerical order in Exhibit 2.

Comments and responses should be sent to Rachele Drummond, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org), and should be received by January 31, 2016.

**Effective Date**

If approved by the Board, final revisions to the *Standards* and Interpretations will be effective for reviews commencing on or after January 1, 2017 except for those related to transparency of review status. *Standards* paragraphs .133 and .146 and Interpretations 133a-1 and 146-3 will be effective upon approval by the Board.

## Proposed Revisions

To aid understanding, Standards and Interpretations are presented in this section if they contain a proposed revision or assist the reader in understanding the revisions proposed. Conforming changes will be required to other interpretations not included in this Exposure Draft and to the remainder of the Peer Review Program Manual.

### Peer Review Standards

#### Overview

##### Introduction and Scope

- .09 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified in engagements. On both System and Engagement Reviews, the firm is also expected to follow professional standards in response to engagements identified as not performed or reported in conformity with applicable professional standards in all material respects (“nonconforming”). These actions will be positive and remedial. Disciplinary actions (including those that can result in the termination of a firm’s enrollment in the program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners<sup>1</sup> and employees) will be taken only for a failure to cooperate, failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

### General Considerations

#### Timing of Peer Reviews

- .16 The due date for a peer review is the date by which the peer review report, and if applicable, letter of response, and the peer reviewer’s materials are to be submitted to the administering entity.
- .17 Peer reviews must cover a current period of one year to be mutually agreed upon by the reviewed firm and the reviewing firm. Ordinarily, the peer review should be conducted within three to five months following the end of the year to be reviewed (see interpretations).

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<sup>1</sup> A partner is a proprietor, shareholder, equity or non-equity partner, or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned. Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as shareholder, member, or proprietor.



## Performing System Reviews

### Basic Requirements

- .38 A System Review should include, but not be limited to, the following procedures:
- a. Planning the review, as follows:
    - i. Obtain the results of the prior peer review (see paragraph .39).
    - ii. Inquire of the firm about the areas to be addressed in the written representations (see paragraph .40).
    - iii. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review (see paragraphs .41–.45).
    - iv. Obtain a sufficient understanding of the design of the firm's system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review (see paragraphs .41–.45).
    - v. Assess peer review risk (see paragraphs .46–.52).
    - vi. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed and to determine the nature and extent of the tests to be applied in the functional areas (see paragraphs .53–.63).
  - b. Performing the review, as follows:
    - i. Review the firm's design and compliance with its system of quality control. The review should cover all organizational or functional levels within the firm (see paragraphs .53–.54).
    - ii. Review significant risk areas on selected engagements, including the relevant accounting, audit, and attestation documentation and reporting (see paragraphs .64–.65).
    - iii. Conclude on the review of engagements (see paragraphs .66–.67).
    - iv. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary (see paragraph .68).
    - v. Determine the relative importance of matters (see paragraphs .69–.72).
    - vi. Prepare the Matter for Further Consideration (MFC) forms, Disposition of MFC (DMFC) forms, and any related Finding for Further Consideration (FFC) forms (see paragraphs .73–.74).
    - vii. Aggregate and systemically evaluate the matters (see paragraphs .75–.86).
    - viii. Form conclusions on the type of report to issue (see paragraphs .87–.90).
    - ix. Obtain the written representations from the reviewed firm (see paragraph .05(f) and appendix B).
    - x. Conduct an exit conference. If at the conclusion of fieldwork, the firm needs more time to consider its response to matters identified during the peer review, conduct a closing meeting in advance of the exit conference. The purpose of the closing meeting is to discuss with senior members of the reviewed firm to discuss the review team's comments; matters, findings,

deficiencies, and significant deficiencies identified; and the expected type of report to be issued, and firm's responsibilities related to such matters.

- xi. After the firm has responded to matters identified in the peer review, conduct an exit conference with senior members of the firm to discuss a summary of the peer review results, the firm responses, and the type of report to be issued. After the firm has responded to matters identified in the peer review, a with senior members of the firm a summary of the peer review results. Dependent upon the circumstances of each review, the closing meeting and exit conference may be combined; recommendations; MFCs and related FFCs; and the type of report to be issued and the deficiencies or significant deficiencies to be included in such report and to resolve any disagreements (see paragraphs .91-.92).
- xii. Prepare a written report on the results of the review (see paragraphs .94-.96).
- xiii. Review and provide comments to the reviewed firm on its Evaluate the firm's actions taken or planned in response to FFCs and the report response to the report, if applicable (see paragraphs .97-.101).
- xiv. The team captain submits the report, the firm's letter of response, if applicable, and applicable working papers to the administering entity (see paragraph 100).

### **Planning Considerations**

- .39** To assist the review team in the planning of the review, the team captain should obtain the prior peer review report, the letter of response, if applicable, and the letter of acceptance, all from the reviewed firm. The team captain should also obtain the prior FFC forms, if applicable (from the administering entity if the team captain's firm did not perform the prior peer review). The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review and, in the course of the review, should evaluate the actions of the firm in response to the prior report and FFC forms, if applicable (see interpretations).

### **Understanding the Firm's Accounting and Auditing Practice and System of Quality Control**

- .44** The understanding of the firm's accounting and auditing practice and system of quality control is ordinarily obtained through such procedures as inquiries of appropriate management and other personnel, reviewing the firm's internal policies and procedures, and reviewing the firm's responses to questionnaires developed by the board quality control document.

### **Planning and Performing Compliance Tests**

- .53** After performing the aforementioned planning procedures, the team captain should then develop a general plan for the nature and extent of conducting compliance tests of

engagements (to directly test the “engagement performance” element in SQCS No. 8) and the other elements described in SQCS No. 8 (collectively referred to as the *functional areas*). The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm’s system of quality control was complied with to provide the firm with reasonable (not absolute) assurance of performing and reporting in conformity with applicable professional standards in the conduct of its accounting and auditing practice in all material respects.

- .54 Such tests should be performed at the practice office(s) visited and should relate to individual engagements and the functional areas. The tests should include the following:
- a. Review significant risk areas (see paragraph .65) on selected engagements, including accounting and auditing documentation, and reports, to evaluate whether the engagements were performed and reported on in conformity with applicable professional standards and in compliance with relevant firm quality control policies and procedures.
  - b. Interview firm personnel at various levels and, if applicable, other persons responsible for a function or activity to assess their understanding of, and compliance with, the firm’s quality control policies and procedures.
  - c. Review evidential material to determine whether the firm has complied with its policies and procedures for monitoring its system of quality control.
  - d. Review other evidential material, including evidence since the previous peer review, as appropriate. Examples include selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with human resource requirements, and the firm’s technical reference sources (see interpretations).
- .66 For each engagement reviewed, the review team should conclude on its review by documenting whether anything came to its attention that caused it to believe that the engagement was not performed or reported on in conformity with applicable professional standards in all material respects (see interpretations).
- .67 The team captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (see interpretations).

### *Expansion of Scope*

- .68 If, during the peer review, the review team concludes that there was a failure to reach an appropriate conclusion on the application of professional standards in all material respects on one or more of the reviewed engagements or aspects of functional areas, the review team should consider whether the application of additional peer review procedures is necessary. This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the failure is indicative of a pattern of such failures, whether it is a finding, deficiency, or significant deficiency in the design of the reviewed firm’s system of quality control or in

its compliance with the system, or whether it is both. In some circumstances, the reviewer may conclude that, because of compensating controls or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements or aspects of functional areas. Additional engagements may be in the same industry, supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to perform or report in conformity with professional standards.

### Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

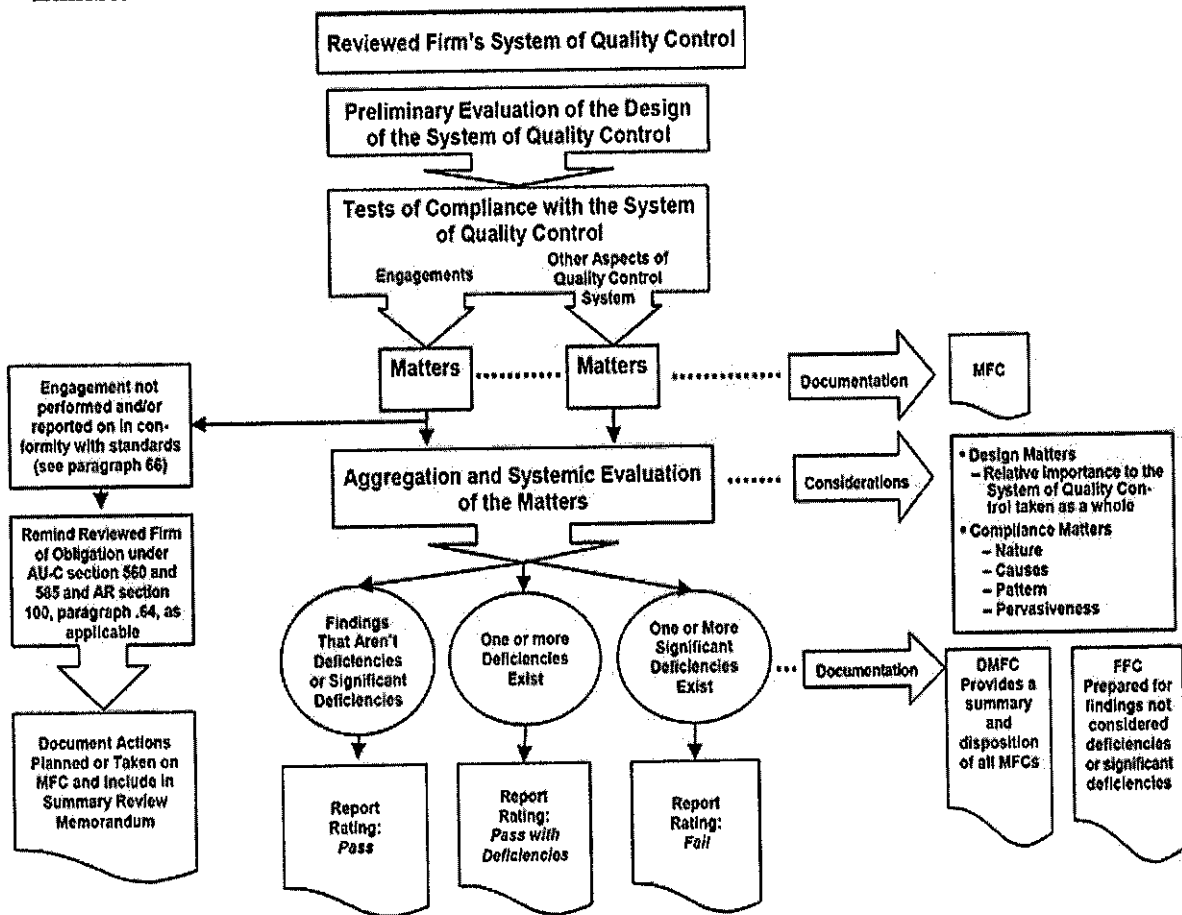
- .69 In understanding the firm's system of quality control, the team captain may note that the system is not designed appropriately. Similarly, the performance of compliance tests may uncover that the system is not being complied with appropriately or may identify a design weakness that was not identified during the planning of the peer review. With any of these items, the team captain has available a set of definitions to assist in classifying the condition noted.
- .70 Determining the relative importance of matters noted during the peer review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items when applicable, are intended to assist in aggregating and evaluating the peer review results, concluding on them, and determining the nature of the peer review report to issue:
- a. A peer reviewer notes a *matter* as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm's system of quality control. Matters are typically one or more "No" answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm's system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.
  - b. A *finding* is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
  - c. A *deficiency* is one or more findings that the peer reviewer has concluded, due to the nature, systemic causes (see paragraph .75), pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable

professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.

d. A *significant deficiency* is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of *fail*.

.71 A broad understanding of the peer review process, from the preliminary evaluation of the design of the system of quality control, to the tests of compliance, to the decision making process of determining whether an item noted during a System Review is a matter, finding, deficiency, or significant deficiency, is shown in exhibit A. The exhibit also illustrates the aggregation of these items, where those items are documented in the practice aids and how they might affect the type of report issued.

Exhibit A



.72 As described by exhibit A in paragraph .71, depending on the resolution of a matter and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated and, after considering the nature, systemic causes (see paragraph .75), pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.

.73 A matter is documented on a MFC form. If the matter, after further evaluation, gets elevated to a finding but not a deficiency or significant deficiency, it is documented on a FFC form. The FFC form is a standalone document that includes the reviewer's recommendation description of the finding, the systemic cause, if known (see paragraph .75), and the reviewed firm's response regarding actions planned or taken and the timing of those actions by the firm. The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC form responses for appropriateness and responsiveness

(see paragraphs .141–.145) and determine whether any further action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself, ~~along with the reviewer's recommendation.~~ The firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm, which is also evaluated for appropriateness and responsiveness (see paragraphs .139–.140).

- .74 In order to document the disposition of all the MFCs, the team captain completes a DMFC form. The DMFC form is part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm during the closing meeting or exit conference, included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of *pass with deficiencies* or as a significant deficiency in a report with a peer review rating of *fail*.

### **Aggregating and Systemically Evaluating Matters**

- .75 The team captain, in collaboration with the firm, should determine the systemic cause of matters identified. A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control. To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures. The review team should consider their relative importance of the matters to the firm's system of quality control as a whole, including ~~and their~~ the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.
- .76 Proper application of the standards assists team captains in evaluating the systemic cause of matters and, as a result, the type of report to issue. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.

### **Design Matters**

- .77 A design matter exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would not result in engagements performed or reported on in accordance with professional standards in some respect. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the reviewed firm with reasonable assurance of

performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with. To make this determination, the review team should consider the implications of the evidence obtained during its evaluation of the system of quality control and its tests of compliance, including its reviews of engagements. For example, a pattern of engagement failures to perform or report in conformity with applicable professional standards in all material respects (that is, failures requiring the application of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, or AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* [AICPA, *Professional Standards*]), likely is indicative of a ~~finding-matter~~ pertaining to the design of the reviewed firm's quality control policies and procedures. Depending upon the resolution of the matter and the process of aggregating and evaluating peer review results, the matter may develop into a finding, deficiency, or significant deficiency.

- .78 As noted in SQCS No. 8, "The nature of the policies and procedures developed by individual firms to comply with this Statement will depend on various factors such as the size and operating characteristics of the firm." Likewise, the relative importance of design matters noted in the reviewed firm's quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the firm's size, organizational structure, and the nature of its practice. For example, a matter noted during the review of a quality control policy or procedures may be particularly or wholly offset by another policy or procedure. In this circumstance, the review team should consider the interrelationships among the elements of quality and weigh the matters noted against compensating policies and procedures to determine whether a finding exists and its relative importance.
- .79 There may be circumstances in which the reviewer ~~finds-identifies~~ few findings in the work performed by the firm and yet may conclude that the design of the firm's system of quality control needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects and may result in a deficiency in a report with a peer review rating of pass with deficiencies (interpretations). ~~However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in a FFC as a finding rather than result in a report with a peer review rating of pass with deficiencies or fail.~~

### *Compliance Matters*

- .80 A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Because a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures



in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

- .81 In assessing whether the degree of compliance was adequate to provide the required assurance, the review team should consider the nature, systemic causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the firm's system of quality control as a whole, not merely their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the firm's size, organizational structure, and the nature of its practice.
- .82 To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the reviewed firm is more critical to the firm obtaining reasonable assurance of performing and reporting in conformity with applicable professional standards than adherence to others. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in engagements not being performed or reported on in conformity with applicable professional standards in all material respects. The more direct the relationship between a specific quality control policy or procedure and the application of professional standards, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.

#### *Determining the Systemic Cause for a Finding*

- .83 When the review team is faced with an indication that a matter(s) could be a finding, ~~or the firm failed to perform or report in conformity with applicable professional standards in all material respects,~~ the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause of the finding or failure (see interpretations). Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following:
- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
  - b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
  - c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
  - d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion.

- .84 ~~The~~ matter finding or failure to perform or report in conformity with applicable professional standards in all material respects may be the result of an isolated human error and, therefore, would not necessarily mean that a ~~peer review report with a peer review rating of pass with deficiencies or fail should be issued~~ finding, deficiency, or significant deficiency exists (see interpretations). However, if the reviewer believes that the probable systemic cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a ~~matter finding or failure to perform or report in conformity with applicable professional standards in all material respects~~ on an engagement or a ~~finding~~ within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully ~~the need~~ whether to elevate the issue a peer review report with a peer review rating of pass with deficiencies or fail ~~matter to a finding, deficiency, or significant deficiency.~~
- .85 Although an isolated matter or an instance of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report, its nature, systemic cause (if determinable), and relative importance for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other ~~findings~~ matters before making a final determination (see interpretations).

#### ***The Pattern and Pervasiveness of Matters***

- .86 The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature, systemic causes, and relative importance in the specific circumstances in which they were observed. As noted in the preceding paragraphs, the review team's first task is to try to determine why the matters occurred. In some cases, the design of the firm's system of quality control may be deficient (for example, when it does not provide for timely involvement in the planning process by a partner of the firm or there is inadequate supervision of engagement planning). In other cases, there may be a pattern of noncompliance with a quality control policy or procedure such as when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were not used or relevant questions or points were incorrectly considered. That increases the possibility that the firm might not perform or report in conformity with applicable professional standards in all material respects, which also means that the reviewer must consider carefully whether the matter(s) individually or in the aggregate is (are) a finding, deficiency, or a significant deficiency ~~and whether there is the need to issue a peer review report with a peer review rating of pass with deficiencies or fail~~. On the other hand, the types of matters noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the matters were isolated cases of human error that should not result in a peer review report with a peer review rating of pass with deficiencies or fail.

## **Forming Conclusions on the Type of Report to Issue in a System Review**

- .87 The team captain must use professional judgment in determining the type of peer review report to issue. This judgment requires the consideration of several factors, including an understanding of the firm's system of quality control and the nature, systemic causes, pattern, and pervasiveness of matters and their relative importance to the firm's system of quality control taken as a whole, including limitations on the scope of the review.

### ***System Review Report With a Peer Review Rating of Pass***

- .88 A report with a peer review rating of *pass* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, or significant deficiencies, ~~or recommendations~~. In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.

### ***System Review Report With a Peer Review Rating of Pass With Deficiencies***

- .89 A report with a peer review rating of *pass with deficiencies* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the firm's design of and compliance with its system of quality control that could create a situation in which the firm would have less than reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.

### ***System Review Report With a Peer Review Rating of Fail***

- .90 A report with a peer review rating of *fail* should be issued when the team captain has identified significant deficiencies and concludes that the firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In the event of a scope limitation, a report with a peer review rating of *fail (with a scope limitation)* is issued.

## Communicating Conclusions at the Closing Meeting and Exit Conference

- .91 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate its conclusions to senior members of the firm at a closing meeting. Ordinarily, †The team captain should ordinarily be physically present at the exit conferenceclosing meeting, unless the System Review is performed at a location other than the reviewed firm's office. (see interpretations). The exit conferenceclosing meeting may also be attended by representatives of the administering entity, the board, AICPA staff, or other board--authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):
- a. Preliminary peer review results, including A firm that has a System Review should respond promptly to questions raised in the review in order to assist the review team in reaching its eonclusions. Prior to issuing its report or finalizing FFC form(s), if applicable, the review team should communicate its conclusions to senior members of the reviewed firm at an exit conference (see interpretations). any matters documented on MFC form(s), findings documented on FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report expected to be issued if determinable at this point.
  - b. The review team should also communicate, if applicable, that †The firm's requirement will be required to respond to the matters documented on MFC form(s), findings documented on the FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report. Ordinarily, the team captain should be physically present at the exit conference, unless the System Review is performed at a location other than the reviewed firm's office. (see interpretations)The exit conference may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities.
  - c. The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s). Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.
- .92 The reviewed firm is entitled to be informed at the exit conference about any matters documented on the MFC form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued. An exit conference will be held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and considered any additional impact to the peer review results. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The review team should also communicate, if applicable, that the firm will be required to respond to the matters documented on MFC form(s), findings documented on the FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report. The exit conference may be held via teleconference and

should occur after allowing the firm sufficient time to respond to MFC forms, FFC forms, deficiencies or significant deficiencies discussed at the closing meeting, if applicable. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. The review team should also communicate that the firm may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report or (2) complete an implementation plan to address the findings noted in the FFC form(s). Potential corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program. ~~The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).~~
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

### **Addressing Disagreements Between the Reviewer and the Reviewed Firm**

- .93 Disagreements may arise on the resolution of various issues, for instance, related to the review of particular engagements, the systemic cause for a deficiency, or issues related to a design deficiency. In addition, there could be a disagreement on the appropriate approach to be taken in performing or reporting in conformity with applicable professional standards, or the review team might not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and that each party has the right to challenge each other on an issue. Nevertheless, a disagreement on the resolution of an issue may persist in some circumstances. The reviewed firm or reviewer should be aware that they may consult with their administering entity and, if necessary, request that the administering entity's peer review committee resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, the administering entity may refer unresolved issues to the board for a final determination. Only the administering entity's

peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team is not cooperating, in order for the administering entity to refer the issue to the board.

## Reporting on System Reviews

### General

- .94 The team captain should furnish the reviewed firm with a written report within 30 days of the exit conference date or by the firm's peer 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 System 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 System Review

- .95 The standard form for a report with a peer review rating of *pass* is illustrated in appendix C, "Illustration of a Report With a Peer Review Rating of *Pass* in a System Review." Illustrations of reports with a peer review rating of *pass with deficiencies* and *fail* are presented in appendixes E, "Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review," and I, "Illustration of a Report With a Peer Review Rating of *Fail* in a System Review," respectively. Illustrations of reports with a peer review rating of *pass (with a scope limitation)*, *pass with deficiencies (with a scope limitation)*, and *fail (with a scope limitation)* are presented in appendixes D, "Illustration of a Report With a Peer Review Rating of *Pass (With a Scope Limitation)* in a System Review;" G, "Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review;" and K, "Illustration of a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review," respectively.
- .96 The written report in a System Review should:
- a. State at the top of the report the title "~~System Review Report~~ Report on the Firm's System of Quality Control."
  - b. Include headings for each of the following sections:
    - Firm's Responsibility.
    - Peer Reviewer's Responsibility.
    - Required Selections and Considerations, if applicable.
    - Deficiency(ies) or Significant Deficiency(ies) Identified in the Firm's System of Quality Control, if applicable.
    - Scope Limitation, if applicable.
    - Opinion.
  - b.c. State that the system of quality control for the accounting and auditing practice of the firm was reviewed and include the year-end covered by the peer review.

- ~~e.d.~~ 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.
- ~~e.e.~~ State that a summary of the nature, objectives, scope, limitations of, and procedures performed in a System Review areas described in the sStandards can be found on the AICPA website where the Standards are summarized.
- ~~f.~~ Include a URL reference to the AICPA website where the standards are located State that the summary includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.;
- ~~e.g.~~ State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any.
- ~~f.h.~~ State that the reviewer's responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on the review.  
~~State that the nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards.~~  
~~Include a URL reference to the AICPA website where the standards are located.~~
- ~~i.~~ Identify engagement types required to be selected by the board in the interpretations and indicate whether single or multiple engagements (for example, an audit versus audits) were reviewed, when applicable.
- ~~g.j.~~ State that reviews by regulatory entities as communicated by the firm, if applicable, were considered in determining the nature and extent of procedures.
- ~~h.k.~~ In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review. Tailor the opinion, as appropriate, to address the scope limitation.
- ~~i.l.~~ Identify the different peer review ratings that the firm could receive.
- ~~j.m.~~ In a report with a peer review rating of *pass*:
- Express an opinion that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - State at the end of the opinion paragraph that therefore the firm has received a peer review rating of *pass*.
  - ~~In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review.~~
  - ~~Reports with a peer review rating of *pass* do not contain any findings, deficiencies,~~

significant deficiencies, or recommendations.

~~k.n.~~ In a report with a peer review rating of pass with deficiencies:<sup>2</sup>

- Express an opinion that, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of pass with deficiencies.
- ~~In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

~~l.o.~~ In a report with a peer review rating of fail:

- Express an opinion that as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of fail.
- ~~In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

p. In a report with a peer review rating of pass with deficiencies or fail:

- ~~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) which include reference to the applicable requirement of Statements on Quality Control Standards, the scenario that led to the deficiency or significant deficiency, and reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable (See-see interpretations).~~
- 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 report issued on the firm's previous peer review (see interpretations). This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.
- Identify the level of service for any deficiencies or significant deficiencies.
- Identify the applicable industry if the a deficiency or significant deficiency included in the report with a peer review rating of pass with deficiencies or fail is

<sup>2</sup> Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.



industry specific, also identify the industry.

- Identify must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency or significant deficiency.

### Firm Responses in a System Review and Related Team Captain Considerations

.97100 ~~The firm should discuss matters, findings, deficiencies, and significant deficiencies with the team captain. If, after a discussion with the team captain, the reviewed firm 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 and follow the guidance in paragraph .93 to resolve the disagreement. (see paragraph .93). If the reviewed firm 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 the disagreement.~~

.989 ~~The reviewed firm should respond to all matters communicated on an MFC form, findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related communicated on an FFC form and deficiencies, or significant deficiencies communicated in the peer review reports. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations). The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference.~~

.979 ~~If the reviewed firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. ¶The reviewed firm should respond in writing address the following in its response with respect to each finding, deficiency, and significant deficiency (see interpretations): to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the team captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the team captain for review, evaluation, and comment (see interpretations).~~

a. Nonconforming engagements, including the following:

- The firm's actions taken or planned to remediate the engagements identified on the FFC form or in the report as nonconforming.
- The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control (see interpretations)

b. Systemic issues unrelated to nonconforming engagements:

- The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control

c. Timing of the remediation

.100 The team captain should review and evaluate the firm's responses on the FFC forms and letter of response prior to the exit conference. The firm's letter of response should be finalized and dated as of the exit conference date and provided to the team captain. The team captain should include the firm's letter of response with his or her report and working papers submitted to the administering entity (see interpretations).

~~.98 If the reviewed firm 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 reviewed firm does not submit a copy of the report to the administering entity.~~

~~.99 The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations).~~

~~.100 If, after a discussion with the team captain, the reviewed firm 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 reviewed firm 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 the disagreement.~~

.101 Illustrations of letters of response by a reviewed firm to reports in a System Review with a peer review rating of *pass with deficiencies* and *fail* are included in appendixes F, "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review;" H, "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review;" J, "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in a System Review;" and L, "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review."

## Performing Engagement Reviews

### Basic Requirements

.109 An Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to in paragraphs .107-.108), tests of the firm's administrative or personnel files, interviews of selected firm

personnel, or other procedures performed in a System Review (see interpretations). Accordingly, an Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice. The review captain's report does indicate, however, whether anything came to the review captain's attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects (see interpretations). The review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (see interpretations).

### **Identifying Matters, Findings, Deficiencies, and Significant Deficiencies**

- .113 A matter is documented on an MFC form. If the matter, after further evaluation, gets elevated to a finding, but not a deficiency or significant deficiency, it is documented on a FFC form. The FFC form is a standalone document that includes the reviewer's recommendation and the reviewed firm's response regarding actions planned or taken and the timing of those actions by the firm. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC form responses for appropriateness and responsiveness (see paragraphs .141–.145). If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself, along with the reviewer's recommendation. The firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm, which is also evaluated for appropriateness and responsiveness (see paragraphs .139–.140).

### **Communicating Conclusions at the Closing Meeting and Exit Conference**

- .115 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the review captain should communicate his or her conclusions to the firm at a closing meeting. The closing meeting is normally held via teleconference and may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities. The review captain should discuss the following during the closing meeting:
- a. Preliminary peer review results, including any matters documented on the MFC form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued.
  - b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
  - c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

An exit conference will be held after the firm has responded to the MFC form(s), FFC form(s), and deficiencies or significant deficiencies in the report and the review captain has assessed whether the responses are appropriate and considered any additional impact to the peer review results. Accordingly, except in rare circumstances that should be explained to the firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The exit conference is normally held via teleconference and should occur after allowing the firm sufficient time to respond to MFC form(s), FFC form(s), deficiencies or significant deficiencies discussed at the closing meeting, if applicable. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the review captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The review captain should discuss the following during the exit conference:

- a. Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report.
- b. Potential corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review captain should also discuss with the firm the implications of these steps on the acceptance and completion of the peer review and the firm's enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

~~A firm that has an Engagement Review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing. The review captain will contact the firm, before issuing the final peer review report, to resolve questions raised during the peer review and to complete the MFC, DMFC, and FFC forms as applicable. In addition to discussing deficiencies or significant deficiencies and recommendations to be included in a report with a peer review rating of *pass with deficiencies* or *fail*, ordinarily, these should be discussed, along with the content of the letter of response, and agreed upon with the firm prior to the issuance of the final written report. The review captain should also communicate, if applicable, that the firm may be required to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report or (2) complete an implementation plan to address the findings noted on the FFC form(s). The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program. This is also the appropriate opportunity for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).~~

## Addressing Disagreements Between the Reviewer and the Reviewed Firm

- .116 Disagreements may arise on the resolution of various issues. For instance, there could be a disagreement on the appropriate approach to performing or reporting in conformity with applicable professional standards, or the review team might not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and that each party has the right to challenge each other on an issue. Nevertheless, a disagreement on the resolution of an issue may persist in some circumstances. The reviewed firm and reviewer should be aware that they may consult with their administering entity and, if necessary, request that the administering entity's peer review committee resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, the administering entity may refer unresolved issues to the board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists or whether the reviewed firm or review team is not cooperating in order to refer the issue to the board.

## Reporting on Engagement Reviews

### Forming Conclusions on the Type of Report to Issue in an Engagement Review

#### *Engagement Review Report With a Peer Review Rating of Pass*

- .117 A report with a peer review rating of *pass* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, or significant deficiencies, or recommendations. In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.

## Reporting on Engagement Reviews

### General

- .120 In an Engagement Review, the review captain should furnish the reviewed firm with a written report within 30 days of the ~~review of engagements~~ exit conference date or by the firm's peer 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 review captain performing the review. Other reports are issued on the letterhead of the administering entity. The report in an Engagement Review ordinarily should be dated as of the date of the ~~completion of the peer review procedure~~ exit conference. See interpretations

for guidance on notification requirements and submission of peer review documentation to the administering entity.

### *Illustrations of Reports in an Engagement Review*

- .121 The standard form for a report with a peer review rating of *pass* is illustrated in appendix M, “Illustration of a Report with a Peer Review Rating of *Pass* in an Engagement Review.” Illustrations of reports with a peer review rating of *pass with deficiencies* and *fail* are presented in appendixes N, “Illustration of a Report with a Peer Review Rating of *Pass with Deficiencies* in an Engagement Review,” and P, “Illustration of a Report with a Peer Review Rating of *Fail* in an Engagement Review,” respectively. Additional paragraphs included for scope limitations follow the illustrations for System Reviews with scope limitations (see appendixes D, G, and K).
- .122 The written report in an Engagement Review should:
- a. State at the top of the report the title “Engagement Review Report/Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed.”
  - b. Include headings for each of the following sections:
    - a. Firm’s Responsibility.
    - b. Peer Reviewer’s Responsibility.
    - c. Deficiency(ies) or Significant Deficiency(ies) Identified on the Firm’s Conformity With Professional Standards on Engagements Reviewed, if applicable.
    - d. Scope Limitation, if applicable.
    - e. Conclusion.
  - ~~b-c.~~ State that the review captain reviewed selected accounting engagements of the firm and include the year-end covered by the peer review.
  - ~~e-d.~~ 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-e.~~ State that the nature, objectives, scope, limitations of, and procedures performed in an Engagement Review areas described in the Standards can be found on the AICPA website where the Standards are summarized.
  - ~~e.~~ Include a URL to the AICPA website where the standards are located.
  - f. State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects ~~(even though this is an Engagement Review, the statement reflects the responsibility of the firm).~~ and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any.
  - g. State that the reviewer’s responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.
  - h. State that an Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, the reviewers expresses no opinion or any form of assurance on that system.  
~~State that the nature, objectives, scope, limitations of, and procedures performed in an~~

~~Engagement Review are described in the standards.  
Include a URL to the AICPA website where the standards are located.~~

- ~~i. In the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review. Tailor the conclusion, as appropriate, to address the scope limitation.~~
- ~~j. Identify the different peer review ratings that the firm could receive.~~
- ~~k. In a report with a peer review rating of pass, state:
  - That nothing came to the review captain's attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
  - At the end of the second paragraph, ~~t~~That therefore the firm has received a peer review rating of pass.
  - ~~In the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.~~
  - ~~Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.~~~~
- ~~l. In a report with a peer review rating of *pass with deficiencies*,<sup>3</sup> state:
  - ~~That except for~~ That as a result of the deficiencies previously described, nothing came to the review captain's attention that caused the review captain to believe that at least one but not all of the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
  - ~~At the end of the last paragraph, t~~That therefore the firm has received a peer review rating of pass with deficiencies.
  - ~~In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.~~~~
- ~~m. In a report with a peer review rating of fail, state:
  - That as a result of the deficiencies previously described, the review captain believes that all the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
  - ~~At the end of the last paragraph, t~~That therefore the firm has received a peer review rating of fail.
  - ~~In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagement(s) to the~~~~

<sup>3</sup> Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

~~reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

~~n. In a report with a peer review rating of pass with deficiencies or fail:~~

- ~~• Include, for reports with a peer review rating of pass with deficiencies or fail, descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered) (see interpretations).~~
- ~~• 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 report in the firm's previous peer review. However, if the specific types of reporting, presentation, disclosure, or documentation deficiencies or significant deficiencies are not substantially the same on the current review as on the prior review, the deficiencies or significant deficiencies would not be considered a repeat (see interpretations).~~
- ~~• Identify the level of service for any deficiencies or significant deficiencies. If the deficiency or significant deficiency included in the report with a peer review rating of pass with deficiencies or fail is industry specific, also identify the industry.~~

#### **Firm Responses in an Engagement Review and Related Review Captain Considerations**

~~**.1263** The firm should discuss matters, findings, deficiencies, and significant deficiencies with the review captain. If, after a discussion with the review captain, the reviewed firm 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 and follow the guidance in paragraph .116 to resolve the disagreement. (see paragraph .116). If the reviewed firm 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.~~

~~**.1254** The reviewed firm should respond to all matters communicated on an MFC form, findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related communicated on an FFC form, and deficiencies or significant deficiencies communicated in the peer review reports. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations). The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm's response prior to the exit conference.~~

~~**.123125** In an Engagement Review, if the firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of findings, deficiencies, and significant deficiencies and to appropriately respond (see interpretations). The reviewed firm should respond in writing address the firm's actions taken or planned to remediate the findings, to the~~



deficiencies, or significant deficiencies and related recommendations identified in the report, including timing of the remediation and additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the review captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the letter of response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment (see interpretations).

- ~~.124~~ If the firm 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 reviewed firm does not submit a copy of the report to the administering entity.
- ~~.125~~ The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations).
- ~~.126~~ If, after a discussion with the review captain, the reviewed firm 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 .116). If the reviewed firm 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.
- .127 Illustrations of letters of responses by a reviewed firm to reports with a peer review rating of *pass with deficiencies* and *fail* are included in appendixes Q, "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in an Engagement Review," and Q, "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in an Engagement Review."

## **Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities**

- .133 The committee's report acceptance body responsibilities include, but are not limited to:

- a. Ensuring that peer reviews are presented to an RAB in a timely manner, ordinarily within 120 days of the later of receipt of the working papers and peer review report from the team captain or review captain or, if applicable, the report with a peer review rating of *pass with deficiencies* or *fail* and the related letter of response from the reviewed firm, or within 60 days for Engagement Reviews meeting certain criteria (see paragraphs .137–.138).
- b. Considering whether the review has been performed in accordance with these standards, interpretations, and related guidance materials.
- c. Considering whether the report, and the response thereto, if applicable, are in accordance with these standards, interpretations, and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response.
- d. Determining whether it should require any remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to or in affirmation of those described by the reviewed firm in its letter of response. Examples of such corrective actions include, but are not limited to, requiring certain individuals to obtain specified kinds and specified amounts of CPE, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform pre-issuance or post-issuance reviews of financial statements, reports, and accounting and audit documentation to attempt to strengthen the performance of the firm's personnel.
- e. In relation to FFCs:
  - 1. Considering whether FFC (and associated MFC and DMFC) forms are prepared in accordance with these standards, interpretations, and related guidance materials, including whether the findings addressed on the FFC forms should have been included in a report with a peer review rating of *pass with deficiencies* or *fail*.
  - 2. Determining the adequacy of the plan the reviewed firm has represented that it has implemented or will implement in its response on the FFC form(s).
  - 3. Determining whether it should require an implementation plan in addition to or as an affirmation of the plan described by the reviewed firm in its response to the findings on the FFC form(s).
- f. Ensuring that all corrective actions related to deficiencies or significant deficiencies in the peer review report and all implementation plans related to findings on FFC forms have been completed to the satisfaction of the committee.
- g. Ensuring that all firms within its jurisdiction have timely peer reviews and keeping track of the timing of the completion of corrective actions and implementation plans by all firms that the committee has required, including those that are overdue.

## Accepting System and Engagement Reviews

- .139** In deciding on the need for and nature of any corrective actions, the committee should consider the nature and significance (and for System Reviews, the systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole) of the deficiencies or significant deficiencies. It should evaluate whether the ~~recommendations of~~

~~the review team appear to address those deficiencies or significant deficiencies adequately and whether the reviewed firm's responses to those recommendations~~ actions taken or planned to remediate deficiencies in the system of quality control and nonconforming engagements, if applicable, appear comprehensive, genuine, and feasible.

## Cooperating in a Peer Review

- .142 In deciding on the need for and nature of any implementation plan in addition to, or in affirmation of, that described by the firm in its response on the FFC form, the committee should consider the nature and significance (and for System Reviews, the systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole) of the findings. It should evaluate whether the ~~recommendations of the review team appear to address those findings adequately and whether the reviewed firm's responses to those recommendations~~ actions taken or planned to remediate nonconforming engagements and systemic findings appear comprehensive, genuine, and feasible.

## Publicizing Peer Review Information

- .146 The reviewed firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until it has been advised that the report has been accepted (see interpretations) by the administering entity as meeting the requirements of the program. Neither the administering entity nor the AICPA shall make the results of the review, or information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances (see interpretations). The administering entity and the AICPA may disclose the following information:
- The firm's name and address
  - The firm's enrollment in the program
  - The date of acceptance and the period covered by the firm's most recently accepted peer review
  - If applicable, whether the firm's enrollment in the program has been dropped or terminated

## Performing and Reporting on Reviews of Quality Control Materials (QCM)

### Procedures for Planning and Performing QCM Reviews

#### *Planning Considerations*

- .169 The QCM reviewer should obtain the prior QCM report, the letter of response (if applicable), and the acceptance letter from the provider. The QCM reviewer should also obtain the prior FFC forms (if applicable) from the National PRC. The QCM reviewer should consider whether the issues discussed in those documents require additional emphasis in the current review, and should evaluate the provider's performance of the actions noted in response to the prior report, review letter of response and FFC forms, if applicable.

## Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.178 Determining the relative importance of matters noted during the QCM review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow are intended to assist in aggregating and evaluating the QCM review results, concluding on them, and determining the nature of the QCM review report to issue:

a. A *matter* is noted as a result of

- i. the QCM reviewer's evaluation of the design of and compliance with the provider's system of quality control. Matters can be one or more "no" answers to questions in QCM review questionnaire(s) that a QCM reviewer concludes warrants further consideration in the evaluation of a provider's system of quality control.
- ii. the QCM reviewer's evaluation of whether the materials submitted for review are reliable aids. Matters can arise from either the QCM reviewer's comments based on tests of the materials, or one or more "no" answers to questions in QCM review questionnaire(s) that the QCM reviewer concludes warrants further consideration by the provider in the evaluation of the materials.

A matter is documented on a MFC form.

b. A *finding* is one or more matters that result from

- i. a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop or maintain reliable aids, or
- ii. the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass.

A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the QCM reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a FFC form.

c. A *deficiency* is one or more findings that

- i. the QCM reviewer has concluded, due to the nature, systemic causes, pattern, or pervasiveness, could create a situation in which the provider would not have reasonable assurance of developing or maintaining reliable aids, or
- ii. affects the reliability of one or more of the materials tested, such that one or more of the materials do not encompass the components which are integral to the professional standards that the materials purport to encompass.

This includes the relative importance of the deficiency to either the provider's system of quality control taken as a whole, or any of the materials tested (individually or collectively). It is not a significant deficiency if the QCM reviewer has concluded that except for the deficiency or deficiencies the provider has reasonable assurance of developing and maintaining reliable aids or that the nature

of the deficiency or deficiencies is limited to a small number of the total materials reviewed. Such deficiencies are communicated in a report with a QCM review rating of *pass with deficiencies*.

- d. A *significant deficiency* is one or more deficiencies that the QCM reviewer has concluded results from a condition in the provider's system of quality control when the system taken as a whole does not provide reasonable assurance of developing or maintaining reliable aids, and it has affected the reliability of one or more of the materials reviewed. Such deficiencies are communicated in a report with a QCM rating of *fail*.

### **Aggregating and Evaluating Matters in the Provider's System**

- .179 The QCM review team must aggregate matters noted during the review of the provider's system of quality control to develop and maintain the materials in order to conclude on the opinion of the provider's system. This entails determining whether any matters noted were the result of the design of the provider's system of quality control or the failure of its personnel to comply with the provider's quality control policies and procedures. The QCM review team should consider their relative importance to both the provider's system of quality control as a whole and the impact on the materials (individually and collectively), and their nature, systemic causes, pattern, and pervasiveness.

#### ***Design Matters***

- .183 There may be circumstances in which the QCM reviewer finds few findings in the materials developed and maintained by the provider, yet he or she still concludes that the design of the provider's system of quality control needs to be improved. For example, a provider that has a rapidly growing customer base may not have appropriately revised its policies and procedures to solicit user feedback. However, this type of finding may not result in less than reasonable assurance of developing or maintaining reliable aids. The QCM reviewer should exercise judgment in determining whether this matter should be addressed in an FFC as a finding ~~rather than~~ or result in a report with a QCM review rating of *pass with deficiencies* or *fail*.

#### ***Compliance Matters***

- .185 In assessing whether the degree of compliance was adequate to provide the required assurance, the QCM review team should consider the nature, systemic causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the provider's system of quality control as a whole, as well as their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, and so on.

## Reporting on QCM Reviews

### General

- .190 The QCM 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 QCM review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a QCM 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 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 Review

- .194 A QCM report with a rating of *pass*, *pass with deficiencies*, or *fail* contains elements similar to those in a System Review report. As such, the written report in a QCM System Review should:
- a. State at the top of the page the title "Quality Control Materials Review Report~~Report on the Provider's System of Quality Control and Resultant Materials.~~"
  - b. Include headings for each of the following sections:
    - a. Provider's Responsibility.
    - b. Peer Reviewer's Responsibility.
    - c. User's Responsibility.
    - d. Deficiency(ies) or Significant Deficiency(ies) Identified in the Provider's System of Quality Control and Resultant Materials, if applicable.
    - e. Opinion.
  - c. 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 QCM review were reviewed.
  - ~~b-d.~~ Identify the items covered by the opinion or refer to an attached listing.
  - ~~e-e.~~ State that the 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-f.~~ State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials QCM review areas described in the Standards can be found on the AICPA website where the Standards are summarized.
  - e. Include a URL reference to the AICPA website where the standards are located.
  - ~~f-g.~~ State that the provider is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in performing and reporting in conformity with the components which are integral to the professional standards that the materials purport to encompass and for evaluating actions to promptly remediate materials not deemed as reliable aids, where appropriate, and for remediating weaknesses in its system of quality control, if any.
  - ~~g-h.~~ State that the reviewer's responsibility is to express an opinion on the design of the system

of quality control, the provider's compliance with that system, and the reliability of the resultant materials based on the review.

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

~~Include a URL reference to the AICPA website where the standards are located.~~

~~h.i.~~ State that the users of the materials are responsible for implementing, tailoring, and augmenting the materials as appropriate.

~~h.j.~~ State that there may be important elements of a quality control system in accordance with Statements on Quality Control Standards that are not part of the materials that have been subject to this QCM review.

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

~~h.l.~~ 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 was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids.
- Express an opinion that the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at year-end.
- State at the end of the opinion paragraph that therefore the report reflects provider has received a peer review rating of pass.
- ~~Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.~~

~~h.m.~~ In a report with a review rating of pass with deficiencies:<sup>4</sup>

- Express an opinion that, except for the deficiencies described previously, the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids. ~~or~~
- Express an opinion that, except for the deficiencies described previously, the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at year-end.
- State at the end of the opinion paragraph that therefore the report reflects a provider has received a review rating of pass with deficiencies.

~~h.n.~~ In a report with a peer review rating of fail:

- Express an opinion that as a result of the significant deficiencies described previously, the system of quality control for the development and maintenance of the quality control materials was not suitably designed and being complied with during the year ended and, therefore, cannot provide reasonable assurance that the materials are reliable aids.
- Express an opinion that also, as a result of the significant deficiencies described previously, the quality control materials are not reliable aids and do not assist users in conforming with the components which are integral to the professional standards the

<sup>4</sup> Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

- materials purport to encompass at year-end.
- State at the end of the opinion paragraph that therefore the provider has received a peer review rating of fail.
- o. In a report with a peer review rating of pass with deficiencies or fail:
  - Include, for reports with a review rating of pass with deficiencies or fail, written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered).
  - Identify, for any deficiencies or significant deficiencies included in the report with a review rating of pass with deficiencies or fail any that were also made in the report issued on the provider's previous QCM review. This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

### Provider Responses on QCM Reviews and Related QCM Reviewer Considerations

.1958 The provider should discuss matters, findings, deficiencies, and significant deficiencies with the QCM reviewer. If, after a discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the National PRC for assistance in the matter and follow the guidance in paragraph .93 to resolve the disagreement. (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.

.1967 The provider should also respond to all matters communicated on an MFC form, findings communicated on an ~~on the~~ FFC form and deficiencies or significant deficiencies communicated in the QCM report. s, 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 QCM reviewer no later than two weeks after the exit conference or by the review's due date, whichever is earlier. FFC forms are submitted by the QCM reviewer with the applicable working papers to the National PRC. The provider's draft response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the National PRC. The provider's responses should be provided to the QCM reviewer as soon as practicable to allow the QCM reviewer sufficient time to assess the firm's response prior to the exit conference.

.1975 If the provider receives an FFC form or a report with a review rating of *pass with deficiencies or fail*, it is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. The provider should address the following in its response with respect to each finding, deficiency and significant deficiency: 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 National PRC 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 materials is uncovered by the QCM 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 QCM reviewer prior to submitting the response to the National PRC.~~

- ~~a. The provider's actions taken or planned to remediate the materials identified on the FFC form or in the report as having an error or omission, including the provider's plan for notifying known users of that error or omission.~~
- ~~b. Timing of the remediation~~

~~**.198** The QCM reviewer should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The provider's letter of response should be finalized and dated as of the exit conference date and provided to the QCM reviewer. The QCM reviewer should include the provider's letter of response with his or her report and working papers submitted to the National PRC.~~

~~**.196** 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 review due date, whichever date is earlier. Prior to submitting the response to the National PRC, the provider should submit the response to the QCM reviewer for review, evaluation, and comment. If the provider receives a report with a review rating of *pass*, a letter of response is not applicable, and the provider does not submit a copy of the report to the National PRC.~~

~~**.197** 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 QCM reviewer no later than two weeks after the exit conference or by the review's due date, whichever is earlier. FFC forms are submitted by the QCM reviewer with the applicable working papers to the National PRC.~~

~~**.198** If, after a discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the National PRC for assistance in the matter (see paragraph .92). 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 Reviews (as Referred to in a Peer Review Report)

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(Effective for Peer Reviews Commencing on or After January 1, 2009)

1. Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice, ~~related to non-Security and Exchange Commission (SEC) issuers covering a one-year period.~~ An accounting and auditing practice for the purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards. Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection. The peer review is conducted by an independent evaluator, known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.
2. The peer review helps to monitor a CPA firm's accounting and auditing practice (*practice monitoring*). The goal of the practice monitoring, and the program itself, is to promote quality in the accounting and auditing services provided by the AICPA members and their CPA firms. This goal serves the public interest and enhances the significance of AICPA membership.
3. There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm's system of quality control and Engagement Reviews focus on work performed on particular selected engagements. Quality Control Materials (QCM) Reviews focus on the system of quality control of a provider of QCM to CPA firms. As noted in paragraphs 4 and 157, a further description of System and Engagement and QCM Reviews, and Quality Control Materials (QCM) Reviews, as well as a summary of the nature, objectives, scope, limitations of, and procedures performed on them, is provided in the following sections.

#### System Reviews

4. A System Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a CPA firm's system of quality control to perform accounting and auditing work. The system represents the policies and procedures that the CPA firm has designed, and is expected to follow, when performing its work. The peer reviewer's objective is to determine whether the system is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
5. Professional standards are literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to comply with when designing its system and when performing its work. Professional standards for design of a system of quality control include but are not limited to the Statements on Quality Control Standards (SQCSs) issued by the American Institute of Certified Public Accountants

(AICPA) that pertain to leadership responsibilities for quality within the firm (the “tone at the top”); relevant ethical requirements (such as independence, integrity and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring.

6. To plan a System Review, a peer reviewer obtains an understanding of (1) the firm’s accounting and auditing practice, such as the industries of its clients, and (2) the design of the firm’s system, including its policies and procedures and how the firm checks itself that it is complying with them. The reviewer assesses the risk levels implicit within different aspects of the firm’s practice and its system. The reviewer obtains this understanding through inquiry of firm personnel and review of documentation on the system, such as firm manuals.
7. Based on the types of engagements firms perform, they may also have their practices reviewed or inspected on a periodic basis by regulatory or governmental entities, including but not limited to the Department of Health and Human Service, the Department of Labor, and the Public Company Accounting Oversight Board. The team captain obtains an understanding of those reviews or inspections, and he or she considers their impact on the nature and extent of the peer review procedures performed.
8. Based on the peer reviewer’s planning procedures, the reviewer looks at a sample of the CPA firm’s work, individually called engagements. The reviewer selects engagements for the period covered by the review from a cross section of the firm’s practice with emphasis on higher risk engagements. The engagements selected must include those performed under *Government Auditing Standards*, audits of employee benefit plans, audits of depository institutions (with assets of \$500 million or greater), audits of carrying broker-dealers, and examinations of service organizations (Service Organization Control [SOC] 1<sup>®</sup> and and SOC 2<sup>®</sup> engagements) when applicable (these are known as must select engagements). The scope of a peer review only covers accounting and auditing engagements performed under U.S. professional standards SASs, SSARs, SSAEs, *Government Auditing Standards*, and PCAOB standards; it and does not include the firm’s SEC issuer practice engagements subject to PCAOB permanent inspection, nor does it include tax or consulting services. The reviewer will also look at administrative elements of the firm’s practice to test the elements listed previously from the Statements on Quality Control Standards SQCSs.

9. Based on the peer reviewer's planning procedures, the reviewer looks at a sample of the CPA firm's work, individually called engagements. The reviewer selects engagements for the period covered by the review from a cross section of the firm's practice with emphasis on higher risk engagements. The engagements selected must include those performed under *Government Auditing Standards*, audits of employee benefit plans, audits of depository institutions (with assets of \$500 million or greater), audits of carrying broker-dealers, and examinations of service organizations (Service Organization Control [SOC] 1<sup>®</sup> and SOC 2<sup>®</sup> engagements) when applicable (these are known as must select engagements). The scope of a peer review only covers accounting and auditing engagements performed under ~~U.S. professional standards~~ SASs, SSARs, SSAEs, Government Auditing Standards, and PCAOB standards; it and does not include the firm's ~~SEC issuer practice~~ engagements subject to PCAOB permanent inspection, nor does it include tax or consulting services. The reviewer will also look at administrative elements of the firm's practice to test the elements listed previously from the ~~Statements on Quality Control Standards~~ SQCSs.
10. The reviewer examines engagement working paper files and reports, interviews selected firm personnel, reviews representations from the firm, and examines selected administrative and personnel files. The objectives of obtaining an understanding of the system and then testing the system forms the basis for the reviewer's conclusions in the peer review report.
11. When a CPA firm receives a report from the peer reviewer with a peer review rating of *pass*, the report means that the system is appropriately designed and being complied with by the CPA firm in all material respects. If a CPA firm receives a report with a peer review rating of *pass with deficiencies*, this means the system is designed and being complied with appropriately by the CPA firm in all material respects, except in certain situations that are explained in detail in the peer review report. When a firm receives a report with a peer review rating of *fail*, the peer reviewer has determined that the firm's system is not suitably designed or being complied with, and the reasons why are explained in detail in the report.
12. If a deficiency or significant deficiency included in the peer review report is associated with an engagement that was not performed and reported on in conformity with applicable professional standards in all material respects ("nonconforming") in a must select industry or practice area or is industry specific, the report will identify the industry or practice area. However, because the purpose of a System Review is to report on the firm's system of quality control, the peer review report might not describe every engagement that was deemed nonconforming.

13. The firm is responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any. The firm's response is evaluated to determine if it is appropriate, whether lack of response is indicative of other weaknesses in the firm's system of quality control, or whether monitoring procedures are necessary to verify if the deficiencies and nonconforming engagements were remediated.

~~13.14.~~ There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A peer review is based on selective tests. It is directed at assessing whether the design of and compliance with the firm's system provides the firm with reasonable, not absolute, assurance of conforming to applicable professional standards. Consequently, it would not necessarily detect all weaknesses in the system or all instances of noncompliance with it. It does not provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated. 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.

#### Engagement Reviews

~~14.15.~~ An Engagement Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a sample of a CPA firm's actual accounting work, including accounting reports issued and documentation prepared by the CPA firm, as well as other procedures that the firm performed.

~~15.16.~~ By definition, CPA firms undergoing Engagement Reviews do not perform audits or other similar engagements but do perform other accounting work including reviews and compilations, which are a lower level of service than audits. The peer reviewer's objective is to evaluate whether the CPA firm's reports are issued and procedures performed appropriately in accordance with applicable professional standards. Therefore, the objective of an Engagement Review is different from the objectives of a System Review, which is more system oriented and involves determining whether the system is designed in conformity with applicable professional standards and whether the firm is complying with its system appropriately.

~~16.17.~~ Professional standards represent literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to follow when performing accounting work.

~~17~~.18. The reviewer looks at a sample of the CPA firm's work, individually called engagements. The scope of an Engagement Review only covers accounting engagements; it does not include tax or consulting services. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations from the firm and, except for certain compilation engagements, the documentation required by applicable professional standards.

~~18~~.19. When the CPA firm receives a report with a peer review rating of *pass*, the peer reviewer has concluded that nothing came to his or her attention that the CPA firm's work was not performed and reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *pass with deficiencies* is issued when the reviewer concludes that nothing came to his or her attention that the work was not performed and reported on in conformity with applicable professional standards in all material respects, except in certain situations that are explained in detail in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that as a result of the situations described in the report, the work was not performed and/or reported on in conformity with applicable professional standards in all material respects.

~~19~~.20. If a deficiency or significant deficiency is industry specific, the report will identify the industry.

21. The firm is responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

~~20~~.22. An Engagement Review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and no opinion or any form of assurance is expressed on that system.

### Quality Control Materials Reviews

~~21~~.23. An organization (hereinafter referred to as provider) may sell or otherwise distribute quality control materials (QCM or materials) that it has developed to CPA firms (hereinafter referred to as user firms). QCM may be all or part of a user firm's documentation of its system of quality control, and it may include manuals, guides, programs, checklists, practice aids (forms and questionnaires) and similar materials intended for use in conjunction with a user firm's accounting and auditing practice. User firms rely on QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials (as described in the preceding paragraphs).

~~22~~.24. A QCM review is a study and appraisal by an independent evaluator (known as a QCM reviewer) of a provider's materials, as well as the provider's system of quality control to develop and maintain the materials (hereinafter referred to as provider's system). The QCM reviewer's objective is to determine whether the provider's system

is designed and complied with and whether the materials produced by the provider are appropriate so that user firms can rely on the materials. The scope of a QCM review only covers materials related to accounting and auditing engagements under U.S. professional standards. The scope does not include SEC or PCAOB guidance, nor does it cover materials for tax or consulting services.

23-25. To plan a QCM review, a QCM reviewer obtains an understanding of (1) the provider's QCM, including the industries and professional standards that they cover, and (2) the design of the provider's system, including the provider's policies and procedures and how it ensures that they are being complied with. The QCM reviewer assesses the risk levels implicit within different aspects of the provider's system and materials. The QCM reviewer obtains this understanding through inquiry of provider personnel, review of documentation on the provider's system, and review of the materials.

24-26. Based on the planning procedures, the QCM reviewer looks at the provider's QCM, including the instructions, guidance, and methodology therein. The scope of a QCM review encompasses those materials which the provider elects to include in the QCM review report; QCM designed to aid user firms with tax or other non-attest services are outside of the scope of this type of review. The QCM reviewer will also look at the provider's system and will test elements including, but not limited to, requirements regarding the qualifications of authors and developers, procedures for ensuring that the QCM are current, procedures for reviewing the technical accuracy of the materials, and procedures for soliciting feedback from users. 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. The objectives of obtaining an understanding of the provider's system and the materials forms the basis for the QCM reviewer's conclusions in the QCM review report.

25-27. When a provider receives a QCM review report from an approved QCM reviewer with a review rating of pass, this means the provider's system is designed and being complied with and the materials produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials. If a provider receives a QCM review report with a review rating of pass with deficiencies, this means the provider's system is designed and being complied with and the materials produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials, except in certain situations that are explained in detail in the review report. When a provider receives a report with a review rating of fail, the QCM reviewer has determined that the provider's system is not suitably designed or being complied and the materials produced by the provider are not appropriate, and the reasons why are

explained in detail in the report.

28. The provider is responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any. The provider's response is evaluated to determine if it is appropriate and whether lack of response is indicative of other weaknesses in the providers system of quality control.

26,29. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A QCM review is based on the review of the provider's system and its materials. It is directed at assessing whether the provider's system is designed and complied with and whether the QCM produced by the provider are appropriate so that user firms have reasonable, not absolute, assurance that they can rely on the materials to assist them in performing and reporting in conformity with the professional standards covered by the materials. Consequently, a QCM review would not necessarily detect all weaknesses in the provider's system, all instances of noncompliance with it, or all aspects of the materials that should not be relied upon. Projection of any evaluation of a system or the materials to future periods is subject to the risk that the system or materials may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

## Appendix B

### Considerations and Illustrations of Firm Representations

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—1. The team captain or review captain obtains written representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review.

—2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management's refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the reviewer and thus the administering entity and with the AICPA Peer Review Board peer review program, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated (see interpretations). If termination occurs, it may result in the referral of the matter for investigation of a possible violation to the appropriate regulatory, monitoring, and enforcement bodies.

—3. On System Reviews, the written representations should be addressed to the team captain. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an



adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report.

- ~~1. The written representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the team captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.~~
- ~~—4. On Engagement Reviews, the representations should be addressed to the review captain (for example, "To John Smith, CPA" or on committee-appointed review team reviews where appropriate, it may be addressed "To the Review Captain") and dated the same date that the firm submits the list of engagements to the reviewer or the administering entity.~~
5. The written representations should be signed by those members of management whom the team captain, review captain~~reviewer~~ or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (even though an Engagement Review). Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control.
6. If a representation made by management is contradicted by other information obtained, the team captain or review captain~~reviewer~~ should investigate the circumstances and consider the reliability of the representations made and any effect on the report.
7. In connection with System and Engagement Reviews, The firm is required to make specific representations, as noted in the text that follows. ~~should relate to the following matters, although t~~The firm is not prohibited from making additional representations, and the firm may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the team captain or review captain (see interpretations).~~;~~ The team captain or review captain may request additional representations based on the circumstances and nature of the peer review.
8. As of the date of the representation letter and for the peer review year, the firm should do the following:
  - a. Compliance with Rules and Regulations
    - Acknowledge responsibility for complying with the rules and regulations of state boards of accountancy and other regulations
    - Confirm, to the best of its knowledge and belief, that there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

- o If there are known situations of noncompliance, the confirmation should first summarize Situations or a summary of the situation(s) where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance (see interpretations). The confirmation should be written such that other than the summarized situation(s), to the best of its knowledge and belief, there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.
- b. Completeness of the eEngagement Listing
  - State the list of engagements provided to the reviewer:
    - provided to the reviewerIncluded all engagements with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued
    - ~~included~~, but was not limited to, inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements, as applicable ~~and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection.~~
    - Acknowledge that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, will result in referral of the matter for investigation of a possible violation to the appropriate regulatory, monitoring, and enforcement bodies
    - For Engagement Reviews, state that the firm does not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB permanent inspection
- c. Firm Remediation of Nonconforming Engagements, if applicable
  - Confirm it will remediate nonconforming engagements as stated by the firm on the Matter For Further Consideration Form, Finding for Further Consideration Form, or Letter of Response, as applicable.
- d. Communications or summary of communications ~~From regulatory~~Regulatory, ~~monitoring~~Monitoring, or ~~enforcement~~Enforcement bodies ~~Bodies~~

- ~~e. State that the firm has discussed Discussions of significant issues from reports or communications, or both (see interpretations), from other practice monitoring or external inspection programs, such as the PCAOB's regulatory, monitoring and enforcement bodies (see interpretations), with the team captain or review captain, if applicable.~~
- ~~State that the firm has provided the team captain or review captain with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end, if applicable.~~
- ~~relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm's current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (see interpretations). In addition, the reviewer may inquire if there are any other issues that may affect the firm's practice.~~
- ~~Confirm, to the best of its knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end OR~~
- ~~e. Include a summary of the Restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.~~

~~Completeness of the engagement listing provided to the reviewer, including, but not limited to, inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements, as applicable, and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection.~~

~~e. Discussions of significant issues from reports or communications, or both (see interpretations), from other practice monitoring or external inspection programs, such as the PCAOB's (see interpretations), with the team captain.~~

~~fe. Quality Control Materials~~

- ~~State that it understands the intended uses and limitations of the quality control materials it has developed or adopted.~~
- ~~For System Reviews, state that it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the~~

Statements on Quality Control Standards) applicable to Accepting responsibility for understanding, tailoring, and augmenting the quality control materials that the firm develops or adopts for use in its accounting and auditing practice.

- For Engagement Reviews, state it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting practice.

g/. Other Representations

- Include Other representations obtained requested by the team captain or review captain will depend based on the circumstances and nature of the peer review.

~~2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management's refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the reviewer and thus the administering entity and with the AICPA Peer Review Board, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated (see interpretations).~~

~~3. On System Reviews, the written representations should be addressed to the team captain. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report. The written representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the team captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.~~

~~4. On Engagement Reviews, the representations should be addressed to the review captain (for example, "To John Smith, CPA" or on committee appointed review team reviews where appropriate, it may be addressed "To the Review Captain") and dated the same date that the firm submits the list of engagements to the reviewer or the administering entity. The written representations should be signed by those members of management whom the reviewer or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (even though an Engagement Review). Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the reviewer should investigate the circumstances and consider the reliability of the representations made and any effect on the report.~~

### **Illustration of a Representation Letter That has Has No Significant Matters to Report to the Team Captain or Review Captain for a System Review**

(The firm may tailor the language in this illustration and may refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain or review captain.)

October 31, 20XX

To the Team Captain; ~~or Review Captain~~

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have ~~also provided~~ a list of all engagements to the {team captain, review captain, or administering entity} with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued or not. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organizations Control (SOC)-1 and SOC 2 engagements), as applicable. ~~For financial forecasts or projections and agreed upon procedures, the list included those engagements with report dates during the year under review.~~ We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, will result in referral of the matter for investigation of a possible violation to the appropriate regulatory, monitoring, and enforcement bodies to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.

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

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance ~~which that~~ is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects. ~~We have also discussed the content of our PCAOB inspection report with the [team captain or review captain] (if applicable).~~

Sincerely,

[Signature(s)]<sup>5</sup>

**Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Team Captain a Matter of Noncompliance With a Regulatory Requirement for a System Review**

(The firm may tailor the language in this illustration and may refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain ~~or review captain~~.)

October 31, 20XX

To the Team Captain; ~~or Review Captain~~

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have ~~also~~ provided a list of all engagements to the ~~{team captain, review captain, or administering entity}~~ with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued or not. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organizations Control ~~{(SOC)}~~ 1 and SOC 2 engagements), as applicable. ~~For~~

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<sup>5</sup> Members of management as noted in section 3-5 of appendix B, "Considerations and Illustrations of Firm Representations."

~~financial forecasts or projections and agreed upon procedures, the list included those engagements with report dates during the year under review. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, will result in referral of the matter for investigation of a possible violation to the appropriate regulatory, monitoring, and enforcement bodies to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.~~

We confirm that we will implement the remedial plans for nonconforming engagements stated in our response to Finding for Further Consideration Forms 1 and 3.

~~We have also discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies the content of our Public Company Accounting Oversight Board inspection report with the team captain, (if applicable). We have also provided the {team captain} with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. In addition, Other than the single partner restriction to perform employee benefit plans as determined by the AICPA Professional Ethics Division, we confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting within three years preceding the current peer review year-end.~~

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance ~~which~~ that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects. ~~We have also discussed the content of our Public Company Accounting Oversight Board inspection report with the team captain (if applicable).~~

Sincerely,

[Signature(s)]<sup>6</sup>

### **Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.)

<sup>6</sup> Members of management as noted in section 3-5 of appendix B, "Considerations and Illustrations of Firm Representations."

October 31, 20XX

To the Review Captain:

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

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

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

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



Sincerely,

[Signature(s)]<sup>7</sup>

**Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Review Captain for an Engagement Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.)

October 31, 20XX

To the Review Captain:

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

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

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<sup>7</sup> Members of management as noted in section 5 of appendix B, "Considerations and Illustrations of Firm Representations."

We confirm that we will implement the remedial plans for nonconforming engagements stated in our letter of response to the peer review report.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. Other than the single partner restriction to perform reviews under Statements on Standards for Accounting and Review Services (SSARS) as determined by the AICPA Professional Ethics Division, we confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting within three years preceding the current peer review year-end.

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

Sincerely,

[Signature(s)]<sup>8</sup>

## Appendix C

### Illustration of a Report With a Peer Review Rating of *Pass* in a System Review

.209

*[Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.]*

#### ~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

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<sup>8</sup> Members of management as noted in section 5 of appendix B, "Considerations and Illustrations of Firm Representations."

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>9</sup>

We<sup>10</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>11</sup> in effect for the year ended June 30, 20XX. Our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.~~

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope,~~

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<sup>9</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>10</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>11</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

~~limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Required Selections and Considerations**

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements].)<sup>12</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### **Opinion**

In our opinion, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>13</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. XYZ & Co. has received a peer review rating of *pass*.

Smith, Jones and Associates

[Name of team captain's firm]

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<sup>12</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2), or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>13</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## Appendix D

### Illustration of a Report With a Peer Review Rating of *Pass (With a Scope Limitation)* in a System Review

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#### Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there isn't an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of *pass*, *pass with deficiency(ies)* or *fail*. In this example, the scope limitation was included in a report with a peer review rating of *pass*.

*[Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.]*

#### ~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>14</sup>

We<sup>15</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>16</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer

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<sup>14</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>15</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>16</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the Standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.~~

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Required Selections and Considerations**

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>17</sup>

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<sup>17</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### **Scope Limitation**<sup>18</sup>

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of its former partners who left the firm during the peer review year. Accordingly, we were unable to include in our engagement selection any of the divested engagements. That partner's responsibility was concentrated in the construction industry. The engagements excluded from our engagement selection process included audit engagements and comprised approximately 15 percent of the firm's audit and accounting practice during the peer review year.

### **Opinion**

In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review divested engagements, as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>19</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. XYZ & Co. has received a peer review rating of *pass (with a scope limitation)*.

Smith, Jones and Associates

[Name of team captain's firm]

## **Appendix E**

### **Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review**

.211

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<sup>18</sup> The scope limitation provided is an example provided for illustrative purposes only.

<sup>19</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.*]

## **System Review Report Report on the Firm's System of Quality Control**

August 31, 20XX

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>20</sup>

We<sup>21</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>22</sup> in effect for the year ended June 30, 20XX. Our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.~~

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or

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<sup>20</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

<sup>21</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>22</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."



reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Required Selections and Considerations**

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>23</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### **Deficiencies<sup>24</sup> Identified in the Firm's System of Quality Control**

We noted the following deficiencies<sup>25</sup> during our review:

- ~~1. Deficiency—The firm's quality control policies and procedures do not provide its staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm's review and compilation working papers did not include documentation of all procedures required by professional standards, in particular relating to accounts and notes payable. We were able to satisfy ourselves that, in each case, sufficient procedures had been performed, and the firm subsequently prepared the appropriate documentation.~~

~~Recommendation—The firm's quality control policies and procedures should be revised to ensure documentation of all procedures performed as required by professional standards. Although not required by professional standards, the firm~~

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<sup>23</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>24</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>25</sup> The deficiencies provided are examples for illustrative purposes only.

~~should consider using the practice aids in the reference manuals available in the firm's library in order to accomplish this step.~~

21. ~~Deficiency~~ The firm's quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but the standards emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract provisions, and related receivables did not support the firm's opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion. The firm's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. Although the firm's policies require that personnel attain a minimum of 40 hours of CPE courses annually and comply with CPE requirements of the applicable external bodies, it lacks appropriate procedures to determine whether the personnel are in compliance with these requirements. During our review, we noted several personnel who did not comply with CPE requirements of *Government Auditing Standards*. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

~~Recommendation~~ The firm's quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

32. ~~Deficiency~~ Certain of the firm's quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. More specifically, we noted financial statements were missing several significant disclosures specific to the construction industry as required by generally accepted accounting principles. In our opinion, this contributed to audit engagements in the construction industry that did not conform to professional standards in all material respects. require that financial statement reporting and disclosure checklists appropriate to the industry of the engagement being performed be completed. Our review noted that these checklists were not being used on all audit engagements. As a result, on certain audit engagements in the construction industry, the financial statements were missing several significant disclosures specific to the industry as required by generally accepted accounting principles. The subject reports have been recalled, and the financial statements are being revised.

~~Recommendation—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists that are appropriate to the industry of an engagement. The engagement partner should carefully review these checklists at the completion of an engagement to ensure that the appropriate checklists are utilized and to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.~~

### **Opinion**

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>26</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiencies*.

Smith, Jones and Associates

[Name of team captain’s firm]

## **Appendix F**

### **Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review**

.212

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph .93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs .136–.140,

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<sup>26</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

“Accepting System and Engagement Reviews”) and should be tailored to address the firm’s remediation plans for the deficiencies described in its peer review report. The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity exit conference.

[Reviewed firm's letterhead]

September 2 ~~August~~ 31, 20XX

[Addressed to the peer review committee of the administering entity]<sup>27</sup>

Ladies and Gentlemen:

This letter represents our<sup>28</sup> response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The ~~corrective remedial~~ actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

~~1.~~<sup>29</sup> ~~The firm modified its quality control policies and procedures to require the use of practice aids to document procedures performed on review and compilation engagements, especially for accounts and notes payable. Partners were instructed to ensure that these aids were being utilized appropriately when reviewing engagements. This policy was discussed in a recent training session held in connection with a recent firm wide staff meeting.~~

21.<sup>30</sup> The firm also modified its quality control policies and procedures to include monitoring of firm personnel’s compliance with regulatory and organization membership requirements. The importance of meeting these CPE requirements was discussed in a recent training session held in connection with a recent firm wide staff meeting. Additionally, the training session included sufficient Yellow Book CPE such that all firm personnel have met the regulatory requirements. The impact to the Yellow Book audits for failure to take sufficient CPE timely is currently being discussed with the Government Accountability Office (GAO) and the firm will remediate as necessary based on that discussion. place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner

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<sup>27</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>28</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>29</sup> ~~The numbering of responses, to coincide with the numbered comments in the report, is optional.~~

<sup>30</sup> The numbering of responses, to coincide with the numbered comments in the report is optional.

~~involvement, to quality work was emphasized in the training session previously referred.~~

32. In addition, at that training session, the importance of proper use of the firm's reporting and disclosure checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on industry specific disclosure issues. The audit reports associated with these engagements have been recalled and will be reissued after the significant disclosures are added to the financial statements.

~~As previously mentioned, t~~These corrective remedial actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of the review.

Sincerely,

[Name of Firm]<sup>31</sup>

## Appendix G

### Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review

.213

The deficiencies and ~~related recommendations~~ provided are examples ~~provided~~ for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

#### Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there

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<sup>31</sup> Signed by an authorized partner of the firm.

isn't an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of *pass*, *pass with deficiency(ies)*, or *fail*. In this example, the scope limitation was included in a report with a peer review rating of *pass with deficiencies*, where one of the deficiencies related to the circumstances of the scope limitation.

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.*]

### ~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>32</sup>

We<sup>33</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>34</sup> in effect for the year ended June 30, 20XX. Except as subsequently described, our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.~~

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<sup>32</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee

<sup>33</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>34</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

### Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### Required Selections and Considerations

~~As required by the standards, e~~Engagements selected for review included (audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>35</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

~~In performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (Yellow Book). As a result, we were unable to review all of the types of engagements required to be selected by the standards established by the Peer Review Board of the AICPA.~~

### Deficiencies<sup>36</sup> Identified in the Firm's System of Quality Control

We noted the following deficiencies<sup>37</sup> during our review:

1. ~~Deficiency~~ The firm's quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally

<sup>35</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>36</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>37</sup> The deficiencies provided are examples for illustrative purposes only.

~~accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but the standards emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement, including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract provisions, and related receivables did not support the firm's opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion. Certain of the firm's quality control policies and procedures addressing human resources have not been suitably designed or complied with to provide reasonable assurance that its personnel will have the capabilities necessary to perform engagements in accordance with professional standards. Although the firm's policies require that candidates meet certain qualifications and its procedures require obtaining relevant supporting documentation, we noted several instances in which the files for personnel hired through methods other than the firm's college campus recruiting program did not contain evidence that the individual met the firm's stated qualifications. Upon further investigation by the firm, it was noted that these individuals did not actually meet the firm's stated qualifications for hire. In our opinion, this contributed to engagements that did not conform to professional standards in all material respects.~~

~~Recommendation—The firm's quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.~~

2. ~~Deficiency—Certain of the firm's quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with applicable regulatory requirements. As previously noted in the following text, in performing our review, the firm notified us that we would be~~ ~~we were~~ ~~unable to select its~~ ~~the firm's only~~ ~~audit subject to *Government Auditing Standards* (Yellow Book).~~ As a result, the firm was not in compliance with the Yellow Book peer review engagement selection requirements.

~~Recommendation—We recommend that the firm consider the importance of adhering to the Yellow Book requirements and the possible consequences of noncompliance.~~

### Scope Limitation<sup>38</sup>

In performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (Yellow Book). As a result, we were

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<sup>38</sup> The scope limitation provided is an example provided for illustrative purposes only.



unable to review all of the types of engagements required to be selected by the standards established by the Peer Review Board of the AICPA.

### **Opinion**

In our opinion, except for the effects of the deficiency previously described and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review the engagement as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>39</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiencies (with a scope limitation)*.

Smith, Jones and Associates

*[Name of team captain's firm]*

## **Appendix H**

### **Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review**

.214

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For more information related to disagreements, see paragraph .93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs .136-.140, "Accepting System and Engagement Reviews") and should be tailored to address the firm's remediation plans for the deficiencies described in its peer review report. The letter of

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<sup>39</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity exit conference.

[Reviewed firm's letterhead]

November-October 3031, 20XX

[Addressed to the peer review committee of the administering entity]<sup>40</sup>

Ladies and Gentlemen:

This letter represents our<sup>41</sup> response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX.

- <sup>42</sup> The firm created a checklist to assist human resources in verifying the firm's stated personnel qualifications are met prior to being hired and also modified its quality control policies and procedures to require inclusion of that checklist in the employee's personnel record. This remedial action will be monitored to ensure that it is effectively implemented as part of our system of quality control. To determine the extent of the necessary remediation, we have contacted our attorney and clients and will remediate as necessary based on those discussions and in conformity with AU-C section 585, Consideration of Omitted Procedures After the Report Release Date (AICPA, Professional Standards). place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in a recent training session held in conjunction with a recent firm-wide staff meeting.
- Due to circumstances that we deemed appropriate, we notified the peer reviewer that he would be unable to select our only audit subject to *Government Auditing Standards* in the peer review. This was an initial engagement and an engagement performed under *Government Auditing Standards*, is the only governmental audit the firm has performed, so there were no previous audits for the reviewer to select. We suggested selecting an audit engagement in a different industry. We have considered the consequences of noncompliance related to this matter. We understand that until our firm's most recently completed peer review includes selection of an engagement performed under *Government Auditing Standards* our

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<sup>40</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>41</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>42</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

audit reports for such engagements will need to include an exception regarding our lack of compliance with peer review requirements.

Sincerely,

[Name of Firm]<sup>43</sup>

## Appendix I

### Illustration of a Report With a Peer Review Rating of *Fail* in a System Review

.215

The deficiencies ~~and related recommendations~~ provided are examples ~~provided~~ for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

[Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.]

#### System Review Report Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>44</sup>

We<sup>45</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>46</sup> in effect for the year ended June 30, 20XX. Our 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 (Standards).

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<sup>43</sup> Signed by an authorized partner of the firm.

<sup>44</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>45</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>46</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.~~

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Required Selections and Considerations**

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>47</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

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<sup>47</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations or service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

## Significant Deficiencies<sup>48</sup> Identified in the Firm's System of Quality Control

We noted the following significant deficiencies<sup>49</sup> during our review:

1. Deficiency ~~The firm's quality control policies and procedures do not require written audit programs as required by professional standards. As a result, we noted several instances in which audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. The firm has subsequently performed the omitted procedures to support the audit opinions. The firm's quality control policies and procedures do not provide reasonable assurance that the firm will comply with applicable professional standards and will issue reports that are appropriate in the circumstances, as a result of the following significant deficiencies:~~
  - The firm lacks policies and procedures addressing new engagement acceptance to only undertake engagements for which it has the capabilities, resources, and professional competence to complete in accordance with applicable professional standards.
  - The firm lacks policies and procedures addressing continuing professional education (CPE) to require its personnel to obtain relevant training to prepare for engagements in new industries or service areas.
  - Firm leadership has not implemented policies and procedures to provide clear, consistent, and frequent actions and messages from all levels of the firm's management that emphasize the firm's commitment to quality.

In our opinion, the significant deficiencies described previously contributed to an employee benefit plan audit that did not conform to professional standards in all material respects. During our review, we discovered that the firm had undertaken an employee benefit plan audit without performing appropriate acceptance procedures, including the engagement partner obtaining relevant CPE or otherwise obtaining sufficient knowledge to conduct the audit.

Recommendation ~~The firm's quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement working papers.~~

2. Deficiency ~~The firm's quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted instances in which the firm~~

<sup>48</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>49</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

~~did not consult during the year, either by use of the firm's technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. The firm intends to recall and reissue the financial statements and reports. The firm's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. The courses taken by firm personnel did not provide them with sufficient information about current developments in accounting and auditing matters. In our opinion, this led to firm personnel being unable to appropriately address recent pronouncements and new disclosure requirements; and failure to consider new auditing standards and other required communications. This contributed to audit engagements performed under Government Auditing Standards, and audits in other industries that did not conform to professional standards in all material respects.~~

~~Recommendation The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm's accounting and auditing personnel.~~

3. ~~Deficiency The firm's quality control policies and procedures do not provide its personnel with a means of ensuring that all necessary procedures are performed on Employee Retirement Income Security Act (ERISA) engagements. During our review, we noted that the firm failed to adequately perform, including appropriately documenting, procedures related to benefit payments on ERISA engagements. The firm has subsequently performed the testing and documented its procedures. The firm's quality control policies and procedures regarding monitoring do not provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The firm's quality control policies and procedures do not:~~

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

~~Recommendation~~ The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. ~~Deficiency~~ The firm's quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. The subject reports have been recalled, and the financial statements are being revised.

~~Recommendation~~ The firm should conduct a training session for all personnel to review the firm's policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm's engagement review checklist requiring the engagement partner to document his or her review of these checklists.

### Opinion

In our opinion, as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>50</sup> in effect for the year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates

[Name of team captain's firm]

## Appendix J

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in a System Review

.216

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<sup>50</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For more information related to disagreements, see paragraph .93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs .136-.140, "Accepting System and Engagement Reviews") and should be tailored to address the firm's remediation plans for the significant deficiencies described in its peer review report. The letter of response should be submitted to the team captain for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

~~November-October 3031, 20XX~~

~~[Addressed to the peer review committee of the administering entity]<sup>51</sup>~~

Ladies and Gentlemen:

This letter represents our<sup>52</sup> response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The firm is committed to providing clear, consistent, and frequent actions and messages from all levels of the firm's management to emphasize the firm's commitment to quality. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control. ~~All issues have been brought to the attention of personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.~~

- ~~1.<sup>53</sup> Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner's review. The firm modified its quality control policies and procedures to require the following:~~

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<sup>51</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>52</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>53</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.



- Use of practice aids to document procedures performed to assess competency for undertaking new engagements. The practice aid is designed to ensure that the firm 1) is competent to perform the engagement and has the capabilities, including time and resources, to do so, 2) can comply with legal and relevant ethical requirements, and 3) has considered the integrity of the client.
- Inclusion of a CPE plan for obtaining relevant training to prepare for engagements in new industries or service areas in the client acceptance file.

The firm has recalled the audit report for the employee benefit plan audit and has hired a third party to perform a preissuance review prior to reissuing our report.

2. We have joined the AICPA Governmental Audit Quality Center and Employee Benefit Plan Audit Quality Center. The firm modified its quality control policies and procedures to require personnel that perform engagements in these specialized areas to attend at least eight hours of CPE annually in the specialized area. We are committed to promptly completing our evaluation of the audit engagements, including whether audited financial statements should be recalled and reissued to include the omitted disclosures. The omitted procedures will be performed and documentation will be added in a memo to the engagement files of the audit performed under *Government Auditing Standards* and the audits in other industries identified as not in conformity with professional standards.

~~The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, development stage companies, and other industries that are similar to ours. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar.~~

3. The firm's system of quality control was modified to include monitoring procedures to provide it with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with all functional areas of the system and will perform annual inspections on a sample of engagements. We intend to hire a Quality Control Director who will be responsible for developing and implementing our monitoring and inspection procedures. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use.
4. ~~At the staff meeting previously mentioned, the importance of proper use of the firm's reporting and disclosure checklist was discussed, including the use of checklists for specialized industries. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on disclosure issues.~~

~~The results of our peer review will be discussed in a firm-wide meeting to be held on November 22, 20XX, and an emphasis on quality will be reinforced with all engagement partners and their teams. The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely post-issuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and this individual will be available for consultation and guidance.~~

Sincerely,

[Name of Firm]<sup>54</sup>

## Appendix K

### Illustration of a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review

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The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

#### Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there is not an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of *pass*, *pass with deficiency(ies)*, or *fail*. In this example, the scope limitation was included in a report with a peer review rating of *fail*.

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<sup>54</sup> Signed by an authorized partner of the firm.

[Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.]

## **System Review Report Report on the Firm's System of Quality Control**

October 31, 20XX

To the Partners of [or other appropriate terminology] XYZ & Co. and the Peer Review Committee of the [insert the name of the applicable administering entity]<sup>55</sup>

We<sup>56</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>57</sup> in effect for the year ended June 30, 20XX. Our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.~~

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>55</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

<sup>56</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>57</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aiepa.org/prsummary](http://www.aiepa.org/prsummary).~~

## Required Selections and Considerations

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>58</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

~~In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm's four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our engagement selection process included audit engagements and composed approximately 20 percent of the firm's audit and accounting hours during the peer review year.~~

## Significant Deficiencies<sup>59</sup> Identified in the Firm's System of Quality Control

In addition, we noted the following significant deficiencies<sup>60</sup> during our review:

1. Deficiency ~~The firm's quality control policies and procedures do not require written audit programs as required by professional standards. As a result, we noted several instances in which audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. The firm has subsequently performed the omitted procedures to support the audit opinions. The~~

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<sup>58</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>59</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>60</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

firm's policies and procedures regarding relevant ethical considerations are not sufficient to provide it with reasonable assurance that the firm and its personnel maintain independence when required. The firm's quality control policies and procedures require that written independence representations be obtained annually from all partners and personnel and then be reviewed by a partner in the firm assigned overall responsibility for such matters. During our review, we noted that the responsible partner left the firm in the early part of the year and her responsibilities in this area had not been reassigned. As a result, several of the firm's personnel failed to sign such a representation. Written independence representations were subsequently obtained but there were instances on engagements reviewed when the firm was not independent with respect to the financial statements on which it reported. In our opinion, this contributed to the firm failing to be independent on an audit of an employee benefit plan and an audit in another industry, resulting in engagements that did not conform to professional standards in all material respects.

~~Recommendation~~ ~~The firm's quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement working papers.~~

2. ~~Deficiency~~ ~~The firm's quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted instances in which the firm did not consult during the year, either by use of the firm's technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. The firm intends to recall and reissue the financial statements and reports. The firm's policies and procedures regarding acceptance and continuance of clients are not sufficient to provide it with reasonable assurance that its personnel are competent to perform the engagement and have the capabilities to do so. The firm accepted an audit in a specialized industry in which it had no experience or expertise and did not take steps to obtain competency prior to issuing the audit report. In our opinion, this contributed to an employee benefit plan audit that was not performed in accordance with professional standards in all material respects.~~

~~Recommendation~~ ~~The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm's accounting and auditing personnel.~~

3. ~~Deficiency~~ ~~The firm's quality control policies and procedures do not provide its personnel with a means of ensuring that all necessary procedures are performed on Employee Retirement Income Security Act (ERISA) engagements. During our review, we noted that the firm failed to adequately perform, including appropriately documenting, procedures related to benefit payments on ERISA engagements. The~~

firm has subsequently performed the testing and documented its procedures. The firm's use of the standardized planning forms required by its quality control policies and procedures for engagement performance are not consistently complied with to provide reasonable assurance that audit engagements are performed in accordance with professional standards. Despite such forms including audit planning steps for considering preliminary judgments about materiality levels, fraud risk factors, planned assessed level of control risk, analytical review procedures, and conditions that may require an extension of or a modification of tests, we noted several engagements that lacked sufficient evidence of such considerations. In our opinion, this contributed to audits of employee benefit plans and engagements in other industries that did not conform to professional standards in all material respects.

Recommendation—The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. Deficiency—The firm's quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. The subject reports have been recalled and the financial statements are being revised.

Recommendation—The firm should conduct a training session for all personnel to review the firm's policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm's engagement review checklist requiring the engagement partner to document his or her review of these checklists.

### Scope Limitation<sup>61</sup>

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm's four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our engagement selection process included audit engagements and composed approximately 20 percent of the firm's audit and accounting hours during the peer review year.

### Opinion

In our opinion, as a result of the significant deficiencies previously described, and any additional significant deficiencies that might have come to our attention had we been able

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<sup>61</sup> The scope limitation provided is an example provided for illustrative purposes only.

to review engagements from the divested office as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>62</sup> in effect for the year ended June 30, 20XX was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail (with a scope limitation)*.

Smith, Jones and Associates

[Name of team captain's firm]

## Appendix L

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review

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The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies, ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For more information related to disagreements, see paragraph .93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs .136–.140, “Accepting System and Engagement Reviews”) and should be tailored to address the firm's remediation plans for the significant deficiencies described in its peer review report. The letter of response should be submitted to the team captain for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

~~November–October 3031, 20XX~~

[Addressed to the peer review committee of the administering entity]<sup>63</sup>

Ladies and Gentlemen:

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<sup>62</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

<sup>63</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

This letter represents our<sup>64</sup> response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. ~~All issues have been brought to the attention of the personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.~~

We notified our peer reviewer that he would be unable to review the engagements performed by one of our firm's four offices that divested from our firm during the peer review year. We have considered the consequences of this scope limitation on the results of our peer review.

- 1.<sup>65</sup> ~~The firm's monitoring procedures were modified to provide it with reasonable assurance that the firm's policies and procedures are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with relevant ethical considerations and perform annual testing of a sample of personnel independence confirmations. We have contacted our attorney, clients, and applicable regulatory bodies to discuss the impact of the independence violations and will remediate the engagements as required by professional standards. Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner's review.~~
2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, ~~development stage companies, and other industries that are similar to ours.~~ We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar. We have also joined the AICPA Employee Benefit Plan Audit Quality Center. The omitted procedures will be performed and documentation will be added in a memo to the engagement file. We will engage one of the accounting firms to review the engagement working papers prior to finalizing the memo and to perform engagement quality control reviews of future employee benefit plan audits.
3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use. At our next staff meeting on November 22, 20XX, we will emphasize
4. ~~At the staff meeting previously mentioned, the importance of proper use of the firm's practice aids. reporting and disclosure checklist was discussed, including~~

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<sup>64</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>65</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.



~~the use of checklists for specialized industries. We will also discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on the firm's expectations for performing and documenting audit planning considerations, disclosure issues.~~

The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely post-issuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and ~~these~~ individuals will be available for consultation and guidance.

Sincerely,  
[Name of Firm]<sup>66</sup>

## Appendix M

### Illustration of a Report With a Peer Review Rating of *Pass* in an Engagement Review

.219

In the event of a scope limitation, include an additional paragraph (as described in paragraph .122j of the standards), and follow the illustrations for System Reviews with scope limitations (see appendixes D, "Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review;" G, "Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review;" and K, "Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review").

*[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association formed review team]*

#### Engagement Review Report Report on the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>67</sup>

September 30, 20XX

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<sup>66</sup> Signed by an authorized partner of the firm

<sup>67</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*] <sup>68</sup>

We<sup>69</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>70</sup> issued with periods ending or report dates during the year ended June 30, 20XX, as applicable. Our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. ~~The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

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<sup>68</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>69</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>70</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## Conclusion

Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co.<sup>71</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass*.

Smith, Jones and Associates [*Name of review captain's firm on firm-on-firm review or association formed review team*]

[*or*]

John Brown, Review Captain

[*Committee-appointed review team review*]

## Appendix N

### Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in an Engagement Review

.220

This illustration assumes the review captain concludes that deficiencies are not evident on all of the engagements submitted for review. Otherwise, this firm would have received a peer review rating of *fail*.

In the event of a scope limitation, include an additional paragraph (as described in paragraph .122j of the standards), and follow the illustrations for System Reviews with scope limitations (appendixes D, "Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review;" G, "Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review;" and K, "Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review").

[*Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association formed review team*]

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<sup>71</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

**Engagement Review Report**~~Report on the Firm's Conformity With Professional Standards on Engagements Reviewed~~<sup>72</sup>

September 30, 20XX

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>73</sup>

We<sup>74</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>75</sup> issued with periods ending or report dates during the year ended June 30, 20XX, as applicable. Our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

**Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**Peer Reviewer's Responsibility**

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of

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<sup>72</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

<sup>73</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>74</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>75</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

assurance on that system. ~~The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Deficiencies<sup>76</sup> Identified on the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>77</sup>**

We noted the following deficiencies<sup>78</sup> during our review:

1. Deficiency—On one review engagement of a manufacturing client, we noted that the accompanying accountant's report was not appropriately modified. ~~when The the financial statements did not appropriately present or disclose matters in accordance with industry standards. The firm discussed the departure with the client and decided to recall its report and restate the accompanying financial statements in order to report in conformity with applicable professional standards in all material respects.~~

Recommendation—We recommend that the firm establish a means of ensuring that financial statements present or disclose matters in accordance with industry standards. Such means might include continuing professional education in the industries of the firm's engagements and, although not required by professional standards, use of a comprehensive reporting and disclosure checklist on accounting engagements that is tailored for specialized industries, where applicable, or a cold review of reports and financial statements prior to issuance.

2. Deficiency—On a review engagement we reviewed, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures. These deficiencies were identified on the firm's previous review.

Recommendation—The firm should review and implement the requirements for obtaining management representation letters and the content of the accountant's working papers on review engagements.

### **Conclusion**

~~Based on our review, except for the deficiencies previously described, nothing came to our attention that caused us to believe that the~~ As a result of the deficiencies previously described, we concluded that at least one but not all of the engagements submitted for

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<sup>76</sup> Should be tailored to indicate a single deficiency, when applicable

<sup>77</sup> Should be tailored to indicate a single engagement reviewed, when applicable

<sup>78</sup> The deficiencies and related recommendations provided are examples provided for illustrative purposes only.

review by XYZ & Co.<sup>79</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass with deficiencies*.

Smith, Jones and Associates

[*Name of review captain's firm on firm-on-firm review or association formed review team*]

[*or*]

John Brown, Review Captain [*Committee-appointed review team review*]

## Appendix O

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in an Engagement Review

.221

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph .116 of standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs .136-.140, "Accepting System and Engagement Reviews") and should be tailored to address the firm's remediation plans for the deficiencies described in its peer review report. The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity exit conference.

~~October 31~~ September 30, 20XX

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<sup>79</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[Addressed to the peer review committee of the administering entity]<sup>80</sup>

Ladies and Gentlemen:

This letter represents our<sup>81</sup>-response to the report on the Engagement Review of our firm's accounting practice for engagements submitted for review with periods ending during the year ended June 30, 20XX.

- 1.<sup>82</sup> ~~As recommended by the reviewer,~~ We have recalled and reissued the review report. The entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a pre-issuance review by a partner not associated with the engagement to make sure that the accountant's report is appropriately modified when the financial statements depart from applicable professional standards.
2. We subsequently obtained a management representation letter and documented the matters covered in our inquiry and analytical procedures. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant's inquiry and analytical procedures, is included in the working papers.

We believe these actions address the matters noted by the reviewer.

Sincerely,

[Name of firm]<sup>83</sup>

## Appendix P

### Illustration of a Report With a Peer Review Rating of *Fail* in an Engagement Review

.222

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<sup>80</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>81</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>82</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

<sup>83</sup> Signed by an authorized partner of the firm.

The deficiencies in this illustration represent various examples and are not intended to suggest that the peer review would include this many engagements in the scope or require this number of deficiencies to warrant a report with a peer review rating of *fail*. However, each of the engagements reviewed would have one or more deficiencies in a report with a peer review rating of *fail*.

In the event of a scope limitation, include an additional paragraph (as described in paragraph .122j of the standards), and follow the illustrations for System Reviews with scope limitations (appendixes D, “Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review;” G, “Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review;” and K, “Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review”).

*[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain’s firm letterhead for an association formed review team]*

**Engagement Review Report Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed**<sup>84</sup>

September 30, 20XX

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable Administering Entity*]<sup>85</sup>

We<sup>86</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>87</sup> issued with periods ending or report dates during the year ended June 30, 20XX, as applicable. Our 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

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<sup>84</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”

<sup>85</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>86</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>87</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”



### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. ~~The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Significant Deficiencies<sup>88</sup> Identified on the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>89</sup>**

We noted the following significant deficiencies<sup>90</sup> during our review:

1. ~~Deficiency~~—Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. The compilation and review engagements were in the construction and manufacturing industries, respectively. In addition, the firm did not obtain management representation letters on review engagements.

~~Recommendation~~—We recommend the firm establish a means of ensuring its conformity with applicable professional standards. In addition, we recommend the firm review and implement the requirements for obtaining management representation letters on review engagements. ~~The firm should either participate in~~

<sup>88</sup> Should be tailored to indicate a single significant deficiency, when applicable

<sup>89</sup> Should be tailored to indicate a single engagement reviewed, when applicable

<sup>90</sup> ~~The deficiencies and related recommendations provided are examples provided for illustrative purposes only.~~

~~continuing professional education in financial statement disclosures, use a reporting and disclosure checklist on accounting engagements (tailored if the financial statements are in a specialized industry), or conduct a pre-issuance review of the engagement by an individual not associated with the engagement prior to issuance.~~

- ~~2. Deficiency—During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework.<sup>91</sup> This deficiency was noted in the firm’s previous peer reviews.~~

~~Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect the use of a special purpose framework. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.~~

- ~~3. Deficiency—In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omissions were not disclosed in the accountant’s reports.~~

~~Recommendation—We recommend the firm review and disseminate information regarding the disclosure requirements on specialized industries to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.~~

- ~~4. Deficiency—During our review of the financial statements for a compilation engagement prepared under Statement on Standards for Accounting and Review Services No. 8, for management use only, we noted that the engagement letter did not include all of the information required by applicable professional standards. During our review of the firm’s engagements to prepare financial statements, we noted the firm did not issue a disclaimer that made clear no assurance was provided on the financial statements and also did not indicate that no assurance was provided on each page of the financial statements.~~

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<sup>91</sup> The cash, tax, regulatory, and other bases of accounting that utilize a definite set of logical, reasonable criteria that are applied to all material items appearing in financial statements are commonly referred to as other comprehensive bases of accounting.

~~Recommendation~~ The firm should review the professional standards governing the information to be included in engagement letters for financial statements prepared for management use only and make sure it conforms to those standards.

### Conclusion

As a result of the deficiencies previously described, we ~~believe~~ concluded that all the engagements submitted for review by XYZ & Co.<sup>92</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates

*[Name of review captain's firm on firm-on-firm review or association formed review team]*

*[or]*

John Brown, Review Captain *[Committee-appointed review team review]*

## Appendix Q

### **Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in an Engagement Review**

.223

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each of the significant deficiencies. If the reviewed firm disagrees with one or more of the significant deficiencies ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For additional guidance on disagreements, see paragraph .116 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs .136-.140, "Accepting System and Engagement Reviews") and should be tailored to address the firm's remediation plans for the significant deficiencies described in its peer review report. The letter of response should be submitted to the reviewer for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

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<sup>92</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

October 31 ~~September 30~~, 20XX

*[Addressed to the peer review committee of the administering entity]*<sup>93</sup>

Ladies and Gentlemen:

This letter represents our<sup>94</sup> response to the report on the Engagement Review of our firm's accounting practice for engagements submitted for review with periods ending during the year ended June 30, 20XX.

<sup>95</sup> To prevent the recurrence of the deficiencies noted by the reviewer and to prevent other such deficiencies from occurring, we will review the professional standards related to the deficiencies and ensure that the professional standards will be complied with on all future engagements.

Specifically, we have strengthened the engagement review to ensure that management representation letters are obtained for all review engagements performed by the firm.

All personnel who work on accounting engagements will be participating in continuing professional education in disclosures and reporting by December 31, 20XX, to address the disclosure and reporting deficiencies noted by the reviewer. In addition, we have started using a third-party reporting and disclosure checklist to ensure all reporting and disclosure matters are appropriately addressed. The reporting and disclosure checklist is tailored to specialized industries, where applicable.

The firm is now using third-party practice aids for guidance in ~~compilations of financial statements for management use only, and this includes engagement letters that conform to professional standards to document the client's understanding with respect to these engagements.~~ report modifications and disclaimers.

For the engagements reviewed, we have recalled and reissued our reports.

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

Sincerely,

*[Name of firm]*<sup>96</sup>

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<sup>93</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>94</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>95</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

<sup>96</sup> Signed by an authorized partner of the firm.

## Appendix R

### Illustration of a Report With a Review Rating of *Pass* in a Review of Quality Control Materials

.224

#### Quality Control Materials Review ReportReport on the Provider's System of Quality Control and Resultant Materials

April 30, 20XX

Executive Board of XYZ Organization and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [*identify each item covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials* or *OCM*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

#### Provider's Responsibility

The provider is responsible for designing and complying with a system of quality control that provides reasonable assurance that the materials are reliable aids to assist users in conforming with the components which are integral to the professional standards that the materials purport to encompass. The provider is also responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any.

#### OCM Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system, the provider's compliance with that system, and the reliability of the resultant materials, based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

#### User's Responsibility

Users of the materials and this report should carefully consider the scope of this review. They should also understand the intended uses and limitations of the materials as reflected in their user instructions and related information, as well as the level of explanatory

guidance provided by the materials. Users of the materials are responsible for evaluating their suitability and implementing, tailoring, and augmenting the materials as appropriate. Therefore, the reliability of the materials is also dependent on the effectiveness of these actions and could vary from user to user. Further, there may be important elements of a quality control system in accordance with the Statements on Quality Control Standards that are not included in the materials that have been subject to this review.

### Opinion

In our opinion, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX, to provide users of the materials with reasonable assurance that the materials are reliable aids. Also, in our opinion, the quality control materials previously referred to are reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at December 31, 20XX. Providers can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ Organization has received a review rating of *pass*.

ABC & Co.<sup>97</sup>

## Appendix S

### Illustration of a Report With a Review Rating of *Pass With Deficiencies* in a Review of Quality Control Materials

.225

#### Quality Control Materials Review Report Report on the Provider's System of Quality Control and Resultant Materials

April 30, 20XX

Executive Board of XYZ Organization and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [*identify each item covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials or QCM*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials 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 (Standards).

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<sup>97</sup> The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

### **Provider's Responsibility**

The provider is responsible for designing and complying with a system of quality control that provides reasonable assurance that the materials are reliable aids to assist users in conforming with the components which are integral to the professional standards that the materials purport to encompass. The provider is also responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **QCM Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system, the provider's compliance with that system, and the reliability of the resultant materials, based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **User's Responsibility**

Users of the materials and this report should carefully consider the scope of this review. They should also understand the intended uses and limitations of the materials as reflected in their user instructions and related information, as well as the level of explanatory guidance provided by the materials. Users of the materials are responsible for evaluating their suitability and implementing, tailoring, and augmenting the materials as appropriate. Therefore, the reliability of the materials is also dependent on the effectiveness of these actions and could vary from user to user. Further, there may be important elements of a quality control system in accordance with the Statements on Quality Control Standards that are not included in the materials that have been subject to this review.

### **Deficiencies<sup>98</sup> Identified in the Provider's System of Quality Control and Resultant Materials**

We noted the following deficiencies<sup>99</sup> during our review:

1. ~~Deficiency~~—The provider's policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The provider's policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires

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<sup>98</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>99</sup> The deficiencies and related recommendations provided are examples provided for illustrative purposes only.

received by the provider during the review period indicated that several questionnaires that had significant feedback as to the accuracy of the information of certain materials were not being read, summarized, or analyzed to determine whether the quality control materials require change. During our review we noted an error in the provider's interpretation of a recently issued professional standard in the *How To Perform Employee Benefit Plan Audits* manual. This error was also noted on several of the feedback questionnaires. However, the error was not of such significance that it affected the reliability of the aid. Our review did not note any similar issues in the other materials.

~~Recommendation—The provider should revise its policies and procedures to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids. In addition, the provider may wish to consider using external technical reviewers to confirm its understanding of new professional standards.~~

- ~~2. Deficiency—The organization's policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the General Financial Statement Disclosure and Reporting checklist, Construction Contractor Disclosure checklist, and the Personal Financial Statements checklist, which had cold reviews performed by the developer. However, we were satisfied that the checklists are reliable aids.~~

~~Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.~~

## Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX, to provide users of the materials with reasonable assurance that the materials are reliable aids. Also, in our opinion, the quality control materials previously referred to are reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at December 31, 20XX. Providers can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ Organization has received a review rating of *pass with deficiencies*.

ABC & Co<sup>100</sup>

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<sup>100</sup> The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.



## Appendix T

### Illustration of a Report With a Review Rating of *Fail* in a Review of Quality Control Materials

.226

The deficiencies and related recommendations provided are examples for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *fail*.

#### Quality Control Materials Review Report Report on the Provider's System of Quality Control and Resultant Materials

October 31, 20XX

Executive Board of XYZ Organization and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [*identify each item covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials* or *QCM*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

#### Provider's Responsibility

The provider is responsible for designing and complying with a system of quality control that provides reasonable assurance that the materials are reliable aids to assist users in conforming with the components which are integral to the professional standards that the materials purport to encompass. The provider is also responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any.

#### QCM Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system, the provider's compliance with that system, and the reliability of the resultant materials, based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

## User's Responsibility

Users of the materials and this report should carefully consider the scope of this review. They should also understand the intended uses and limitations of the materials as reflected in their user instructions and related information, as well as the level of explanatory guidance provided by the materials. Users of the materials are responsible for evaluating their suitability and implementing, tailoring, and augmenting the materials as appropriate. Therefore the reliability of the materials is also dependent on the effectiveness of these actions and could vary from user to user. Further, there may be important elements of a quality control system in accordance with the Statements on Quality Control Standards that are not included in the materials that have been subject to this review.

## Significant Deficiencies<sup>101</sup> Identified in the Provider's System of Quality Control and Resultant Materials

We noted the following significant deficiencies<sup>102</sup> during our review:

1. Deficiency—The organization's policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization's policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that several questionnaires that had significant feedback as to the accuracy of the information of certain materials were not being read, summarized, or analyzed to determine whether the quality control materials require change. During our review we noted errors in the provider's interpretation of recently issued professional standards in the *How To Perform Employee Benefit Plan Audits*, *How To Perform Audits of Small Businesses* and *How To Perform Construction Contractor Reviews* manuals. The errors were identified on several of the feedback questionnaires. As a result, these specific materials were inaccurate and, thus, were not reliable aids.

~~Recommendation—The organization should revise its policies and procedures to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids. In addition, the provider may wish to consider using external technical reviewers to confirm its understanding of new professional standards.~~

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<sup>101</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>102</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

2. Deficiency—The organization’s policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to the professional standards the materials purport to encompass. During our review, we noted that such a technical review was not performed on the *How To Perform Single Audits* and *How To Perform HUD Audits* manuals. As a result, these materials were not up-to-date or were inaccurate, and thus were not reliable aids.

Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

### Opinion

In our opinion, as a result of the deficiencies previously described, the system of quality control for the development and maintenance of the quality control materials of XYZ Organization was not suitably designed or complied with during the year ended December 31, 20XX, to provide the users of the materials with reasonable assurance that the materials are reliable aids. Also, in our opinion, the quality control materials previously referred to are not reliable aids and do not assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at December 31, 20XX. Providers can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ Organization has received a review rating of *fail*.

ABC & Co.<sup>103</sup>

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<sup>103</sup> The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.

## Peer Review Interpretations

### Timing of the Peer Review

**17-1** Question—Paragraph .17 of the standards indicates that the peer review should be conducted within three to five months following the end of the year to be reviewed. Paragraphs .92 and .115 further explain the exit conference should occur after allowing the firm sufficient time to respond to MFC forms, FFC forms, deficiencies and significant deficiencies discussed at the closing meeting. The exit conference date should also occur prior to but no later than the review due date. How does this affect the timing of a peer review?

Interpretation—Peer reviews are ordinarily due 6 months after the firm's peer review year-end date. The team or review captain should take the review due date into consideration prior to accepting the peer review and during planning to ensure adequate time has been built into the peer review timeline to allow the firm sufficient time to assess appropriate responses to MFC forms, FFC forms, deficiencies, and significant deficiencies. In order to provide sufficient time to the firm, the peer review should be conducted within 3-5 months after the end of the year to be reviewed, ordinarily providing the reviewer and firm the last 30 days prior to the due date for this assessment and submission of the peer reviewer's materials, peer review report, and letter of response, if applicable, by the review due date.

Ordinarily, extensions will not be granted subsequent to commencement to allow the review team and firm more time to finalize peer review documents.

### Planning Considerations

**39-1** Question—Paragraph .39 of the standards notes that the team captain should evaluate the actions of the firm in response to the prior review report and FFC forms. What considerations should be made if the firm did not perform the actions noted in the prior review letter of response and FFC forms?

Interpretation—The team captain should consider whether the firm performed sufficient alternative actions after further assessment of the systemic cause. If sufficient alternative actions were performed, the alternative procedures and the reviewer's assessment of those procedures should be noted in the Summary Review Memorandum. However, if sufficient alternative actions were not performed, the team captain should gain an understanding from the firm about why the actions were not performed and consider whether there are deficiencies in other elements of quality control, such as leadership responsibilities for quality within the firm (the tone at the top). This evaluation should be documented in the Summary Review Memorandum.

## **Planning and Performing Compliance Tests of Requirements of Voluntary Membership Organizations**

**54d-2** Question—Paragraph .54(d) discusses the peer reviewer's requirement in a System Review to review other evidential material, including evidence since the previous peer review, as appropriate. When is it appropriate to review evidential matter from prior to the peer review year?

Interpretation—In performing a review of a firm's system of quality control, a team captain will develop a plan for the nature and extent of testing relative to the firm's compliance with their quality control policies and procedures. If no events relative to those policies and procedures occurred during the peer review year, it may be necessary for a team captain to review evidential matter from prior to the peer review year.

For example, the firm may have accepted a new engagement in the year following the previous peer review but did not accept any during the current peer review year. In such a situation, the team captain should review evidential matter since the previous peer review year to evaluate the firm's compliance with its engagement acceptance quality control policies and procedures. If the team captain discusses the firm's procedures for acceptance of the new client and the firm indicates its only procedures were to review the predecessor auditor's workpapers, this may indicate there is a design matter in the firm's system of quality control related to acceptance and continuance. The team captain will then need to evaluate if there are any indicators of change to that policy since the last acceptance of an engagement and determine if the matter should be elevated to either an FFC or a deficiency in the report. If the team captain determines that the policy is designed appropriately and there is a compliance matter, it should be treated as any other compliance matter for actions during the peer review year.

Another example would be when the team captain reviews the monitoring and inspection results from the intervening periods to determine appropriate design and compliance of monitoring procedures. Looking at the intervening periods allows the team captain to evaluate whether the firm is properly communicating and remediating engagement and systemic issues identified.

## **Concluding on the Review of an Engagement**

**66-1** Question—Paragraphs .66–.67 and .109 of the standards requires the review team to conclude on the review of an engagement by determining whether the engagement was performed or reported on in conformity with applicable professional standards in all material respects. How should this conclusion be made?

*Interpretation*—The review team should use practice aids that document, for each engagement reviewed, whether anything came to the review team’s attention that caused it to believe the following, as applicable:

- a. The financial statements were not in conformity with GAAP in all material respects or, if applicable, with a special purpose framework and the auditor or accountant’s report was not appropriately modified.
- b. The firm did not perform or report on the engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards; for example, *Governmental Auditing Standards*.
- c. The firm did not perform or report on the engagement in all material respects in accordance with SSARS.
- d. The firm did not perform or report on the engagement in all material respects in accordance with SSAEs or any other applicable standards not encompassed in the preceding.

In Engagement Reviews, these results should be considered by the review captain in determining the type of report to issue.

67-1

*Question*—Paragraphs .67 and .109 of the standards notes that the team captain or review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects and remind the firm of its responsibilities under professional standards to take appropriate actions. How is this communication made? ~~and what other responsibilities does the team captain or review captain have in regard to the affected engagements?~~

*Interpretation*—If the reviewer concludes that an engagement is not performed or reported on in conformity with applicable professional standards in all material respects, the team captain or review captain should promptly inform an appropriate member of the reviewed firm on an MFC form. The team captain or review captain should remind the reviewed firm of its responsibilities under professional standards to take appropriate actions as addressed in AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, or SSARS No. 19, *Compilation and Review Engagements*, as applicable, or, if the firm’s work does not support the report issued, as addressed in AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* (AICPA, *Professional Standards*). The reviewed firm should investigate the issue questioned by the review team and determine what timely action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports. The reviewed firm should then advise the team captain or review captain of the results of its investigation, including parties consulted, and document ~~on the MFC form~~ the actions planned or taken or its reasons for concluding that no action is required as follows:

- In the firm’s response to the MFC form

- In the firm's response to the FFC form, if applicable
- In the firm's letter of response to deficiencies and significant deficiencies identified in the report, if applicable

The firm is also expected to make a representation in its representation letter to the team or review captain confirming it will remediate nonconforming engagements as stated by the firm on its MFC forms, FFC forms, or letter of response, as applicable.

~~Reviewers or administering entities should not instruct reviewed firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the reviewed firm and its client to make. However, the administering entity can require the reviewed firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify that the reviewed firm adheres to the intentions indicated in its response.~~

~~If the reviewed firm has taken action, ordinarily the review team should review documentation of such actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate. If the firm has not taken action, the review team should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).~~

67-2

Question—Paragraphs .67 and .109 of the standards note that the team captain or review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects and remind the firm of its responsibilities under professional standards to take appropriate actions. What other responsibilities do the team and review captain have when nonconforming engagements are identified?

Interpretation—Reviewers or administering entities should not instruct firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. However, the administering entity can require the firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

If the firm has taken action, ordinarily the review team should review documentation of such actions (for example, omitted procedures performed,

reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate. If the firm has not taken action, the review team should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).

On a System Review, the team captain should consider expanding scope to determine the pervasiveness of the nonconforming engagements. The extent of the nonconforming engagements is considered when determining the systemic cause and whether the matter should be elevated to a finding, deficiency, or significant deficiency. Refer to paragraphs .68 and .84 of the standards for additional guidance on assessing when to expand scope and when matters may be isolated.

## **Aggregating and Systemically Evaluating Matters**

### **79-1**

Question—Paragraph .79 of the standards indicates that in the absence of findings or deficiencies in the engagements reviewed, the reviewer may still conclude that there are conditions in the design of the firm’s system of quality control that could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards. When would a design matter or compliance with a functional area, by itself, result in a peer review rating of pass with deficiencies or fail?

Interpretation— A design matter, by itself, may result in a peer review rating of pass with deficiencies or fail when one or more conditions are present in the firm’s system of quality control and the reviewer has concluded that the conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more respects.

Examples may include but are not limited to the failure to establish or comply with policies and procedures designed to provide the firm with reasonable assurance that:

- The internal culture is based on recognition that quality is essential in performing engagements. This may be identified by firm leadership failure to have a quality control document, failure to appropriately respond to findings in a regulatory investigation, failure to have a timely peer review, and so on.
- The firm and its personnel comply with relevant ethical requirements. This may be identified by failure to obtain independence confirmations from all personnel, failure to inform personnel on a timely basis of changes to the list of clients and



related entities, failure to address potential breaches of independence, and so on.

- The firm will undertake or continue relationships and engagements only when the firm is competent to perform the engagements. This may be identified by failure to have policies and procedures in place to require evaluation of the nature of the services to be provided, evaluation of the firm's resources to provide the services, evaluation of the need to engage a third party to assist in new industries, and so on.
- The firm has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards. This may be identified by failure to have policies and procedures requiring personnel to maintain a CPA license, comply with industry specific CPE requirements, ensure appropriate industry experience on engagement teams, and so on.
- The firm's compliance with all areas of the firm's system of quality control is effectively monitored. This may be identified by lack of monitoring of appropriate CPE for all firm personnel, lack of monitoring of functional areas in the firm's peer review year, failing to appropriately respond to issues identified during engagement inspections, and so on.

## **Determining the Systemic Cause for a Finding in a System Review**

83-1

*Question*—Paragraph .83 of the standards notes that when a review team is faced with an indication that a matter(s) could be a finding ~~or that the firm failed to perform or report in conformity with applicable professional standards in all material respects~~, the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause of the finding or failure. Why?

*Interpretation*—The evaluation of a firm's system of quality control is the primary objective of a System Review and the basis for the peer review report.

As such, when a reviewer in a System Review discovers a matter, including an engagement that was not performed or reported in conformity with applicable professional standards in all material respects, he or she should avoid considering the type of report to issue until the ~~underlying systemic~~ cause of the matter (to determine if it rises to the level of a finding, deficiency or significant deficiency) is identified, where it is reasonably possible to do so.

Reviewers in a System Review must think of matters as symptoms of weaknesses in the firm's system of quality control. Further, reviewers, in

collaboration with the firm, must make a good faith effort to try to identify the ~~underlying~~ systemic cause for those matters to determine if they rise to the level of a finding. A finding has a systemic definition; a finding is one or more related matters that result from a *condition* in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. With a finding, the reviewer is considering more than just the "matter;" they are considering the condition (that is, systemic cause) that resulted in the matter(s) occurring. Otherwise said, the reviewer must determine why the matters occurred. Upon further evaluation, a finding may rise to a systemically oriented deficiency or significant deficiency.

~~Causes for one or more matters are only documented when one or more matters rise to the level of a finding or a deficiency or significant deficiency (and then are documented on a FFC form or in the report, respectively). Furthermore, because the cause may not ultimately be documented for all matters, the only way to determine if one or more matters rise to the level of a finding or higher, is to try to identify the underlying systemic cause. One reliable method for identifying a matter's systemic cause is to require complete answers on all MFC forms, instead of merely a check mark for the "yes we agree" response. The reviewer may also survey firm personnel for causes of matters.~~

The system risks identified as part of the completion of the *Guidelines for Review of Quality Control Policies and Procedures* (Section 4500 and 4600) will be a helpful resource for reviewers in assessing the systemic cause. ~~Reviewers~~ The assessment of the systemic cause should consider that separate matters that are exactly the same may result from completely different quality control weaknesses in the firm.

To properly assess the systemic cause, reviewers should not accept "oversight" or "isolated" as the firm's response. The firm should provide sufficient detail for the reviewer to understand what caused the matter. For example, the failure to follow the firm's practice aid for a particular area may have been an isolated occurrence; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter. Further guidance is provided in Interpretation 84-1 to assist reviewers in determining if the matter is isolated.

~~Without identifying and understanding the underlying cause(s), a reviewer cannot make meaningful recommendations that help reduce the likelihood of the repeat finding(s), deficiency(ies) or significant deficiency(ies) recurring (or findings that develop into deficiencies or significant deficiencies in the future).~~

~~Reviewers should not assume that the recommendation of the use of standard forms and checklists will improve a firm's system of quality control. Although forms and checklists are helpful in many circumstances, their use may not change behavior, improve performance or cure findings, deficiencies and significant deficiencies. For example, checklists will not help firms that lack overall knowledge of accounting and auditing matters or knowledge in the specific area in which the deficiency arose. Nor will standard checklists help firms in which policies and procedures for the review of engagements are routinely overridden.~~

~~Additional guidance on the systemic approach of a System Review is included in chapter 4 of PRP 3300, *AICPA Peer Review Program Report Acceptance Body Handbook*.~~

83-2

*Question*—For System Reviews and Engagement Reviews, what is considered a repeat finding on a finding for further consideration (FFC) form?

*Interpretation*—On System Reviews, a repeat finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review. The review team should read the prior review documentation, including the report, letter of response and FFC forms, if applicable, and evaluate whether the firm's planned actions noted on those forms were implemented. If the firm's planned actions to remediate the prior review findings were implemented, and the same finding is occurring, the review team should determine the condition in, or compliance with, the firm's system of quality control that caused the current finding. If it is determined to be the same systemic cause, the FFC form should indicate that similar findings were noted in the prior review. The review team should also consider whether there are findings in other elements of quality control. If the prior remedial actions (corrective actions, implementation plans, or as discussed in the firm's response on the FFC form) appear to be effective, the finding may be caused by some other condition in, or compliance with, the firm's system of quality control. If the underlying systemic cause of the finding is different from that noted in the prior review, it would not be a repeat.

See section 3100, *Supplemental Guidance*, for an example of identifying repeat findings, deficiencies and significant deficiencies in a System Review.

On Engagement Reviews, a repeat is one in which the identified finding is substantially the same (that is, the same kind or very similar) as noted on a FFC form in the prior peer review as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or financial statement presentation finding on a FFC form in the prior peer review, the disclosure or financial statement presentation finding noted in the current review would need to be substantially the same disclosure or financial statement presentation finding to qualify as a repeat.

A firm that repeatedly receives peer reviews with consistent findings that are not corrected may be required to complete an implementation plan.

83-3

*Question*—Paragraph .83 of the standards notes the importance of determining the systemic cause of the identified findings ~~or failures~~ to determine whether they are systemic in nature. How do the results of regulatory or governmental oversight or inspection factor into this determination?

*Interpretation*—If similar issues were raised in both the regulatory or governmental oversight(s) and in the peer review, the review team should further understand the systemic causes identified by the reviewed firm and consider whether there may be a systemic issue related to the design of the system of quality control or compliance with it. ~~It may also be helpful when considering appropriate recommendations to understand remediation taken by the firm.~~ See Interpretations 40-1 and 40-2 for additional considerations.

### Isolated Matters in a System Review

84-1

*Question*—Paragraph .84 refers to isolated matters in a System Review. What is an isolated matter and what further guidance is there to address isolated matters?

*Interpretation*—An isolated matter occurs when there is an incident (or limited incidents) of noncompliance with professional standards or the firm's quality control policies and procedures on one or more engagements (or aspect of a functional area) and the identical standards or policies and procedures were complied with on the remaining engagements or aspect of a functional area.

Reviewers should follow the guidance in paragraph .68, "Expansion of Scope," and paragraphs .84–.85, "Determining the Systemic Cause for a Finding," of the standards. The reviewer needs to evaluate the pervasiveness of the issue, including expanding scope if necessary. In some instances the team captain should expand scope to other engagements or aspects of functional areas, and determine that such matters did not occur elsewhere, thus evidencing that the noncompliance with the firm's system of quality control was truly isolated. In these situations, team captains should focus on the ~~underlying systemic~~ cause of the matter when analyzing if it is isolated and may consider a key area approach when expanding scope to other engagements or aspects of functional areas to determine if the matter is isolated. The reviewer's ability to conclude a matter is isolated may be dependent on his or her ability to expand scope to engagements or aspects of functional areas that are classified by common characteristics such as, but not limited to, the industry, level of service, the practitioners in charge, or engagements that must be selected in a peer review.

The reviewer should consider that a single disclosure matter and a single documentation matter may be isolated when taken individually but they may have resulted from the same ~~underlying~~ systemic cause. They should further consider that an isolated matter may be materially significant in amount or nature or both.

Reviewers should document their consideration of an isolated matter and the conclusions reached in the MFC form. Team captains should document the same in the Summary Review Memorandum. The documentation should include the details of the matter noted, how the reviewer expanded scope, if applicable, and why the reviewer concluded the matter was isolated. The documentation should provide enough information for the administering entity's peer review committee to determine if the team captain's conclusion is appropriate.

### Communicating Conclusions at the Closing Meeting and Exit Conference

91-1

*Question*—Paragraphs .91, .92 and .115 of the standards instructs ~~a team captain peer reviewers~~ on communicating conclusions at the closing meeting and exit conference in a System Review. What other guidelines should be followed?

*Interpretation*—The ~~team captain~~ peer reviewer should consider the need to have the team member(s) participate or be available for consultation (in person or via teleconference) ~~in during the closing meeting or exit conference or be available for consultation during the exit conference~~, especially when, in unusual circumstances, the team or review captain does not have the experience to review the industry of an engagement that was reviewed by the team member.

Furthermore, for System Reviews, the closing meeting and exit conference ~~is are~~ not the appropriate place or time to surprise the firm with the intention of issuing a *pass with deficiency* or *fail* Report or to discuss any unresolved accounting and auditing issues. It is expected that the team captain will have an open means of communication with various levels of personnel leading up to the ~~exit conference~~ closing meeting, having at a minimum and as applicable,:

- promptly informed them when an engagement is not performed or reported on in conformity with applicable professional standards,
- ~~having~~ discussed MFC and FFC forms including the systemic causes and related ~~recommendations~~ remedial actions of the firm for any matters, findings, deficiencies, and significant deficiencies in advance, and
- ~~having~~ followed up on open questions and issues.

The closing meeting should ordinarily occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to findings, deficiencies, and significant deficiencies, if applicable. The exit conference should be used as a time to communicate the final results of the peer review and should only be conducted after the peer reviewer has assessed the appropriateness of the firm's responses on the MFC forms, FFC forms, and letter of response, if applicable.

## **Notification and Submission of Peer Review Documentation to the Administering Entities by the Team Captain or Review Captain**

**94-1** Question—Paragraphs .94, .120, and .190 of the standards instruct a reviewer to see the interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity. What materials should be submitted by the team captain or review captain, and when should they be submitted by?

Interpretation—The team captain or review captain should notify the administering entity that the review has been performed, ~~and should submit to that administering entity w~~Within 30 days of the exit conference date in a System Review (or the review captain's discussions with the reviewed firm regarding the results of the review in an Engagement Review) or by the firm's peer review due date, whichever date is earlier, a ~~copy of the report, and the team captain should submit the following documentation required by the administering entities at a minimum (consider sending by an insured carrier or retaining or sending copies, or both):~~

For System and Engagement Reviews:

- Report, and letter of response, if applicable (~~reminder: The reviewer is not expected to delay submission of peer review documents to the administering entity for receipt or review of the letter of response from the firm~~)
- Summary Review Memorandum, or Review Captain Summary, as applicable
- Engagement Summary Form (For Engagement Reviews)
- FFC forms, as applicable
- MFC forms, submitted electronically or hard copy, as applicable
- DMFC form, submitted electronically or hard copy, as applicable
- Firm's representation letter
- 22,100-Part A, Supplemental Checklist(s) for Review of Single Audit Act/A-133 Engagement(s) and engagement

profile(s) for A-133 engagements reviewed (if applicable)  
(for System Reviews)

~~Note that other working papers on these peer reviews are subject to oversight procedures and may be requested at a later date.~~

For all reviews administered by the National PRC, as applicable:

- ~~• Committee-appointed review team Engagement Reviews~~
- ~~• All System Reviews, Engagement Reviews, and quality control materials reviews administered by the National PRC~~
- In addition to the preceding All of the documents required to be submitted for System Reviews and Engagement Reviews
- , include all other working papers incorporated by reference, as applicable, including eEngagement questionnaires or checklists;
- quality-Quality control documents and related practice aids;
- staff-Staff and focus group interview forms, focus group, and other interview sessions;
- planning-Planning documents;
- and aAny other relevant documents.

Note that all peer review working papers are subject to oversight procedures and may be requested at a later date.

Peer review working papers may be submitted to the administering entity electronically.

## **Reporting on System and Engagement Reviews When a Report With a Peer Review Rating of *Pass With Deficiency* or *Fail* Is Issued**

**96n-1** *Question*—Paragraphs .96(n) and .122(n) of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to 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 report issued on the firm’s previous peer review. What further guidance is available in regards to this requirement?

*Interpretation*—On System Reviews, a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review’s report. The review team should read the prior report and letter of response and evaluate whether corrective actions discussed have been implemented to determine whether the systemic cause is the same. The deficiency or significant deficiency should note that “This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous peer review.”

If the corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in collaboration with the

firm, should determine the weakness in the firm's system of quality control that is causing the deficiency or significant deficiency to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm's system of quality control. If the ~~underlying-systemic~~ cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. The team captain should consider if the firm's planned actions to remediate the prior review findings were implemented, including implementation plans or those discussed in the firm's response on the FFC form. If the prior remedial actions appear to be effective, the current deficiency may be caused by some other weakness in or compliance with the firm's system of quality control. If the ~~underlying systemic~~ cause of the deficiency is different from that noted in the prior review, it would not be a repeat. If the ~~underlying-systemic~~ cause is determined to be the same, under these circumstances, it would still be appropriate to use the same wording as previously described "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review." If the systemic cause is the same, the review team should also consider whether there are deficiencies in other elements of quality control.

See section 3100, Supplemental Guidance, for an example of identifying repeat findings, deficiencies and significant deficiencies in a System Review. On Engagement Reviews, a repeat is one in which the identified engagement deficiency or significant deficiency is substantially the same (that is, the same kind or very similar) as noted in the prior review's report as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or a financial statement presentation deficiency in a prior review's report, the disclosure or financial statement presentation deficiency noted in the current review would need to be substantially the same disclosure or financial statement presentation deficiency to qualify as a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was substantially the same as was noted on a FFC form in the prior review. Under these circumstances, it would still be appropriate to use the same wording as previously described: "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review."

For System Reviews and Engagement Reviews in which there are repeat deficiencies or significant deficiencies that have occurred on two or more prior



reviews the reviewer should state in the current report that, “this deficiency [or significant deficiency, as applicable] was noted on previous reviews.”

A firm that repeatedly receives peer reviews with consistent deficiencies or significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. For such firms that fail to cooperate, the AICPA Peer Review Board may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm’s enrollment in the AICPA peer review program should be terminated or some other action taken. Therefore, it is critical that peer reviewers appropriately identify the ~~underlying systemic~~ causes of deficiencies and significant deficiencies on System Reviews and that reporting on System and Engagement Reviews is appropriate.

96m96p-1

*Question*—Paragraphs .96(m

) and .122(m

) of the standards instruct a ~~team captain in a System Review (or review captain on an Engagement Review) the peer reviewer~~ to include, for reports with a peer review rating of pass with deficiency(ies) or fail, descriptions ~~(systemically written, in a System Review)~~ of the deficiencies or significant deficiencies ~~and the reviewing firm’s recommendations~~. What is the treatment of FFCs, if any, when these reports are issued, and how are deficiencies treated for reports with a peer review rating of fail?

*Interpretation*—Any findings that are only raised to the level of a FFC remain in a FFC and are not included in a report with a peer review rating of pass with deficiency or fail.

A significant deficiency in a System Review is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm’s system of quality control or compliance with it such that the reviewed firm’s system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of fail. Therefore, this is a systemic approach to determining whether the deficiencies identified meet this significant deficiency threshold. If they do, then a report with a peer review rating of fail is issued and all of the deficiencies are considered significant deficiencies and are identified as such. Such a report would not have a section with “Significant Deficiencies Identified in the Firm’s System of Quality Control” and another section for “Deficiencies Identified in the Firm’s System of Quality Control,” ~~as because they would all be categorized as Significant significant Deficiencies deficiencies.~~

A significant deficiency on an Engagement Review exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. Such deficiencies are communicated in a report with a peer review rating of fail. Therefore, on an Engagement Review, all of the

engagements reviewed are considered concerning whether deficiencies were noted when determining if the significant deficiency threshold is met. If they do, then a report with a peer review rating with fail is issued and all of the deficiencies are considered significant deficiencies and are identified as such. Such a report would not have a section with “Significant Deficiencies Identified on the Firm’s Conformity With Professional Standards on Engagements Reviewed” and another section for “Deficiencies Identified on the Firm’s Conformity With Professional Standards on Engagements Reviewed, if applicable,” as ~~because they would all be categorized as Significant~~ ~~significant Deficiencies~~ ~~deficiencies.~~

### **Submission of FFC Forms to the Administering Entities by the Team Captain or Review Captain—Firm Responses and Related Team or Review Captain Considerations**

**99-1**

Question—Paragraphs .99, and .125 state that it is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. Should the team or review captain assist with this assessment?

Interpretation—Although it is ultimately the firm’s responsibility, the team or review captain and firm should collaborate to determine the response. In a System Review, the response will address the appropriate systemic cause and remedial actions. The team captain should provide information about risks in the firm’s system of quality control (as identified through the Guidelines for Review of Quality Control Policies and Procedures in Sections 4500 and 4600).

**99-2**

Question—Paragraph .99 states that the firm’s response should include remedial action and paragraph.98 states that the firm’s response should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm’s response prior to the exit conference. How should the reviewed firm respond if it is unable to determine appropriate remedial actions prior to the exit conference?

Interpretation—If the reviewed firm is unable to determine appropriate remediation of weaknesses in its system of quality control and nonconforming engagements, if applicable, prior to the exit conference, the firm’s response should indicate interim steps that have been taken and confirm its intent to remediate when an appropriate response is determined. In these situations, the RAB considering the review will ordinarily assign an implementation plan or corrective action for the firm to provide its final remediation.

97100-1

*Question*—Paragraphs .97-100 and .126~~3~~ of the standards discuss the team captain or review captain's responsibility to review and, evaluate, ~~and comment on~~ the reviewed firm's responses on the FFC form and in the letter of response prior to its submission to the administering entity with the peer review working papers. What should be considered during that review?

*Interpretation*—The purpose of the firm's response on the FFC form and in the letter of response is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct findings and deficiencies noted by the reviewer and, on a System Review, to enhance the current system of quality control. In a System Review, the description of the action(s) the firm has taken or will take should discuss remediation of findings and deficiencies in the system of quality control and nonconforming engagements, if applicable, to ensure prevention of recurrence of the finding, deficiency or significant deficiency discussed in the report. For System and Engagement Reviews, the action(s) should be feasible, genuine, and comprehensive, addressing each of the requirements in paragraphs .99 and .125. The letter of response should not be vague or repetitive of the deficiency or significant deficiency in the report, because then it is difficult to determine if the planned action will be appropriately implemented to ensure prevention; or if the action is inappropriate for correcting the deficiency or significant deficiency. The FFC form and letter of response should not be used as a place to indicate justification for the firm's actions that related to the deficiency or significant deficiency. If the firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.

In a System Review, the team captain may consider failure to appropriately remediate findings and deficiencies in the system of quality control and nonconforming engagements, if applicable, as an indication of a tone at the top weakness that may result in a deficiency or significant deficiency.

99-1

*Question*—Paragraphs .99 and .125 of the standards instruct a team captain or review captain to review and evaluate the firm's responses to all findings and recommendations not rising to the level of a deficiency or significant deficiency as reflected on the related FFC forms before they are submitted to the administering entity. When should the FFC forms be submitted to the administering entity and who should submit them?

*Interpretation*—Ordinarily, the FFC forms should be responded to by the reviewed firm during the peer review; for example, during or immediately following the exit conference (in a System Review) or before or immediately following the review captain's discussions with the reviewed firm regarding the results of the review (in an

Engagement Review). This would allow the team captain or review captain to assist the firm in developing its responses and obtaining the necessary signatures on the FFC forms and allow the team captain or review captain to review the responses at that time, all of which will expedite the process.

The reviewed firm's response should describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The team captain or review captain can provide assistance in ensuring that the responses are appropriate and comprehensive. However, it is also recognized that the reviewed firm may prefer to provide its final responses after it has had the opportunity to discuss them further internally, develop a plan of action, and more formally respond. In either case, the completed FFC forms should be submitted to the team captain or review captain no later than two weeks after the exit conference (in a System Review) or the review captain's discussions with the reviewed firm regarding the results of the review (in an Engagement Review), or by the peer review's due date, whichever is earlier. FFC forms are then submitted by the team captain or review captain with the applicable working papers to the administering entity. If the reviewed firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.

## **Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities**

### **133a-1**

Question—Paragraph .133 of the standards indicates that the committee is responsible for ensuring that peer reviews are presented to a RAB in a timely manner, ordinarily within 120 days of the later of receipt of the working papers and peer review report from the team captain or review captain or, if applicable, the report with a peer review rating of pass with deficiencies or fail and the related letter of response from the firm. What is meant by “ordinarily within 120 days”?

Interpretation—Timely acceptance of peer reviews is important because delays may affect both the firm and peer reviewers within the firm. However, there are circumstances in which delays are unavoidable, including the following:

- a. Determination during technical review or presentation that an oversight should be performed
- b. Submitted peer review documentation requires significant revisions
- c. Additional inquiries of the firm or peer review team as a result of the technical review or presentation
- d. Enhanced oversight procedures.

## Publicizing Peer Review Information

146-3

Question—Paragraph .146 states that neither the administering entity nor the AICPA shall make the results of the review, or other information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances. There are situations in which third parties, ordinarily licensing bodies, request information related to an ongoing peer review from an administering entity or the AICPA. What information may an administering entity or the AICPA provide when such requests are made?

Interpretation—When a firm has authorized the administering entity or the AICPA in writing to provide specific information (in addition to the information in Paragraph .146) to third parties, the following (or similar) types of objective information about the review may be provided, if known:

- The date the review is or was scheduled to take place
- The name of the reviewing firm, team captain or review captain
- If the fieldwork on the peer review has commenced
- The date the exit conference was expected to or did occur
- A copy of any extension approval letters,
- Whether the peer review working papers have been received by the administering entity
- Whether a must select engagement was included in the scope as required by the Standards
- If a technical review is in process
- Whether the review has been presented to a Report Acceptance Body (RAB)
- The date the review is expected to be presented to a RAB
- If the firm is going through fair procedures to determine whether it is cooperating with the peer review

Other written requests by the firm for the administering entity or AICPA to provide information or documents to a third party will be considered on a case by case basis by the administering entity or AICPA. However, neither the administering entity nor the AICPA will provide information that is subjective (due to different definitions/interpretations by third parties), even with firm authorization, such as the following:

- Stating solely that the review is “in process” or responding to an inquiry solely regarding what the “general status” of a peer review is.
- The peer review report rating prior to the peer review’s acceptance
- Whether the firm, reviewing firm, team captain or review captain are cooperating (or not cooperating) with the AICPA or administering entity

- An indication of the quality or completeness of peer review working papers received by the administering entity
- Reasons why peer review working papers, implementation plans, or corrective actions are late
- Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- Reasons for, or the likely outcome if the firm is going through fair procedures to determine whether it is cooperating with the AICPA or administering entity.

Paragraph .146 states that the firm should not publicize the results of the review or distribute copies of the peer review reports to its personnel, clients, or others until it has been advised that the report has been accepted (see interpretations) by the administering entity as meeting the requirements of the program. Where appropriate, the firm may discuss information in this Interpretation with third parties at its discretion as long as Paragraph.146 is complied with.

## **Firm Representations**

**208-1-1**

*Question*—Paragraph .208(+7) (appendix B) of the standards advises that the firm is required to make specific representations but is not prohibited from making additional representations beyond the required representations, in its representation letter to the team captain or review captain. What parameters should be used in expanding tailoring the representation letter?

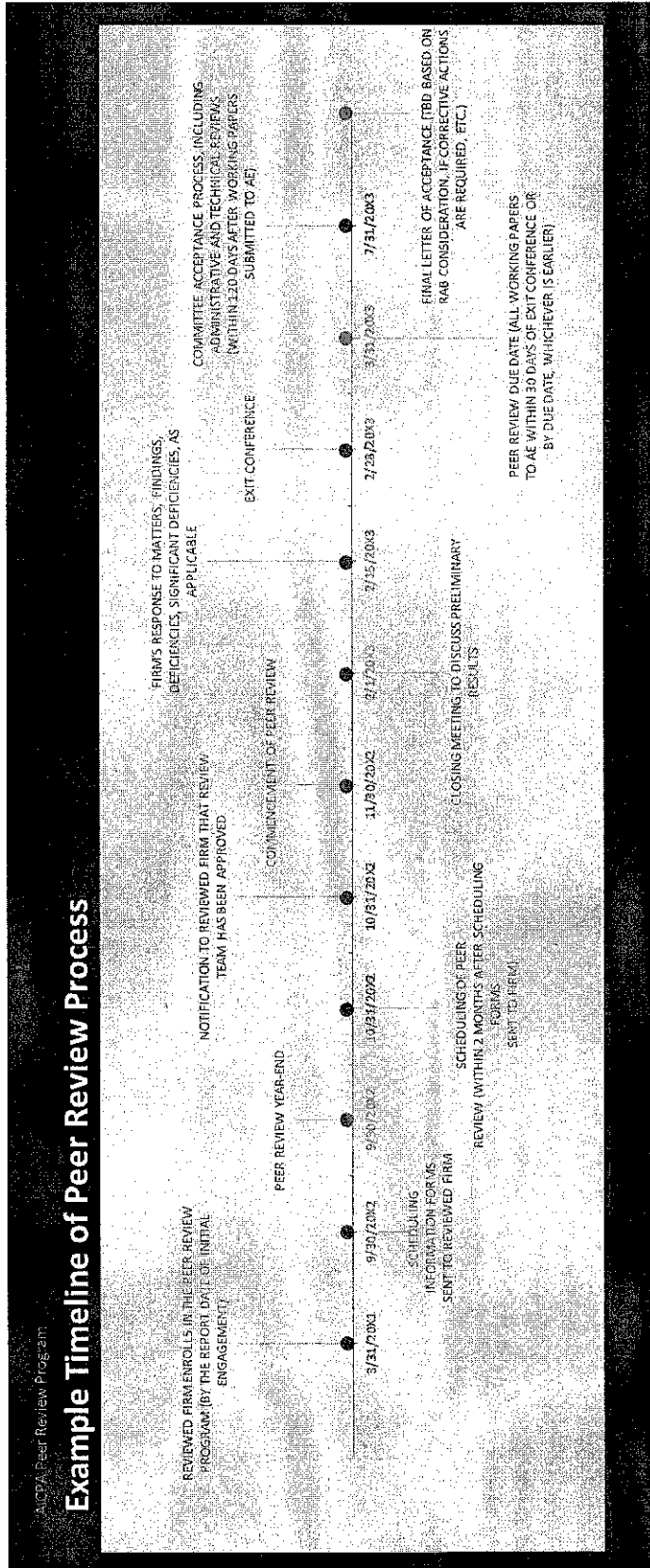
*Interpretation*—The representation letter is not intended to be onerous for the reviewed firm. Allowing reviewers to add or delete whatever they want to the representation letter would make it very difficult to maintain consistency in the program. In addition, this becomes a very important issue because a firm's failure to sign the representation letter may be considered noncooperation.

However, at a minimum the representation letter should comply with the spirit of the guidance, there is value to the reviewer of obtaining certain representations in writing. Thus, if during the review, something comes to the reviewer's attention whereby the reviewer believes the reviewed firm is providing contradicting or questionable information, the reviewer should investigate the matter further and may consider having the firm include the matter in the representation letter.

Reviewed firms and reviewers are not permitted to tailor the required representations unless otherwise stated in paragraph .208 (8) because these are considered the minimum applicable representations for both System and Engagement Reviews.

# Exhibit 1

## Example Timeline of Peer Review Process



## Exhibit 2

### Revisions to Standards and Interpretations in Numerical Order

Standard	Related Topic (Refer to Explanatory Memorandum for Details)
.09	Nonconforming Engagements
.16 - .17	FFC and Report Guidance
.38	
.39	Enhanced Peer Review of the Firm's System of Quality Control
.44	
.53 - .54	
.66 - .67	Nonconforming Engagements
.68 - .72	Enhanced Peer Review of the Firm's System of Quality Control
.73 - .74	FFC and Report Guidance
.75 - .90	Enhanced Peer Review of the Firm's System of Quality Control
.91 - .101	FFC and Report Guidance
.109	Enhanced Peer Review of the Firm's System of Quality Control
.113	FFC and Report Guidance
.115 - .117	FFC and Report Guidance
.120 - .125	
.127	
.133	Transparency of Review Status
.139	FFC and Report Guidance
.142	
.146	Transparency of Review Status
.169	Enhanced Peer Review of the Firm's System of Quality Control
.178	FFC and Report Guidance
.179	Enhanced Peer Review of the Firm's System of Quality Control
.183	
.185	
.190	FFC and Report Guidance
.194 - .197	
.207	Appendix A - Summary Standards
.208	Appendix B - Firm Representation Letter
.209 - .226	FFC and Report Guidance (Report and LOR Illustrations)
<b>Interpretation</b>	<b>Related Topic (Refer to Explanatory Memorandum for Details)</b>
17-1	FFC and Report Guidance
39-1	Enhanced Peer Review of the Firm's System of Quality Control
54d-2	
66-1	Nonconforming Engagements
67-1 and 67-2	
79-1	Enhanced Peer Review of the Firm's System of Quality Control



<b>Interpretation</b>	<b>Related Topic (Refer to Explanatory Memorandum for Details)</b>
83-1 to 83-3	Enhanced Peer Review of the Firm's System of Quality Control
84-1	
91-1	FFC and Report Guidance
94-1	
96n-1 and 96p-1	
99-1 and 99-2	
100-1	
133a-1	Transparency of Review Status
146-3	
208-1-1	Appendix B - Firm Representation Letter

**EXPOSURE DRAFT**  
**PROPOSED REVISIONS TO**  
**AICPA/NASBA UNIFORM ACCOUNTANCY ACT and**  
**NASBA UNIFORM ACCOUNTANCY ACT RULES**  
**SECTION 6(d) and Rule 6-7**

**November 2015**

**2014 – 2015 AICPA UAA Committee**

Gary McIntosh, CPA – Chair  
Gregory Burke, CPA  
Leroy Dennis, CPA  
Steven Geisenberger, CPA  
Nancy Juron, CPA  
Debbie Lambert, CPA  
Robert Mancini  
Thomas Neill, CPA  
Stephanie Peters  
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**2014 – 2015 NASBA UAA Committee**

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Karen Garrett, CPA  
Kenneth R. Odom, CPA  
John E. Patterson, Esq.  
Donovan W. Rulien, CPA  
Dan Sweetwood

**Please submit comments by February 2, 2016 to:**

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RetiredExposureDraft@aicpa.org  
and  
Louise Dratler Haberman, Vice President, Information & Research –  
lhaberman@nasba.org

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## **OVERVIEW**

In September and October, the AICPA Board of Directors and the NASBA Board of Directors each approved for exposure the accompanying changes to the Uniform Accountancy Act and the Model Rules that would provide for the creation of a Retired-CPA status. Comments on this proposal are requested by February 2, 2016.

## **BACKGROUND**

The AICPA and NASBA have worked together since 1984 to produce the Uniform Accountancy Act (UAA) and UAA Model Rules to serve as reference documents for all U.S. states and jurisdictions as they update their own statutes. They are evergreen documents that are regularly reviewed and updated by the joint AICPA/NASBA Committee, subject to the final approval of the two organizations' board of directors.

For several years, there has been a discussion as to whether or not there should be a Retired-CPA status in the UAA. Currently, there is an Inactive-CPA status, which simply indicates that a CPA has chosen not to maintain the requisite amount of continuing professional education and can no longer hold out as a CPA while his or her CPE is not current. State Boards have come to NASBA to request guidance on how to recognize both inactive and retired CPAs. With no uniform approach, a majority of states have adopted their own retired status in their statutes and/or rules. These variations in state policies have led to inconsistencies in expectations and treatment of this class of CPAs.

Coupled with these national differences in policy, demographic changes – in particular the wave of Baby Boomers retiring or preparing to retire – are further driving the debate about the need for a Retired-CPA status. Indeed, the AICPA estimates that approximately 75% of its members will be eligible to retire by 2020. Many of these retirees are well-respected business leaders in their communities who would like to find ways to continue to be of service, without necessarily remaining an active CPA in practice.

The UAA Committee has debated and reviewed this matter and is recommending the creation of a uniform Retired-CPA status. Furthermore, it would like to allow those Retired-CPAs to offer a limited array of volunteer, uncompensated services to the public.

## **THE PROPOSAL**

The UAA Committee is recommending that Inactive CPAs, at least age 55, be allowed to:

- Refer to themselves as “Retired-CPA” with appropriate registration with their State Board
- Offer volunteer tax preparation services if competent
- Participate in government-sponsored business mentoring programs if competent
- Serve on the board of a non-profit organization if competent.

All of these activities would be uncompensated and are activities that can currently be offered by non-CPAs. Examples of these volunteer programs include the IRS's Volunteer Income Tax Assistance (VITA) program and the Small Business Administration's SCORE business mentoring program. Under no circumstances could the Retired-CPA provide services that require signature and use of the CPA title.

Furthermore, Retired-CPAs would be required to affirm to State Boards of Accountancy that they: (1) understand the scope of limitations on what services they offer, (2) agree not to use their retired status in any way which could be misleading, and (3) maintain professional competency, without a specific CPE requirement, when offering any of the permitted volunteer services.

## TEXT OF PROPOSED STATUTE REVISIONS

Note: The material set out below is the proposed statutory text and commentary of the relevant UAA provisions. The proposed language to be added is underlined.

### Section 6(d):

(d) For renewal of a certificate under this Section each licensee shall participate in a program of learning designed to maintain professional competency. Such program of learning must comply with rules adopted by the Board. The Board may by rule create an exception to this requirement for certificate holders who do not perform or offer to perform for the public one or more kinds of services involving the use of accounting or auditing skills, including issuance of reports on financial statements or of one or more kinds of management advisory, financial advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters. Licensees granted such an exception by the Board must place the word "inactive" adjacent to their CPA title or PA title on any business card, letterhead or any other document or device, with the exception of their CPA certificate or PA registration, on which their CPA or PA title appears. In addition, inactive CPAs, at least 55 years of age, may, in lieu of "inactive", place the word "retired" adjacent to their CPA title or PA title on any business card, letterhead or any other document or device, with the exception of their CPA certificate or PA registration, on which their CPA or PA title appears. Nothing in this section shall preclude an inactive CPA, at least 55 years of age, from providing the following volunteer, uncompensated services; tax preparation services, participating in a government-sponsored business mentoring program, or serving on the board of directors for a non-profit organization. Licensees may only convert to inactive status if they hold a license in good standing .

*COMMENT:* A licensee is deemed competent to serve the public when he or she initially meets the requirements for licensure. However, a dynamic professional environment requires a licensee to continuously maintain and enhance his or her knowledge, skills and abilities. The board of accountancy may specify any reasonable approach to meeting this requirement using as a guideline the Statement on Standards for Continuing Professional Education (CPE) Programs jointly approved by the National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA). Furthermore, this section acknowledges that CPAs may, for a number of different reasons, place their license in inactive status and not continue with CPE requirements. In order to protect the public,

these CPAs should not use their “inactive CPA” status to continue to perform or offer to perform professional services. However, for CPAs who go inactive because they are at the end of their careers, this provision offers an exception to ensure that they can continue to offer a limited number of volunteer, uncompensated services to the public (such as participation in the Internal Revenue Service’s Volunteer Income Tax Assistance (VITA) program and the Small Business Administration’s SCORE program). These services are narrow in scope, may be offered by non-CPAs, and the provision acknowledges that these CPAs still have much to contribute to their communities during retirement. In order to protect the public the board of accountancy may consider requiring these CPAs to affirm their understanding of the limited types of activities in which they may engage while in inactive CPA status and their understanding that they have a professional duty to ensure that they hold the professional competencies necessary to offer these limited services.

## TEXT OF PROPOSED RULES REVISIONS BY ARTICLE

Note: The material set out below is the proposed rules text and commentary of the relevant UAA provisions. The proposed language to be added is underlined, and proposed deleted language is stricken-through.

### Rule 6-7 – Exceptions.

- (a) The Board may make an exception to the requirement set out in Rule 6-4(a) for a licensee who is inactive or who does not perform or offer to perform for the public one of more kinds of services involving the use of accounting or auditing skills, including the issuance of reports on financial statements or other compilation communication, or of one or more kinds of management advisory, financial advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters.
  
- (b) The Board may in particular cases make exceptions to the requirements set out in Rule 6-4(a) for reasons of individual hardship including health, military service, foreign residence, or other good cause. At the time the exception is granted and for as long as the license remains in “inactive” or “retired” status, the license, and any other license issued by another state, must be in good standing and not be revoked, suspended, refused renewal, subject to revoked or limited privileges under Section 23, or under any other sanction. Nothing herein shall be construed to limit the Board’s disciplinary authority with regards to a license in “inactive” or “retired” status.
  
- (c) Licensees granted such an exception by the Board must place the word “inactive” adjacent to their CPA title or PA title on any business card, letterhead or any other document or device, with the exception of their CPA certificate or PA registration, on which their CPA or PA title appears. Licensees granted the exception who are at least fifty-five (55) years of age may replace “inactive” with “retired.” Any of these terms must not be applied in such a manner that could likely confuse the public as to the current status of the licensee.



**(d) Licensees granted the use of “inactive” or “retired” must affirm in writing their understanding of the limitations placed on them by being given an exception from CPE.**

**(e) Licensees granted the use of “inactive” or “retired” may provide volunteer, uncompensated services to their community, to the extent provided in statute, unless such involvement could likely mislead the public as to the ongoing competence or status of such licensee. Licensees providing such volunteer, uncompensated services still have the responsibility to maintain professional competence relative to the volunteer services they provide even though excepted from the specific CPE requirements of Rule 6-4(a).**

**(f) Licensees granted the use of “inactive” or “retired” may not sign documents using CPA with any of these terms attached when rendering one of the services allowed under UAA§A6(d) [volunteer, uncompensated services to the public or serving on the board of directors for a non-profit organization]. As UAA§6(d) provides, an inactive or retired licensee cannot offer or render professional services that require their signature and use of the CPA title either with or without “inactive” or “retired” attached.**

**(g) Licensees granted an exception by the Board must comply with a re-entry competency requirement defined by the Board as set out in Rule 6-4(c) before they may discontinue use of the word “inactive” in association with their CPA or PA title.**