



PEER REVIEW DEFICIENT REPORTS & MONITORING



NASBA Peer Review Compliance Committee (PRCC) - April 2025

BEST PRACTICES FOR DEFICIENT PEER REVIEW REPORTS AND MONITORING OF FIRM COMPLIANCE

These suggested best practices are presented by the Peer Review Compliance Committee (PRCC) of the National Association of State Boards of Accountancy (NASBA). Currently, pass with deficiencies and fail peer review reports are being handled differently by each State Accountancy Board (Board).

The PRCC is recommending best practices for Boards to consider when dealing with pass with deficiencies or fail reports as well as other peer review monitoring, recognizing not every Board will be able to implement these recommendations due to their own rules and regulations or other constraints specific to each jurisdiction. Utilization of these best practices by all Boards could increase consistency from state to state.

Facilitated State Board Access (FSBA) is a secure state board of accountancy access-only website, developed and managed by the AICPA, that gives state board staff access to certain peer review documents and information. Access and available information are determined by the applicable law and rules in each jurisdiction. It is recommended that Board staff use this resource as part of their peer review monitoring and compliance efforts, if state law and/or rule permits.

In the following recommended best practice, when it is suggested that the “Board” take action, it is intended to mean the Board, its staff, or another group designated by the Board.

These best practices are intended for firms that receive Pass with Deficiency or Fail peer review report ratings.

- Initial peer review refers to the first time a firm has received a peer review report with less than a pass rating.
- Consecutive peer review refers to the second or subsequent peer review report issued for the firm with less than a pass rating.

RESULTS FROM INITIAL PEER REVIEW (PASS WITH DEFICIENCIES OR FAIL)

Board monitoring may include the following:

- Review the firm’s report, letter of response to the deficiencies and all required corrective actions.
- Monitor the firm’s compliance with the corrective actions to ensure they are completed within the timelines established by the Administering Entity (AE).
- Monitor the firm until the final Letter of Completion has been issued. The Board may make note of the firm’s next due date for peer review.
- Once the Letter of Completion has been issued, a letter from the Board may be sent notifying the firm that if a subsequent review other than pass is obtained it could result in disciplinary action (if regulations and rules permit).

Firm Non-Compliance Monitoring:

- If the firm is not in compliance with one or more requirements of the peer review program, the Board may consider issuing a warning letter notifying the firm that the Board may take action against the firm for failure to comply with the peer review requirements.
- If the firm does not respond to the Board’s warning letter with appropriate action, the firm should then be referred to the enforcement arm of the Board. The Board should take action based on the failure of the firm to comply with the peer review program and requirements.
- If the deficiencies are significant the Board may want to take action immediately.

CONSECUTIVE RESULTS AFTER A PASS WITH DEFICIENCIES

SUBSEQUENT RATING OF PASS WITH DEFICIENCIES

Board monitoring may include the following:

- Review of the past and current reports to identify if the previous deficiencies were resolved.
- Review the current report to determine if the latest pass with deficiencies is due to new systemic issues (on system reviews) or new engagement issues (on engagement reviews). If the firm corrected its previous deficiencies, the Board could determine that the firm is cooperating.
- If corrective action is required, continue Board monitoring of the firm's compliance with the new remedial actions.
- Consider sending a letter to the firm with a reminder of the significance of receiving two consecutive pass with deficiencies peer review reports, which could be considered failure to comply with the peer review requirements.
- If any of the prior deficiencies have not been resolved and are deemed to be significant, the Board should make a referral to the enforcement arm of the Board for its determination.

Note: Boards might not want to wait three years to make the determination that "all is well," especially if the review includes must-select engagements (ERISA, Yellow Book, Single Audit, FDICIA, and SOC). The Board could require the firm to request an accelerated peer review.

SUBSEQUENT RATING OF FAIL

Board monitoring may include the following:

- In most instances when a firm receives a fail after a pass with deficiencies, the Board should refer the firm to the enforcement arm of the Board and let it make the determination as to whether any additional actions should be required.
- If immediate discipline is warranted, a case may be opened and an investigator assigned to determine the issues. In some cases, a firm may be willing to stop performing the services which contributed to the fail report and may have entered into such an agreement with the Administering Entity of the Peer Review Program.
- If this is the case, the Board should require a similar signed acknowledgement from the firm for the enforcement record.
- Otherwise, the firm is monitored for compliance with the outstanding corrective actions and if they are not completed within the timelines established by the AE, the firm should be referred to the enforcement arm of the Board.

CONSECUTIVE RESULTS AFTER A FAIL

SUBSEQUENT RATING OF PASS WITH DEFICIENCIES

Board monitoring may include the following:

- In most instances where a firm receives a pass with deficiencies after a fail, the Board might consider carefully reviewing the circumstances of the current pass with deficiencies.
- If there are any repeat deficiencies, the PROC (or its equivalent as designated by the Board) should refer the firm to the enforcement arm of the Board and let it make the determination as to whether any additional actions should be required.
- If all of the deficiencies are new, the PROC (or its equivalent as designated by the Board) could make the determination if it believes the firm has been responsive in its letter of response and that the corrective actions will correct the deficiencies.
- The Board may monitor the firm's compliance with the corrective actions and if they are not completed within the timelines established by the AE, the firm should be referred to the enforcement arm of the Board.

SUBSEQUENT RATING OF FAIL

Board monitoring may include the following:

- A firm receiving two consecutive fails should be sent to the Board's enforcement arm for review and determination if an enforcement file should be opened.
- If this is done, an investigation should determine whether there is sufficient evidence to bring charges against the firm.
- If the investigation determines there are deficiencies with the firm's engagements, stipulated agreement terms with the firm could include requiring the firm to request an accelerated peer review, pre-issuance review of attest work until the firm obtains a peer review rating of pass, additional continuing education, and any other requirements as warranted by the Board.
- In some cases, a firm may be willing to stop performing the services which contributed to the fail report and may have entered into such an agreement with the AE. If this is the case, the Board should require a similar signed acknowledgement from the firm for the enforcement record.

TERMINATION & DROPPED FIRMS FROM THE PEER REVIEW PROGRAM

Each month the AICPA provides Boards with a listing of firms whose enrollment in the peer review program was terminated or dropped.

TERMINATION OF FIRMS

The termination by the Peer Review Board Hearing Panel (PRB) may be for failure to cooperate in all matters related to the program or comply with the requirements of the program.

- The Board should consider sending the terminated firm a letter to notify it that the firm is no longer authorized to perform attestation services and was referred to the Board's enforcement arm.
- Should a Board receive a peer review report or acceptance letter from the firm any time after the Board has been notified of the firm's termination in the peer review program, the Board may wish to verify the validity of such information using FSBA.

DROPPED FIRMS

A firm's enrollment in the AICPA Peer Review Program may be dropped by the PRB without a hearing for failure to cooperate with the program. A firm may be dropped for failure to submit requested information concerning the scheduling of its peer review or timely submission of required documents to commence the peer review.

Board monitoring may include the following:

- Upon receipt of notification that the firm has been dropped, the Board should consider notifying the firm and require a written response that action is being taken to comply with the requirements for peer review.
- The firm may subsequently re-enroll in the program by either completing required actions or in certain conditions, through approval by the PRB Hearing Panel.
- The firm may respond that it no longer performs attestation services, requiring a peer review.
- If the firm does not respond to the Board's request for a written response, the firm may be referred to the enforcement arm of the Board.
- Should a Board receive a peer review report or acceptance letter from the firm any time after the Board has been notified of the firm's termination in the peer review program, the Board may wish to verify the validity of such information using FSBA.

Consistency amongst all Boards addressing pass with deficiencies and fail peer review reports could be increased by Boards implementing the best practices presented here in conjunction with their own rules and regulations.