

## CHAPTER 17 PEER REVIEW

### **193A—17.1(542C) Definitions.** As used in this chapter:

“*Applicant*” means a firm of certified public accountants holding a permit to practice as a corporation or partnership of certified public accountants issued pursuant to Iowa Code subsection 542C.20(3), or a person certified as a public accountant pursuant to Iowa Code section 542C.5 who practices as a sole proprietorship. “*Applicant*” shall hereinafter be referred to as “*firm*.”

“*Peer review*” means peer or quality review to determine the degree of the firm’s compliance with generally accepted accounting principles, generally accepted auditing standards, or other similarly recognized authoritative technical standards.

“*Peer review records*” means all files, reports and other information in the possession of a peer review team relating to the professional competence of a firm or information concerning the peer review developed by a peer review team in the possession of a firm.

“*Peer review team*” means persons or organizations participating in the peer review program required by these rules. It specifically includes the reviewers and report review committees, but does not include the board.

“*Report review committee*” means the component of the peer review team responsible for ensuring the reviewers’ reports are made in compliance with this chapter.

“*Reviewer*” or “*reviewers*” means the component of the peer review team having direct contact with the firm and directly engaged in the conduct of the peer review.

“*Substantially similar review*” means a peer review conducted in accordance with the provisions of this chapter and subject to the following:

1. The peer review team shall be approved by a nationally recognized accounting organization as having the qualifications, training, and experience to perform the peer review function contemplated by this chapter; and
2. The peer review shall be conducted pursuant to a nationally recognized peer review program which incorporates the requirements of this chapter and which program has received prior approval of the board; or
3. The peer review shall be conducted pursuant to a written submission detailing the qualifications of the peer review team to conduct the peer review and providing a written plan for the peer review illustrating the means of compliance with this chapter with the prior specific approval of the board.
4. All peer review programs approved by the board shall include review of each peer review by a report review committee consisting of at least three members currently active in public practice at a supervisory level in the accounting and auditing function of a firm which has been peer reviewed in compliance with either this chapter or requirements substantially similar to those of this chapter. A majority of the committee members shall possess the qualifications required of a reviewer in charge.

**193A—17.2(542C) Peer review required.** As of January 1, 1994, as a condition of renewal of an applicant’s permit to practice, the firm shall submit a certificate of completion of peer review issued pursuant to this chapter, a copy of a written report of the peer review conducted pursuant to this chapter, or shall submit certification that the firm has completed a peer review pursuant to this chapter.

**17.2(1)** A firm’s completion of a peer review program endorsed or supported by the American Institute of Certified Public Accountants or other substantially similar review shall satisfy the requirements of this chapter.

**17.2(2)** During the three-year period ending on the December 31 preceding the application for issuance or renewal of a permit to practice, the firm shall have completed a peer review in accordance with this chapter. If the firm has been authorized to practice in another state prior to submitting the application, the firm shall have completed a peer review in accordance with this chapter. This requirement applies to all applications for renewal after January 1, 1994.

**17.2(3)** Applications for issuance or renewal of a permit to practice shall include certification of completion of a peer review as required by this chapter upon a form provided by the board, a certificate of completion of peer review issued to the firm by the report review committee or a copy of the written report of the peer review conducted pursuant to this chapter. If the firm has not practiced prior to this application, the firm shall have in place a system of internal quality control prior to commencement of a financial reporting engagement, and shall come into compliance with the chapter within 18 months of completion of a financial reporting engagement.

**17.2(4)** The costs of peer review shall be paid by the firm.

**193A—17.3(542C) General peer review provisions.** A peer review conducted pursuant to this chapter shall be conducted in accordance with the following terms:

**17.3(1)** A reviewer shall perform the peer review in accordance with the professional standards applicable to an independent auditor examining financial statements.

**17.3(2)** Independence shall be maintained with respect to the reviewer and the reviewed firm in accordance with the provisions of 193A—subrule 11.3(1).

**17.3(3)** A reviewer shall not have a conflict of interest with respect to the firm being reviewed or the clients of the firm whose engagements are selected for review.

**17.3(4)** Peer review team members shall not have contact with or access to any client of the reviewed firm in connection with the review.

**17.3(5)** The peer review shall be directed to the professional aspects of the applicant's practice and shall not include the business aspects of the practice.

**193A—17.4(542C) Reviewers.**

**17.4(1)** A peer review shall be conducted by one or more reviewers, depending upon the size and nature of the firm's practice.

**17.4(2)** The reviewer shall have current knowledge of the type of practice to be reviewed. The reviewer must have a familiarity with specialized industry practices involved in the fields engaged in by the applicant.

**17.4(3)** All reviewers shall have been actively engaged in the practice of public accounting in the accounting and auditing function continuously during the past five years.

**193A—17.5(542C) Reviewer in charge.**

**17.5(1)** The reviewer in charge shall be responsible for organizing and conducting the peer review.

**17.5(2)** The reviewer in charge of peer reviews must be currently licensed to practice public accounting in this or another state, and must be active in public practice, performing the audit function as a proprietor, partner, or shareholder of a firm possessing a permit to practice.

**17.5(3)** The firm shall provide the reviewer in charge with copies of documents relating to the firm's last peer review, if one was completed, including reports, letters of comment, and responses thereto.

**17.5(4)** At the discretion of the reviewer in charge, specialists not meeting the requirements of rule 17.4(542C) concerning qualifications of the reviewer may be utilized for specific portions of the peer review process.

**17.5(5)** An individual may serve as the reviewer in charge for no more than two successive reviews of the same firm.

**193A—17.6(542C) On-site peer reviews.** Each firm shall submit to an on-site peer review unless the firm qualifies for an off-site peer review under rule 17.7(542C).

**17.6(1)** An on-site peer review shall examine the firm's system of quality control for its accounting and audit practice to ensure compliance with accepted national quality control standards. The review shall cover the firm's accounting and auditing practice for compliance with recognized national standards and applicable Government Auditing Standards issued by the General Accounting Office of the United States. The reviewers shall also ensure that the firm is complying with established quality control policies and procedures to the extent necessary to reasonably ensure conformity with nationally recognized professional standards.

**17.6(2)** The on-site peer review shall include a study and evaluation of the quality control policies and procedures in effect for the firm during a period of one year which shall not have ended before the end of the previous calendar year.

**17.6(3)** The on-site review shall specifically examine the following elements of quality control to the extent they are applicable to the firm's practice in establishing quality control policies and procedures: independence, assigning personnel to engagements, consultation, supervision, hiring, professional development, advancement, acceptance and continuance of clients, and inspection. The compliance tests related to these functions should also be performed by the reviewing team as practical and applicable to the firm, taking into account such things as the nature of practice and size of the firm.

**17.6(4)** An on-site peer review shall also include:

*a.* Review of specific selected financial reporting engagements completed during the review year which constitute a reasonable cross-section of the firm's accounting and audit practice sufficient to provide a basis for reasonable conclusions as to the quality of the firm's services. At least one governmental engagement shall be selected where applicable.

*b.* Review of the relevant working papers and reports. A firm may have legitimate reasons for not granting access to the working papers for certain engagements due to pending litigation, the presence of governmental investigative material, or specific client requests, the reasonableness of which must be determined by the reviewer.

*c.* Identification of significant deficiencies and the actions necessary to provide the firm with reasonable assurance that the deficiencies will not recur. The reviewers shall take necessary action, including expansion of compliance tests, to identify accomplishment of such actions.

*d.* Review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel involved in rendering the firm's service. The reviewers shall document whether anything came to their attention that caused them to believe that:

(1) The financial statements were not presented in all material respects in accordance with generally accepted accounting principles or other comprehensive basis of accounting, unless proper disclosures exist;

(2) The firm did not have a reasonable basis under applicable professional standards for the report issued;

(3) The documentation on the engagement did not support the report issued;

(4) The engagement was not carried out in accordance with generally accepted auditing standards, or other similarly recognized authoritative technical standards; or

(5) The firm did not comply with its quality control policies and procedures in all material respects. In the event of discovery during a quality review of a failure with respect to (1) through (4) above, the firm should be promptly informed. The firm shall immediately investigate and take whatever action is necessary to address the matter while keeping the reviewer in charge informed as to the investigation and actions taken.

*e.* Interview of the responsible personnel engaged in performing the firm's professional function.

*f.* Review of other evidentiary material such as personnel files, administrative files, correspondence files relating to technical or ethical questions, and the firm's library.

*g.* An exit conference conducted by the reviewer in charge to discuss with the firm the review team's findings and recommendations.

*h.* A written report of the review to be provided to the firm within 30 days of the exit conference along with, where applicable, a letter of comments.

*i.* If applicable, a written response by the firm to the letter of comments outlining the actions to be taken with respect to the recommendations made by the peer review team.

**17.6(5)** The firm shall respond promptly to questions raised in the review. The firm shall take appropriate remedial and corrective actions as necessary with respect to any noted deficiencies.

**193A—17.7(542C) Off-site peer reviews.** Off-site peer review shall only be available to firms who perform review or compilation engagements, but who perform no audits of historical or prospective financial information.

**17.7(1)** An off-site peer review shall be conducted to provide a reasonable basis for expressing limited assurance that the financial statements and related accountant's report on the review and compilation engagements submitted for review do not depart in a material respect from the requirements of recognized national professional standards.

**17.7(2)** The firm shall provide summarized information as requested by the reviewer in charge to facilitate selection of the types of engagements to be submitted for review in accordance with the following:

*a.* At least two engagements involving a report on a complete set of financial statements shall be reviewed.

*b.* Both review and compilation engagements shall be reviewed, if both levels of service are provided. Representative engagements from different industries in which the firm practices should be included if possible. In addition, one set of financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or other comprehensive basis of accounting and the related accountant's compilation report shall be reviewed, if the firm performs such services.

**17.7(3)** The firm shall submit to the reviewer in charge the appropriate financial statements and reports, along with specified background information and representations concerning each engagement.

**17.7(4)** An off-site peer review does not include a review of the working papers prepared on the engagements, tests of the firm's administrative or personnel files, interviews of selected firm personnel or other procedures performed in an on-site peer review. It shall consist only of reading the historical or prospective financial statements submitted by the firm and the accountant's review or compilation report thereon, together with certain background information and representations provided by the firm. The financial statements submitted shall be reviewed to determine whether they appear to conform with generally accepted accounting principles or, if applicable, other comprehensive basis of accounting, and whether the report conforms with professional standards.

**17.7(5)** Within 30 days of the completion of the peer review, the firm shall be furnished a written report of the findings and recommendations of the reviewer.

**17.7(6)** An off-site peer review does not provide a basis for expressing an opinion as to the firm's quality control policies and procedures. However, the reviewer shall include in the report any failure to conform with the requirements of professional standards.

**193A—17.8(542C) Certification of completion of peer review.** The report review committee shall provide the firm with a certificate of completion of peer review on a form provided by the board, if so requested by the firm.

**193A—17.9(542C) Waiver of peer review requirement.** At the time of permit renewal a firm may request, in writing upon a form provided by the board, a waiver from the requirements of this chapter.

**17.9(1)** The board may grant a waiver subject to the restrictions the board deems appropriate if one or more of the following conditions are met:

*a.* The firm does not engage in, and does not intend to engage in during the term of the permit, financial reporting areas of practice including, but not limited to, audits, compilations, and reviews. An applicant granted a waiver pursuant to this subrule shall immediately notify the board before the applicant engages in such practice. The firm shall have in place a system of internal quality control prior to commencement of a financial reporting engagement, and shall come into compliance with this chapter within 18 months of completion of a financial reporting engagement.

*b.* For reasons of health.

*c.* Due to military service.

*d.* For any other good cause as determined by the board.

**17.9(2)** Failure of the firm to comply with the terms, conditions or limitations of a waiver granted under this rule shall be grounds for disciplinary action by the board.

**193A—17.10(542C) Confidentiality of peer review records.**

**17.10(1)** Peer review records are privileged and confidential, and are not subject to discovery, subpoena or other means of legal compulsion. They are not admissible as evidence in a judicial, arbitration or administrative proceeding. However, information or documents discoverable from sources other than a peer review team do not become nondiscoverable from other sources because they are made available to or are in the possession of a peer review team.

**17.10(2)** Information or documents publicly available from the American Institute of Certified Public Accountants relating to quality or peer review are not privileged or confidential under this rule.

**17.10(3)** A person or organization participating in the peer review process shall not testify as to the findings, recommendations, evaluations or opinions of a peer review team in any judicial, arbitration or administrative proceeding.

**193A—17.11(542C) Liability.**

**17.11(1)** A person shall not be liable as a result of acts, omissions or decisions made in connection with the person's service on a peer review team, unless the act, omission or decision is made with actual malice.

**17.11(2)** A person shall not be liable as a result of providing information to a peer review team or for the disclosure of privileged matter to a peer review team.

These rules are intended to implement Iowa Code section 542C.6.

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