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# Peer Review Manual: Organizational Structure and Functions - Standards - State Society and Association - Guidelines - Administrative Procedures

American Institute of Certified Public Accountants. Private Companies Practice Section

AICPA

# Division for CPA Firms Private Companies Practice Section

# PEER REVIEW MANUAL

Organizational Structure and Functions
Standards ■ State Society and Association Guidelines ■ Administrative Procedures

American Institute of Certified Public Accountants

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# Preface

A major requirement of the AICPA Private Companies Practice Section is that member firms submit to a periodic peer review of their accounting and audit practices. This publication contains the standards, policies, and procedures that pertain to that requirement.

The contents represent the collective effort of numerous individuals who are committed to the objectives of the section. I wish to acknowledge with appreciation the contribution that they have made on behalf of the members of the private companies practice section of the AICPA Division for CPA Firms.

Wallace E. Olson
President

March 1979

# Organizational Structure and Functions of the Private Companies Practice Section of the AICPA Division for CPA Firms

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# Organizational Structure and Functions of the Private Companies Practice Section of the AICPA Division for CPA Firms

## I. Source of Authority

The section was established by a resolution of the Council of the AICPA adopted on September 17, 1977.

## II. Name

The name of the section shall be the "Private Companies Practice Section" of the AICPA Division for CPA Firms.

## III. Objectives

The objectives of the section shall be to achieve the following:

1. Improve the quality of services by CPA firms to private companies through the establishment of practice requirements for member firms.
2. Establish and maintain an effective system of self-regulation of member firms by means of mandatory peer reviews, required maintenance of appropriate quality controls, and the imposition of sanctions for failure to meet membership requirements.
3. Provide a better means for member firms to make known their views on professional matters, including the establishment of technical standards.

## IV. Membership

*1. Eligibility and Admission of Members*

All CPA firms a majority of whose partners, shareholders, or proprietors are members of the AICPA are eligible for membership in the section. To become a member, a firm must submit to the section a written application agreeing to abide by all of the requirements for membership and submitting such nonfinancial information about the firm as the executive committee may require.

The membership of the section shall consist of all firms which meet the admission requirements and continue to maintain their memberships in good standing.

*2. Termination of Members*

Membership of a CPA firm may be terminated—

*a.* By submission of a resignation providing the firm is not the subject of a pending investigation or recommendation of the peer review committee for sanctions or other disciplinary action by the executive committee.

*b.* By action of the executive committee for failure to adhere to the requirements of membership.

*3. Requirements of Members*

Member firms shall be obligated to abide by the following:

*a.* Ensure that a majority of the members of the firm are CPAs, that the firm can legally engage in the practice of public accounting, and that each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA.

*b.* Adhere to quality control standards established by the AICPA Quality Control Standards Committee.

*c.* Submit to peer reviews of the firm's accounting and audit practice every three years or at such additional times as designated by the executive committee, the reviews to be conducted in accordance with review standards established by the section's peer review committee.

*d.* Ensure that all professionals in the firm resident in the United States, including CPAs and non-CPAs, participate in at least twenty hours of continuing professional education every year and in at least one hundred twenty hours every three years (see Appendix 1).

*e.* Maintain such minimum amounts and types of accountants' liability insurance as shall be prescribed from time to time by the executive committee (see Appendix 2).

*f.* Pay dues as established by the executive committee, and comply with the rules and regulations of the section as established from time to time by the executive committee and with the decisions of the executive committee in respect of matters within its competence, cooperate with the peer review committee in connection with its duties, including disciplinary proceedings, and comply with any sanction which may be imposed by the executive committee.

## V. Governing Bodies

The activities of the section shall be governed by an executive committee having senior status within the AICPA with authority to carry out the activities of the section. Such activities shall not conflict with the policies and standards of the AICPA.

At the discretion of the executive committee, all activities of the section may be subject to the oversight and public reporting thereon by a public oversight board appointed by the executive committee with the approval of the AICPA Board of Directors.

## VI. Executive Committee

1. *Composition and Terms*

*a.* The executive committee shall be composed of representatives of twenty-one member firms.

*b.* The terms of executive committee members shall be for three years with initial staggered terms to provide for seven expirations each year.

*c.* Executive committee members shall continue in office until their successors have been appointed.

2. *Appointment*

*a.* The members of the executive committee shall be appointed by the AICPA chairman with the approval of the AICPA Board of Directors.

*b.* All appointments after the initial executive committee is established shall also require approval of the then existing executive committee.

*c.* Nominations for appointments of representatives of member firms to the executive committee shall be provided to the chairman of the AICPA by a nominating committee. The nominating committee shall be elected by the AICPA Council and shall consist of individuals drawn from seven of the member firms of the section. It is intended that nominations shall adhere to the principle that the executive committee shall at all times include at least fourteen representatives of firms with no SEC clients.

*3. Election of Chairman*

The chairman of the executive committee shall be elected from among its members to serve at the pleasure of the executive committee but in no event for more than three one-year terms.

*4. Responsibilities and Functions*

The executive committee shall—

*a.* Establish general policies for the section and oversee its activities.

*b.* Amend requirements for membership as necessary, but in no event shall such requirements be designed so as to unreasonably preclude membership by any CPA firm.

*c.* If necessary, establish budgets and dues requirements to fund activities of the section such as special projects or a public oversight board. Staffing of the section will be provided for in the AICPA general budget. Any dues shall be scaled in proportion to the size of member firms.

*d.* Determine sanctions to be imposed on member firms based upon recommendations of the peer review committee of the section.

*e.* Receive, evaluate, and act upon other complaints received with respect to actions of member firms.

*f.* If the executive committee decides to appoint a public oversight board, select public persons to serve on it and establish its functions and compensation with the approval of the AICPA Board of Directors.

*g.* Appoint persons to serve on such committees and task forces as necessary to carry out the functions of the section.

*h.* Make recommendations to other AICPA boards and committees for their consideration.

*i.* Provide comment to the public oversight board and the SEC practice section on matters under the board's consideration that would affect members of the private companies practice section.

*j.* Organize and conduct annual regional conferences covering appropriate practice subjects.

*5. Quorum, Voting, Meetings, and Attendance*

*a.* Fourteen members of the executive committee or their designated alternates must be present and represented to constitute a quorum.

*b.* Eleven affirmative votes shall be required for action on all matters except for items 4*b* and *d* under "Responsibilities and Functions," for which fourteen affirmative votes shall be required.

*c.* Meetings of the executive committee shall be held at such time and in such locations as the chairman shall determine.

*d.* Representatives of member firms of the section may attend meetings of the executive committee as observers under rules established by the executive committee except when the committee is considering disciplinary matters.

## VII. Public Oversight Board

*1. Type of Members, Selection, and Appointment*

If it chooses, the executive committee may, with the approval of the AICPA Board of Directors, select and appoint a five-member public oversight board and establish its functions and compensation. Members of such board shall be drawn from among prominent individuals of high integrity and reputation including but not limited to former public officials, lawyers, bankers, securities industry executives, educators, economists, and business executives.

*2. Chairman and Terms of Members*

*a.* The chairman shall be appointed by the executive committee.

*b.* The terms of members shall be for a period of three years renewable at the pleasure of the executive committee.

*3. Responsibilities and Functions*

The executive committee may request a public oversight board to—

*a.* Monitor and evaluate the regulatory and sanction activities of the peer review and executive committees to ensure their effectiveness.

*b.* Determine that the peer review committee is ascertaining that firms are taking appropriate action as a result of peer reviews.

*c.* Conduct continuing oversight of all other activities of the section.

*d.* Make recommendations to the executive committee for improvements in the operations of the section.

*e.* Publish periodic reports on results of its oversight activities.
*f.* Engage staff to assist in carrying out its functions.
*g.* Have the right for any or all of its members to attend any meetings of the executive committee.

## VIII. Peer Reviews

*1. Review Requirements*

Peer reviews of member firms shall be conducted every three years or at such additional times as designated by the executive committee.

*2. Peer Review Committee*

*a. Composition and appointment.* The peer review committee shall be a continuing committee appointed by the executive committee and shall consist of fifteen individuals selected from member firms.

*b. Responsibilities and functions.* The peer review committee shall—

(1) Administer the program of peer reviews for member firms.
(2) Establish standards for conducting reviews.
(3) Establish standards for reports on peer reviews and publication of such reports.
(4) Recommend sanctions and other disciplinary decisions (including whether the name of the affected firm is published) to the executive committee.
(5) Keep appropriate records of peer reviews which have been conducted.

*3. Peer Review Objectives*

The objectives of peer reviews shall be to determine that—

*a.* Member firms, as distinguished from individuals, are maintaining and applying quality controls in accordance with standards established by the AICPA Quality Control Standards Committee. Reviews for this purpose shall include a review of working papers rather than specific "cases." (The existence of "cases" in a firm might raise questions concerning its quality controls.)
*b.* Member firms are meeting membership requirements.

## IX. Sanctions Against Firms

*1. Authority to Impose Sanctions*

The executive committee shall have the authority to impose sanctions on member firms either on its own initiative or on the basis of recommendations of the peer review committee and shall establish procedures designed to assure due process to firms in connection with disciplinary proceedings.

*2. Types of Sanctions*

The following types of sanctions may be imposed on member firms for failure to maintain compliance with the requirements for membership:

*a.* Require corrective measures by the firm including consideration by the firm of appropriate actions with respect to individual firm personnel.
*b.* Additional requirements for continuing professional education.
*c.* Accelerated or special peer reviews.
*d.* Admonishment, censure, or reprimand.
*e.* Monetary fines.
*f.* Suspension from membership.
*g.* Expulsion from membership.

## X. Financing and Staffing of Section

*1. Section Staff and Meeting Costs*

*a.* The president of the AICPA shall appoint a staff director and assign such other staff as may be required by the section.
*b.* The costs of the section staff and normal meeting costs shall be paid out of the general budget of the AICPA.

*2. Public Oversight Board and Special Projects*

*a.* The costs of a public oversight board, if appointed, and its staff shall be paid out of the dues of the section.
*b.* The costs of special projects shall be paid out of the dues of the section.

## XI. Relationship to Other AICPA Segments

Nothing in the organizational structure and functions of this section shall be construed as taking the place of or changing the operations of existing senior committees of the AICPA or the status of individual CPAs as members of the AICPA.

## Revisions

Through October 31, 1978

| | *Section* | *Authority for change* | *Date* |
|---|---|---|---|
| IV. 1. | Eligibility and Admission of Members | PCPS executive committee (Conforming Change) | December 1, 1977 |
| IV. 3. | Requirements of Members | | |
| | IV. 3. *a* | PCPS executive committee | December 1, 1977 |
| | IV. 3. *d* | PCPS executive committee | April 27, 1978 |
| VI. 4. | *i–j* Executive Committee—Responsibilities and Functions | AICPA Board of Directors | September 21, 1978 |

# APPENDIX 1—Continuing Professional Education Requirements Private Companies Practice Section

## I. Basic Requirement

**A.** The purpose of the basic continuing professional education requirement is to help professionals in member firms maintain and enhance their professional knowledge and competence. The requirement applies to all professionals in member firms, including CPAs and non-CPAs, who are in the United States. All such professionals are required to participate in at least twenty hours of qualifying continuing professional education every year and in at least one hundred twenty hours every three years. Exceptions to this requirement are set forth in sections I. D. and II, below. Compliance with this requirement will be determined annually for the three most recent educational years. Professionals are expected to maintain the high standards of the profession by selecting quality education programs to fulfill their continuing education requirements.

**B.** Persons classified as "professional staff" (including partners) in a member firm's annual report to the private companies practice section (PCPS) shall be considered "professional" for purposes of these continuing professional education policies.

**C.** Each member firm may select any year-long period (educational year) for applying these continuing professional education policies. The educational year may differ from the member firm's fiscal year; however, both periods are to be specified in the annual education report filed with the private companies practice section (see section VI of these policies).

**D.** The following requirements apply to those professionals who were not employed by the member firm during the entire three educational years covered by the firm's annual education report:

1. Professionals who were not employed during the entire most recent educational year being reported upon are not required to have participated in any continuing professional education.
2. Professionals who were employed during the entire most recent educational year being reported upon, but not during the entire most recent two educational years, are required to

have participated in at least twenty hours of qualifying continuing professional education during the most recent educational year.

3. Professionals who were employed during the entire most recent two educational years being reported upon, but not during the entire most recent three educational years, are required to have participated in at least twenty hours of qualifying continuing professional education during each of the two most recent educational years.

E. Any professional who has not participated in the required number of continuing professional education hours during the period covered by the member firm's annual education report shall have the two months immediately following that period to make up the deficiency. Any continuing professional education hours claimed during the two-month period to make up a deficiency may not also be counted toward the twenty-hour requirement of the educational year in which they are taken. Further, any continuing professional education hours claimed during the two-month period to make up any deficiency for the preceding three educational years may not also be counted toward the one hundred twenty-hour requirement of any three-educational-year period which does not include at least one of the three educational years in the three-educational-year period for which the deficiency was made up.

## II. Effective Date and Transition

These policies are effective January 1, 1978. Except as stated below, a member firm shall be subject to these policies as of the beginning of its first educational year. For each member firm, this year shall begin during the first full year after it becomes a member of the private companies practice section.

During a member firm's first two educational years, all professionals must participate in at least twenty hours of continuing professional education each year, except as provided in section I. D.

During a member firm's first five educational years, it or an individual professional need maintain or retain the records, data, or evidence of attendance or completion referred to in sections VI. B, C, and D, only since the beginning of the member firm's first educational year.

## III. Programs Which Qualify

**A.** The overriding consideration in determining whether a specific program qualifies as acceptable continuing education is that it be a formal program of learning which contributes directly to the individual's professional competence.

**B.** Continuing education programs of the type described in section III. C will qualify if—

1. An agenda or outline of the program is prepared in advance and retained. The agenda or outline should indicate the name(s) of the instructor(s), the subject matter covered, and the date(s) and length of the program.
2. The educational portion of the program is at least one hour (fifty-minute period) in length.
3. A record of attendance is maintained.
4. The program is conducted by a qualified instructor or discussion leader. A qualified instructor or discussion leader is anyone whose background, training, education, or experience is appropriate for leading a discussion on the subject matter at the particular program.

**C.** Attendance at the following formal group programs will qualify if they contribute directly to the individual's professional competence and meet the requirements set forth in B, above:

1. Professional education and development programs of national, state, and local accounting organizations.
2. Technical sessions at meetings of national, state, and local accounting organizations and their chapters.
3. University or college courses (both credit and noncredit courses).
4. Formal in-firm education programs.
5. Programs of other organizations (accounting, industrial, professional, and so forth).
6. Committee meetings of professional societies, *that are structured as educational programs.*
7. Dinner, luncheon, and breakfast meetings, *that are structured as educational programs.*
8. Firm meetings for staff and/or management groups, *that are structured as educational programs.*

   Portions of such meetings devoted to administrative and firm matters often cannot be included. For example, portions devoted to the communication and application of a professional policy or procedure may qualify. However, portions devoted to member firm financial and operating matters generally would not qualify.

**D.** Formal correspondence or other individual study programs which require registration and whose sponsors provide evidence of satisfactory completion will qualify in the year in which the program is completed with the amount of credit to be determined as specified in section V. B below.

**E.** Writing published books and articles will qualify in the year in which they are published, provided they contribute directly to the professional competence of the author.

**F.** Serving as an instructor or discussion leader at continuing education programs will qualify to the extent it contributes directly to the individual's professional competence.

## IV. Subjects Which Qualify

The following general subject matters are acceptable:

- Accounting
- Auditing
- SEC Practice
- Taxation
- Management Advisory Services
- Computer Science
- Communication Arts
- Mathematics, Statistics, Probability, and Quantitative Applications in Business
- Economics
- Business Law
- Functional Fields of Business—
  - Finance
  - Production
  - Marketing
  - Personnel Relations
  - Business Management and Organization
- Business Environment
- Specialized Areas of Industry, for example,
  - Film Industry
  - Real Estate
  - Farming

Administrative Practice (see section III. C. 8, above), for example,

Engagement Letters
Economics of an Accounting Practice
Practice Management
Personnel

Areas other than those listed above may be acceptable if the member firm or the individual can demonstrate that they contribute directly to the individual's professional competence.

## V. Measurement of Continuing Professional Education Hours

**A.** Credit for participating in formal group programs of learning (that is, those specified in section III. C) which meet the requirements set forth in section III. B shall be determined as follows:

1. Only class hours or the equivalent (and not student hours devoted to preparation) will be counted unless the preparation meets the requirements in section III. D.
2. For university or college courses which the professional successfully completes for credit, each semester hour credit shall equal fifteen hours of continuing professional education and each quarter hour credit shall equal ten hours.
3. Continuing education credit will be given for whole hours only, with a minimum of fifty minutes constituting one hour. For example, one hundred minutes of continuous instruction would equal two hours; however, more than fifty minutes but less than one hundred minutes of continuous instruction would count for only one hour. For continuous programs, when individual segments are less than fifty minutes, the sum of the segments may be considered one total program. For example, five thirty-minute presentations equal one hundred fifty minutes which would equal three hours of continuing professional education credit.
4. Professionals who arrive late, leave before a program is completed, or otherwise miss part of a program are expected to claim credit only for the actual time they attend the program.

**B.** The credit hours for formal correspondence or other individual study programs recommended by the program sponsor will be granted provided the requirements in section III. D are met and the sponsor has—

1. Pretested the program to determine average completion time.

2. Recommended the credit be equal to one-half the average completion time.

If the program sponsor has not done both (1) and (2) above, a participant may claim credit, in whole hours only, in an amount equal to one-half the time actually spent on the program. For example, a participant who takes six hundred minutes to complete such a formal correspondence or individual study program may claim six hours of continuing professional education credit.

**C.** Credit for one hour of continuing professional education will be granted for each hour completed as an instructor or discussion leader to the extent it contributes directly to the individual's professional competence.

In addition, an instructor or discussion leader may claim up to two hours of credit for advance preparation for each hour of teaching, provided the time is actually devoted to preparation. For example, an instructor may claim up to eighteen hours of credit for teaching three hundred minutes (six hours for teaching and twelve hours for preparation). Credit (for either preparation or presentation) will not be granted for repetitious presentations of a group program.

The maximum credit as an instructor or discussion leader (including time devoted to preparation) may not exceed sixty hours during any three-educational-year period.

**D.** Credit for one hour of continuing professional education will be granted for each hour devoted to writing a published book or article provided it contributes directly to the author's professional competence.

The maximum credit for published books and articles may not exceed thirty hours during any three-educational-year period.

## VI. Reporting and Supporting Evidence

**A.** Each member firm must file an annual education report with the private companies practice section within four months after the completion of each educational year. The report shall indicate whether all professionals meet the applicable continuing professional education requirements during the educational years being reported upon (see sections I and II). If not all of them did, the report shall indicate the number who did not. The report shall also indicate the number of professionals by level (senior, manager, partner, and so forth) who had not met the applicable requirements by the end of the two-month grace period (see section I. E) and the reasons why they had not met the requirements.

**B.** Except as provided in section II, above, each member firm must maintain appropriate records for each professional for its five most recent educational years. These records should contain the following information for each continuing professional education activity for which credit is claimed for the individual:

1. Sponsoring organization.
2. Location of program (city/state).
3. Title of program and/or description of content.
4. Dates attended or completed.
5. Continuing professional education hours claimed.

**C.** Except as provided in section II, above, each member firm must retain for at least five educational years the following data for programs which it sponsors:

1. A record of completion or attendance, indicating the number of hours of continuing professional education credit for each participant.
2. An agenda or outline of the program, indicating the name(s) of the instructor(s), the subject matter covered, and the date(s) and length of the program.
3. The location(s) of the program (city/state).
4. The materials (any reading materials, problems, case studies, visual aids, instructors' manuals, and so forth) used in the program.

**D.** For continuing professional education activities which are not sponsored by the member firm, either the firm or the individual professional must retain appropriate evidence of attendance or completion for at least five educational years, except as provided in section II above. Such evidence might include—

1. For a university or college course which is successfully completed for credit, a record of the grade the person received.
2. For other formal group programs, an outline and evidence of attendance or of having been the instructor or discussion leader.
3. For formal correspondence or other individual study programs, the evidence of satisfactory completion provided by the sponsor.
4. For published books and articles, a copy of the book or of the journal in which the article appeared.

## APPENDIX 2—Minimum Liability Insurance Requirement Private Companies Practice Section AICPA Division for CPA Firms

### Introduction

The private companies practice section membership requirements, as set forth in section IV. 3, include a provision that member firms are obligated to "maintain such minimum amounts and types of accountants' liability insurance as shall be prescribed from time to time by the executive committee."

### Requirement

In connection with this membership requirement, the executive committee at its meetings on March 6 and April 27, 1978, set the following minimum amount of liability insurance coverage that member firms are obligated to carry:

> $50,000 of liability insurance coverage per qualified staff person (defined as all personnel except receptionists and messengers), with a minimum of $250,000 and a maximum of $5,000,000.

The executive committee shall review this requirement periodically to determine whether any modification is required in light of future developments in the profession.

# Standards for Performing and Reporting on Peer Reviews

# NOTICE TO READERS

The statement entitled *Standards for Performing and Reporting on Peer Reviews* was adopted unanimously by the members of the peer review committee of the private companies practice section of the AICPA Division for CPA Firms (the committee). The committee is authorized to establish standards for performing and reporting on peer reviews in the section's charter entitled "Organizational Structure and Functions of the Private Companies Practice Section," adopted by resolution of Council of the AICPA.

Reviewers must adhere to the standards contained herein when conducting a review under the section's peer review program. The committee will review these standards from time to time to determine whether any modification, update, or amendment is required in light of future developments in practice.

## PRIVATE COMPANIES PRACTICE SECTION

### Peer Review Committee (January 1979)

James P. Luton, Jr., *Chairman*
Lawrence D. Berdon
Dennis R. Carson
Sam I. Diamond, Jr.
Robert L. Eichel
David S. Eiger
Leon R. Graf
Morris I. Hollander
Harvey R. Kallick
H. Palmer Melton, Jr.
Philip W. Presnell
John T. Schiffman
Edward L. Strother
Noel D. Thorn
Douglas C. Warfield

*Advisers:*
Lewis Oyler
Dieter A. Thiemann

*AICPA Staff:*
Thomas P. Kelley, *Managing Director, Technical*
John R. Mitchell, *Director Private Companies Practice Section*
John E. Baumgartner, *Assistant Director, Private Companies Practice Section*
Morris W. Wishnack, *Manager, Quality Control Review*

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# Standards for Performing and Reporting on Peer Reviews

## Introduction

The membership requirements of the private companies practice section (PCPS) of the AICPA Division for CPA Firms provide that a member firm must submit to a peer review of its accounting and audit practice and of its compliance with section membership requirements every three years or at such additional times as designated by the section's executive committee (see articles IV. 3 and VIII of the "Organizational Structure and Functions of the Private Companies Practice Section of the AICPA Division for CPA Firms," adopted September 17, 1977). The peer reviews so conducted are subject to the administrative control of the peer review committee (the committee), which may, at its discretion, appoint an evaluation panel to review any peer review conducted for the purposes of meeting PCPS membership requirements.

This document contains the committee-developed standards for performing and reporting on peer reviews for the PCPS. Peer reviews intended to meet the section's membership requirements for mandatory peer review must be conducted in accordance with these standards.

As used herein, the term "review team" encompasses a team that is—

1. Appointed or authorized by the committee (a panel review).
2. Formed by a member firm engaged by the firm under review (a firm-on-firm review).
3. Formed by another authorized entity engaged by the firm under review, such as a state society or association of CPA firms.

If a firm is a member of both the SEC practice section and the private companies practice section, a peer review performed to meet the SECPS membership requirements serves to meet the PCPS membership requirements.

The standards encompassed herein are applicable to reviewing entities (review teams) and to individual reviewers (review team members) who perform or are involved in performing peer reviews.

The purpose of a firm's considering elements of quality control and adopting quality control policies and procedures for its accounting and audit practice is to provide the firm with reasonable assurance of conforming with the standards of the profession in the conduct of its accounting and audit practice.[1] An additional purpose is to provide documentation or other evidential matter that will facilitate a subsequent peer review.

The quality control policies and procedures adopted by a member firm will depend in part upon the firm's organizational structure, including such factors as its size, the degree of operating autonomy appropriately allowed its personnel and its practice offices, the nature of its practice, and its administrative controls.

A member firm is required to make available to the review team the documented quality control policies and procedures incorporated in its quality control system.[2] This requirement is met by furnishing one of the following to the review team:

1. A quality control document that provides a detailed description of the firm's quality control policies and procedures.
2. A summary statement of the firm's quality control policies and procedures with references to supporting information contained in manuals, memoranda, or other literature of the firm.

In addition to discussing the firm's quality control policies and procedures, a quality control document or summary may also contain a description of the firm's organization (including an organization chart), a discussion of its philosophy of practice, and other descriptive material relating to the elements of quality control and the firm's operations.

## Performing Peer Reviews

*Objectives of the Peer Review*

A peer review is designed to establish that the quality control policies and procedures of the reviewed firm conform with the standards of the profession and that the reviewed firm is complying with PCPS membership requirements. It is intended to evaluate—

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[1] "Accounting and audit practice," as referred to in this document, encompasses all accounting and audit services for which standards have been established for the profession, including accounting services resulting in association of the firm's name with unaudited financial statements.

[2] The system of quality control maintained by a firm encompasses the firm's organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of conforming to the standards of the profession in the conduct of the firm's accounting and audit practice.

- Whether a reviewed firm's system of quality control for its accounting and audit practice is appropriately comprehensive and suitably designed for the reviewed firm.
- Whether the reviewed firm's quality control policies and procedures are adequately documented and communicated to professional personnel.[3]
- Whether the reviewed firm's quality control policies and procedures are being complied with.[4]
- Whether a reviewed firm is complying with the membership requirements of the PCPS.

This evaluation is to be accomplished through the following procedures:

1. Study and evaluation of a reviewed firm's quality control system.
2. Review of the firm's compliance with its quality control policies and procedures by—
    - Review of each organizational or functional level within the firm.
    - Review of selected engagement working paper files and reports.
3. Review of appropriate documentation evidencing the firm's compliance with PCPS membership requirements.

Upon completing a peer review, the review team communicates its findings to the reviewed firm and prepares a written report in accordance with the standards for reporting on peer reviews.

*General Considerations*

*Confidentiality.* The peer review is to be conducted with due regard for the confidentiality requirements set forth in the AICPA Code of Professional Ethics. Information concerning the reviewed firm or any of its clients that is obtained as a consequence of the review is confidential and should not be disclosed

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[3] As used in this context, documentation refers to the reviewed firm's documented quality control policies and procedures as well as to supporting materials presented to the review team as evidence of compliance with those policies and procedures.

[4] As used in this document, compliance means adherence to prescribed policies or procedures in the substantial majority of situations. It does not imply adherence to prescribed policies or procedures in every case.

by review team members to anyone not associated with the review.[5]

It is the responsibility of the reviewed firm to take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality. Rule 301 of the AICPA Code of Professional Ethics contains an exception to the confidentiality requirements so that review of a member's professional practice under AICPA authorization is not prohibited. Some state statutes or ethics rules promulgated by state boards of accountancy, however, may not clearly provide a similar exception regarding client confidentiality.[6] Accordingly, a reviewed firm may wish to consult its legal counsel to determine whether any action is required to permit client engagement files to be made available to the review team.

*Independence.* Independence with respect to the reviewed firm must be maintained by the reviewing firm, by review team members, and by specialists who may participate in segments of the review. The AICPA Code of Professional Ethics does not specifically consider relationships between reviewers, reviewed firms, and clients of reviewed firms. However, the concepts in the code pertaining to independence should be considered. Reciprocal reviews are not permitted. This prohibition is applicable to a reviewing firm, and for a panel review, to the firm with which the review captain or members of an advisory committee are associated. (See "Organization of the Review Team" for explanation of the term "advisory committee.")

In assessing the possibility of an impairment of independence, reviewing firms should consider any family or other relationships between the senior managements at organizational and functional levels of the reviewing firm and the firm to be reviewed.

Some firms perform engagement correspondent work for other firms. The correspondent firm's fee may be paid either by the referring firm or directly by the client. In either situation, if the fees for the correspondent work are material to either the reviewed firm or the reviewing firm, independence for purposes of this program is impaired.

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[5] The expression "associated with the review," as used in this document, includes members, designees, and staffs of the PCPS executive and peer review committees.

[6] The AICPA maintains a current listing of states that do not clearly provide an exception to the confidentiality requirements discussed in this section. Such information may be obtained upon request.

Some reviewers or their firms may have continuing arrangements with other firms whereby fees, office facilities, or professional staff are shared. In these situations, independence for purposes of the program is impaired.

*Conflict of interest.* A reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm or with respect to those of its clients that are subjects of engagement review. The personnel of a reviewing firm and the reviewing firm itself are not precluded from owning securities of clients of the reviewed firm. However, since confidential information may be obtained during the course of a review, a review team member shall not own securities of a reviewed firm's client that is the subject of an engagement review by that member. In addition, the effect of family (close kin, remote kin) and other relationships and the possible resulting conflict of interest must be considered when assigning team members to review individual engagements.

*Competence.* In determining the composition of a review team, consideration should be given to the areas to be reviewed and the expertise required for various segments of the review.

A review team must include an appropriate number of members who have knowledge of the type of practice to be reviewed. If the clients selected for engagement review include any in specialized industries, the review team must include member(s) having knowledge of such industries. If the clients selected for review include any that must file periodic reports with a regulatory body, the review team must include member(s) having knowledge of the current rules and regulations of such regulatory body.

*Due care.* Due care is to be exercised by the review team in the performance of the review and in the preparation of the report. Due care for peer reviews imposes an obligation on each review team member to fulfill assigned responsibilities in a professional manner similar to that of an independent auditor examining financial statements.

*Organization of the Review Team*

A review team may be formed as follows:

1. Appointed or authorized by the committee (a panel review).
2. Formed by a member firm engaged by the firm under review (a firm-on-firm review).

3. Formed by another authorized entity engaged by the firm under review, such as a state society or an association of CPA firms.

A review team may consist of the following members:

1. A review captain alone.
2. A review captain and one or more review team members.
3. A review captain, an advisory committee, and one or more other review team members.

In some instances a review team may consist of only one reviewer because of the size and nature of practice of the firm to be reviewed. For the purposes of this document, an individual serving as a sole reviewer or as leader of a review team shall be called a review captain. Whether serving alone or assisted by one or more other reviewers, a review captain directs the organization and conduct of the review, and is responsible for the preparation of a report on the review and, if deemed necessary, a letter on matters that may require corrective action. If more than one reviewer is assigned to a review engagement, the review captain guides and supervises the other members of the review team.

As necessary, the review captain may designate a member of the review team to supervise the reviewers at each organizational level of the reviewed firm. In the case of the review of a multi-office firm, the review captain designates an in-charge reviewer for each practice office selected for review. The in-charge reviewer, subject to the overall direction of the review captain, directs the conduct of the review and supervises the work performed at a particular office.

If he considers it necessary in the case of a large review engagement, the review captain may appoint an advisory committee from among the members of the review team to assist in administering the review and to participate in evaluating the findings of the review team.

*Qualifications for Service as a Reviewer*

The nature and complexity of a peer review require the exercise of professional judgment. Accordingly, individuals serving as reviewers must be CPAs and must possess current knowledge of accounting and audit matters. A reviewer shall be currently active in public practice at a supervisory level, for example (1) as a sole practitioner or (2) as a partner or manager or as an equivalent supervisory person with a firm, or as an equivalent supervisory person with a professional corporation.

A review captain assigned to a review other than a firm-on-firm review must be a member of a PCPS member firm.

A review team member assigned to a review other than a firm-on-firm review must be from a firm that is a member of the AICPA Division for CPA Firms.

A review captain is to be currently active in the audit function and is to be either a sole practitioner or a partner or equivalent member of a professional corporation.

In situations where required by the nature of the reviewed firm's practice, individuals who need not be CPAs but who have expertise in specialized areas may assist the review team. For example, computer specialists, statistical sampling specialists, actuaries, or educators expert in continuing professional education may participate in certain segments of the review.

### *Qualifications for Service as a Reviewing Firm*

When a member firm is requested to perform a peer review engagement, the criteria discussed below should be considered by the firm in determining its capability to perform the peer review prior to accepting the engagement. Individuals selected by the member firm to participate as review team members in a review engagement should possess the requisite qualifications for reviewers or specialists.

To conduct a review meeting private companies practice section requirements of a firm that is a member of both the private companies practice section and the SEC practice section, the reviewing firm must be a member of either or both sections.

To conduct a review of a firm that is a member of only the private companies practice section, the reviewing firm must be a member of the PCPS.

*Capability.* A reviewing firm must determine its capability to perform a peer review. The reviewing firm must have available reviewers with appropriate levels of expertise and experience to perform the review. Prior to accepting an engagement, the reviewing firm should obtain information about the firm to be reviewed, including certain operating statistics pertaining to size and type of practice.

In determining its capability to perform the engagement, the reviewing firm should consider the size of the firm to be reviewed in relation to its own size. A reviewing firm must also recognize that the performance of a peer review may demand a substantial time commitment, especially from its supervisory personnel.

In some instances, a reviewing firm may use a correspondent member firm to perform a portion of a peer review engagement. In such cases, the principal reviewing firm must (1) be satisfied regarding the capability of the correspondent, (2) assume responsibility for the work performed by the correspondent, (3) adopt appropriate measures to ensure the coordination of its activities with the correspondent, and (4) make arrangements to satisfy itself regarding the work performed by the correspondent. The report on the review should not make reference to the correspondent firm's participation in the review.

In order to determine its capability to perform its portion of a peer review, a correspondent member firm should also consider the requirements discussed here prior to accepting an engagement.

*The Field Review*

*General considerations.* The field review should include the following procedures:

1. Study and evaluation of the reviewed firm's quality control system.
2. Review of the firm's compliance with its quality control policies and procedures by—
    - Review of each organizational or functional level within the firm.
    - Review of selected engagement working paper files and reports.
3. Review of appropriate documentation evidencing the firm's compliance with PCPS membership requirements.
4. Preparation of a written report on the results of the review.

For a multi-office firm, the review would include visits to the firm's executive office and selected practice offices.

*Prereview documentation.* Prior to the beginning of a panel review, the parties must formally document the terms and conditions of the engagement. For all other reviews, the parties may wish to formally document the terms and conditions of the engagement.

*Scope of the review.* The scope of the review should cover a firm's accounting and audit practice. Other segments of a firm's practice, such as tax services or management advisory services, are not encompassed by the scope of the review except to the extent (1) they are associated with financial statements or (2) they relate to membership requirements. For example, reviews of tax provisions and accruals contained in financial statements are included in the scope of the review.

The review should cover a current period of one year to be mutually agreed upon by the reviewed firm and the review captain. It is anticipated that quality control policies and procedures may be revised, updated, or amended during the period under review to recognize changing conditions and/or new professional standards or membership requirements. The scope of the review should encompass the quality control policies and procedures in effect and compliance therewith for the period under review. Client engagements subject to selection for review would be those with years ending during the period under review unless a more recent report has been issued at the time the review team selects engagements.

The review will be directed to the professional aspects of the reviewed firm's accounting and audit practice; it will not include the business aspects of that practice. It may be difficult, however, to distinguish between these aspects of the practice since they may overlap. For example, in evaluating whether the supervision of an engagement was adequate, review team members would consider budgeted and actual time spent on the engagement by various categories or classifications of personnel but would not inquire about fees billed to the client or the relationship of fees billed to time accumulated at usual or standard billing rates.

Further, when reviewing policies and procedures for advancement, review team members would concern themselves with whether professional personnel were promoted on the basis of demonstrated competence and whether criteria for admission of individuals to the firm give appropriate weight to professional qualifications, but would not review compensation of professional personnel.

Review team members will not have contact with or access to any client of the reviewed firm in connection with the review.

A reviewed firm may have legitimate reasons for not permitting the working papers for certain engagements to be reviewed; for example, the financial statements of an engagement may be the subject of litigation or investigation by a governmental authority, or the firm may have been advised by a client that it will not permit the working papers for its engagement to be reviewed. The review team should satisfy itself of the reasonableness of the explanation; however, if the team is not satisfied, the matter should be reported to the reviewed firm's managing partner, and the review team should consider what other action may be appropriate in the circumstances. If the engagements so excluded from the review process are few in number and the review team concludes, by review of other engagements in a similar area of practice and by review of other work of supervisory personnel who participated in the excluded engagements, that the engagements so excluded do not materially affect the review coverage, then the review team ordinarily would conclude that the scope of the review had not been unduly restricted.

The reviews of engagements should usually be directed toward the accounting and audit work performed by the practice offices visited and not toward a review of work performed by all of the reviewed firm's practice offices connected with a particular engagement. Accordingly, in reviewing a selected practice office, the accounting and audit work performed by that practice office includes work performed for another office of the reviewed firm, for a correspondent firm, or for an affiliated firm.[7]

For those situations in which engagements selected in the practice office reviewed include use of the work of another office, correspondent, or affiliate (domestic or international), the review team would normally limit its review to the portion of the engagement performed by the selected practice office. The review, however, should include instructions for the engagement issued by the reviewed office to another office of the firm, correspondent, or affiliate. The review should also encompass the procedures by which the reviewed office maintains control over the engagement through supervision (including visits by its supervisory personnel to other locations) and review of work performed by other offices, correspondents, or affiliates.

There may be situations when information available to the review team is insufficient for an evaluation of whether the reviewed firm's quality control policies and procedures have been applied in supervising engagements performed by other offices or firms. In these instances, it will be necessary at least to obtain documentation from such other offices or firms. Usually this may be accomplished by forwarding the requested information to the reviewed office.

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[7] The committee acknowledges the practical difficulties inherent in extending field reviews to cover work performed outside the United States on U.S. engagements by non-U.S. offices, affiliates, or correspondents of reviewed firms. However, it also believes that the provisions of this document ultimately should be applied to such engagements worldwide.

*Background information.* The review team should obtain background information from the reviewed firm, some of which will have been obtained before the engagement was accepted, including information available from the reviewed firm's application and/or from reports filed with the section. The information is used as a guide for planning purposes (including selection of offices to be visited and engagements to be reviewed) and should relate to the reviewed firm's accounting and audit practice. The statistical information may be stated in terms of approximate amounts or estimates. The following are examples of background information that may be obtained from the firm to be reviewed:

1. Description of the firm's organization (an organization chart may be useful).
2. Firm philosophy including matters such as—
   - Firm goals or objectives.
   - Operating practices regarding service to clients and development of personnel.
   - Policies relating to industry specialization or practice specialists.
   - Operating autonomy of practice offices (the extent of decentralization of authority).
3. Firm profile. (If the reviewed firm is a multi-office firm, the information should be broken out by individual practice office. Offices that are a part of a larger practice unit may be grouped together.)
   - Size—accounting and audit hours. (If such an analysis is not available, the reviewed firm may analyze total billings by function, or make an estimate of the percentage of accounting and audit work.)
   - Number of professional accounting and audit personnel analyzed by level.
   - Number of accounting and audit clients classified by "audited" and "unaudited" and by type—publicly held, privately held, or not-for-profit.
   - Firm management level personnel analyzed by years with the firm and areas of expertise.
   - Industry concentrations and specialty practice areas, such as SEC or regulated industries.
   - Extent of use of correspondent firms on engagements.
   - Extent of international practice.
   - Description of recent mergers.
   - Newly opened offices.

*Study and evaluation of the quality control system.* After the background information is obtained and studied, the review team should commence its study and evaluation of the reviewed firm's quality control system. The objectives of the study are to evaluate whether the quality control policies and procedures are appropriately comprehensive and suitably designed for the reviewed firm, whether these policies and procedures are adequately documented, and whether the procedures for communicating them to professional personnel are appropriate. This evaluation of comprehensiveness and suitability should be considered further by the review team in the course of the review and may be modified by the review team based on the results of its other review and compliance testing procedures.

The reviewed firm's quality control policies and procedures should be considered in relation to (1) the guidance material contained in "Quality Control Policies and Procedures for Participating Firms" (Appendix B), (2) the membership requirements of the section, and (3) any subsequent relevant pronouncements of the private companies practice section. This process assists the review team in evaluating whether the reviewed firm has given adequate consideration to, and adopted, appropriately comprehensive and suitably designed policies and procedures for each of the elements of quality control, to the extent they are applicable to its practice and the membership requirements of the private companies practice section.

*Extent of compliance tests.* Based on its study and evaluation of the reviewed firm's quality control system, the review team should develop programs to test compliance.[8] The programs for compliance tests should be tailored to the practice of the firm under review and should be sufficient to evaluate whether the reviewed firm's quality control policies and procedures have been adequately communicated to professional personnel and are being complied with. The nature and extent of testing should take into account the review team's evaluation of the relative strengths and weaknesses of the reviewed firm's quality control policies and procedures. Some of these compliance tests would be performed at practice offices selected for review, some on a firm-wide basis, and others on an individual engagement basis. These tests may take the form of—

- Inquiries of persons responsible for a function or activity.

[8] Guidance for program development is available from the committee.

- Review of selected administrative and personnel files.
- Interviews with firm professional personnel at various levels.
- Review of the results of the firm's inspection function.
- Review of selected engagement working paper files and reports.
- Review of other evidential matter.

*Location of documentation.* The review team should determine the work to be accomplished at the reviewed firm regarding compliance with quality control policies and procedures and the location of related documentation, which may be maintained in functional or administrative files. In the case of a multi-office firm, attention should be directed to a review of documentation maintained at the executive office. For example, the executive office probably has statistics, records, and other data relative to procedures regarding client acceptance and continuance, hiring, training, promotion, and independence, and may also have data useful in evaluating compliance with the firm's quality control policies and procedures for consultation and inspection.

*Selection of offices.* The process of office selection is not subject to definitive criteria. Visits to practice offices should be sufficient to enable the review team to evaluate whether the reviewed firm's quality control policies and procedures are adequately communicated to professional personnel and are being complied with.

In selecting both the number and location of practice offices to be visited, the review team should consider the reviewed firm's previously furnished background information. The practice offices selected should be generally representative of the reviewed firm's accounting and audit practice and, accordingly, should provide a cross section of offices, with consideration given to their size and geographic distribution. In addition, consideration should be given to the selection of recently merged or recently opened offices.

The number and location of practice offices to be selected will require the exercise of judgment by the review team. Considerations which may affect the number and location of practice offices selected for review would include (1) degree of centralization of accounting and audit practice control and supervision, (2) significance of specialized industry practice, and (3) the review team's evaluation of the scope and adequacy of the reviewed firm's inspection program.

Although these considerations preclude definitive guidelines, exhibit A has been developed to assist a review team in selecting offices in the review of a multi-office firm.

*Selection of engagements.* The segment of the firm's accounting and audit practice reviewed should be sufficient to provide the review team with reasonable assurance for its conclusions regarding the appropriateness and suitability of the reviewed firm's quality control system and compliance therewith.

The review team should select the engagements to be reviewed for each practice office to be visited based on accounting and audit practice statistics and other data. If not previously obtained, the review team should obtain information such as the names of clients; types of client industries; client size (for example, revenues, assets, and so forth); whether the client is publicly held, privately held, or not-for-profit; the number of engagement hours; and the names of the partner(s) and supervisory personnel associated with the engagements.

Engagements selected for review should provide a reasonable cross section of the reviewed office's accounting and audit practice. An effort should be made to include engagements of most of the partners and other supervisory personnel in the reviewed office and to provide a diversity of types of engagements.

The number of engagements to be selected or the percentage of the firm's accounting and audit hours to be reviewed will be affected by the size and nature of the reviewed firm's practice as well as the method of selection employed by the review team. Although these considerations preclude definitive guidelines, exhibit B has been developed to assist a review team in determining judgmentally the number of engagements or accounting and audit hours to be reviewed.

*Extent of engagement review.* The objectives of the review of engagements are to evaluate (1) whether the quality control policies adopted and procedures established by the reviewed firm are appropriately comprehensive and suitably designed for its accounting and audit practice and (2) whether there has been compliance by the reviewed firm with its quality control policies and procedures. To the extent necessary to achieve these objectives, the review of engagements should include review of financial statements, accountants' reports, working papers, and correspondence, and should include discussion with professional personnel of the reviewed firm. The depth of review of working papers for particular engagements is left to the reviewers' judgment; however, the review is directed primarily at the key areas of an engagement to determine whether well-planned, appropriately executed, and suitably documented procedures were performed on the engagement in accordance with the reviewed firm's quality control policies and procedures.

In connection with these engagement reviews, the review team may encounter indications of significant failures by the reviewed firm to reach appropriate auditing and reporting conclusions. In such situations, the review team should consider that it has not made an examination of financial statements in accordance with generally accepted auditing standards, nor does the team have the benefit of access to client records, discussions with a client, or specific knowledge of a client's business. Therefore, in the absence of compelling evidence to the contrary, the review team should presume that representations concerning facts contained in the working papers are correct. The review team should, however, pursue questions about auditing or reporting matters with the reviewed firm when it believes there may be a significant failure to reach appropriate conclusions in the application of professional standards, which include generally accepted auditing standards and generally accepted accounting principles.

The review team should consider whether significant failure to reach appropriate auditing and reporting conclusions is indicative of significant deficiencies of the reviewed firm in complying with its quality control policies and procedures or of significant inadequacies in those policies and procedures. The pattern, pervasiveness, and significance of the failures noted should be considered by the review team in making its overall evaluation of the reviewed firm's system of quality control and compliance therewith.

Should the review team believe, during the conduct of the review, that the reviewed firm may have issued an inappropriate report on a client's financial statements, the review captain will promptly inform an appropriate authority within the reviewed firm. In such circumstances, it is the responsibility of the reviewed firm to determine what action should be taken.[9]

*Completion of the review.* Prior to issuing its report, the review team should communicate its conclusions to the reviewed firm. This communication would ordinarily take place at a meeting attended by appropriate representatives of the review team and

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[9] See *Codification of Auditing Standards and Procedures,* SAS no. 1 (New York: AICPA, 1973), sec. 561.

the reviewed firm. The parties would discuss the review team's conclusions and any resulting impact on the opinion to be issued as well as any matters that may require corrective action or suggestions. (See also "Letter on Matters That May Require Corrective Action" under "Reporting on Peer Reviews.")

For the review of a multi-office firm, the review team for a practice office would, in addition to the communication described in the preceding paragraph, normally communicate the findings of its review to appropriate individuals at the office reviewed.

*Review team working papers.* Working papers are prepared by the review team to document the scope of work performed and the findings and conclusions of the review team. Additionally, working papers provide information useful in the planning of the subsequent review. The review captain should furnish instructions to the review team concerning the manner in which working papers, including programs and checklists, are to be prepared to facilitate summarization of the review team's findings and conclusions. Working papers and engagement review checklists should not identify the reviewed firm's clients. (See also "Conflict of interest.")

The working papers should include a memorandum covering (1) the planning of the review, (2) the scope of work performed, and (3) the overall findings and conclusions to support the report issued.

Engagement review checklists and supporting materials relating to individual clients of the reviewed firm should be retained temporarily after the report has been issued for a period of time specified by the committee to enable it and the evaluation panel, if any, to inspect this part of the review process. The committee may extend this period on individual reviews when it believes the private companies practice section may need to refer to such engagement checklists to carry out its responsibilities. All other working papers should be retained until the completion of the subsequent review required for continued membership or until the time for such review has elapsed.

## Reporting on Peer Reviews

### *The Review Team's Report*

*General considerations.* Upon completion of a peer review, the review team shall communicate its findings to the reviewed firm and submit a written report to the reviewed firm. The review captain should notify the private companies practice section that the review has been completed and the report issued. It is the responsibility of the reviewed firm to submit promptly a copy of the report and letter on matters that may require corrective action, if any, to the section.

The report should be addressed to the proprietor, partners, or stockholders/officers of the reviewed firm and should be dated as of the completion of the review. A report issued as the result of a firm-on-firm review should be on the letterhead of the review captain's firm and signed by the firm. All other reports should be typed on the letterhead of the entity that appointed or formed the review team and should be signed by the review captain on behalf of the review team, without reference to the captain's firm.

The reviewed firm may publicize the results of the review and/or distribute copies of the report to its personnel, its clients, and others.

*Reporting considerations.* The review team's evaluation of whether a reviewed firm's quality control system and compliance therewith conform with the standards of the profession requires both an understanding of the elements of quality control and the exercise of professional judgment regarding their application to an accounting and audit practice.

Because of the absence of quantitative measurement criteria, the evaluation of the significance of perceived deficiencies in the system of quality control or compliance with such system may be more difficult than the evaluation of the materiality of exceptions noted in financial reporting matters. In determining whether to issue an unqualified report, the review captain should consider factors such as those that follow.

- *Deficiencies.* The significance of deficiencies noted should be considered in relation to the reviewed firm's (1) quality control policies and procedures, (2) organizational structure, and (3) nature of practice.

  A deficiency noted in certain quality control policies or procedures may be partially or wholly offset by other policies or procedures. The review captain should consider and weigh deficiencies against the positive aspects of other compensating policies or procedures.

- *Compliance.* Compliance, as used in this document, means adherence to a prescribed policy or procedure in a substantial majority of situations. It does not imply adherence to a prescribed policy or procedure in every case. Variance in individual performance and professional interpretation affects the degree of compliance with a firm's prescribed quality control policies and procedures. Adherence to all policies and procedures in every case may not be possible; nevertheless, a high degree of compliance is to be expected. The review team should consider the nature, significance, and frequency of instances of noncompliance noted in the review in evaluating whether the reviewed firm has complied with its quality control policies and procedures in a substantial majority of situations or whether modification of the review team's report is required.

In some instances, the quality control policies and procedures of a reviewed firm may exceed those that are considered to be the standards for the profession. In such situations, noncompliance should be measured against the standards for the profession and/or PCPS membership requirements. The report of the review team should be based on compliance (or noncompliance) with the standards of the profession and PCPS membership requirements, not on the more rigorous policies and procedures prescribed by the reviewed firm itself.

*Unqualified report.* An unqualified report issued by a review team contains a statement of the scope of the review and a description of the general characteristics of a system of quality control. It must also contain the opinion (without qualification) of the review team that the reviewed firm's quality control system for its accounting and audit practice, by being—

1. appropriately comprehensive and suitably designed for the firm,
2. adequately documented,
3. communicated to all professional personnel, and
4. complied with,

provides the firm with reasonable assurance of conforming with the standards of the profession and with PCPS membership requirements.

An example of an unqualified report is presented as exhibit C of this document.

*Modified report.* Circumstances that ordinarily would require a modified report[10] are these:

[10] A modified report may include a qualified opinion, an adverse opinion, or a disclaimer of opinion.

1. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.
2. The review discloses significant deficiencies (see foregoing discussion of deficiencies) in the quality control policies and procedures prescribed for the firm's accounting and audit practice.
3. The review discloses a significant lack of compliance (see foregoing discussion of compliance) with the firm's quality control policies and procedures.

In those instances in which the review captain determines that a modified report is required, the reasons should be adequately disclosed in the report itself.

If the review captain finds that the reviewed firm has not complied with PCPS membership requirements, it would be so stated in a concluding paragraph of the report.

*Letter on Matters That May Require Corrective Action*

The review captain may believe there are matters requiring corrective action, which may include policies and procedures relating either to the system of quality control or the PCPS membership requirements or to compliance with such policies and procedures. These matters, including those matters, if any, resulting in a modified report, should be communicated in writing to the reviewed firm. The review captain may but is not required to suggest specific changes to such policies and procedures.

The reviewed firm is required to respond in writing to the review captain's comments on matters that may require corrective action. Its response should describe corrective actions taken or planned with respect to such matters. If the reviewed firm disagrees with the comments of the review captain, its response should describe the reasons for such disagreement.

Comments or suggestions that, in the opinion of the review captain, do not require corrective action need not be communicated in writing.

*Recommendations Regarding Sanctions*

The peer review committee has the authority to recommend sanctions or other disciplinary action to the PCPS executive committee, which has the authority to impose such sanctions or disciplinary action.

When a modified report is issued, the review captain will report to the peer review committee regarding whether or not, in his opinion, that committee should consider recommending sanction(s) or other disciplinary action to the executive committee. Any such report must be communicated in writing to both the peer review committee and the reviewed firm.

*Engagements Discontinued Prior to Completion*

In the event that a review is discontinued prior to completion, the review captain should advise the reviewed firm and the PCPS staff in writing of the reasons for the discontinuance.

*Disagreement Within a Committee-Appointed Review Team*

If a review captain disagrees with a conclusion reached by a review team member, the captain must document the reasons for disagreement. A disagreement regarding the type of report to be issued or the comments on matters that may require action may arise among members of an advisory committee (where applicable) or among review team members who have knowledge of the overall findings of the review.

When review team members are unable to resolve such a disagreement, the matter should be documented and referred to the peer review committee for resolution.

*Disagreement Between Reviewed Firm and Review Captain*

In some instances a disagreement may arise between the reviewed firm and the review captain.

In such instances the reviewed firm has the right to present an appeal to the committee. Such appeal should be communicated in writing to the chairman of the committee and to the review captain.

# Exhibits

These guidelines have been developed to aid review teams in the initial period of implementation of the program and are subject to subsequent review to determine whether modifications are appropriate in the light of practical experience.

## Exhibit A: Guidelines for Selecting Offices in the Review of Multi-Office Firms

The following guidelines, which should be read in conjunction with guidance on selection of offices included in the accompanying document, may be considered for review of multi-office firms.

| *Number of offices in reviewed firm* | *Approximate number of offices to be selected for review* |
|---|---|
| 2 to 15 | Largest office plus 1 to 3 offices (including the executive office) |
| over 15 | 15% to 25% of the reviewed firm's offices<br>(In the aggregate, the selected offices should represent 15% to 25% of the firm's professional personnel and 15% to 25% of the firm's accounting and audit hours.) |

## Exhibit B: Guidelines for Selecting Accounting and Audit Hours to Be Reviewed

The following guidelines may be considered in judgmentally determining the percentage of a reviewed firm's total accounting and audit hours to be selected for review.

| *Number of offices in reviewed firm* | *Percentage of reviewed firm's total accounting and audit hours to be reviewed* |
|---|---|
| 1 to 15 | 5% to 10% |
| over 15 | 3% to 6% |

For example, if three offices of a ten-office firm were selected for review, engagements selected for review in those three offices should represent between 5 percent and 10 percent of the reviewed firm's total accounting and audit hours.

The time required to review selected individual engagements is subject to variation depending on the size, nature, and complexity of the engagement, including engagements in specialized industries. For example, review time for smaller engagements generally may be expected to be proportionally greater than that required for larger engagements in relation to total hours for those engagements.

In performing the engagement review portion of the peer review, it can be anticipated that the time required by the review team for review of all engagements selected may be expected to amount to from 1 to 3 percent of the aggregate hours incurred by the reviewed firm to perform these engagements (for example, if a firm required one hundred hours to complete an audit, the reviewer(s) should require approximately one to three hours to complete the engagement review).

## Exhibit C: Sample Unqualified Report

(Appropriate Letterhead)

(Date)

To the Partners
Jones, Smith & Co.:

We have reviewed the system of quality control for the accounting and audit practice of Jones, Smith & Co. in effect for the year ended June 30, 1978. Our review was conducted in conformity with standards for peer reviews promulgated by the Peer Review Committee of the Private Companies Practice Section of the Division for CPA Firms sponsored by the American Institute of Certified Public Accountants. We tested compliance with the firm's quality control policies and procedures (at the firm's executive office and at selected practice offices in the United States) and with PCPS membership requirements to the extent we considered appropriate.[1] These tests included the application of the firm's policies and procedures on selected accounting and audit engagements. (We also tested the supervision and control of portions of engagements performed outside the United States.)[2]

In performing our review, we have given consideration to the following general characteristics of a system of quality control. A firm's system of quality control encompasses its organizational

[1] To be included, as appropriate, for reviews of multi-office firms.

[2] To be included for reviewed firms with offices, correspondents, or affiliates outside the United States. Appropriately modified wording should be used if the reviewed firm uses correspondents or affiliates domestically, if significant to the scope of the review.

structure and the policies and procedures established to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and audit practice. Professional standards are expressed in terms of broad concepts and objectives rather than detailed procedures, and their application requires the exercise of professional judgment in a variety of circumstances. The extent of a firm's quality control 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 firm, the nature of its practice, and its philosophy regarding the degree of operating autonomy appropriate for its staff. Variance in individual performance and professional interpretation affect the degree of compliance with a firm's prescribed quality control policies and procedures; therefore, adherence to all policies and procedures in every case may not be possible, but compliance does require adherence to prescribed policies or procedures in the substantial majority of situations.

In our opinion, the system of quality control for the accounting and audit practice of Jones, Smith & Co. for the year ended June 30, 1978, was appropriately comprehensive and suitably designed for the firm, adequately documented, communicated to professional personnel, and was being complied with during the year then ended, to provide the firm with reasonable assurance of conforming with the standards of the profession and with PCPS membership requirements.[3]

City, State — Appropriate Signature

Date

[3] The phrase "communicated to professional personnel" would be deleted in a report on the review of a sole practitioner who has no professional staff.

# AICPA Private Companies Practice Section Peer Review Program— Guidelines for State Society Involvement

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# AICPA Private Companies Practice Section Peer Review Program—Guidelines for State Society Involvement

## Introduction

The objective of these guidelines is to provide a basis or framework through which state societies may become involved in and/or cooperate in the administration of the private companies practice section (PCPS) peer review program (program) of the AICPA Division for CPA Firms, which provides for conduct of reviews by state societies. This document should be read in conjunction with any other documents and materials describing and related to such program.

The primary purpose of involvement by state societies is to provide a means whereby interested state societies may encourage CPA firms in their states to participate in the program. State society involvement can be through promoting, expediting, and administering the program so as to provide for maximum effectiveness of it.

These guidelines are directed to the conduct of peer reviews, which are the primary thrust of the program. Procedures for conducting such reviews will be available from the private companies practice section as they are developed.

All peer reviews conducted by a state society must be conducted in accordance with the PCPS-developed peer review program.

The private companies practice section recognizes that, subject to applicable state laws, state societies may, upon request, conduct reviews for firms in other states or, because of size or population limitations, may form groups of states to centralize the review function.

## Guidance for State Societies Involved in the Program

*Full Involvement*

Each state that anticipates full involvement in the program should consider the following before making such commitment:

1. Retain counsel to review possible legal problems of involvement in the program.

2. Review the society's professional liability insurance coverage for applicability to committee work and reviewers. State-society-appointed review teams are not agents of the AICPA and are not included in the Institute's liability insurance coverage.
3. Consider the economic and financial aspects of administering the program.
4. Consider accomplishing the items described below for limited involvement.

*Limited Involvement*

Some state societies, because of size, population, or other reasons, may not wish to become fully involved in administering the program. These states may wish, however, to advance the program by other means and should periodically reevaluate the extent of their involvement. The following are some suggestions for promoting and perpetuating the program:

1. Sponsor articles and speeches on quality control and the PCPS peer review program.
2. Encourage firms to participate in the program through promotional efforts.
3. Offer CPE programs on the subject of quality control.
4. Encourage capable state society members to qualify as reviewers in the program.
5. Suggest qualified reviewers for use in the PCPS program.

## State Society Guidance for Participating Firms

Each state society should inform firms in its state of the extent of the society's involvement in the program. The society should encourage firms to participate in the program and in connection therewith should urge firms to furnish qualified reviewers for the reviewer pool. Those selected should meet PCPS qualification standards.

## Quality Control Materials Available From the AICPA

*Publications*

1. *Private Companies Practice Section Peer Review Manual*
2. *Voluntary Quality Control Review Program for Participating CPA Firms, Including Guides to Implement the Program:*
   - "Quality Control Policies and Procedures for Participating CPA Firms"

- "Performing and Reporting on Quality Control Compliance Reviews"

3. *Sample Quality Control Documents for Local CPA Firms*
4. *Sample Quality Control Documents for Sole Practitioner CPA Firms*
5. Statement on Auditing Standards no. 4, *Quality Control Considerations for a Firm of Independent Auditors*

*Procedural Materials*

Procedural materials for a review are being developed by the private companies practice section and, in general, will follow the release of standards for performing peer reviews and reporting thereon. Notification and identification of the exact materials available will occur at a later date. Broad areas of coverage are indicated below:

1. Prereview materials such as letter of intent, firm background and other data questionnaires, and engagement letters.
2. Checklists and programs for peer reviews.
3. Forms for reviewer evaluation.

It is contemplated that changes will be suggested by state society reviewers and communicated to the AICPA by the state society.

## Requirements for Full Involvement

Each state society that anticipates full involvement in the program must adhere to the following:

1. Prior to commencing peer reviews, submit a "plan of administration" to the PCPS peer review committee for approval. The plan should delineate the procedures that the state society will follow in administering the peer review function. Plan amendments should be submitted promptly to the PCPS peer review committee for approval.
2. Submit an annual representation letter to the PCPS peer review committee representing that its current plan of administration as submitted has not been changed and continues in effect.

The PCPS reserves the right to monitor a society's administrative and/or review activities relating to the program and to review the work of an individual review team. State-society-sponsored reviews must meet the requirements of the private companies practice section for reviews, including those relating to retention of review documents.

## Organization

Each state society is encouraged to establish a quality control review committee. If full involvement in the program is desired, a quality control review committee must be formed. Consideration should be given to the size of the quality control review committee and state society staff in light of the complexities of the plan of administration, number of CPA firms participating, geographical areas served, and other factors.

*Quality Control Review Committee Function*

1. The committee should have primary responsibility for—
   *a.* Scheduling of review and selection of reviewers.
   *b.* Developing and maintaining the pool of reviewers.
   *c.* Training and evaluating of reviewers.
   *d.* Determining that reviews are being conducted in accordance with PCPS guidelines.
2. The committee should have responsibility for resolving disagreements that may arise between a firm and state society reviewers. Unresolved disagreements may be submitted to the PCPS peer review committee.

*State Society Staff Function*

1. Take direction from the state society's quality control review committee relating to—
   *a.* Developing the plan of administration.
   *b.* Scheduling reviews.
   *c.* Complying with PCPS administrative requirements.
2. Organize the staff to meet the administrative needs of the program.
3. Coordinate the state program with the AICPA PCPS Peer Review Committee.

## Administration

When a state society considers full involvement in the program, it should consider conducting a survey of its members to ascertain their interest in participation through the state society. The results of its survey and other information enable a state society to determine its administrative requirements relating to personnel, financial, and other commitments necessary to establish procedures for implementation of the program.

1. *Recordkeeping.* A state society should maintain a list of firms reviewed, reviewers on each review, and dates of the reviews.
2. *Peer reviews.* Peer reviews are to be conducted in accordance with the private companies practice section "Standards for Performing and Reporting on Peer Reviews."
3. *Cost and expenses*
   *a.* It is understood that a filing fee will be required to be paid to the AICPA for a state-society-conducted review.
   *b.* The private companies practice section is concerned that peer reviews be not so costly as to discourage wide participation, nor so modestly priced as to fail to attract an adequate supply of talented reviewers able to spend whatever time is necessary for an adequate review. In establishing fees for their programs, state societies should be sensitive to these competing goals in order to provide assurance of an adequate service to all.

# AICPA Private Companies Practice Section Peer Review Program—Criteria for CPA Firm Association Reviews

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# AICPA Private Companies Practice Section Peer Review Program—Criteria for CPA Firm Association Reviews

## Introduction

The objective of these criteria is to provide a means by which peer reviews conducted under the auspices of an association of CPA firms can qualify as independent reviews for the purposes of the private companies practice section (PCPS) peer review program (program) of the AICPA Division for CPA Firms. The program provides for appointment of independent review teams by another entity, which, with the approval of the PCPS peer review committee, may administer peer reviews. An association of CPA firms that meets the following requirements may qualify as such an entity if (1) the criteria set forth in this document are met, (2) the association submits a plan for the administration of peer reviews to the PCPS peer review committee, and (3) the plan is accepted by that committee. These criteria are not intended to apply to firm-on-firm reviews that are described in the program and in the guide, "Standards for Performing and Reporting on Peer Reviews." This document should be read in conjunction with any other documents and materials describing and relating to that program.

Associations may have different characteristics. Accordingly, the following criteria deal with the areas of (1) maintaining the independence of individual firms within associations and (2) performing association peer reviews.

Peer reviews administered by an association of CPA firms must be conducted in accordance with the PCPS-developed peer review standards using materials required for PCPS committee-appointed review teams. However, it is contemplated that PCPS-suggested administrative procedures may be modified with the approval of the PCPS peer review committee to accommodate organizational differences in an association and its quality control review programs.

## Criteria for Independence Within Associations

To qualify as an entity entitled to administer peer reviews pursuant to the program, an association and its affiliated organizations should meet the following criteria regarding professional, economic, and administrative independence.

*Professional Independence*

1. The association, as distinct from member firms, does not perform any professional services other than those it provides to its member firms.
2. The association does not obtain or attempt to obtain professional engagements for its member firms. However, the association may respond to inquiries.
3. The association does not make representations to the effect that it warrants the professional services of member firms.

*Economic Independence*

1. Member firms of the association do not share directly or indirectly, or participate in, the profits of each other. (Correspondent fees are considered revenue, not profit participation.)
2. Referral or participating work among member firms must be arranged directly by the firms involved.

*Administrative Independence*

1. The association does not exercise any direct or indirect management over the professional or administrative functions of its member firms.
2. Member firms are not subject to any requirements to adhere to association-prescribed professional or administrative policies, or to use association-prescribed technical materials in the performance of professional engagements. This criterion does not apply to association requirements relative to intra-association reviews and/or peer reviews.

## Criteria for Performing Association Peer Reviews

Association peer reviews must be conducted in accordance with PCPS-developed review standards, guidelines, and program materials developed for PCPS committee-appointed review teams. An association review plan must also provide for application of the PCPS "Standards for Performing and Reporting on Peer Reviews." The following modifications of that guide apply to association reviews.

1. Review teams must be organized so that any individual association firm does not provide more than one member of a review team.
2. Reviewers shall be drawn from a panel of qualified persons for whom prescribed personal data were previously sub-

mitted to the PCPS, or if the reviewed firm chooses, it may request that a minority of review team members be appointed by the private companies practice section from its panel of reviewers. For the review to be considered as under the auspices of an association, a majority of review team members must be from association member firms.

3. Regarding the prohibition of reciprocal reviews, no partner of a reviewed firm may be assigned as a reviewer of the firms of the partner-level members of the review team that reviewed the partner's firm within a three-year period commencing with completion of the review.[1]
4. Fees for correspondent work are not deemed material to either the reviewed firm or each reviewer's firm unless such fees during the three-year period preceding the review are greater than one percent of the fee revenue of either the reviewed firm or each reviewer's firm for such period. (An association review plan must include administrative procedures to obtain certification from its member firms concerning correspondent fees.)

## Requirements for Involvement

An association that administers peer reviews pursuant to the program should adhere to the following:

1. Prior to commencing peer reviews, submit to the PCPS peer review committee for acceptance (*a*) a statement of conformity with criteria on association characteristics regarding professional, economic, and administrative independence of its member firms as described above and (*b*) a "plan of administration." The plan should delineate the procedures that the association will follow in administering the peer review function and its pool of reviewers. Amendments to the plan should be submitted promptly to the peer review committee for acceptance.
2. Submit for review by the private companies practice section data on each of its member reviewers, using the qualification forms required under the program for nonassociation reviewers.

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[1] For example, assume member firm A is reviewed by a three-member team comprising a team captain who is a partner of member firm B, a partner of member firm C, and a manager from member firm D; the review is completed on December 1, 1980. No partner in member firm A may be assigned as a member of a team reviewing member firms B or C until after November 30, 1983.

3. In the event that materials and programs are primarily developed or administered by an association and would constitute common quality control items when used by member firms, the association should arrange for an independent review of such items by a PCPS committee-appointed review team within each three-year period or in the event of changes of substance in the items. The special report resulting therefrom would be made available to member firms and relied upon in completion of association-conducted peer reviews. When common quality control items undergo changes in substance, reference to these changes should be included in the annual representation letter described in item 4, below.
4. Submit an annual letter representing that the association continues to conform to criteria on association independence characteristics and that its current plan of administration as submitted has not been changed except as previously reported and continues in effect.

The private companies practice section reserves the right to monitor an association's administrative and/or review activities relating to the program, to review the work of an individual review team, and to require a special review of common quality control items. Association-sponsored reviews must meet the requirements of the private companies practice section for reviews, including those relating to retention of review documents.

## Guidance for Firms Participating Through Associations

An association should inform its member firms as to the extent of its involvement in the program. This announcement should include an indication of the availability of peer reviews.

The association may encourage its member firms to participate in the program, and, in connection therewith, may wish to urge firms to furnish qualified reviewers for the reviewer pool. The educational benefit to the reviewer should be stressed.

The qualification and independence of proposed reviewers should be carefully reviewed and should be in conformity with the guides to implement the PCPS peer review program for CPA firms.

A participating firm electing an association peer review should file its letter of intent with the private companies practice section and furnish a copy to the association. The letter of intent should indicate that the firm meets the criteria set forth herein regarding professional, economic, and administrative independence. The firm has the responsibility to make arrangements for its review with the association.

Reports on association peer reviews should be filed directly with the private companies practice section by the reviewed firm. An association may wish to request that firms file copies of their reports with the association, but this filing is neither a PCPS requirement nor a substitute for direct filing with the private companies practice section by a firm.

## Guidance for Associations Participating in the Program

Each association that anticipates participating in the program should consider the following before making such commitment:

1. Retain counsel to review possible legal problems of involvement in the program.
2. Review the association's professional liability insurance coverage for applicability to committee work and reviewers. Association-appointed review teams are not agents of the AICPA and are not included in the Institute's liability insurance coverage.
3. Consider the economic and financial aspects of administering the program.

## Quality Control Materials Available From the AICPA

*Publications*

1. *Private Companies Practice Section Peer Review Manual*
2. *Voluntary Quality Control Review Program for Participating CPA Firms, Including Guides to Implement the Program:*
   - "Quality Control Policies and Procedures for Participating CPA Firms"
   - "Performing and Reporting on Quality Control Compliance Reviews"
3. *Sample Quality Control Documents for Local CPA Firms*
4. *Sample Quality Control Documents for Sole Practitioner CPA Firms*
5. Statement on Auditing Standards no. 4, *Quality Control Considerations for a Firm of Independent Auditors*

*Procedural Materials*

Procedural materials for a review are being developed by the private companies practice section and, in general, will follow the release of standards for performing peer reviews and reporting thereon. Notification and identification of the exact materials available will occur at a later date. Broad areas of coverage are indicated below:

1. Prereview materials such as letter of intent, firm background and other data questionnaires, and engagement letters.
2. Checklists and programs for peer reviews.
3. Forms for reviewer evaluation.

It is contemplated that changes will be suggested by association reviewers and communicated to the AICPA by the association.

## Administration

When an association considers participating in the program, it should consider conducting a survey of its members to ascertain their interest in participation through the association. The results of its survey and other information enable an association to determine its administrative requirements relating to personnel, financial, and other commitments necessary to establish procedures for implementation of the program.

1. *Recordkeeping.* An association should maintain a list of firms reviewed, reviewers on each review, and dates of the reviews.
2. *Peer reviews.* Peer reviews are to be conducted in accordance with the PCPS "Standards for Performing and Reporting on Peer Reviews."
3. *Cost and expenses*
   *a.* It is understood that a filing fee will be required to be paid to the AICPA for an association-conducted review.
   *b.* The private companies practice section is concerned that peer reviews be not so costly as to discourage wide participation, nor so modestly priced as to fail to attract an adequate supply of talented reviewers able to spend whatever time is necessary for an adequate review. In establishing fees for their programs, associations should be sensitive to these competing goals in order to provide assurance of an adequate service to all.

# Administrative Procedures of the Peer Review Program

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# Administrative Procedures of the Peer Review Program

## Type and Timing of Review

Peer reviews intended to meet the PCPS membership requirements may be conducted by a review team that meets any of the following criteria:

1. Appointed or authorized by the committee (a panel review).
2. Formed by a member firm engaged by the firm to be reviewed (a firm-on-firm review).
3. Formed by another authorized entity engaged by the firm to be reviewed, such as a state society or an association of CPA firms (a state society review or an association review).

In this regard, the committee has adopted the following two documents, copies of which are contained elsewhere in this manual:

1. "Guidelines for State Society Involvement in the PCPS Peer Review Program for CPA Firms"
2. "Criteria for CPA Firm Association Reviews for Purposes of the PCPS Peer Review Program for CPA Firms"

If a firm is a member of *both* the SEC practice section and the private companies practice section, a peer review performed to meet the membership requirements of the SEC practice section will be considered to meet the membership requirements of the private companies practice section.

A member firm is responsible for arranging for its review and for determining that the type of review selected is acceptable to the committee. Periodically, a questionnaire will be mailed to each PCPS member firm requesting it to advise the section about the type of review anticipated and the quarter of the year in which it is expected to take place.

## Sources of Reviewers

*Panel Reviews*

Annually, member firm managing partners and proprietors will be asked to propose audit partners and audit managers for service on review teams and evaluation panels. They will submit a profile for each proposed reviewer, indicating the extent of experience, the extent of participation in quality control review programs, areas of special expertise, and available time for the coming year.

The committee, with the staff's assistance, will identify those reviewers who appear to possess the requisite qualifications for serving as review captains.

The data files of review captains and reviewers will be updated annually during the first quarter of each year.

At the conclusion of each review, the review captain will evaluate the reviewers on the team. Additionally, the reviewed firm will be asked to evaluate the review captain. Evaluations are to be limited to recommendations concerning reassignment to future reviews as a team member or a review captain.

At the conclusion of each review, the review captain will be asked to notify the committee's staff of any personnel from the reviewed firm that he feels should be added to the data file of potential reviewers.

*Firm-on-Firm Reviews*

Managing partners have been asked to indicate whether their firms would consider accepting engagements to perform peer reviews of other member firms. Firms willing to accept such engagements will be included in listings to be made available to other member firms on request. These listings will be updated annually when the data files are updated.

The qualifications for a reviewing firm are set forth in "Standards for Performing and Reporting on Peer Reviews," which is presented elsewhere in this manual.

*State Society and Association Reviews*

A list will be maintained of state societies and associations of CPA firms that have committee-approved plans for administering peer reviews for purposes of the PCPS membership requirements. This list will be updated whenever the committee approves a new plan and annually when the committee approves the letters received from state CPA societies and associations of CPA firms pursuant to the guidelines and criteria included in this manual.

*Committee Members as Reviewers*

A member of the PCPS peer review committee may be a review captain or review team member, except that a committee member should not participate in the review of another committee member's firm.

When a committee member participates as a reviewer or review captain in a particular review that is subsequently involved in a consideration of disciplinary action, that member will abstain from voting on any committee-recommended sanctions concerning that review. He will participate in the discussions of the committee only to the extent that any other review captain would participate.

Members of the PCPS executive committee may not be review captains or members of review teams, regardless of the type of review conducted. However, at the discretion of the peer review committee, they may observe a review while it is in process. An executive committee member's firm may perform a firm-on-firm review as long as the individual executive committee member is not a member of the review team.

## Arranging Reviews

*Panel Reviews*

A member firm will request a panel review by sending a letter to the committee staff indicating the approximate dates desired. The staff will send back an engagement letter requesting that certain background information be returned with the signed copy of the engagement letter.

A member firm is required to make available to the review team the most recent documented quality control policies and procedures incorporated in its quality control system. That document or its predecessor document must have been in use by the firm for at least six months before the beginning of the review.

Upon receipt of the signed engagement letter and background information, the review captain will be selected by the staff from the reviewer data file. The review captain may not serve in that capacity for more than two successive reviews of the same firm.

The remainder of the team will be selected by the staff from the reviewer data file and approved by the review captain. Review team members will be asked if they know of any reason why it would be inappropriate for them to participate in a particular review engagement. In selecting reviewers, consideration will be given to their experience with practice units of comparable size and types of practice. Subsequent changes in team members or the addition of specialists to the review team are to be made only by the review captain with the concurrence of the staff.

The reviewed firm will be advised of the names of reviewers and their firms. If there is a conflict of interest, the firm to be reviewed will have the opportunity to request reconsideration of any proposed team member.

Generally, reviewers will be selected from outside the state or geographical area in which the reviewed firm practices. However, the reviewed firm may waive this consideration.

*Firm-on-Firm Reviews*

If a member elects to have a review conducted by another member firm, the reviewed firm must notify the committee's staff prior to commencement of the review. The committee reserves the right to approve the selection of the reviewing firm in any firm-on-firm review.

The firm conducting the review is to be independent of the reviewed firm. Reciprocal reviews are not permitted. The reviewing firm's review captain may not serve in that capacity for more than two successive reviews of the same firm.

A more detailed description of the qualifications for, and responsibilities of, a reviewing firm is contained in "Standards for Performing and Reporting on Peer Reviews," which is presented elsewhere in this manual.

*State Society and Association Reviews*

If a member firm elects to have a review performed by a review team from a state society or an association of CPA firms, the firm to be reviewed must notify the private companies practice section peer review committee staff of its election prior to the commencement of the review.

The state society or association must have a review plan that has been approved by the committee. For guidance, the committee has developed "Guidelines for State Society Involvement in PCPS Peer Reviews," and "Criteria for CPA Firm Association Reviews," which are presented elsewhere in this manual. The reviews must be conducted in accordance with the review plan as approved by the committee and with the PCPS "Standards for Performing and Reporting on Peer Reviews."

## Reporting on Peer Reviews

*General Considerations*

Upon completion of a peer review, the review team will communicate its findings to the reviewed firm and submit to the reviewed firm a written report, which may be either "unqualified" or "modified." The review captain will notify the private companies practice section that the review has been completed and the report (and letter of comments, if any) issued. It is the responsibility of the reviewed firm to forward to the private companies practice section, within thirty days of the issue date, a copy of the report and a copy of the letter on matters that may require corrective action, if any. If the report, and the letter if any, is not filed within thirty days of the issue date, the reviewed firm is subject to disciplinary action.

The report will be placed in a public file at the PCPS offices. The reviewed firm may publicize the results of the review and/or distribute copies of the report to its personnel, its clients, and others.

A list of peer review reports received by the division for firms may be published quarterly in the *CPA Letter.* This listing will not indicate the section or sections of which the reviewed firm is a member, nor will it distinguish between "unqualified" reports and "modified" reports.

*Modified Reports*

When a modified report is issued, it will be brought to the attention of the peer review committee for consideration at a subsequent meeting. To begin this process the staff will prepare a case summary and send it to the committee prior to their meeting. This case summary will include the modifying language and its basis. In addition, it will include a summary of pertinent information in the comment letter, the reviewed firm's response, and the review captain's suggestions concerning consideration of sanctions.

For each "modified" report, a "case file" will be established that will include the review team's report, the letter of comments, the reviewed firm's response, the review captain's suggestions regarding consideration of sanctions, and the case summary.

The case file will be made available to the committee members for consideration at a subsequent meeting. If the reviewed firm is represented on the committee or if a committee member believes he otherwise has a conflict of interest, that member will be excluded from the deliberations. If the committee decides action is appropriate, a member will be assigned to follow the case until it is closed.

In the event of a disagreement between the review team and the reviewed firm, the committee chairman will appoint a member or members to investigate the circumstances of the disagreement and to report their findings to the committee.

*Letter on Matters That May Require Corrective Action*

In the case of an "unqualified" report accompanied by a letter on matters that may require corrective action, the committee may request that a case file similar to that for a modified report be prepared and submitted to the committee for review.

*Letter of Suggestions*

During most reviews, the review team will note policies and/or procedures that, if adopted or changed by the reviewed firm, would enhance its practice. These matters, which are not so serious or material as to result in a modified report or in a letter on matters that may require corrective action, should be communicated to the reviewed firm, often in a letter of suggestions. This letter of suggestions is a communication solely between the review captain and the reviewed firm. It is not a part of the committee's files.

## Review Team Working Papers

*General Considerations*

Working papers are prepared by the review team to document the scope of work performed and their findings and conclusions. Additionally, working papers provide information that is useful in the planning of the subsequent review. The review captain should furnish instructions to the review team concerning the manner in which working papers, including programs and checklists, are to be prepared to facilitate summarization of the review team's findings and conclusions. Working papers, including engagement review checklists, should not identify the reviewed firm's clients.

The working papers will include a memorandum covering (1) planning of the review, (2) scope of work performed, and (3) overall findings and conclusions to support the report issued.

*Retention Period*

Working papers, with the exception of engagement review checklists and supporting materials relating to individual clients, will be retained until the completion of the subsequent review required for continued PCPS membership or until the time for such review has elapsed. To safeguard client confidentiality, engagement review checklists and supporting materials relating to individual clients will be retained for one year from the issuance of the report.

Notwithstanding the above, all working papers will be retained for as long as any of the following are properly in process:

1. Resolution of a disagreement between the reviewed firm and the review captain.
2. Activities of an evaluation panel assigned to the review engagement.
3. The sanction process including actions by both the peer review committee and the executive committee.

4. The appeal of any decision of the peer review committee or the executive committee as long as such appeal was initiated in accordance with rules established by these committees.

*Retention Location*

*Panel reviews.* Working papers developed by a committee-appointed review team will be sent to the AICPA's New York office for storage.

*Firm-on-firm reviews.* Working papers developed by the reviewing firm will be retained by the reviewing firm. However, they will be available for inspection by the committee or its staff, by an evaluation panel (if one is appointed by the committee), and by the review team performing the subsequent peer review.

*State society or association reviews.* Working papers developed in connection with either type of review are retained by the state society or association of CPA firms that assembled the review team. However, they will be available for inspection by the committee or its staff, by an evaluation panel (if one is appointed by the committee), and by the review team performing the subsequent peer review.

## Files

The committee's files will be maintained at the AICPA's New York office, and classified as "public" and "nonpublic," as follows:

| *Public* | *Nonpublic* |
|---|---|
| The firm's membership application and related documents (e.g., waiver of a membership requirement) | Administrative files |
| Most recent report on peer review and reviewed firm's response (if any) | Working papers |
| Notification of suspension or discontinuance of review | Most recent letter of comments on matters that may require corrective action, if any, the reviewed firm's response, and related communications to the executive committee |
| | Review captain's recommendations regarding consideration of sanctions |
| | Peer review committee recommendations of sanctions to the executive committee |

Sanctions imposed will be classified as public or nonpublic as determined by the executive committee.

Administrative files relating to the review will be retained until completion of the subsequent review required for continuing membership or until the time for such review has elapsed.

## Suspension or Discontinuance of a Review Prior to Completion

A peer review may be either suspended or discontinued prior to completion.

A suspension is made at the sole discretion of the review captain. A suspended review will be completed at some later date using the work already completed, and, if available, the same review team. A review may not be suspended for more than six months.

A review may be discontinued only upon agreement between the review captain and the reviewed firm. No further work will be done on a discontinued review and the firm must contract for a new review at a later date if it desires to remain in the private companies practice section.

If a review is suspended or discontinued prior to completion, the review captain must advise the reviewed firm and the committee's staff in writing of the date of and reasons for the suspension.

The working papers for the suspended or discontinued review will be retained by the entity that assembled the review team, that is, the AICPA, a reviewing firm, a state society, or an association of CPA firms. When the review is resumed, these working papers will be given to the review captain for use in completing the review. Working papers for discontinued reviews will not be retained after the committee has approved the discontinuance.

## Sanctions

The peer review committee may recommend sanctions and other disciplinary actions to the executive committee. Recommendations of sanctions or other disciplinary action require a two-thirds vote of the peer review committee by written ballot.

When a modified report is issued, the review captain will notify the peer review committee regarding whether or not that committee should consider recommending sanctions or other disciplinary action to the executive committee. Any such notification must be communicated in writing to both the peer review committee and the reviewed firm.

## Fees and Expenses

*Panel Reviews*

For committee-appointed review teams, fees will be charged at rates established annually by the committee. There will be two billing rates, one for the review captain and one for all other reviewers. (A reviewer on a one-man review is considered to be a review captain.)

The same billing rates will be applied regardless of—

- The size of the reviewed firm.
- The size of the reviewer's firm.
- Any special expertise on the part of the reviewer.

All out-of-pocket expenses for travel, lodging, meals, and so forth will be passed along to the reviewed firm.

An administrative fee calculated as a percentage of the review fee is to be charged to each reviewed firm by the PCPS to help reduce the various expenses incurred by the section.

Within fifteen days after the report is issued, the review team members will submit their bills for time and expenses to the review captain for approval. Within thirty days after the report is issued, the review captain will submit the approved bills, together with his own, to the AICPA.

Within forty-five days after the report is issued, the AICPA will submit a total bill to the reviewed firm, including the reviewers' fees and expenses and the foregoing administrative fee.

*All Other Reviews*

For firm-on-firm reviews and reviews by teams assembled by authorized state societies or associations of CPA firms, the respective reviewing entities will make their own fee and billing arrangements.

The private companies practice section will charge the reviewed firm a filing fee upon receipt of the report on the review.

*Evaluation Panel Inspections*

The costs related to an inspection by an evaluation panel will be paid by the private companies practice section.

## Evaluating the Review Process

*General Considerations*

The committee is responsible for monitoring and evaluating the private companies practice section peer review program. In this regard, the committee may assign one of its members or a member of the staff to make such inquiry into the scope and conduct of the review as is deemed necessary under the circumstances, including inspection of working papers. Such inquiry may be made either while the review is in process or after it is completed.

*Evaluation Panels*

The peer review committee may, at its discretion, appoint an evaluation panel of one or more persons to inspect any peer review conducted for purposes of meeting the private companies practice section membership requirements. The objective of an evaluation panel inspection is to assist the committee in determining that peer reviews are conducted in accordance with the private companies practice section "Standards for Performing and Reporting on Peer Reviews."

An evaluation panel will consider whether the scope and performance of the review are in accordance with standards established for such reviews and whether the reviewers' report conforms to the reporting standards. The panel will also consider the appropriateness of the reviewers' conclusions and recommendations, and may consult with the reviewers and/or the reviewed firm concerning differences of professional opinion.

An evaluation panel may make its inspection concurrently with or after the conclusion of a peer review and issuance of the review team's report. However, most evaluation inspections are anticipated to be on a postissuance basis.

Evaluation panel members will be appointed by the committee or its staff as directed by the committee. The qualifications for panel members are the same as those for review captains, as set forth in the private companies practice section "Standards for Performing and Reporting on Peer Reviews." Panel members must also be independent of the reviewed firm and the reviewers. A panel member may be a member of the committee or its task forces.

Individual peer reviews will be selected for inspection by an evaluation panel at the discretion of the committee. However, a review engagement will not be selected for inspection by an evaluation panel if more than one year has elapsed since the report on that review was issued. If a review engagement is selected for inspection, both the reviewed firm and the review captain will be notified in writing by the committee's staff.

An evaluation panel will report to the committee orally and/or in writing as directed by the committee. The panel's report and other resulting memoranda will be for the information of the committee and will not be a part of the public files.

Working papers and related memoranda developed by the panel will be retained only at the express direction of the committee. If retained, they will be kept in the nonpublic files.

If, after the completion of the inspection process, the evaluation panel, the reviewed firm, and the review captain all agree with the report originally issued at the conclusion of the review, that report will remain unchanged. If they all agree upon the modifications to be made, a revised report will be issued and such revised report will replace the original report in the public files.

If the evaluation panel, the reviewed firm, and the review captain all do not agree, the matter will be decided by the committee. To assist the committee in its deliberations, each of the three parties will be asked to forward their comments in writing to the committee's staff.

# Appendixes

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# Statement on Auditing Standards

December 1974

**4**

Issued by the Auditing Standards Executive Committee

# Quality Control Considerations for a Firm of Independent Auditors

## Introduction

1. Rule 202 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants requires members, when they are associated with financial statements, to comply with the applicable generally accepted auditing standards. Those standards have to do primarily with the characteristics and conduct of individual auditors. A need has arisen to identify policies and procedures of a firm of independent auditors (referred to hereinafter as "a firm" or "the firm") that may affect the quality of work in its audit engagements. This Statement sets forth certain considerations in establishing policies and procedures that will provide the firm with reasonable assurance of conforming with generally accepted auditing standards.

## Quality Control Considerations

2. Complying with generally accepted auditing standards is a basic objective of every firm conducting an audit practice. While each of the elements of quality control applies to all firms, the extent to

which policies and procedures apply will depend on a variety of factors, such as the size and organizational structure of the firm and its philosophy as to the degree of operating autonomy appropriate for its people.

3. The considerations that affect the quality of a firm's audit work are discussed in paragraphs 5 through 22. The considerations are interrelated. Thus, a firm's hiring practices affect its policies as to training. Training practices affect policies as to promotion. Practices in both categories affect policies as to the nature and extent of supervision. Practices as to supervision, in turn, affect policies as to training and promotion. Although some policies and procedures, such as those with respect to hiring and advancement of personnel, may be considered primarily or at least partly administrative matters, they affect the quality of audit work and consequently are discussed in this Statement.

## Elements of Quality Control

4. Because of the significance of the variables stated in paragraphs 2 and 3, it would be inappropriate to impose requirements as to the matters discussed in this Statement. In the paragraphs that follow, the sentences generally worded, "Policies and procedures should be established . . ." and the examples of policies and procedures are presented only as guidelines, no one of which is necessarily applicable to any one firm. A firm may find it convenient to keep records concerning its quality control policies and procedures. However, keeping such records is not an element of quality control.

5. ***Independence.*** *Policies and procedures should be established to provide reasonable assurance that persons at all organizational levels maintain independence in fact and in appearance.* Rule 101 of the Rules of Conduct contains examples of instances wherein a firm's independence will be considered to be impaired.[1]

6. *Examples of policies and procedures.* In pursuing its quality

[1]The Securities and Exchange Commission has established formal requirements for the independence of accountants who practice before it.

control objectives with respect to independence, a firm may use policies and procedures such as maintaining records showing which partners or employees were previously employed by clients or have relatives holding key positions with clients, notifying personnel as to the names of audit clients (and their affiliates) having publicly held securities, confirming periodically with personnel that prohibited relationships do not exist, and emphasizing independence of mental attitude in training programs and in supervision and review of work.

7. ***Assigning Personnel to Engagements.*** *Policies and procedures for assigning personnel to engagements should be established to provide reasonable assurance that audit work will be performed by persons having the degree of technical training and proficiency required in the circumstances.* In making assignments, the nature and extent of supervision to be provided should be taken into account. Generally, the more able and experienced the personnel assigned to a particular engagement, the less is the need for direct supervision.

8. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to assigning personnel to engagements, a firm may use policies and procedures such as requiring timely identification of the staffing requirements of specific engagements so that enough qualified personnel can be made available, planning for the total personnel needs of all the firm's audit engagements, and using time budgets to establish manpower requirements and to schedule audit field work.

9. ***Consultation.*** *Policies and procedures for consultation should be established to provide reasonable assurance that auditors will seek assistance on accounting and auditing questions, to the extent required, from persons having appropriate levels of knowledge, competence, judgment, and authority.* The nature of the arrangements for consultation will depend on a number of factors, including the size of the accounting firm and the levels of knowledge, competence, and judgment possessed by the persons performing the work.

10. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to consultation, a firm may use policies and procedures such as designating individuals having expertise in matters related to the Securities and Exchange Commission to provide advice concerning financial statements and auditors' reports to be included in filings with the Commission; designating individuals having specialized experience in a particular industry to provide ad-

vice on accounting and auditing questions that arise in audits of companies in that industry; designating senior qualified personnel to provide advice on accounting or auditing questions in general; referring questions to a division or group in the AICPA or a state CPA society established to handle technical inquiries; maintaining a technical reference library or a technical services or research staff within the firm to assist in the resolution of practice problems; and requiring that appropriate use be made of available consultation and reference services.

11. ***Supervision.*** *Policies and procedures for the conduct and supervision of work at all organizational levels should be established to provide reasonable assurance that the work performed meets the firm's standards of quality.* The extent of supervision and review appropriate in a given instance depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work, and the extent of consultation available and used. The responsibility of a firm for establishing procedures for supervision is distinct from the responsibility of an auditor to comply with the first standard of field work when he is in charge of the work on a particular engagement.

12. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to supervision, a firm may use policies and procedures such as providing direction as to the form and content of working papers and as to the nature and extent of instructions to be included in an audit program; developing and using standard audit forms, checklists, and questionnaires; requiring that working papers be reviewed by supervisory personnel; and requiring that auditors' reports and the accompanying financial statements be reviewed by qualified personnel for conformity with generally accepted auditing standards and generally accepted accounting principles.

13. ***Hiring.*** *Policies and procedures for hiring should be established to provide reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently.* The quality of a firm's work ultimately depends on the integrity, competence, and motivation of the persons who perform and supervise the work. Thus, a firm's recruiting programs are factors in maintaining audit quality.

14. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to hiring of personnel, a firm may use

policies and procedures such as establishing a policy for recruiting at beginning levels to include standards or objectives as to minimum academic preparation and accomplishment; establishing for more advanced positions standards and objectives as to practical experience; requiring a background investigation of new personnel; and applying special procedures when new personnel enter the firm from other than the usual recruitment channels, such as by recruitment of higher level personnel or through merger or acquisition of an accounting practice, to assure that those personnel become familiar with and conform to the firm's practices and procedures.

15. ***Professional Development.*** *Policies and procedures for professional development should be established to provide reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned.* Continuing professional education and training activities enable a firm to provide personnel with the knowledge required to fulfill responsibilities assigned to them and to progress within the firm.

16. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to professional development, a firm may use policies and procedures such as providing instruction during the performance of engagements; requiring personnel to attend training programs or seminars conducted by the firm, by a college or university, or by the AICPA or a state CPA society; distributing written communications containing technical information on the firm's policies and procedures to professional personnel; and making available to professional personnel information as to current developments in accounting and auditing.

17. ***Advancement.*** *Policies and procedures for advancing professional personnel should be established to provide reasonable assurance that the people selected will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.* Practices in advancing personnel have important implications for the quality of audit work. Qualifications that people selected for advancement should possess include, but are not limited to, character, intelligence, judgment, and motivation.

18. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to advancement, a firm may use policies and procedures such as requiring supervisory personnel to furnish periodically appraisals of the work of assistants, increasing gradually

the extent of responsibility given to professional personnel, and appointing committees of partners to review the qualifications of individuals being considered for promotion.

19. ***Acceptance and Continuance of Clients.*** *Policies and procedures should be established for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management lacks integrity.* Suggesting that there should be procedures for this purpose does not imply that an auditor vouches for the integrity or reliability of a client, nor does it imply that an auditor has a duty to anyone but himself with respect to the acceptance, rejection, or retention of clients. However, prudence suggests that an auditor be selective in determining his professional relationships.

20. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to the acceptance and continuance of clients, a firm may use policies and procedures such as reviewing financial statements of a proposed client; inquiring of third parties, such as the proposed client's previous auditors, its banks, legal counsel, and investment bankers, and others in the financial and business community as to the reputation of the proposed client; evaluating its ability to service the client properly (see Rule 201 of the Rules of Conduct), with particular reference to industry expertise, size of engagement, and manpower available to staff the engagement; and periodically reevaluating clients for continuance.

21. ***Inspection.*** *Policies and procedures for inspection should be established to provide reasonable assurance that the other procedures designed to maintain the quality of the firm's auditing practice are being effectively applied.* Procedures for inspection may be developed and performed by persons acting on behalf of the firm's management. The type of inspection procedures used will depend on the controls a firm establishes in the areas of responsibility discussed in this Statement.

22. *Examples of policies and procedures.* In pursuing its quality control objectives with respect to inspection, a firm may use policies and procedures such as designating persons to make inspections at the office in which they regularly practice or at other offices; developing "checklists" or "evaluation forms" for such persons to use in reviewing the activities of the reviewed offices in areas for which the firm has established practices and procedures in accordance with this

Statement; and providing for follow-up to determine that recommendations have been implemented.

*The Statement entitled "Quality Control Considerations for a Firm of Independent Auditors" was adopted unanimously by the twenty-one members of the Committee.*

## Auditing Standards Executive Committee (1973-1974)

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JORDAN B. WOLF
DONALD R. ZIEGLER

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D. R. CARMICHAEL, *Director Auditing Standards*
JOHN F. MULLARKEY, *Project Manager Auditing Standards*
JAMES M. CASEY, *Manager Auditing Standards*

**Note:** *Statements on Auditing Standards are issued by the Auditing Standards Executive Committee, the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards, and requires that members be prepared to justify departures from such Statements.*

# A Guide to Implement the Voluntary Quality Control Review Program for CPA Firms

## Quality Control Policies and Procedures for Participating CPA Firms

# NOTICE TO READERS

The Special Committee on Proposed Standards for Quality Control Policies and Procedures developed this document to provide guidance in the establishment of quality control policies and procedures by a CPA firm intending to participate in the Voluntary Quality Control Review Program for CPA Firms.

This guide neither interprets nor otherwise modifies Statement on Auditing Standards no. 4, *Quality Control Considerations for a Firm of Independent Auditors.* Practices relating to quality control matters are evolving, and, consequently, the manner in which this guide is applied in practice may be considered in the future to determine whether any guidance concerning the existing authoritative literature is appropriate.

The special committee believes that this guide should be reviewed from time to time by the AICPA to determine whether the material requires modification, update, or amendment in the light of future developments in practice.

**Special Committee on Proposed Standards for Quality Control Policies and Procedures**

ROBERT W. BURMESTER, *Chairman*
ROBERT S. CAMPBELL
PAUL B. CLARK, JR.
GEORGE J. FREY
JAMES I. KONKEL
ANTHONY P. MANFORTE
NORMAN S. RACHLIN
JOHN L. RICKETTS
JOHN P. SHEA

AICPA Staff:
WILLIAM C. BRUSCHI,
*Vice President*
*Review and Regulation*
TED M. FELIX, *Manager*
*Quality Control Review*

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# Preface

This document contains the guidelines for quality control policies and procedures under the Voluntary Quality Control Review Program which was adopted by Council in October 1976.

These guidelines will be used as the requirements to be met in connection with all AICPA quality control compliance reviews whether conducted under the authority of the Peer Review Committees of the AICPA Division of CPA Firms (as established by resolution of Council on September 17, 1977) or under the authority of the AICPA Senior Technical Committee on Quality Control (also established by resolution of Council on September 17, 1977).

Wallace E. Olson
President

October 1977

# Quality Control Policies and Procedures for Participating CPA Firms

## Introduction

The purpose of this guide is to provide guidance for establishment of quality control policies and procedures for CPA firms participating in the Voluntary Quality Control Review Program for CPA Firms (the "program"). This guide is not intended to be applicable to CPA firms not participating in the program. As used in this document, the term *participating firm* encompasses those firms that are preparing for involvement in the program as well as participants. A firm is identified as a participant in the program only upon completion of its compliance review and filing with the Institute an acceptable report on that review. The program requires that "in developing its quality control policies and procedures, a firm must be guided by Statement on Auditing Standards no. 4, *Quality Control Considerations for a Firm of Independent Auditors.*" The elements of quality control are identified in SAS no. 4 and are discussed in this document under the following headings:

1. Independence
2. Assigning Personnel to Engagements
3. Consultation
4. Supervision
5. Hiring
6. Professional Development
7. Advancement
8. Acceptance and Continuance of Clients
9. Inspection

When a firm is participating in the program, the elements of quality control are applicable to segments of its practice wherein the firm is associated with financial statements, including unaudited financial statements. While the elements of quality control and related policies and procedures discussed in this guide may have some significance for other segments of a participating firm's practice, such as providing tax services or management advisory services, other than when associated with financial statements, their relationship to those other segments is not covered by this document.

As used in this document, the term *policies* refers to a participating firm's objectives and goals for effecting the elements of quality control. *Procedures* refer to the steps to be taken to accomplish the policies adopted. Unless the text states otherwise, *personnel* encompasses all the professionals associated with the participating firm's accounting and auditing practice and includes partners, principals, and stockholders or officers of professional corporations.

The purpose of a firm's considering the elements of quality control and adopting quality control policies and procedures is to provide reasonable assurance that it is conforming with generally accepted auditing standards. Participating firms should provide documentation or other evidential matter that will facilitate a subsequent compliance review. The concept of reasonable assurance recognizes that economic considerations affect the conduct of a firm's practice. Therefore, the extent to which quality control policies and procedures are adopted and placed in effect may be influenced by appropriate cost/benefit considerations.

The underlying philosophy and organizational structure of a participating firm provide the framework for its quality control policies and procedures. The extent to which a participating firm should adopt these policies and procedures, and those which are appropriate for a particular firm, depend on a number of factors, such as its size, the degree of operating autonomy appropriately allowed to its people and its practice offices, the nature of its practice, and its administrative controls. Accordingly, it is expected that policies and procedures adopted, and documentation thereof, would normally be more extensive for a larger or multi-office firm than for a smaller or single-office firm.

Each element of quality control is discussed in this guide in a separate section, consisting of an introduction and policies and procedures. It should be recognized, however, that the practice of a firm does not permit clear-cut distinctions among these elements, which ordinarily overlap and are interrelated.

A participating firm should consider establishing policies in the areas identified by numbers under each element of quality control discussed herein to the extent such policies are applicable to its practice. Illustrative examples of procedures designed to implement the policies adopted are also presented. The specific procedures used by a participating firm would not necessarily include all those illustrated or be limited to them.

Since a firm's policies and procedures may require modification in the light of changing conditions, they should be reviewed on a continuing basis and revised when necessary.

Some regulatory agencies have promulgated requirements for compliance with independence or other standards that are applicable to professionals practicing before them. Therefore, a firm should adopt policies and procedures to provide reasonable assurance of compliance with the requirements of regulatory agencies before which it practices.

It is the responsibility of a U.S. firm to establish controls to assure that segments of its engagements performed outside the United States are performed in accordance with U.S. generally accepted auditing standards. While the elements of quality control are applicable to such international practice, local customs and conditions may result in variations in their application. However, it is not intended that the program require that the quality control policies and procedures of a U.S. firm be adopted by its international affiliates. The quality control objectives of a U.S. firm are met when its policies and procedures provide reasonable assurance that portions of its engagements performed outside the United States conform to U.S. standards.

When firms merge or when a firm acquires a practice, the combined firm should give special attention to quality control considerations. The combined firm's quality control policies and procedures should be evaluated to determine that they continue to be applicable in light of the changed circumstances. The firm's quality control policies and procedures, revised to the extent necessary, should be monitored for effectiveness. Similar attention should be given to quality control considerations when a firm is divided.

* * *

On October 23, 1976, Council adopted the Voluntary Quality Control Review Program for CPA Firms. The program requires that a participating firm have documented quality control policies and procedures. A firm participating in the program agrees to undergo periodic compliance reviews to obtain assurance that its quality control policies and procedures conform to professional standards, are adequately documented, and are being complied with. In connection therewith, a participating firm may meet the requirement for documented quality control policies and procedures by preparing either of the following:

1. A quality control document that provides a detailed description of its quality control policies and procedures.
2. A summary statement of its quality control policies and procedures with references to supporting information contained in manuals, memoranda, or other technical literature of the firm.

A quality control document, in addition to discussing the participating firm's quality control policies and procedures, may also contain a description of the firm's organization (including an organization chart), its philosophy of practice, and other descriptive material relating to the firm's operations and the nine elements of quality control.

## Independence

The second general standard of generally accepted auditing standards indicates that "in all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors." The *Code of Professional Ethics* of the American Institute of CPAs[1] states that "the public expects a number of character traits in a certified public accountant, but primarily integrity and objectivity and, in the practice of public accounting, independence. Independence has traditionally been defined by the profession as the ability to act with integrity and objectivity."

A participating firm should establish policies and procedures for maintaining independence to provide reasonable assurance that per-

[1] Some regulatory agencies, including the Securities and Exchange Commission and the United States General Accounting Office, have promulgated rules or regulations regarding independence of accountants practicing before them. Rule 2-01 of the Commission's Regulation S-X, "Qualifications of Accountants," addresses itself in part to the subject of independence: "The Commission will not recognize any certified public accountant or public accountant as independent who is not in fact independent." Paragraphs (b) and (c) of this rule provide guidance as to its application. Further guidance and examples of situations involving independence are provided by the commission in accounting series releases. The General Accounting Office publication, *Standards for Audit of Governmental Organizations, Programs, Activities & Functions,* treats the subject of independence in chapter 3.

sonnel[2] at all organizational levels maintain independence in fact and in appearance where such independence is required by applicable professional standards.[3]

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Require that personnel at all organizational levels adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, state CPA society, state board of accountancy, state statute, and, if applicable, the Securities and Exchange Commission and other regulatory agencies.[4]**
   a. Designate an individual or group to provide guidance and to resolve questions on independence matters.
      (i) Identify circumstances where documentation as to the resolution of questions would be appropriate.
      (ii) Require consultation with authoritative sources when considered necessary.
2. **Communicate policies and procedures relating to independence to personnel at all organizational levels.**
   a. Inform personnel of the firm's independence policies and procedures and advise them that they are expected to be familiar with these policies and procedures.
   b. Emphasize independence of mental attitude in training programs and in supervision and review of engagements.

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[2] For the purposes of this section on independence, the term *personnel* encompasses all professional persons of the participating firm and is not limited to those in the accounting and auditing practice area.

[3] In instances where a firm is associated with financial statements, and the firm is not independent, see SAS no. 1, section 517, for reporting requirements.

[4] In some cases, a firm may wish to establish other requirements that it deems appropriate, for example, concerning prohibited transactions or relationships.

c. Apprise personnel on a timely basis of those entities to which independence policies apply.
   (i) Prepare and maintain for independence purposes a list of the firm's clients and of other entities (client's affiliates, parents, associates, and so forth) to which independence policies apply.
   (ii) Make the list available to personnel (including personnel new to the firm or to an office) who need it to determine their independence.
   (iii) Establish procedures to notify personnel of changes in the list.

d. Maintain a library or other facility containing professional, regulatory, and firm literature relating to independence matters.

3. **Confirm, when acting as principal auditor, the independence of another firm engaged to perform segments of an engagement.**[5]
   a. Inform personnel as to the form and content of an independence representation that is to be obtained from a firm that has been engaged to perform segments of an engagement.
   b. Advise personnel as to the frequency with which a representation should be obtained from an affiliate or associate firm for a repeat engagement.

4. **Monitor compliance with policies and procedures relating to independence.**
   a. Obtain from personnel periodic, written representations, normally on an annual basis, stating that—
      (i) They are familiar with the firm's independence policies and procedures.
      (ii) Prohibited investments are not held and were not held during the period. As an alternative or additional pro-

[5] If a firm utilizes the services of a related, affiliated, or associated firm, the principal firm may obtain periodically (frequently annually) a representation from the other firm covering all referred engagements, or may include the representation as part of a continuing agreement.

If a firm other than an affiliate or associate is retained, representation should be received for each engagement.

In the case of an international engagement, the representation from the foreign firm should make reference to U.S. independence standards.

cedure, a firm may obtain listings of investments and securities transactions (numbers of shares or dollar amounts need not be included) from personnel to determine that there are no prohibited holdings.

(iii) Prohibited relationships do not exist, and transactions prohibited by firm policy have not occurred.

b. Assign responsibility for resolving exceptions to a person or group with appropriate authority.

c. Assign responsibility for obtaining representations and reviewing independence compliance files for completeness to a person or group with appropriate authority.

d. Review periodically accounts receivable from clients to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.

## Assigning Personnel to Engagements

Guidance in assigning personnel is found in the first general standard of generally accepted auditing standards which states that "the examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor." A participating firm should establish policies and procedures for assigning personnel to engagements to provide reasonable assurance that engagements will be performed by persons having the degree of technical training and proficiency required in the circumstances.

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Delineate the firm's approach to assigning personnel, including the planning of overall firm and office needs and the measures**

**employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.**

a. Plan the personnel needs of the firm on an overall basis and for individual practice offices.

b. Identify on a timely basis the staffing requirements of specific engagements.

c. Prepare time budgets for engagements to determine manpower requirements and to schedule field work.

d. Consider the following factors in achieving a balance of engagement manpower requirements, personnel skills, individual development, and utilization:

(i) Engagement size and complexity.

(ii) Personnel availability.

(iii) Special expertise required.

(iv) Timing of the work to be performed.

(v) Continuity and periodic rotation of personnel.

(vi) Opportunities for on-the-job training.

2. **Designate an appropriate person or persons to be responsible for assigning personnel to engagements.**

a. Consider the following in making assignments of individuals:

(i) Staffing and timing requirements of the specific engagement.

(ii) Evaluations of the qualifications of personnel as to experience, position, background, and special expertise.

(iii) The planned supervision and involvement by supervisory personnel.

(iv) Projected time availability of individuals assigned.

(v) Situations where possible independence problems and conflicts of interest may exist, such as assignment of personnel to engagements for clients who are former employers or are employers of certain kin.

b. Give appropriate consideration, in assigning personnel, to both continuity and rotation to provide for efficient conduct of the engagement and the perspective of other personnel with different experience and backgrounds.

3. **Provide for approval of the scheduling and staffing of the engagement by the person with final responsibility for the engagement.**

a. Submit, where necessary, for review and approval the names and qualifications of personnel to be assigned to an engagement.

b. Consider the experience and training of the engagement personnel in relation to the complexity or other requirements of the engagement, and the extent of supervision to be provided.

## Consultation

A participating firm should establish policies and procedures for consultation to provide reasonable assurance that personnel will seek assistance on accounting and auditing questions, to the extent required, from persons having appropriate levels of knowledge, competence, judgment, and authority.

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Identify areas and specialized situations where consultation is required and encourage personnel to consult with or use authoritative sources on other complex or unusual matters.**
   a. Inform personnel of the firm's consultation policies and procedures.
   b. Specify areas or specialized situations requiring consultation because of the nature or complexity of the subject matter. Examples include—
      (i) Application of newly issued technical pronouncements.
      (ii) Industries with special accounting, auditing, or reporting requirements.
      (iii) Emerging practice problems.
      (iv) Choices among alternative generally accepted accounting principles when an accounting change is to be made.

(v) Filing requirements of regulatory agencies.

c. Maintain or provide access to adequate reference libraries and other authoritative sources.
   (i) Establish responsibility for maintaining a reference library in each practice office.
   (ii) Maintain technical manuals and issue technical pronouncements, including those relating to particular industries and other specialties.
   (iii) Maintain consultation arrangements with other firms and individuals where necessary to supplement firm resources.
   (iv) Refer problems to a division or group in the AICPA or state CPA society established to deal with technical inquiries.

d. Maintain a research function to assist personnel with practice problems.

2. **Designate individuals as specialists to serve as authoritative sources and define their authority in consultative situations. Provide procedures for resolving differences of opinion between engagement personnel and specialists.**
   a. Designate individuals as specialists for filings with the Securities and Exchange Commission and other regulatory agencies.
   b. Designate specialists for particular industries.
   c. Advise personnel of the degree of authority to be accorded specialists' opinions and of the procedures to be followed for resolving differences of opinion with specialists.
   d. Require documentation as to the considerations involved in the resolution of differences of opinion.

3. **Specify the extent of documentation to be provided for the results of consultation in those areas and specialized situations where consultation is required. Specify documentation, as appropriate, for other consultations.**
   a. Advise personnel as to the extent of documentation to be prepared and the responsibility for its preparation.
   b. Indicate where consultation documentation is to be maintained.
   c. Maintain subject files containing the results of consultations for reference and research purposes.

## Supervision

The first standard of field work of generally accepted auditing standards states that the work is to be adequately planned and assistants, if any, are to be properly supervised. A participating firm should establish policies and procedures for the conduct and supervision of work at all organizational levels to provide reasonable assurance that the work performed meets the firm's standards of quality.

Procedures for supervision are necessary to provide reasonable assurance that appropriate judgments and conclusions can be drawn with respect to the work performed. The extent of supervision and review appropriate in a given instance depends on many factors, including the complexity of the subject matter, the qualifications of persons performing the work, and the extent of consultation available and used. Additional factors bearing upon the appropriate extent of supervision and review include the degree of authority delegated to assistants on an engagement, performance of personnel assigned to an engagement, and risk factors inherent in the engagement.

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Provide procedures for planning engagements.**
   a. Assign responsibility for planning an engagement. Involve appropriate personnel assigned to the engagement in the planning process.
   b. Develop background information or review information obtained from prior engagements and update for changed circumstances.
   c. Describe matters to be included in the engagement planning process, such as the following:
      (i) Development of proposed work programs.

(ii) Determination of manpower requirements and need for specialized knowledge.
(iii) Development of estimates of time required to complete the engagement.
(iv) Consideration of current economic conditions affecting the client or its industry and their potential impact on the conduct of the engagement.

2. **Provide procedures for maintaining the firm's standards of quality for the work performed.**
   a. Provide adequate supervision at all organizational levels, considering the training, ability, and experience of the personnel assigned.
   b. Develop guidelines for the form and content of working papers.
   c. Utilize standardized forms, checklists, and questionnaires to the extent appropriate to assist in the performance of engagements.
   d. Provide procedures for resolving differences of professional judgment among members of an engagement team.

3. **Provide procedures for reviewing engagement working papers and reports.**
   a. Develop guidelines for review of working papers and for documentation of the review process.
      (i) Require that reviewers have appropriate competence and responsibility.
      (ii) Determine that work performed is complete and conforms to professional standards and firm policy.
      (iii) Describe documentation evidencing review of working papers and the reviewer's findings. Documentation may include initialing working papers, completing a reviewer's questionnaire, preparing a reviewer's memorandum, and employing standard forms or checklists.
   b. Develop guidelines for review of the report to be issued for an engagement. Considerations in "a" above would be applicable to this review. In addition, the following matters should be considered for these guidelines:
      (i) Determine that the evidence of work performed and conclusions contained in the working papers support the report.

(ii) Determine that the report conforms to professional standards and firm policy.
(iii) Provide for review of the report by an appropriate individual having no other responsibility for the engagement.

## Hiring

A firm's personnel may well be its most valuable asset. Although the hiring of personnel may be considered partly an administrative function, a firm's policies and procedures with respect to hiring affect the quality of its work. A participating firm should establish policies and procedures for hiring to provide reasonable assurance that those persons employed possess the appropriate characteristics to enable them to perform competently.

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Maintain a program designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.**
   a. Plan for the firm's personnel needs at all levels and establish quantified hiring objectives based on current clientele, anticipated growth, personnel turnover, individual advancement, and retirement.
   b. Design a program to achieve hiring objectives which provides for—
      (i) Identification of sources of potential hirees.
      (ii) Methods of contact with potential hirees.
      (iii) Methods of specific identification of potential hirees.
      (iv) Methods of attracting potential hirees and informing them about the firm.

(v) Methods of evaluating and selecting potential hirees for extension of employment offers.

c. Inform those persons involved in hiring as to the firm's personnel needs and hiring objectives.

d. Assign to authorized persons the responsibility for employment decisions.

e. Monitor the effectiveness of the recruiting program.
   (i) Evaluate the recruiting program periodically to determine whether policies and procedures for obtaining qualified personnel are being observed.
   (ii) Review hiring results periodically to determine whether goals and personnel needs are being achieved.

**2. Establish qualifications and guidelines for evaluating potential hirees at each professional level.**

a. Identify the attributes to be sought in hirees, such as intelligence, integrity, honesty, motivation, and aptitude for the profession.

b. Identify achievements and experiences desirable for entry-level and experienced personnel. For example,
   (i) Academic background.
   (ii) Personal achievements.
   (iii) Work experience.
   (iv) Personal interests.

c. Set guidelines to be followed when hiring individuals in atypical situations such as—
   (i) Hiring relatives of personnel or relatives of clients.
   (ii) Rehiring former employees.
   (iii) Hiring client employees.

d. Obtain background information and documentation of qualifications of applicants by appropriate means, such as—
   (i) Resumes.
   (ii) Application forms.
   (iii) Interviews.
   (iv) College transcripts.
   (v) Personal references.
   (vi) Former employment references.

e. Evaluate the qualifications of new personnel, including those obtained from other than the usual hiring channels (for example, those joining the firm at supervisory levels or through merger or acquisition), to determine that they meet the firm's requirements and standards.

3. **Inform applicants and new personnel of the firm's policies and procedures relevant to them.**
   a. Use a brochure or another means to so inform applicants and new personnel.
   b. Prepare and maintain a manual describing policies and procedures for distribution to personnel.
   c. Conduct an orientation program for new personnel.

## Professional Development

The concept of professional development embodies recognition of the continuing obligation of personnel to maintain their competence during their professional careers. A participating firm should establish policies and procedures for professional development to provide reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned. Professional development activities enable a firm to provide personnel with the means to acquire the knowledge required to fulfill responsibilities assigned to them and to progress within the firm.

*Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Establish guidelines and requirements for the firm's professional development program and communicate them to personnel.**
   a. Assign responsibility for the professional development function to a person or group with appropriate authority.
   b. Provide that programs developed by the firm be reviewed by

qualified individuals. Programs should contain statements of objectives and education and/or experience prerequisites.

c. Provide an orientation program relating to the firm and the profession for newly employed personnel.
   (i) Prepare publications and programs designed to inform newly employed personnel of their professional responsibilities and opportunities.
   (ii) Designate responsibility for conducting orientation conferences to explain professional responsibilities and firm policies.
   (iii) Enable newly employed personnel with limited experience to attend the AICPA or other comparable level staff training programs.

d. Establish continuing professional education requirements for personnel at each level within the firm.
   (i) Consider state mandatory requirements or voluntary guidelines in establishing firm requirements.
   (ii) Encourage participation in external continuing professional education programs, including college-level and self-study courses.
   (iii) Encourage membership in professional organizations. Consider having the firm pay or contribute toward membership dues and expenses.
   (iv) Encourage personnel to serve on professional committees, prepare articles, and participate in other professional activities.

e. Monitor continuing professional education programs and maintain appropriate records, both on a firm and an individual basis.
   (i) Review periodically the records of participation by personnel to determine compliance with firm requirements.
   (ii) Review periodically evaluation reports and other records prepared for continuing education programs to evaluate whether the programs are being presented effectively and are accomplishing firm objectives. Consider the need for new programs and for revision or elimination of ineffective programs.

2. **Make available to personnel information about current developments in professional technical standards and materials containing the firm's technical policies and procedures and encour-**

**age personnel to engage in self-development activities.**

a. Provide personnel with professional literature relating to current developments in professional technical standards.

   (i) Distribute to personnel material of general interest, such as pronouncements of the Financial Accounting Standards Board and the AICPA Auditing Standards Executive Committee.

   (ii) Distribute pronouncements in areas of specific interest, such as those issued by the Securities and Exchange Commission, Internal Revenue Service, and other regulatory agencies to persons who have responsibility in such areas.

   (iii) Distribute manuals containing firm policies and procedures on technical matters to personnel. Manuals should be updated for new developments and changing conditions.

b. For training programs presented by the firm, develop or obtain course materials and select and train instructors.

   (i) State the program objectives and education and/or experience prerequisites in the training programs.

   (ii) Provide that program instructors be qualified as to both program content and teaching methods.

   (iii) Have participants evaluate program content and instructors of training sessions.

   (iv) Have instructors evaluate program content and participants in training sessions.

   (v) Update programs as needed in light of new developments, changing conditions, and evaluation reports.

3. **Provide, to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries.**

   a. Conduct firm programs to develop and maintain expertise in specialized areas and industries, such as regulated industries, computer auditing, and statistical sampling methods.

   b. Encourage attendance at external education programs, meetings, and conferences to acquire technical or industry expertise.

   c. Encourage membership and participation in organizations concerned with specialized areas and industries.

   d. Provide technical literature relating to specialized areas and industries.

4. **Provide for on-the-job training during the performance of engagements.**
   a. Emphasize the importance of on-the-job training as a significant part of an individual's development.
      (i) Discuss with assistants the relationship of the work they are performing to the engagement as a whole.
      (ii) Involve assistants in as many portions of the engagement as practicable.
   b. Emphasize the significance of personnel management skills and include coverage of these subjects in firm training programs.
   c. Encourage personnel to train and develop subordinates.
   d. Monitor assignments to determine that personnel—
      (i) Fulfill, where applicable, the experience requirements of the state board of accountancy.
      (ii) Gain experience in various areas of engagements and varied industries.
      (iii) Work under different supervisory personnel.

## Advancement

Advancement is the progression of personnel to positions of greater responsibility within a firm. A participating firm should establish policies and procedures to provide reasonable assurance that personnel selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called upon to assume.

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Establish qualifications deemed necessary for the various levels of responsibility within the firm.**
   a. Prepare guidelines describing responsibilities at each level and

expected performance and qualifications necessary for advancement to each level, including—

(i) Titles and related responsibilities.

(ii) The amount of experience (which may be expressed as a time period) generally required for advancement to the succeeding level.

b. Identify criteria which will be considered in evaluating individual performance and expected proficiency, such as—

(i) Technical knowledge.

(ii) Analytical and judgmental abilities.

(iii) Communicative skills.

(iv) Leadership and training skills.

(v) Client relations.

(vi) Personal attitude and professional bearing (character, intelligence, judgment, and motivation).

(vii) Possession of a CPA certificate for advancement to a supervisory position.

c. Use a personnel manual or other means to communicate advancement policies and procedures to personnel.

2. **Evaluate performance of personnel and periodically advise personnel of their progress. Maintain personnel files containing documentation relating to the evaluation process.**

a. Gather and evaluate information on performance of personnel.

(i) Identify evaluation responsibilities and requirements at each level indicating who will prepare evaluations and when they will be prepared.

(ii) Instruct personnel on the objectives of personnel evaluation.

(iii) Utilize forms, which may be standardized, for evaluating performance of personnel.

(iv) Review evaluations with the individual being evaluated.

(v) Require that evaluations be reviewed by the evaluator's superior.

(vi) Review evaluations to determine that individuals worked for and were evaluated by different persons.

(vii) Determine that evaluations are completed on a timely basis.

b. Periodically counsel personnel as to their progress and career opportunities.

(i) Review periodically with personnel the evaluation of their performance, including an assessment of their progress with the firm. Considerations should include the following:
   (a) Performance.
   (b) Future objectives of the firm and the individual.
   (c) Assignment preferences.
   (d) Career opportunities.

(ii) Evaluate partners periodically by means of counseling, peer evaluation, or self appraisal, as appropriate, as to whether they continue to have the qualifications to fulfill their responsibilities.

(iii) Review periodically the system of personnel evaluation and counseling to ascertain that—
   (a) Procedures for evaluation and documentation are being followed on a timely basis.
   (b) Requirements established for advancement are being achieved.
   (c) Personnel decisions are consistent with evaluations.
   (d) Recognition is given to outstanding performance.

3. **Assign responsibility for making advancement decisions.**
   a. Assign responsibility to designated persons for making advancement and termination decisions, conducting evaluation interviews with persons considered for advancement, documenting the results of the interviews, and maintaining appropriate records.
   b. Evaluate data obtained giving appropriate recognition in advancement decisions to the quality of the work performed.
   c. Study the firm's advancement experience periodically to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility.

## Acceptance and Continuance of Clients

A participating firm should establish policies and procedures for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management lacks integrity. The firm does not vouch for the integrity or reliability of a client, nor does it have a duty to anyone but itself with respect to the acceptance, rejection, or retention of clients. However, the firm should consider that the reputation of a client's management could reflect on the reliability of representations and accounting records and on the firm's own reputation. In making decisions to accept or continue a client, a firm should also consider its own independence and its ability to service a client properly with particular reference to industry expertise, size of engagement, and manpower available to staff the engagement.

***Policies and Procedures***

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Establish procedures for evaluation of prospective clients and for their approval as clients.**
   a. Consider evaluation procedures such as the following before accepting a client:
      (i) Obtain and review available financial information regarding the prospective client, such as annual reports, interim financial statements, registration statements, Forms 10-K, other reports to regulatory agencies, and income tax returns.
      (ii) Inquire of third parties as to any information regarding the prospective client and its management and principals which may have a bearing on evaluating the prospective client. Inquiries may be directed to the prospective client's bankers, legal counsel, investment banker, underwriter, and others in the financial or business community who may have such knowledge. Credit reports may also be useful.
      (iii) Communicate with the predecessor auditor as required by auditing standards. Inquiries should include questions regarding facts that might bear on the integrity of management, on disagreements with management as to accounting principles, auditing procedures, or other simi-

larly significant matters, and on the predecessor's understanding as to the reasons for the change of auditors.

(iv) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.

(v) Evaluate the firm's independence and ability to service the prospective client. In evaluating the firm's ability, consider needs for technical skills, knowledge of the industry, and personnel.

(vi) Determine that acceptance of the client would not violate applicable regulatory agency requirements and the codes of professional ethics of the AICPA or a state CPA society.

b. Designate an individual or group, at appropriate management levels, to evaluate the information obtained regarding the prospective client and to make the acceptance decision.

(i) Consider types of engagements that the firm would not accept or which would be accepted only under certain conditions.

(ii) Provide for documentation of the conclusion reached.

c. Inform appropriate personnel of the firm's policies and procedures for accepting clients.

d. Designate responsibility for administering and monitoring compliance with the firm's policies and procedures for acceptance of clients.

**2. Evaluate clients at the end of specific periods or upon the occurrence of specified events to determine whether the relationships should be continued.**

a. Specify conditions which require evaluation of a client to determine whether the relationship should be continued. Conditions could include—

(i) The expiration of a time period.

(ii) A significant change since the last evaluation, including a major change in one or more of the following:

(a) Management.

(b) Directors.

(c) Ownership.

(d) Legal counsel.

(e) Financial condition.

(f) Litigation status.

(g) Nature of the client's business.
(h) Scope of the engagement.

(iii) The existence of conditions which would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.

b. Designate an individual or group, at appropriate management levels, to evaluate the information obtained and to make continuance decisions.
   (i) Consider types of engagements that the firm would not continue or which would be continued only under certain conditions.
   (ii) Provide for documentation of the conclusion reached.
c. Inform appropriate personnel of the firm's policies and procedures for continuing clients.
d. Designate responsibility for administering and monitoring compliance with the firm's policies and procedures for continuance of clients.

## Inspection

A participating firm should establish policies and procedures for inspection to provide reasonable assurance that the other procedures designed to maintain the quality of the firm's accounting and auditing practice are being effectively applied. A firm's inspection policies and procedures should be related to the nature and extent of controls and monitoring procedures established for the other elements of quality control. While the inspection function is normally performed by the firm's personnel, procedures for inspection may be developed and performed by persons other than the firm's personnel acting on behalf of the firm's management.

### *Policies and Procedures*

Consideration should be given by a firm to establishing policies to accomplish the objectives numbered below to the extent such objectives are applicable to its practice. Examples of procedures (which are identified by letters) designed to implement policies follow each objective, although the specific procedures adopted by a firm would not necessarily include all the examples or be limited to those illustrated.

1. **Define the scope and content of the firm's inspection program.**
   a. Determine the inspection procedures necessary to provide reasonable assurance that the firm's other quality control policies and procedures are operating effectively.
      (i) Determine objectives and prepare instructions and review programs for use in conducting inspection activities.
      (ii) Provide guidelines for the extent of work at practice units, functions, or departments, and criteria for selection of engagements for review.
      (iii) Establish the frequency and timing of inspection activities.
      (iv) Establish procedures to resolve disagreements which may arise between reviewers and engagement or management personnel.
   b. Establish qualifications for personnel to participate in inspection activities and the method of their selection.
      (i) Determine criteria for selecting reviewers, including levels of responsibility in the firm and requirements for specialized knowledge.
      (ii) Assign responsibility for selecting inspection personnel.
   c. Conduct inspection activities at practice units, functions, or departments.
      (i) Review and test compliance with applicable quality control policies and procedures.
      (ii) Review selected engagements for compliance with professional standards, including generally accepted auditing standards, generally accepted accounting principles, and with the firm's quality control policies and procedures.

2. **Provide for reporting inspection findings to the appropriate management levels and for monitoring actions taken or planned.**
   a. Discuss inspection review findings on engagements reviewed with engagement management personnel.
   b. Discuss inspection findings of practice units, functions, or departments reviewed with appropriate management personnel.
   c. Report inspection findings and recommendations to firm management together with corrective actions taken or planned.
   d. Determine that planned corrective actions were taken.

AICPA

American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

September 21, 1979

To the Members of the Private Companies Practice Section

Here is another in our continuing series of reports to members. This report is devoted exclusively to answering the questions that were raised at the Conference in Reno. The questions and answers are grouped as follows:

- Membership and Membership Requirements
- Peer Review
- Sanctions
- Executive Committee
- Accounting and Review Services

The answers are informal responses and should not be regarded as official pronouncements of the Institute.

I hope you will find this information useful, and I suggest that you file it for reference in your Peer Review Manual binder, under the "Other Matters" tab.

Sincerely,

Robert A. Mellin

Robert A. Mellin
Chairman, Executive Committee
Private Companies Practice Section
Division for CPA Firms

P.S. You probably already know that the first annual PCPS conference was an outstanding success. We hope to surpass it with next year's Conference, which is scheduled for April 28-29, in Miami. I hope to see you there.

Membership and Membership Requirements

M-1 Q. At what point in the membership cycle may I put "Member of the Private Companies Practice Section" on my firm's letterhead? Must I wait until my first peer review?

A. You may put this on your stationery as soon as you are accepted for membership even though you have not yet had a peer review.

M-2 Q. A firm may designate itself "Members of the AICPA" only if all its partners are Institute members. But now another firm can designate itself "Member of the Private Companies Practice Section of the AICPA." Won't this be confusing? Will "Members of the AICPA" have any meaning?

A. We believe the meaning of these terms is quite specific. Some firms may choose to use both designations.

M-3 Q. Where do CPAs or firms that do not join either section of the Division for CPA Firms stand with respect to peer reviews and sanctions?

A. There is no requirement for such CPAs or firms to undergo peer review. The AICPA offers several voluntary peer reviews to all firms (including sole practitioners) regardless of PCPS membership. (For details, contact the Quality Control Review Division, 212/575-6651.) No sanctions are involved in these reviews, and no information from these reviews is used for disciplinary purposes.

Individual CPAs who are AICPA members may be disciplined under the Institute's Bylaws (Section 7) and Rules of Conduct. In addition, state societies and state boards of accountancy have sanctioning authority over CPAs, and the SEC can discipline CPAs and CPA firms.

M-4 Q. How do the PCPS membership requirements compare with those of the SECPS?

A. For firms with no SEC clients they are substantially identical except for dues, which are set by each section's executive committee. Annual dues in the PCPS are $5 per CPA employed by the firm (including partners), with a $25 minimum and a $100 maximum. Annual dues in the SECPS will not exceed $100 for any firm with less than 5 SEC clients.

For firms with SEC clients the SECPS has certain additional membership requirements that, in general, affect a firm's SEC practice <u>only</u>. The principal additional requirements are (a) rotation of the audit partner assigned to each SEC client after 5 years (relief may be granted on the basis of unusual hardship); (b) a concurring review by another partner before issuance of an audit report for an SEC client (with alternative procedures permitted); (c) certain restrictions on management advisory services for SEC audit clients; and (d) certain disclosures to the audit committee or board of each SEC audit client. The SECPS liability insurance requirements are somewhat higher, but only for firms with 5 or more SEC clients.

M-5 Q. Why should a PCPS member with just a couple of SEC clients -- or none at all -- join the SECPS?

A. A firm that has, or expects to have, SEC clients can thereby demonstrate its acceptance of and commitment to the special SECPS standards applicable only to SEC audit clients (see preceding question). This could be an important factor in client relations. In a broader professional sense, it is important in forestalling direct government regulation that substantially all auditors of SEC registrants submit voluntarily to the SECPS's self-regulatory program, under the oversight of the Public Oversight Board.

M-6 Q. Should a firm with just one SEC client be a member of both sections? Why?

A. Membership in either section is voluntary. Some reasons for belonging to the SECPS are given in the answer to the preceding question. Many firms whose practice includes mostly private companies will also want to be part of the PCPS, particularly since this imposes no additional membership requirements except for the nominal dues, and their membership adds strength to PCPS. In fact, over 94 percent of the SECPS members are also members of the PCPS. (See PR-8 for related information.)

M-7 Q. If a firm performs municipal and school district audits must it join the SECPS?

A. No. First, there is no "must". Membership in both the PCPS and the SECPS is entirely voluntary. Second, an objective of the SECPS is to improve the quality of practice by CPA firms before the SEC; state and local government audits are not currently within the SEC's jurisdiction.

M-8 Q. Should a firm defer applying for membership until it has implemented its quality control system?

A. No. You are not required to have your peer review till three years after joining.

M-9 Q. If a firm joins the PCPS but does not schedule a peer review within three years, what happens? If a firm is expelled because of this could it later rejoin?

A. If a firm's peer review is not completed within three years its membership would be terminated for failure to meet the membership requirements, unless for some special reason the executive committee grants an exemption.

If the member is terminated and then applies for readmission, the executive committee could (and probably would) use its authority to require a special peer review.

M-10 Q. Each member firm is required to "ensure that a majority of the members of the firm are CPAs." What is included in "members of the firm?"

A. "Members of the firm" includes only proprietors, partners and shareholders.

M-11 Q. Ours is a two partner firm. I am a CPA and my partner is a PA. Are we eligible for PCPS membership?

A. No. A majority of the members of the firm must be CPAs. Sole proprietors who are CPAs are, of course, eligible.

M-12 Q. The PCPS's basic objective is to improve the quality of service to clients. How does the liability insurance requirement contribute to this?

A. The insurance requirement gives your clients, and others who rely on their financial statements, additional assurance that a firm is able to stand by the quality of its work. It is largely a matter of credibility and responsibility. Most practicing CPAs consider professional liability insurance to be necessary these days just for their own protection, and consequently do not consider the requirement a burden.

Any firm that cannot obtain the required insurance may contact the PCPS Executive Committee for special consideration.

M-13 Q. We would like to join the PCPS but cannot secure the required liability insurance because of an old lawsuit that is still pending. What would you advise?

A. The AICPA professional liability insurance program may be able to help. Contact RBH/Reid & Carr at (212) 661-9000 for details. Also, your state CPA society may have a plan that can help you. If you still cannot obtain the required amount of insurance, you may ask the PCPS Executive Committee for special consideration.

M-14 Q. My firm employs several paraprofessionals who provide client service. Must they meet the CPE requirements?

A. It is not possible to give a simple answer, because there is no generally accepted definition of a paraprofessional. All persons whom the firm classifies as "professional staff" are subject to the CPE requirements. This determination is intentionally left to the firm itself.

In general the CPE requirements are meant to apply to CPAs and prospective CPAs, and to others with a similar amount of academic preparation with emphasis in other areas that are part of CPA practice. Paraprofessionals who perform only clerical type work that is reviewed by a professional are not subject to the CPE requirement. Neither are employees not involved in client service.

M-15 Q. Will I be notified when someone inspects the information on my firm in the PCPS public file?

A. No.

Peer Review

PR-1 Q. A PCPS member must "submit to peer reviews of the firm's accounting and audit practice". In this context, what does accounting practice include?

A. It includes your services in connection with unaudited financial statements (compilation and review), and consultation on the application of accounting principles. It does not include business manager and fiduciary services, consultation on accounting systems, or bookkeeping services that do not include preparing financial statements.

PR-2 Q. Are there plans to extend peer review to tax and management advisory services? If not why not?

A. To a large extent the peer review program was developed because of the obvious public interest in the reliability of financial statements with which a CPA is associated. This third party reliance is not usually a factor in tax and management services. There are no plans to include these latter services in peer reviews.

PR-3 Q. Is it true that a firm will be reviewed against its own self-imposed quality control standards even if these are stricter than what is generally required by the profession?

A. The reviewers will check compliance with the firm's own policies. However, the review report will be based on compliance with the standards of the profession and PCPS membership requirements, not on more rigorous policies and procedures that may be prescribed by the firm itself.

PR-4 Q. Can the reviewed firm exclude from review an engagement that is the subject of current or pending litigation?

A. There is no blanket or automatic exemption for such engagements. However, a review team can be expected to be reasonable in such circumstances.

PR-5 Q. "Inspection" is one of the nine elements of quality control -- and a difficult one for some smaller firms. Could a firm use an outside resource -- say a state society quality control committee -- for this purpose?

A. This is certainly a possibility but should not be necessary for most firms. Other approaches are suggested in the sample quality control documents published by the AICPA. For some firms a file memorandum recording your own periodic inspection procedures might be the only documentation that is needed.

It is important to recognize that inspection is intended to provide reasonable assurance that the firm's other quality control procedures are being applied effectively. It does not necessarily require a technical review of engagement workpapers, or of financial statements with which the firm is associated.

PR-6 Q. Does a firm have any power of selection or rejection of peer review team members?

A. For panel reviews the AICPA staff selects the reviewers, normally from outside the firm's geographical area (though the firm may waive this). If there is a conflict of interest the firm to be reviewed may request reconsideration of any proposed team member. Arrangements may differ for reviews performed under state society or association auspices.

For firm-on-firm reviews the firm to be reviewed selects the reviewing firm.

PR-7 Q. Could someone from my immediate area be assigned to an evaluation panel assessing my firm's peer review?

A. While such an assignment is not specifically prohibited by the published standards the peer review committee will certainly be sensitive to this concern and responsive to any objections you might raise. Panel members must be independent of the reviewed firm.

PR-8 Q. Who reviews a firm that belongs to both the PCPS and the SECPS?

A. Reviews of firms that are members of both sections and that have 5 or more SEC clients will be conducted by the SECPS. Under a concept that was recently approved, reviews of all other firms that are members of both sections are expected to be administered by the PCPS and will be conducted in accordance with SECPS standards.

PR-9 Q. Why do we permit reviews conducted by associations of CPA firms? Won't they undermine the credibility of the review process?

A. Not in the opinion of the Peer Review Committee, which studied this issue in great depth. However, the Committee intends to monitor association reviews closely to confirm its opinion.

PR-10 Q. Are there any procedures to assure that reviewers perform in accordance with the applicable standards?

A. Yes. These are described on pages 73-75 of the Peer Review Manual booklet.

PR-11 Q. Who pays for a peer review and how much does it cost?

A. The reviewed firm pays. For reviews conducted by teams appointed by the PCPS Peer Review Committee the cost includes (a) time charges, currently $45 per hour for a review captain, $35 for other team members; (b) a 10% surcharge on the time charges; and (c) out-of-pocket expenses. These arrangements may vary for firm-on-firm reviews and for reviews conducted under the auspices of a state society or association of CPA firms.

The limited experience to date suggests that in most cases reviews of sole practitioners will cost less than $1,500, and those of firms of up to 5 partners will cost between $2,000 and $5,000 -- once every three years.

PR-12 Q. What provision is there for a reviewed firm to protest the reasonableness of the time charged by a peer review team?

A. At present, none. But if you have a complaint please communicate it promptly to the Peer Review Committee and staff. (You may request a fee estimate before the review panel begins its work.)

PR-13 Q. Why is a peer review required every three years? This seems rather frequent in light of the cost. (Other questions asked why the reviews are not more frequent.)

A. The three year interval is obviously arbitrary, but appears to be reasonable considering on the one hand the cost and on the other, the need for a reliable and credible program.

PR-14 Q. How soon after I join the PCPS must I have my peer review? How long must my quality control policies and procedures have been in place when I have my review?

A. The peer reviews of all firms that joined by mid-1979 must be completed by June 30, 1982. The peer reviews of firms that join later must be completed within three years after they join. Your quality control policies and procedures should be "in place" six months before your review, although you can modify them during those six months.

PR-15 Q. How long will it take to get ready for a peer review, and what period will the review cover?

A. The review normally covers a one year period agreed on by the review captain and the reviewed firm. However it is possible to have a review if your quality control system has been in place for as little as six months, and the system may have been amended during that period. Engagements to be reviewed would be those with years ended during the period under review unless a more recent report has since been issued.

PR-16 Q. If you have a discontinued or suspended review can you withdraw from the PCPS?

A. Yes.

PR-17 Q. Suppose the review team concludes that our records do not adequately document compliance with the quality control system, but the engagement review demonstrates that our work is of excellent quality. Would we pass the review?

A. All the relevant facts and circumstances would be considered in such a case. But this should hardly ever happen. The review procedures are currently being revised to put more emphasis on engagements and substantially less on documentation.

PR-18 Q. Does a "modified report" always mean that the firm does not pass the review?

A. No. A modified report may include a qualified opinion, an adverse opinion or a disclaimer of opinion. We anticipate that corrective action by the firm will usually be all that is required.

PR-19 Q. How will peer review reports be publicized?

A. The report itself (but not any accompanying letter of comment) will be available for inspection in the public file at the AICPA offices in New York. The AICPA will make no further distribution of it, and will not mail copies to anyone. The reviewed firm is free to publicize the results of the review or distribute copies of the report.

PR-20 Q. Would the records and workpapers of a peer review be subject to subpoena in a subsequent lawsuit against the reviewed firm?

A. They could be. However, the engagement review papers will not identify clients by name and will be retained just one year. The other workpapers are normally retained until the firm's next peer review.

PR-21 Q. Before a review, the firm to be reviewed is expected to waive its right to sue anyone connected with the review. Yet the reviewers' report goes in the public file. How then can the firm protect its professional reputation?

A. The reviewed firm can appeal any disagreement it has with the review captain to the Peer Review Committee. In addition, the reviewed firm's response to the review report is also filed in the public file.

PR-22 Q. Do you receive CPE credit for a peer review?

A. No.

Sanctions

S-1 Q. If a firm belongs to both the PCPS and the SECPS, which section would impose sanctions?

A. If the infraction involved SEC practice, the SECPS would consider whether sanctions should be imposed. In other instances the PCPS would probably do this. But whatever proceedings take place they will be coordinated so that there will not be two separate proceedings, and due process will be assured.

S-2 Q. Monetary fines are one of the available sanctions. How large can these be?

A. All sanctions are at the Executive Committee's discretion. However the basic objective is to improve the quality of practice, and in most cases other measures, such as corrective action or additional CPE, would probably be more appropriate.

S-3 Q. The Executive Committee apparently considers peer review to be primarily an educational process, and anticipates imposing punitive sanctions only in exceptional cases. Will this satisfy our Congressional critics? What incentive does it give to a firm that does comply in all respects?

A. Each case will be considered by the executive committee on its own merits, and no reliable forecast of the incidence or severity of sanctions is possible. But it seems probable -- and equitable -- that lapses will not result in harsh sanctions from a firm's first peer review, especially if the lapses are inadvertent and/or corrective action is taken promptly. What the profession's critics want is improved performance.

<u>Executive Committee</u>

EC-1 Q. How are members of the Executive Committee selected?

A. First, Council elects a PCPS nominating committee, which provides nominations to the AICPA's chairman. The chairman appoints the new committee members for three year terms, with the approval of the Board of Directors and the existing Executive Committee. The Executive Committee elects its own chairman.

EC-2 Q. How can I be considered for service on a PCPS committee?

A. Write to the Institute and have your firm, state society and/or association of firms do likewise. Service on a PCPS committee involves a substantial time commitment -- the staff or committee members can give you some general guides. Each year seven seats on the Executive Committee must be filled, five on the Peer Review Committee, and about four on the Technical Issues Committee.

EC-3 Q. Does the practice of rotating one third of the Executive Committee each year permit enough continuity to accomplish long range goals?

A. Yes. In addition it assures fresh viewpoints, gives more section members an opportunity to participate directly in policy formation, prevents the Committee from becoming (or seeming to be) a "closed club," and enables the Committee to utilize highly qualified persons who because of time commitments would have to decline a more permanent appointment. Three years is the traditional rotation period for committees of the Institute and of many other professional societies.

EC-4 Q. Is it probable that the PCPS will eventually have as much influence on new technical pronouncements as the large national firms and the AICPA staff now have?

A. Yes, especially on pronouncements affecting our practice.

EC-5 Q. When will a PCPS report on the impact of SASs and accounting standards on private companies be ready?

A. PCPS is not planning to issue a formal report on these subjects. We are, however, monitoring activities in these areas closely and providing input whenever this seems desirable. In working with the Institute's technical divisions we believe we are more effective operating quietly and without publicity.

These subjects are under study by the Auditing Standards Division's "Review of Existing Auditing Standards Task Force" and the Accounting Standards Division's "Task Force on Small GAAP." We have been in close contact with these groups and have found them and their parent committees very receptive to our views.

EC-6 Q. Can you publish a list of all PCPS committees and task forces?

A. The PCPS now has three major committees - the Executive Committee, the Peer Review Committee, and the Technical Issues Committee. In addition, the Executive Committee has a Planning Committee composed of some of its members.

Both the Executive and Peer Review Committees appoint task forces to undertake specific projects. These task forces are often, but not always, composed of members of the parent committee. By definition, a task force terminates on the completion of its assignment, and some complete their assignments in a short time. Currently, the Executive Committee has these task forces:

- TF for Coordination with the SECPS
- TF for Liaison with Peer Review Committee
- SEC Liaison TF
- Sanctions Planning TF
- Education and Careers TF
- Conference TF

The Peer Review Committee has these task forces:

- Peer Review Guidelines TF
- State Society and Association Qualifications TF
- TF on Administration of the Peer Review Program
- TF on Monitoring the Peer Review Program
- TF to Draft Sample Modified Reports

## Accounting and Review Services

AR-1 Q. Is the unaudited disclaimer still available?

A. SSARS 1 does not continue the old unaudited disclaimer for nonpublic entities. If the client is a nonpublic entity, the accountant should comply with SSARS 1, which sets standards for compilation reports and review reports.

AR-2 Q. Does SSARS 1 apply to personal financial statements?

A. Yes. However, the records maintained by individuals are frequently incomplete. Therefore, the accountant should consider the need to perform other accounting services before he compiles or reviews the financial statements, as he would when the client is a company.

AR-3 Q. Won't the introduction of these reports cause legal problems? Laymen have a hard time understanding the difference between audited and unaudited, let alone compilation, review, and audit.

A. The problem has been that there has been no explicit guidance for procedures to be followed in connection with unaudited statements, the procedures followed in practice have varied widely, and users have tended to rely on the accountant's association with the statements since the accountant couldn't report what he did in an unambiguous manner. SSARS 1 should correct this and, therefore, ultimately there should be less legal risk. It's important that accountants explain review and compilation services to their clients and to bankers, and even more important that they establish a clear understanding with clients as to the services to be rendered and the form of report expected to be issued.

AR-4 Q. I disagree with the position on review reports when the accountant is not independent.

A. So do many others. It was one of the most hotly debated issues. SSARS 1 takes the position that a review is intended to add credibility to the statements and that a nonindependent accountant is not in a position to add credibility in the form of an expression of limited assurance. The committee is, however, considering certain aspects of the problem: first, whether more guidance can or should be provided on independence in the context of a review engagement and, second, whether there should be a special form of report when the accountant is effectively acting as controller.

AR-5 Q. Can an accountant issue a review report when he does write-up work?

A. Depending on the circumstances, yes. As indicated in Interpretation 101.3 under Rule 101 of the Rules of Conduct, independence is not automatically impaired in those circumstances.

AR-6 Q. Are there any circumstances under SSARS 1 when an accountant who is not independent can issue a review report -- assuming he discloses his lack of independence?

A. No.

AR-7 Q. We process client input on a computer and produce monthly statements that do not include adjustments for changes in inventories, prepayments, accruals, etc., and do not include footnotes. Adjustments are made annually. Can we simply state in our report that proper adjustments to make the statements not misleading have not been made?

A. No. These are departures from GAAP which must be specifically disclosed and paragraphs 39 and 41 of SSARS 1 make it clear that the accountant must consider whether a modified report is adequate to disclose the departures. One alternative is to provide statements on the modified cash receipts and disbursements method, but there should be full disclosure of the method in a note. Also, you might consider program changes that, for example, compute inventories for monthly statements on the gross profit method. (Incidentally, section 516 of SAS No. 1 made no provision for the type of hybrid statement described in this question.)

AR-8 Q. Who should "read" the financial statements compiled by the firm?

A. The person who has been assigened authority to sign the report.

AR-9 Q. SSARS 1, paragraph 21, provides specific language for a separate paragraph in a compilation report when substantially all of the disclosures required by GAAP are omitted. Can that language be used in a review report?

A. No. Modification of the accountant's review report, as discussed in paragraphs 40-41 of SSARS 1, would be necessary.

AR-10 Q. Appendix A lists certain suggested inquiries for a review engagement. Is a "yes or no" response sought?

A. The inquiries in Appendix A are presented for illustrative purposes only. They do not necessarily apply to every engagement, nor are they meant to be all-inclusive. The accountant has to bear in mind that he must achieve limited assurance about the financial statements. His inquiry and analytical procedures should be designed to provide him with that assurance. A review should not be treated as a mechanical exercise to obtain "yes or no" answers to the illustrative inquiries, but neither is it an audit. The accountant should exercise professional judgment based on all relevant circumstances in designing his inquiries and evaluating responses.

AR-11 Q. Is a review a second-class audit?

A. Absolutely not! It is a separate and identifiable service designed for those who want an independent business-like look at the statements, but who don't need an audit and all the work it entails because, perhaps, of their own knowledge of the company, or because there are few outside users, or because outside users have only a minor financial interest in the company. A review is designed to help the accountant meet user needs.

AR-12 Q. Why is there no reference to consistency in a compilation or review report?

A. It's not needed. Under APB Opinion No. 20, the financial statements are prepared on a consistent basis or the change is disclosed in a prescribed fashion. If the client's financial statements are on a comprehensive basis of accounting other than GAAP, the financial statements themselves should disclose appropriately any significant change in accounting principles or methods.

AR-13 Q. What is "in the works"?

A. Projects related to independence, reporting on prescribed forms and special reports (akin to SAS No. 14) are the more important ones.

AICPA DIVISION FOR CPA FIRMS
Private Companies Practice Section

Executive Committee 1978-79
(With State Liaison Assignments)

| | | |
|---|---|---|
| Robert A. Mellin, Chairman<br>(GUAM, HI) | Hood and Strong<br>415-781-0793 | 555 California Street<br>San Francisco, California 94104 |
| Nolen C. Allen<br>(KY, TN) | Cotton & Allen<br>502-589-6050 | 100 East Liberty Street<br>Louisville, Kentucky 40202 |
| Lucius A. Ashby, Jr.<br>(CO, WY) | Ashby, Armstrong, Johnson & Co.<br>303-534-2113 | 1515 Arapahoe Street<br>Denver, Colorado 80202 |
| Dale Blocher<br>(FL, PR, VI) | Own Account<br>305-659-4322 | 324 Royal Palm Way<br>Palm Beach, Florida 33480 |
| Ronald P. Elliott<br>(CA, NV, UT) | Mills & Elliott Accountancy Corp.<br>714-838-0710 | 17452 Irvine Boulevard<br>Tustin, California 92680 |
| William G. Farrow<br>(AZ, NM) | Gallant, Farrow & Greene, P.C.<br>602-263-8810 | 3603 North Seventh Avenue<br>Phoenix, Arizona 85013 |
| Francis A. Humphries<br>(SC, GA) | Gamble, Humphries, Givens & Moody<br>803-722-2791 | 205 King Street<br>Charleston, South Carolina 29401 |
| Ward F. Junkermier<br>(AK, MT, WA) | Junkermier, Clark, Campanella,<br>Stevens, P.C. 406-761-2820 | 600 Central Plaza #208<br>Great Falls, Montana 59401 |
| James L. Keeler<br>(VA, WV) | Keeler, Phibbs & Company<br>703-434-5975 | 306 East Market Street<br>Harrisonburg, Virginia 22801 |
| Duane W. Kuehl<br>(MN, ND, SD, WI) | Own Account<br>414-251-1225 | N88 W16521 Main Street, P.O. Box 39<br>Menomonee Falls, Wisconsin 53051 |
| Jack R. Lesher<br>(PA) | Kuntz, Lesher, Siegrist, Martini<br>717-394-5666 & Associates | 1085 Manheim Pike<br>Lancaster, Pennsylvania 17604 |
| Harry M. Linowes<br>(DC, DE, MD) | Leopold & Linowes<br>202-833-2280 | 1120 Connecticut Avenue, NW<br>Washington, D.C. 20036 |
| John C. MacIlwaine<br>(IL, IN, MI, OH) | Battelle & Battelle<br>513-298-0201 | 1785 Big Hill Road<br>Dayton, Ohio 45439 |
| Richard B. McCormick<br>(NJ, NY) | Lathan, Lumsden, McCormick and Co.<br>716-856-3300 | 120 Delaware Building<br>Buffalo, New York 14202 |
| Robert M. Mehlinger<br>(KS) | Mize, Houser, Mehlinger and Kimes<br>913-233-0536 | 1 Townsite Plaza<br>Topeka, Kansas 66603 |
| Edwin E. Merriman<br>(AR, OK, TX) | Edwin E. Merriman & Company<br>806-765-6352 | P.O. Box 48<br>Lubbock, Texas 79408 |
| Mahlon Rubin<br>(IA, MO, NE) | Rubin, Brown, Gornstein & Co.<br>314-727-8150 | 230 South Bemiston<br>St. Louis, Missouri 63105 |
| Robert S. Siskin<br>(CT, MA, ME, NH, RI, VT) | Siskin, Shapiro & Company<br>203-549-0770 | 33 Lewis Street<br>Hartford, Connecticut 06103 |
| Sandra A. Suran<br>(ID, OR) | Suran & Co.<br>503-641-7031 | 1600 SW Cedar Hills Blvd.,Suite 100<br>Portland, Oregon 97225 |
| James W. Thokey<br>(AL, LA, MS) | Bourgeois, Bennett, Thokey & Hickey<br>504-581-4949 | 925 Hibernia Bank Building<br>New Orleans, Louisiana 70112 |
| Robert F. Warwick<br>(NC) | Lowrimore, Warwick & Co.<br>919-762-9671 | 321 N. Front Street<br>Wilmington, North Carolina 28401 |
| John R. Mitchell, Director<br>Barry Kuchinsky, Manager<br>Private Companies Practice Section | American Institute of Certified Public Accountants<br><br>212-575-6446 | 1211 Avenue of the Americas<br>New York, New York 10036 |

AICPA

American Institute of Certified Public Accountants
1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

March 14, 1979

To the Members of the Private Companies Practice Section

I am pleased to present this progress report on behalf of the Executive Committee of AICPA's Private Companies Practice Section. An extra copy is enclosed to help you keep your partners and associates posted.

I am sure that you will approve of our progress to date and help us to extend it. We need and want your views on what we are doing in your behalf -- and on other areas in which our activities could benefit the CPA firms that serve privately held companies.

Sincerely,

Robert A. Mellin

Robert A. Mellin
Chairman, Executive Committee
Private Companies Practice Section
Division for CPA Firms

## A Private Companies Practice Section Progress Report

In establishing the Private Companies Practice Section a year and a half ago, Council gave it these three objectives:

1. Improve the quality of services by CPA firms to private companies through the establishment of practice requirements for member firms.

2. Establish and maintain an effective system of self-regulation of member firms by means of mandatory peer reviews, required maintenance of appropriate quality controls and the imposition of sanctions for failure to meet membership requirements.

3. Provide a better means for member firms to make known their views on professional matters, including the establishment of technical standards.

This letter reports the progress to date towards these closely related goals, with particular emphasis on developments since the September 10, 1978 report from Glenn Ingram, Jr., who was then the chairman.

### Section Membership

The Section's sole membership solicitation was conducted in October 1977. Since then membership has been relatively constant at 1500 to 1600 firms, with a few withdrawing each month and new members taking their places. About one third of our members also belong to the SEC Practice Section. Ninety-five percent of their members belong to the PCPS.

The following statistics were developed in a recent analysis of member firms:

| | Percent of Total Member Firms | | |
|---|---|---|---|
| | Offices | Partners | Professionals |
| 1 | 80.3% | 36.9% | 20.6% |
| 2-5 | 16.2 | 47.6 | 34.2 |
| 6-10 | 1.9 | 10.0 | 18.0 |
| 11-25 | .5 | 3.4 | 13.9 |
| 26 or more | 1.1 | 2.1 | 13.3 |
| | 100.0% | 100.0% | 100.0% |

More than 87% of our members have no SEC clients, and less than 3% have five or more.

Discussions with practitioners from all areas of the country indicate that many firms are now preparing to join, or are considering it very seriously. The main reason for delay is uncertainty about peer review. Recognizing this, your executive committee agreed to actively solicit new members shortly after the PCPS Peer Review Manual is available to dispel any such uncertainty. This will be in May of this year.

Peer Review Program

Each member firm is required to have a peer review of its accounting and audit practice every three years, starting July 1, 1979. In general, the objectives of a review are to determine that the firms are applying appropriate quality controls and are meeting the Section's membership requirements.

Peer Review Manual. The peer review program is detailed in the Section's Peer Review Manual, a printed copy of which will be mailed to you shortly. The Manual presents the Section's standards for performing and reporting on peer reviews, along with the peer review program's administrative procedures. These standards and procedures are the product of an extraordinary contribution of time, effort and expertise by the members of your peer review committee.

The Manual also contains guidelines for state societies and associations of CPA firms that would like to participate in PCPS reviews. It includes the Section's Organizational Structure and Functions document, with the current CPE and liability insurance requirements appended. And it reprints the existing authoritative pronouncements of other AICPA divisions regarding quality control.

A separate letter-size looseleaf volume of the Manual provides specific and detailed guidance for CPAs who are either conducting reviews or being reviewed. It includes four separate sets of guidelines for reviewing quality controls, developed for firms in different size brackets from sole practitioners to the very largest firms. It also includes checklists for reviewing engagements (audited and unaudited), and a special section for filing other current information about the PCPS -- such as this report.

Peer Review Experience. In the course of developing the Section's standards and procedures, peer review committee members conducted several formal pilot reviews, and closely monitored similar reviews being conducted elsewhere. In general, these tend to confirm earlier expectations that the cost of reviews by committee-appointed reviewers would usually be well within the means of reviewed firms. Most sole practitioners' reviews have been accomplished for less than $1,500, while firms of up to 5 partners generally incur charges of between $2,000 and $5,000 -- once every three years.

Quality Control Documents. The peer review program anticipates that, in general, a reviewed firm will have had a documented quality control system in operation for about six months. The AICPA has developed two very helpful publications -- Sample Quality Control Documents for Local CPA firms, and Sample Quality Control Documents for Sole Practitioner CPA Firms. These are available to members at no charge from the Institute's Order Department -- 212/575-6426. In addition, many states will soon be presenting the CPE course on Developing Your Quality Control Document. And, if you would like a preliminary (though unofficial) evaluation of your firm's document, call the Quality Control Division -- 212/575-6659. The cost is $150.

Peer Review Scheduling. The peer review committee recently asked all member firms to indicate their preferences. The responses on timing of the reviews are as follows:

| | |
|---|---|
| 1978* | .6% |
| 1979 | 12.9 |
| 1980 | 35.1 |
| 1981 | 40.4 |
| 1982 | 11.0 |
| | 100.0% |

*Those indicating 1978 are also members of the SEC Practice Section, whose peer review program is already operating.

The preferences on type of review are these:

| | |
|---|---|
| PCPS | 38.5% |
| SEC Practice Section* | 28.6 |
| Firm-on-firm | 13.1 |
| State society | 15.6 |
| Association | 4.2 |
| | 100.0% |

*For firms that are members of both sections the PCPS recognizes a review by the SECPS.

The AICPA office has a list of firms interested in performing firm-on-firm reviews -- for information contact the Quality Control Division at 212/575-6651. No state societies or associations are offering PCPS reviews yet, but a number are considering it.

Incidentally, the peer review committee's inquiry about scheduling your first review was dated December 27, 1978. Quite a few firms have yet to respond. If you are among them please send in your response without delay. (Extra copies of the request are available from the Private Companies Practice Section -- 212/575-6446.)

## PCPS Conference

The First Annual PCPS Conference is scheduled for Reno, Nevada, starting with a 6:00 p.m. reception and buffet on Sunday, April 29, continuing through Tuesday, May 1, and offering an optional CPE day on May 2. Your executive committee urges you to attend with your partners -- and to invite other practitioners who may be interested in the Section.

Program and registration information has been sent to all members, and appears in a full page announcement in the March Journal of Accountancy (page 93). Briefly, the Conference is your opportunity to learn how the Section has been representing your interest -- to offer your ideas on what more should be done -- to update yourself on the most recent professional standards affecting your practice -- and to find out what the PCPS means to its members and to the profession. Featured speakers include many prominent leaders of the profession such as AICPA President Wallace E. Olson, Vice Chairman William R. Gregory, and Samuel A. Derieux, chairman of the new special committee on small and medium-sized firms. The PCPS peer review program will be a major topic. Registration is just $95, plus $35 if you choose to stay for the optional CPE day. For more information contact AICPA's Meetings Department -- 212/575-6451.

## Professional Standards

Your executive committee has a responsibility to communicate forcefully to the Institute's standard-setting bodies the opinions of the firms we represent, and to make certain that the interests of these firms and of their privately held clients are fully recognized. A major portion of our activity is devoted to carrying out this responsibility.

The September 10 report to PCPS members outlined a number of technical areas in which we continue to be active. In addition we have:

- Met formally with representatives of the special committee on small and medium-sized firms, and provided specific comments on competitive factors within the profession.

- Urged the CPE Division to liberalize its policy on sales of group training materials to CPA firms. That Division's executive committee will be considering this policy in April.

- In connection with the Public Oversight Board's scope of services hearings, submitted through the MAS Division an urgent plea to recognize the needs of local businessmen for a broad range of professional services from their CPAs.

- Requested that the Institute's special advisory committee on reports by management revise its recommendations to make it clear that they are to apply to public companies only.

- Maintained steady pressure to expedite the development of an accounting and auditing manual for use by CPA firms. We are pleased to report that the manual will be available by June 30.

- Accepted, as individuals, invitations to serve on other key AICPA committees, to assure appropriate recognition of the interests of our constituency.

Our technical activities -- and our influence in your behalf -- go far beyond what we can report to you in this letter. We attempt to monitor systematically all technical and professional developments. Whenever we sense that the PCPS membership's interests may not be getting adequate consideration we suggest improvements -- often quietly, informally, and if possible <u>before</u> the exposure draft stage. We have found this to be an effective approach -- even though we may not always get all we ask.

We shall continue to monitor the development of professional standards. To do this effectively we need your help. Please alert us promptly to technical or professional issues that we should address in the interest of CPA firms that serve private companies. We shall respond vigorously.

<u>PCPS, the Public, and the Profession</u>

In general, the acceptance of the Section by the publics we serve, and by the profession, appears good and is still improving.

A major near-term objective will be to overcome any lingering perception that we are a "two-tier" profession, and to emphasize that the two sections of the Division for CPA Firms differ just in type of client, not in quality of service or reliability of reports. That message pervades our public presentations. It will be featured in a brochure we are developing for your use in explaining the Division to bankers, clients and others. And we hope to develop additional approaches and materials for this purpose.

Members of your executive committee are frequently invited to address professional meetings, and their reception is most encouraging. Often, other committees of the Institute request our input on important matters at the early stages of their deliberations, enabling us to provide more timely and effective input. Most state CPA societies have established committees to provide liaison with the PCPS, and many are actively considering how they can assist in peer reviews.

Change in CPE Policies

All U.S. professionals in member firms must participate in at least 20 hours of continuing profesisonal education every year, and 120 hours every three years. To eliminate certain inconsistencies your executive committee recently (February 28) changed the definition of "professionals" to the following:

> Persons classified as "professional staff" (including partners) in a member firm's annual report to the Private Companies Practice Section shall be considered "professionals" for purposes of these continuing professional education policies.

Membership Liaison

To serve you well we need your views on what we are doing and what we should be doing. You can reach us effectively through any member of the executive committee, or through John R. Mitchell, the Section's staff director at the AICPA -- 212/575-6446.

Or you can tell us in person at the Conference in Reno. We hope to see you there.

Executive Committee
Private Companies Practice Section
Division for CPA Firms

**AICPA DIVISION FOR CPA FIRMS**
**Private Companies Practice Section**

**Executive Committee 1978-79**
**(With State Liaison Assignments)**

| | | |
|---|---|---|
| Robert A. Mellin, Chairman (GUAM, HI) | Hood and Strong 415-781-0793 | 555 California Street San Francisco, California 94104 |
| Nolen C. Allen (KY, TN) | Cotton & Allen 502-589-6050 | 100 East Liberty Street Louisville, Kentucky 40202 |
| Lucius A. Ashby, Jr. (CO, WY) | Ashby, Armstrong, Johnson & Co. 303-534-2113 | 1515 Arapahoe Street Denver, Colorado 80202 |
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| Francis A. Humphries (SC, GA) | Gamble, Humphries, Givens & Moody 803-722-2791 | 205 King Street Charleston, South Carolina 29401 |
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| James L. Keeler (VA, WV) | Keeler, Phibbs & Company 703-434-5975 | 306 East Market Street Harrisonburg, Virginia 22801 |
| Duane W. Kuehl (MN, ND, SD, WI) | Own Account 414-251-1225 | N88 W16521 Main Street, P.O. Box 39 Menomonee Falls, Wisconsin 53051 |
| Jack R. Lesher (PA) | Kuntz, Lesher, Siegrist, Martini & Associates 717-394-5666 | 1085 Manheim Pike Lancaster, Pennsylvania 17604 |
| Harry M. Linowes (DC, DE, MD) | Leopold & Linowes 202-833-2280 | 1120 Connecticut Avenue, NW Washington, D.C. 20036 |
| John C. MacIlwaine (IL, IN, MI, OH) | Battelle & Battelle 513-298-0201 | 1785 Big Hill Road Dayton, Ohio 45439 |
| Richard B. McCormick (NJ, NY) | Lathan, Lumsden, McCormick and Co. 716-856-3300 | 120 Delaware Building Buffalo, New York 14202 |
| Robert M. Mehlinger (KS) | Mize, Houser, Mehlinger and Kimes 913-233-0536 | 1 Townsite Plaza Topeka, Kansas 66603 |
| Edwin E. Merriman (AR, OK, TX) | Edwin E. Merriman & Company 806-765-6352 | P.O. Box 48 Lubbock, Texas 79408 |
| Mahlon Rubin (IA, MO, NE) | Rubin, Brown, Gornstein & Co. 314-727-8150 | 230 South Bemiston St. Louis, Missouri 63105 |
| Robert S. Siskin (CT, MA, ME, NH, RI, VT) | Siskin, Shapiro & Company 203-549-0770 | 33 Lewis Street Hartford, Connecticut 06103 |
| Sandra A. Suran (ID, OR) | Suran & Co. 503-641-7031 | 1600 SW Cedar Hills Blvd.,Suite 100 Portland, Oregon 97225 |
| James W. Thokey (AL, LA, MS) | Bourgeois, Bennett, Thokey & Hickey 504-581-4949 | 925 Hibernia Bank Building New Orleans, Louisiana 70112 |
| Robert F. Warwick (NC) | Lowrimore, Warwick & Co. 919-762-9671 | 321 N. Front Street Wilmington, North Carolina 28401 |

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| John R. Mitchell, Director<br>John E. Baumgartner, Asst. Dir.<br>Private Companies Practice Section | American Institute of Certified Public Accountants<br>212-575-6446 | 1211 Avenue of the Americas<br>New York, New York 10036 |

AI CPA

**American Institute of Certified Public Accountants**

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

September 10, 1978

Dear PCPS Member:

Despite a number of complex problems, we believe that much progress has been made since the section was formed last October.

In the belief that you may have some questions about PCPS developments, an interim report from your chairman is attached to this letter. I hope you will read it carefully and, if you wish, raise questions with me or other committee members.

We appreciate your early interest and support for this worthwhile program of professional self-regulation and improvement and trust that the progress made to date meets with your approval.

Sincerely,

Glenn Ingram, Jr.
Chairman, Executive Committee
Private Companies Practice Section

# An Interim Report From the PCPS Chairman to the Section's Member Firms

To date, the section has operated under the direction of its executive committee and a peer review committee, appointed by the executive committee, charged with the responsibility of developing and operating the section's peer review program. Both committees operate under the task force principle, creating task forces to perform specific tasks not only from committee membership but from the section and AICPA membership at large. These task forces and their work will be discussed in greater detail in the following pages. The following are details of some of the more important activities of the section.

**Participating Firms**

Based only on the first membership solicitation letter in October, 1977, membership in the PCPS has remained steady at approximately 1,500 firms. Enough additional interest has been expressed to lead us to believe that, perhaps, an equal number of firms are waiting for more information before seeking membership.

We are asked frequently how many firms represented in the Institute membership might be considered PCPS candidates. The question is a difficult one to answer, since, of the 27,000 firms represented in the Institute membership, as many as 19,000 are sole practitioners. The PCPS already has four hundred sole practitioners enrolled and hopes that a great majority of the balance and all 8,000 of the eligible partnerships will become members as well.

**Section Requirements**

**Firm Affiliation.** All firms desiring entry into the PCPS must ensure that a majority of firm members are CPAs, that the firm can legally engage in the practice of public accounting, and that each proprietor, shareholder, or partner of the firm, resident in the United States and eligible for AICPA membership, is a member of the AICPA. (This differs somewhat from the original provisions of section IV, subparagraph 3(*a*) of the structure and function document mailed to you on October 5, 1977. It was amended at the PCPS executive committee meeting held in New York, December 1 and 2, 1977.)

**Continuing Professional Education.** A task force of the PCPS executive committee, chaired by John Ricketts of Philadelphia, worked closely with the Institute's CPE division, the SEC practice section, and others to develop the following requirements for the private companies practice section.

Professional staff of a firm represented in the PCPS will be required to complete 120 CPE credit hours every three years, with a minimum of twenty hours of CPE credit in any one year.

*Professional staff* is defined as staff of a participating firm, who by educational attainments are qualified to sit for the Uniform CPA Examination, and who, in the opinion of the firm's managing partner, are professionals. (In this respect, the number of professional staff indicated in the data submitted with your firm's application to the PCPS will be acceptable until revised by subsequent reports required annually by the committee.)

While the effective date of these CPE requirements is January 1, 1978, each firm currently in the section may disregard that date and select its own "educational year" for reporting purposes following the date of its entry into the section but before December 31, 1978.

For example, a firm entering the section on May 1, 1978 could designate its educational year to start September 1, 1978 and would not have to report on compliance with the requirement until September 1, 1979.

**Liability Insurance.** Another executive committee task force was selected to recommend the amount of liability insurance required by the section. The task force, under the chairmanship of Robert Mellin of San Francisco, having determined that liability insurance was available from a number of carriers, recommended the following requirement for the section.

Firms must carry $50,000 worth of liability insurance coverage per qualified staff member (defined as including all personnel except receptionists and messengers) with a firm minimum of $250,000 and a maximum of $5,000,000.

Recognizing that some firms may experience difficulty in obtaining coverage, the task force urges such firms to report their problem to the section's executive committee.

Peer review teams will check insurance coverage of a firm at the time of its review and report on its compliance with the requirement.

**Section Technical Activities**

Of paramount importance to private companies and their CPAs is the private companies practice section's role as spokesman and intermediary on behalf of its constituents with other Institute technical committees. Since last October, here are some of .he actions taken by executive committee task forces.

**Audit Manual for Local CPA Firms.** A task force has been keeping close liaison with AICPA staff responsible for preparing the Audit Manual for local CPA firms. The target date for the manual is early 1979.

**Accounting and Review Services Committee Proposal.** A task force under the supervision of committee member L. G. Thoreson and composed of Institute members from the states of Washington, Oregon, and California studied the committee's proposed report and submitted its findings to the PCPS executive committee in late April. The report was adopted by the committee in July with minor editorial changes.

**GAAP for Small Businesses.** A task force of the executive committee headed by Herbert Haber of New York was just beginning a study of the complexities of GAAP for small businesses, long under study by an AcSEC committee, when the FASB agreed to place the matter on its agenda for the future and announced that non-public companies would no longer be required to disclose earnings per share or provide segment reporting in their financial statements. The task force also urged FASB to discontinue statements of changes in financial position as a requirement for private companies.

**GAAS for Small Businesses.** Two task forces under the overall supervision of Robert Siskin of Connecticut, reviewed existing SASs at the request of the chairman of AudSEC. After rendering a preliminary report to the executive committee in April, members of the task force attended a meeting of AudSEC's project committee to report their conclusions. The consensus was that no major changes in the present SASs are needed. However, it was agreed that the opinions of individual practitioners and small practice units should be thoroughly canvassed.

**Section Assistance to FASB and FASAC.** At the suggestion of Donald Kirk and Paul Kolton, respective chairmen of the FASB and the Financial Accounting Standards Advisory Council, the section will be creating a task force to monitor the FASAC Small Business Advisory Committee which is studying the financial reporting problems of non-public companies.

**Task Forces to Monitor Technical Matters.** At its July meeting the executive committee agreed to form task forces to review technical material in all areas of accounting practice. These task forces will keep the executive committee aware of developments of concern to private companies and their CPAs in tax and MAS as well as accounting and auditing.

**State Society Liaison.** To date, twenty-two state societies have appointed committees for liaison with the PCPS. A number of them have been extremely active in responding to requests for feedback on certain technical documents. We are grateful to them and all other states with similar committees for this show of support. States that have not yet appointed committees, but might wish to do so, can get information from the PCPS staff as to their composition and objectives. Every member of the PCPS executive committee has been assigned liaison responsibility for one or more states.

## Peer Review Activities

Formed only in January of this year, the section's peer review committee (PRC), chaired by James P. Luton, Jr., of Oklahoma, has been hard at work with task forces assigned to the development of peer review standards, administrative procedures for operating the program, and development of the necessary review checklists and work paper forms for conducting peer reviews.

Naturally, the peer review program for the section is drawing heavily on the material developed for the AICPA's Voluntary Quality Control Program. However, modifications to meet specific needs of the private companies section have required painstaking analysis of each step adopted and, frequently, deferral of action by one task force until another has acted on a related matter.

The peer review committee tested its program on a local firm in August and a sole practitioner in September. Final revisions are being made in the program and the committee hopes to offer it to firms in late 1978 and early 1979. You will soon receive the committee's request for qualified reviewers, and it is to your advantage to supply as many as you can. The committee is especially interested in the date your firm selects for its first review. In considering that date, you should be aware of the committee's intended policy on *initial* reviews. If, during the course of an initial review, it becomes obvious to the review captain that the firm under review is not ready for completion of the review, it may be discontinued without prejudice and completed later at a time to be determined in consultation between the peer review committee, the review captain, and the firm under review.

Fees for reviews are difficult to forecast because of the number of variables involved. Factors such as size of firm, nature and complexity of practice, number of reviewers, and time required for the review all have a bearing on the final fee. The committee's present formula includes the following hourly rates and other charges:

> Review captains will be paid at a rate of $45 an hour. Reviewers will receive $35 an hour. In addition, there will be a 10 percent administrative surcharge based on the review team's total hours at their respective rates. Out-of-pocket and travel (at coach rates) expenses will be charged at cost. It is estimated that a review may take from a fraction of a day to four days or more, depending on the complexity of the practice being reviewed.

The PRC, realizing that the section includes more than four hundred sole practitioners, has two sole practitioners on its task forces and is developing a review program that will meet their needs.

Firms should also realize that a saving on the cost of reviews will be realized by firms who supply reviewers to the program.

By the end of 1978, we expect to have in the hands of every firm represented in the PCPS a complete set of documents concerning the section requirements and its peer review program which will include—

- A questionnaire to be completed by each firm prior to review.
- A set of reviewers' checklists.
- The standards for quality control programs and peer reviews.
- Administrative procedures for conducting peer reviews.
- Samples of quality control documents for firms of several sizes, including a sole practitioner.
- Amended structure and function documents and detailed statements about the CPE and insurance requirements.

## Other Plans

The executive committee and staff are working on a joint PCPS/SECPS session to be presented at the AICPA annual meeting in San Francisco. Plans are also in progress for a special PCPS conference. Although full details are not available, we are thinking of holding a three-day conference soon after the tax season in 1979 at a centrally located U.S. city. Sessions will cover both technical and administrative subjects of interest to local practitioners and their private company clients. More information on this will be available later.

## Executive Committee Names and Addresses

| | | |
|---|---|---|
| Glenn Ingram, Jr.<br>Chairman<br>(312) 368-0220 | Glenn Ingram & Co. | 150 N. Wacker Drive<br>Chicago, Illinois 60606 |
| Nolen C. Allen<br>(502) 589-6050 | Cotton & Allen | 100 East Liberty Street<br>Suite 600<br>Louisville, Kentucky 40202 |
| Lucius A. Ashby<br>(303) 534-2113 | Ashby & Co. | 1515 Arapahoe<br>Suite 354<br>Denver, Colorado 80202 |
| Dale M. Blocher<br>(305) 659-4322 | Own Account | 324 Royal Palm Way<br>Palm Beach, Florida 33480 |
| Ronald P. Elliott<br>(714) 838-0710 | Mills & Elliott Accountancy Corporation | 17452 Irvine Boulevard<br>Tustin, California 92680 |
| William G. Farrow<br>(602) 263-8810 | Gallant, Farrow & Greene, P.C. | 3603 North Seventh Avenue<br>Phoenix, Arizona 85013 |
| Arthur Greenspan<br>(713) 835-5358 | Arthur Greenspan & Co. | 1125 San Jacinto Building<br>Beaumont, Texas 77701 |
| Herbert M. Haber<br>(212) 949-9191 | Paneth, Haber & Zimmerman | 600 Third Avenue<br>New York, N. Y. 10015 |
| Frank B. Hill, Jr.<br>(205) 265-9531 | Hill, Flurry & Co. | 625 Bell Building<br>Montgomery, Alabama 36104 |
| Francis A. Humphries<br>(803) 722-2791 | Gamble, Humphries, Givens & Moody | 205 King Street<br>Charleston, South Carolina 20401 |
| James L. Keeler<br>(703) 434-5975 | Keeler, Phibbs & Co. | 306 East Market Street<br>Harrisonburg, Virginia 22801 |
| Duane W. Kuehl<br>(414) 782-8182 | Own Account | Arbor Terrace, Suite 114<br>333 Bishops Way<br>Brookfield, Wisconsin 53005 |
| Harry M. Linowes<br>(202) 833-2280 | Leopold & Linowes | 1120 Connecticut Avenue, N.W.<br>Washington, D.C. 20036 |
| John C. MacIlwaine<br>(513) 298-0201 | Batelle & Batelle | 1785 Big Hill Road<br>Dayton, Ohio 45439 |
| Samuel A. McDuffie<br>(404) 325-7554 | DeLoach & Co. | 1800 Century Center Blvd.<br>Suite 830<br>Atlanta, Georgia 30345 |
| Robert A. Mellin<br>(415) 781-0793 | Hood & Strong | 555 California Street, Suite 3280<br>San Francisco, California 94104 |
| John L. Ricketts<br>(215) 241-7521 | Stockton Bates & Co. | Robinson Building<br>15 & Chestnut Street<br>Philadelphia, Pennsylvania 19102 |
| Mahlon Rubin<br>(314) 727-8150 | Rubin, Brown, Gornstein & Co. | 230 South Bemiston<br>St. Louis, Missouri 63105 |

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|---|---|---|
| Robert S. Siskin<br>(203) 549-0770 | Siskin, Shapiro & Company | 33 Lewis Street<br>Hartford, Connecticut 06103 |
| Sandra A. Suran<br>(503) 292-3503 | Suran & Co. | 1519 S.W. Marlow<br>Portland, Oregon 97225 |
| L. G. Thoreson<br>(205) 284-2400 | Benson & McLaughlin | 401 Second Avenue, West<br>Seattle, Washington 98119 |

**Committee Meetings**

The executive committee meets on an average of once every six weeks. The last meeting of this committee year will be at the Breckenridge Inn at Frontenac, St. Louis, Missouri on September 7 and 8, 1978. The organization meeting of the 1978/79 executive committee is scheduled for New York on November 30, and December 1, 1978.