

# Peer Review

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In order to be admitted or to retain their membership in good standing in the American Institute of Certified Public Accountants (“AICPA”), members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to enroll in the AICPA’s Peer Review Program. State Societies of CPAs manage the Peer Review Program mandated by the AICPA. The AICPA requires each accounting firm providing attestation services (audits and reviews) to undergo peer review at least once every three (3) years. In a peer review, another accounting firm conducts an evaluation of a sample of the accounting firm’s work, in accordance with GAAP and GAAS standards.

A report is issued that discloses the outcome of the Peer Review and is rated as follows:

- *Pass*: Firm’s system of quality control adheres to the applicable professional standards in all material respects and no deficiencies are found.
- *Pass with Deficiencies*: Firm’s system of quality control adheres to the applicable professional standards in most material respects with the exception of one or more deficiencies described in the report.
- *Fail*: Significant deficiencies are found in the firm’s system of quality control.

If a firm fails to take the corrective measures required by a peer review, or if the firm has multiple failed reviews, then the State Society will recommend that the firm’s membership in the AICPA be revoked. The State Society may also recommend that the State Board of Accountancy revoke the licenses of the CPAs involved. This could be disastrous for an accounting firm’s reputation.

## **There are two (2) types of peer reviews – System and Engagement**

### *1. System Review*

A System Review includes determining whether the firm’s system of quality control for its accounting and auditing practice is designed and complies with the applicable professional standards and to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards. This type of review is for firms that perform engagements that are not subject to Public Company Accounting Oversight Board Standards (PCAOBS) permanent inspection under the Statement on Auditing Standards (SASs), the Government Auditing Standards, examination under the Statement on Standards for Attestation Engagements (SSAEs), or engagements under the PCAOB standards as their highest level of service. In a System Review, the reviewer will study and evaluate a CPA firm’s quality control policies and procedures that were in effect during the peer review year. This includes interviewing firm personnel and examining other relevant supporting documentation such as CPE records, outside consultations regarding Attestation and Audit matters and independence representations. To evaluate the effectiveness of the system and the degree of compliance with the

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system, the reviewer will test a reasonable cross-section of the firm’s engagements focusing on high-risk engagements.

## 2. Engagement Review

An Engagement Review is for firms that are not required to have a System Review and only perform services under Statements on Standards for Accounting and Review Services (SSARS) or services under the Statements on Standards for Attestation Engagements (SSAEs) not included in System Reviews as their highest level of service. The objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and representations and the applicable documentation required by professional standards.

The following chart shows which type of peer review applies to the various types of engagements:

**System Review or Engagement Review Determination**  
(Applies to engagements that are not subject to PCAOB permanent inspection)

<b>If a Firm Performs These Types of Engagements as Its Highest Level of Service, the Firm Would be Required to Have:</b>	<b>System Review</b>	<b>Engagement Review</b>
<b>Statements on Auditing Standards (SAS)</b>		
Engagements	X	
<b>Government Auditing Standards (GAS)</b>		
Financial Audits	X	
Attestation Engagements (Examination, Review, or Agreed-upon procedures under GAS)	X	
Performance Audits	X	
<b>Statements on Standards for Attestation Engagements (SSAEs)</b>		
Examinations performed under AT section 101, <i>Attest Engagements</i> (AICPA, <i>Professional Standards</i> )	X	
Reviews performed under AT section 101		X
Agreed-upon procedures performed under AT section 201, <i>Agreed-Upon Procedures Engagements</i> (AICPA, <i>Professional Standards</i> )		X

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Examinations of prospective financial statements performed under AT section 301, <i>Financial Forecasts and Projections</i> (AICPA, <i>Professional Standards</i> )	X	
Compilations of prospective financial statements and application of agreed-upon procedures to prospective financial statements performed under AT section 301		X
Examinations performed under AT section 401, <i>Reporting on Pro Forma Financial Information</i> (AICPA, <i>Professional Standards</i> )	X	
Reviews performed under AT section 401		X
Examinations performed under AT section 501, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> (AICPA, <i>Professional Standards</i> )	X	
Examinations performed under AT section 601, <i>Compliance Attestation</i> (AICPA, <i>Professional Standards</i> )	X	
Agreed-upon procedures performed under AT section 601		X
Examinations performed under AT section 701, <i>Management's Discussion and Analysis</i> (AICPA, <i>Professional Standards</i> )	X	
Reviews performed under AT section 701		X
Examinations performed under AT section 801, <i>Reporting on Controls at a Service Organization</i> (AICPA, <i>Professional Standards</i> )	X	
<b>Public Company Accounting Oversight Board (PCAOB) Standards</b>		
Audits of non-SEC issuers	X	
Attestation of non-SEC issuers	X	
<b>Statements on Standards for Accounting and Review Services (SSARS)</b>		
Reviews of financial services		X
Compilations of financial statements with disclosures		X
Compilations of financial statements without disclosures		X

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Compilations performed when the compiled financial statements are not expected to be used by a third party (management use only), when no compilation report is issued		X
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If a firm is required to have a System Review, all the engagements listed above would be subject to selection for review, ordinarily based on periods ending during the year under review, except for 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.

These sample engagement letters, checklists, and practice and consent forms are for illustrative purposes only. We recommend you use these letters and forms only after you have consulted with your attorney. Since your practice may be different than those described in the sample letters and forms, we recommend that you modify them to suit your individual practice needs. Use of these sample letters and forms is not intended to constitute a binding contract, does not constitute legal advice, and does not satisfy your obligation to do thorough research. © Gilsbar Specialty Insurance Services, L.L.C. and Date.