

What is peer review and why is it important?

The American Institute of CPAs (AICPA) established the Peer Review Program nearly 20 years ago to enhance the quality of accounting, auditing and attestation services performed by AICPA members in public practice. The AICPA Peer Review Program illustrates the accounting profession's dedication to integrity and protection of the public and is driven by adherence to the highest possible professional standards.

The AICPA Peer Review Program is well-respected by both practitioners, state boards of accountancy and other users of the peer review process, who recognize the program as an effective quality improvement tool.

Since 1977, more than 50,000 CPA firms have undergone more than 160,000 peer reviews, resulting in reports that provide insight into participating firms' quality control standards and their real-world use of those standards. Approximately 32,000 firms are currently subject to peer review, with 41 individual state CPA societies serving as administering entities in the 55 licensing jurisdictions. Currently, 39 states require peer review as a condition of licensure.

Peer review provides a mechanism for a firm to engage a peer firm to review its system of quality control related to its application of professional accounting, auditing and attestation standards. The AICPA Peer Review Program is important because it strengthens member firms' quality control and encourages firms to improve processes and correct any shortcomings. Peer review enhances the quality of the profession and contributes to the public's confidence in the profession.

The South Carolina Board of Accountancy recognizes the value and importance of peer review. In 2006, a law was passed making peer review mandatory for all CPAs in South Carolina who perform a compilation, review audit or other attest services.

What are the various types of peer reviews?

There are two types of peer reviews: system reviews and engagement reviews. The type of peer review that is performed on a CPA firm is dependent upon the type of work that a firm delivers to its clients.

Firms that only perform SSARs & financial statements that are not going to be, and are not reasonably expected to be, used by third parties and the CPA sends the client an engagement letter with appropriate descriptions of the service being

rendered with each page of the financial statement stating clearly: "Restricted for management's use only" or "Solely for the information and use by the management of [name of entity] and not intended for any other party" are exempt from peer review.

What is a system review and which firms receive them?

A system review is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a CPA firm's system of quality control to perform accounting and auditing ("A&A") work. The quality control system represents the policies and procedures that the CPA firm has designed, and is expected to follow, when performing its work. The peer reviewer's objective is to determine whether the quality control system is designed to ensure compliance with professional standards and whether the firm is following its system appropriately.

Firms that perform engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards (Yellow Book) or examinations of prospective financial statements under the Statements of Standards for Attestation Engagements (SSAEs) are subject to system reviews.

The objective of a system review is to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review (1) the firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards and (2) the firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

The majority of the procedures in a system review should be performed at the reviewed firm's office.

Approximately 15,000 firms are likely to have a system review over the next three years. The scope of the peer review does not encompass other segments of a CPA practice, such as tax services or management advisory services, except to the extent that they are associated with financial statements, such as reviews of tax provisions and accruals contained in financial statements.

What is an engagement review and which firms receive them?

Firms that only perform services under SSARs and/or services under the SSAEs not included in system reviews, have engagement reviews. Firms eligible to have an engagement review may elect to have a system review.

Unlike system reviews where a firm's system for quality control policies and procedures are evaluated, an engagement review evaluates the firm's financial statements and documentation with regard to conformance to AICPA

professional standards. The reviewer does not express an opinion on the firm's compliance with its own quality control policies and procedures or compliance with AICPA quality control standards.

An engagement review provides reviewers with a reasonable basis for expressing limited assurance that:

- the financial statements or information and the related accountant's report on the accounting, review and attestation engagements the firm submits for review conform to professional standards;
- the reviewed firm's documentation conforms with the requirements of professional standards; and
- firms that only perform services under Statements on Standards for Accounting and Review Services (SSARS) and/or services under the SSAEs not included in system reviews have engagement reviews.

Ordinarily, at least two engagements should be selected for review. Engagement reviews are normally at a location other than the reviewed firm's office. More than 10,000 firms are likely to have an engagement review over the next three years.

Who is involved in peer review?

- **Peer Review Board:** The Peer Review Board ("Board") is the twenty member governing body of the AICPA Peer Review Program. It is responsible for conducting the program and carrying out its activities, which include establishing and updating the AICPA Standards for Performing and Reporting on Peer Reviews ("Standards") and issuing related guidance.
- **South Carolina Association of CPAs:** The AICPA Peer Review Program is administered in South Carolina by the South Carolina Association of CPAs (SCACPA). A CPA firm enrolled in the AICPA Peer Review Program will have its peer review administered by SCACPA if the CPA firm's main office is located in South Carolina. The AICPA Peer Review Board approves all administering entities including SCACPA annually. Peer reviews are administered and accepted by SCACPA in accordance with the Standards and other guidance adopted by the Board.
- **SCACPA's Peer Review Committee:** The Peer Review Committee of SCACPA ("Committee") oversees the peer reviews administered and performed in South Carolina under the AICPA Peer Review Program. The Committee establishes procedures for ensuring that peer reviews are performed in accordance with professional Standards and related guidance materials. The Committee also establishes procedures to ensure consistent application of the Standards and guidance related to overdue reviews, follow-up actions, handling reviewer performance issues and disagreements. The Committee is responsible for ensuring that reviews are presented to a report acceptance body in a timely manner and

for evaluating whether peer reviews have been performed in accordance with the Standards and related guidance.

- **Peer Reviewers:** Peer reviewers who are approved to perform peer reviews in accordance with the AICPA Peer Review Program are active AICPA members in good standing, licensed to practice as certified public accountants, who have met certain knowledge, experience and training requirements. Peer reviewers conduct system and engagement reviews for firms when engaged to do so.

There are two types of peer reviewers – team captains and team members. Team captains are those who are qualified to perform all types of peer reviews. Team members are those who are qualified to perform engagement and report reviews and may also assist team captains in various aspects of the system review.

In certain situations, it is also possible for a professional to be involved in peer review as a team member without the specialized training requirement, where they only review specific areas of quality control or engagements on a system review.

How do I learn more about peer review?

For more information on the AICPA Peer Review Program administered by SCACPA, contact Glenna Minor at (803) 791-4181 ext. 107 or gminor@scacpa.org. You also may visit www.aicpa.org, e-mail the AICPA peer review staff at PeerReviewupdates@aicpa.org or call (919) 402-4502.