



TM

AICPA[®]

Peer Review
Program

National Peer Review Committee

2019 Annual Report on Oversight

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of approximately twenty-six Administering Entities (AEs) of the AICPA Peer Review Program (AICPA PRP). The National PRC, unlike some other AEs of the AICPA PRP, does not administer any peer review programs other than the AICPA PRP.

The purpose of this Annual Report on Oversight (report) is to provide a general overview; including statistics and information; the results of the National PRC's oversight procedures; and to conclude whether the objectives of the National PRC's oversight processes performed in calendar year 2019 were in compliance with the requirements of the AICPA PRP and the National PRC Policies and Procedures.

This report also discusses the history, background, composition, and procedures of the National PRC as they differ substantially from those of the other AEs. Refer to Exhibit F for the history of the National PRC.

Scope and Use of this Report

Oversight procedures and results reported are based on the peer reviews that were accepted during the calendar year. This report contains data pertaining to the AICPA PRP and should be reviewed in its entirety to understand the full context. Statistical information presented in this report pertains to peer reviews accepted during calendar years 2017-19, which covers a full three-year peer review cycle. Oversight procedures included in this report are performed on a calendar year basis.

For more information on oversight of the AICPA PRP as a whole, please [visit](#) the AICPA's website.

Facilitated State Board Access

In the 30 years since peer review became mandatory for AICPA membership, 53 State Boards of Accountancy (SBOA) have adopted peer review requirements, and many require their licensees to submit certain peer review documents as a condition of licensure. To help firms in complying with SBOA peer review document submission requirements, the AICPA created facilitated state board access (FSBA). FSBA allows firms to give permission to the AICPA or their AEs to provide access to the firms' documents (listed in the following paragraph) to SBOAs through a state-board-only-access website. Permission is granted through various opt-out and opt-in procedures. Some SBOAs now require their licensees to participate in FSBA while others recognize it as an

acceptable process to meet the peer review document submission requirements.

Documents included in FSBA are:¹

- Peer review reports
- Letters of response (if applicable)
- Acceptance letters
- Letters signed by the reviewed firm accepting that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions (if applicable)
- Letters notifying the reviewed firm that required actions have been completed (if applicable)

Beginning in January 2020, FSBA was enhanced to also provide certain objective information about a firm's enrollment in the AICPA PRP and the firm's current peer review when the firm has given permission.

Members of the National PRC

The National PRC is comprised of between 15 and 17 members who are public practitioners. Two of the members of the National PRC are nominated by the SBOAs. These two members are former SBOA members and are recommended by the National Association of State Boards of Accountancy. Some of the members of the National PRC may also be members of the Peer Review Board (PRB), although it is not required. The largest four firms, when eligible, maintain seats on the National PRC, and the remaining seats represent a reasonable cross-section of those firms whose peer reviews are administered by the National PRC, which is a diverse constituency. The Chair of the National PRC is a member of the PRB's Planning Task Force and may also be a member of the PRB. See Exhibit E for a roster of the National PRC's members.

Staff of the National PRC

The National PRC's staff (staff) consists of technical and administrative personnel who support the activities of the National PRC and its task forces and subcommittees. See Exhibit E for a listing of AICPA staff and titles. The staff assists the members of the National PRC and its task forces and subcommittees in their responsibilities. The staff also assists in administration, presentation of reviews for acceptance, resolving reviewed firm/peer reviewer issues and the oversight of processes. Additionally, the staff may be involved in other projects in cooperation with other teams at the AICPA. The National PRC is supported by AICPA PRP staff.

¹ As of February 2015, a firm's currently accepted and prior peer review documents are available on FSBA. The documents are available if the state participated in FSBA for both review periods and the firm did not opt out of FSBA for either review.

Reviews Administered by the National PRC

The National PRC administers peer reviews for firms meeting any of the following criteria:

1. The firm performed or played a substantial role in (as defined by the PCAOB) an engagement under PCAOB standards with a period-end during the peer review year
2. The firm is a provider of quality control materials (QCM) (or affiliated with a provider of QCM) that are used by firms that it peer reviews
3. Firms that elect to have their review administered by the National PRC

Based on the requirements above, there is a wide variety of firms with reviews administered by the National PRC that pose different risks. Some of the differences include:

- Size of the Firm – The National PRC administers peer reviews for firms of all sizes including sole practitioners and the largest CPA firms. Most of the larger firms (over 300 personnel) in the AICPA PRP have reviews administered by the National PRC.
- System of Quality Control – Some firms have simple systems while others have complex and robust systems.
- Internal Inspections – Some firms have robust internal inspections whereby the peer reviewer can rely on the inspection to reduce the scope of the peer review. However, the peer reviewer must perform extensive procedures to be able to place that reliance on the internal inspection results.
- Regulatory Oversight – Some firms are only subject to regulatory oversight by one entity while others are subject to oversight by other regulators such the PCAOB and Department of Labor.
- Size of the Review Team – Some reviews are performed by a single peer reviewer while others involve a team captain, office captains and more than 50 team members.
- Length of Time to Perform the Review – Some reviews may be able to be performed in one day while others make take months to perform.
- Office Locations – Some firms operate in multiple states, so the review may be performed in several states at the same time or at different times throughout the review.
- Licensing Jurisdictions – Each licensing jurisdiction may have different practice monitoring requirements.

National PRC Process Overview

In order to understand the National PRC's oversight procedures, it is first helpful to have an overview of the National PRC's processes.

Scheduling

Firms to be peer reviewed receive Peer Review Information (PRI) and Scheduling (SCH) forms that request information on the firm's management and structure, audit and attest engagements, peer reviewer information, as well as dates of planned commencement and the exit conference. This information is entered by the firms and peer reviewers in the Peer Review Information Management Application (PRIMA). Once this information is received, validations related to peer reviewer qualifications and other data are performed. Any issues identified through this process are addressed by the firm, review team, or both, with the assistance of staff as necessary until all issues are resolved. A scheduling verification is sent to the firm and the team or review captain

upon completion of the scheduling process. Peer reviews are then monitored for timely submission of peer review documents.

As required by the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)*, peer reviewers must timely complete and update a resume that accurately reflects their reviewer qualifications, including recent industry experience. The National PRC uses this information to ensure the peer review team's experience appropriately matches the firm being reviewed.

Technical Review

Upon receipt of the peer review working papers from the team or review captain, they are ordinarily assigned to a technical manager on a first in, first out order. To appropriately address the various risks mentioned above that may be different from other AEs, all peer reviews administered by the National PRC, including those selected for oversight, are subject to a full working paper review by AICPA technical staff.

The technical review includes review of a Summary Review Memorandum describing the major aspects of the review, a sample of engagement profiles and checklists, quality control checklists (and documents, if available), focus group/staff interviews and other working papers. This also includes review of Single Audit engagement profiles and related engagement checklists. The technical manager completes a comprehensive technical review checklist tailored to the National PRC to document his or her procedures.

The technical reviewer's role is to anticipate questions from the Report Acceptance Body (RAB) of the National PRC, seek answers from the team or review captain, firm, or both; address issues or problems that are noted during the working paper review; and consult with staff, consultants and others in advance of RAB presentation. The technical reviewer advises the RAB of significant matters related to the review, provides certain working papers for the RAB's review and recommends any corrective actions, implementation plans, or reviewer performance feedback, if any.

Peer reviews meeting certain criteria, such as current or immediately previous peer review report being issued with a rating of "pass with deficiency" or "fail," are subject to a concurring review. The concurring review is generally performed by a senior technical manager or associate director.

All peer reviews undergo a due diligence review by a senior technical manager or associate director. Technical staff will address comments and questions arising from this review before the peer reviews are provided to the RAB.

Report Acceptance

The entire National PRC serves as the RAB for the peer reviews of firms with 400 or more A&A personnel. However, most peer reviews are presented via biweekly conference calls to smaller RABs, typically comprising approximately three to five National PRC members. Each RAB is led by a chair. The technical reviewer is available during the RAB meeting to answer any questions the members might have. National PRC members are assigned to the calls to obtain a cross-section of firm sizes and industry experience. The role of the RAB is to consider peer reviews for acceptance on behalf of the National PRC. One week prior to a scheduled call, the National PRC members assigned to that call receive an agenda consisting of a committee spreadsheet summarizing the items being presented, the RAB member responsible for presenting each peer review and the relevant peer review documentation for each review being presented, which includes:

- A summary of relevant information about the review, as well as staff findings, such as open items that may delay acceptance and recommendations
- The peer review report
- Firm representation letter
- The letter of response, if applicable
- Finding for Further Consideration (FFC) forms, if applicable
- Matter for Further Consideration (MFC) forms, if applicable
- Prior peer review report and letter of response, if necessary
- Prior peer review FFC forms, if applicable
- Other supporting documents, if necessary

The RAB package does not include the following documents for each review as required by the RAB Handbook: Single Audit engagement profile and Part A checklist and Explanation of No Answers for the Guidelines for Review and Testing Compliance of Quality Control Policies and Procedures. The Summary Review Memorandum is made available to the RAB members for reference and the other documents are made available upon request. RAB members have an opportunity to discuss the peer review with the technical reviewer and others prior to presentation to the RAB on the scheduled conference call.

Firm Peer Review Oversight Process and Procedures

The National PRC's oversight function is managed through its Oversight Task Force (OTF). The OTF comprises a minimum of three members of the National PRC with additional members added as necessary. The OTF is responsible for establishing oversight policies and procedures at least as comprehensive as those necessary to comply with those established by the PRB as set forth in the *AICPA Peer Review Program Oversight Manual* and the *AICPA Peer Review Administrative Manual*. All policies and procedures established by the OTF must be approved by the National PRC. Along with the full National PRC, the OTF evaluates whether reviews are being conducted and reported upon in accordance with the *Standards*, and that the results of reviews are being evaluated on a consistent basis. More specifically, the OTF--

- Oversees the development, implementation and summarization of a risk-based, annual on-site oversight plan developed and performed by National PRC technical staff, who utilize a detailed work program.
- Establishes the process that utilizes panels comprising National PRC members to oversee the review of firms that meet certain criteria and other reviews when deemed appropriate. The process is approved by the National PRC.
- Discusses and reports on the results of the oversight process to the full National PRC and other interested parties.
- Oversees reviewer qualification and performance issues related to National PRC reviews and maintains a report of all reviewers with restrictions who are performing National PRC reviews.
- Oversees the preparation of an annual report on the oversight activities of the National PRC.
- Oversees revisions to the National PRC Oversight Program and other materials used in oversight activities.
- Coordinates and assists with the PRB's oversight of the National PRC's administrative

functions.

- Performs internal administrative oversight for the National PRC, in the years in which the PRB does not perform oversight procedures.
- Shares results of the oversight processes with the PRB.

On-Site Oversight

Each year oversight is performed on a sample of peer reviews meeting one or more risk-based criteria. The risk-based criteria are developed or reevaluated annually by the OTF. Currently, 14 risk-based criteria exist that firms, engagements and team/review captains are evaluated against to assess their potential for oversight. This evaluation is qualitative as well as quantitative, and some criteria are weighted more heavily than others. They include certain criteria that, if met, result in mandatory oversight of the peer review. Currently, mandatory review includes firms with over 400 accounting and auditing personnel.

The oversight schedule and risk-based criteria are reviewed and approved by the OTF and National PRC at regular intervals.

Oversight is generally performed on-site during review fieldwork by the National PRC's technical staff and outside consultants, if necessary. Procedures include, but are not limited to, the review of planning (risk assessment, scope, and engagement selection); selecting a sample of engagements reviewed and reperforming the steps on the peer review engagement checklists completed by the peer review team; interviews/discussions with team members to assess their qualifications and whether they understand their responsibilities; and review of testing of quality control attributes completed by the peer review team and participation in select engagement, office, firm closing meeting and the exit conference. A detailed Oversight Program is utilized to assist in documenting the procedures.

A full technical review (see preceding discussion) of all peer review working papers is also performed by the individual who performed the oversight. The oversight and technical review processes complement and support each other.

Off-Site Oversight

Occasionally, due to scheduling or travel constraints, the oversight procedures may be performed off-site. The involvement of the technical staff and procedures performed are the same as those during an on-site oversight.

Engagement Oversight

In addition to the on-site oversights discussed above, National PRC staff or RABs may choose to select additional reviews for off-site oversight prompted by issues or concerns identified during the technical review or acceptance process. These oversights focus on one or more selected engagements or procedures and are generally performed after the review workpapers have been submitted but prior to acceptance. Procedures include obtaining a full set of working papers for the selected engagements and reperforming the steps on the peer review engagement checklists completed by the peer review team.

Oversight of the Peer Reviews and Reviewers

The PRB has mandated that, at a minimum, each AE is required to conduct oversight on two percent of all reviews performed in a 12-month period of time. That two percent must be comprised of at least two system and two engagement peer reviews. In addition, a minimum of

two system reviews must be conducted on-site. As described in the National PRC's plan of administration (POA) submitted to and approved by the PRB OTF, oversight of engagement reviews was not deemed necessary due to the small number of engagement reviews performed and due to the full working paper technical reviews already performed on all reviews submitted.

The National PRC's goal is to perform oversight of between eight and 10% of all reviews performed in a calendar year. The National PRC requires oversight on all firms with 400 or more A&A professionals. All these reviews are presented to the full committee with some of them requiring a panel (see following section). The number of reviews each year that fall into this category fluctuates based on the timing of the firms who meet the criteria. Since the required oversights on firms with 400 or more A&A professionals typically meet the minimum oversight requirements established by the PRB, the National PRC believes that performing oversight on eight to 10% of all reviews performed appropriately addresses other risks present in those reviews.

<u>Type</u>	<u>National PRC Oversight Conducted</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
On-site requiring presentation to full committee	10	3	10
Other on-site	10	20	8
Off-site	1	2	1
Engagement	9	4	5
Total	<u>30</u>	<u>29</u>	<u>24</u>
% of peer reviews conducted during year	12.2%	10.4%	9.8%

During 2019, there were several oversights conducted at the request of the RAB and disagreement panels (nine engagements selected for additional oversight in 2019 as opposed to 4 in 2018). As a result, the percent of reviews that were oversights is somewhat higher than it was in previous years and above the goal of eight to 10% of all reviews.

During the oversight process, the technical reviewer performing the oversight may provide informal feedback as a part of the ongoing exchange between AICPA staff and peer reviewers. Although these interactions are generally positive, the opportunity is taken, when warranted, to issue formal feedback in an attempt to educate and remediate future peer review performance.

Enhanced Oversight

In May 2014, the PRB approved the addition of enhanced oversight performed by subject matter experts (SMEs). The objective of the enhanced oversight program is to increase the probability that peer reviewers are identifying all material issues on must-select engagements, including whether engagements are properly identified as nonconforming. The enhanced oversight focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of broker-dealers and examinations of service organizations). For *Government Auditing Standards* engagements with Single Audit Act/Uniform Guidance portions of the engagement, the oversight focused only on the Single Audit Act/Uniform Guidance portion of the audit.

Reviews administered by the National PRC are included in the population of reviews subject to enhanced oversight. This population is subject to the selection of two samples. The first sample

is a random sample of all peer reviews that include at least one must-select engagement, and the second sample is a risk-based sample (targeted) based on certain risk criteria established by the OTF. Beginning in 2019, peer reviewers were limited to being selected in the random sample no more than two times per year. These oversights neither replace nor reduce the minimum number of oversights currently required by AEs. Two National PRC reviews in 2017, five National PRC reviews in 2018 and four National PRC reviews in 2019 were subject to enhanced oversight. The National PRC takes the results from the enhanced oversight into consideration when considering the acceptance of the review. Enhanced oversights with poor results indicate a risk factor for the reviewer and are taken into account when considering oversight by the National PRC. For more information about enhanced oversights please refer to the AICPA's PRP Annual Oversight Report which can be found [here](#).

Use of Panels

A panel of at least three National PRC members oversees the peer reviews of firms annually inspected by the PCAOB with more than 1,000,000 accounting and auditing hours for engagements not subject to PCAOB permanent inspection. In addition, panels are assigned to other reviews by the National PRC OTF when appropriate in other circumstances or when requested by a firm. Reviews with oversight panels assigned are also presented to the full National PRC for acceptance.

Panel members are appointed by the National PRC, its chair or the OTF with assistance from staff. Panel members are selected based on various factors, including size of firm and industry experience of the panel member's firm and of the firm under review. Panel members must be independent of the reviewed firm and the review team members.

The panel is supported by National PRC staff that assists it in carrying out its duties. This responsibility includes coordination and facilitation of discussions between the reviewed firm, its reviewers and the panel. It includes the performance of the full technical review of the working papers.

The panel typically participates in calls to understand and provide feedback on the planning, interim and final phases of the peer review. The scope of the peer review is ordinarily approved by the panel prior to the review's commencement. The panel may also consider the appropriateness of the review team's conclusions and may consult with the review team or the reviewed firm concerning matters resulting from the review. Generally, the panel chair will participate in the peer review exit conference to inform the reviewed firm and review team of the panel's recommendation on acceptance. Once the review is complete, the panel chair presents the review and the panel's conclusions, including whether the panel recommends its acceptance, to the National PRC.

Administrative Oversight

An internal review of the administrative functions of the National PRC was conducted in September 2019 by the National PRC OTF. The review encompassed the calendar year ending December 31, 2018. The objective and procedures of the review were the same as those discussed above.

The observations and recommendations as a result of the internal inspection are summarized as follows:

- Instances were noted in which peer review documents were retained longer than allowed by the *Standards*.

- An isolated instance was noted in which the performance of a peer review was significantly delayed due to a gap in the process for monitoring of reviews referred to the PRB for a termination hearing in which the hearing was subsequently cancelled.

The National PRC has evaluated these observations and implemented revised policies to address them.

An external review of the administrative functions of the National PRC was conducted in October 2020 by Paul Inserra, a member of the PRB Oversight Task Force (OTF). Mr. Inserra is not a member of the National PRC nor is his firm's peer review administered by the National PRC. The objective of the oversight was to determine whether (1) the National PRC is complying with the administrative procedures established by the PRB, (2) the reviews administered are conducted and reported upon in accordance with the *Standards*, (3) the results of the reviews are being evaluated on a consistent basis with other AE peer review committees, and (4) information disseminated by the National PRC is accurate and timely. A comprehensive oversight work program was utilized by the reviewer in the conduct of the review.

The oversight procedures included the following:

- Evaluation of various policies and procedures for administering the AICPA PRP.
- Evaluation of a sample of peer review documents and applicable working papers assembled by technical staff on a post-acceptance basis. This evaluation was focused on the accumulation of matters for RAB consideration.
- Inquiries of certain technical reviewers and key staff involved with administration.
- Observation of a RAB meeting to evaluate the acceptance process.

The OTF concluded that the National PRC has complied with the administrative procedures and standards in all material respects as established by the PRB. However, the overseighter did offer the following observations and recommendations:

- Greater care should be exercised to ensure current confidentiality agreements are being utilized.
- Technical reviewer evaluations specific to the role as a technical reviewer should be performed.
- RAB packages should include the firm representation letter, the single audit engagement profile, and the Section 22100 – Part Q – UG checklist, as applicable.

The National PRC has evaluated the recommendations and implemented a new review process of confidentiality letter templates, developed a technical reviewer evaluation form to be used in conjunction with other monitoring tools to track qualifications and is evaluating how best to use available technology to provide additional materials to the RAB. Peer review documents will continue to be made available to RAB members upon request. The oversights were a valuable process that revealed opportunities to enhance the effectiveness and efficiency of the administration of the AICPA PRP.

All related letters and responses are available online on the [NPRC website](#).

Annual Verification of Reviewers' Resumes

A critical element in appropriately matching peer reviewers with reviewed firms is ensuring that reviewers' resumes are accurate and updated annually. Verification must include the reviewers' qualifications and experience related to must-select engagements. Specifically, the verification

procedures must include, but are not limited to (1) calling or writing peer reviewers and requesting them to provide specific information, such as the number of engagements they are specifically involved with and in what capacity, (2) determining from PRIMA whether the peer reviewer’s firm actually performed those engagements during its last peer review, (3) verification of license to practice, and (4) verification of continuing professional education (CPE) topics and credits. Ordinarily, an experienced technical reviewer or AE peer review committee member should perform the verification. Detailed procedures, along with practice aids such as forms, letters and other materials are provided in the AICPA Peer Review Program Oversight Handbook, Administrative Manual, and other sources.

AEs are required to verify this information within a sample of reviewers’ resumes on an annual basis, such that all resumes should be verified over a three-year period. At a minimum, one third of the active reviewer resumes must be reviewed in year one of the three-year cycle, a total of two thirds by year two, and 100% by year three. The population of reviewers to be verified by the National PRC includes reviewers within firms having 400 or more professionals and reviewers performing exclusively National PRC peer reviews in the capacity of team captain, review captain, or team member.

<u>Disposition</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Suspended for noncooperation with verification process	8	9	8
Voluntarily removed/became inactive	12	10	20
Verified	59	68	126
Total	<u>79</u>	<u>87</u>	<u>154</u>

In all three years, the process resulted in several modifications to reviewers’ resumes. Due to the transition to PRIMA, the reporting options changed in 2018, resulting in a different population pool. This population change resulted in the variance in verified resumes from 2018 onward.

Peer Reviewer Performance

Staff utilizes PRIMA to monitor the status of reviews, enrolled firms and peer reviewer performance. Difficulties encountered on reviews with enrolled firms and peer reviewers are discussed during bi-weekly staff meetings, as well as with the Technical Director of Peer Review/CPA on Staff; RABs; the National PRC Chair; and the full PRC, as necessary. In considering peer review documents for acceptance, the National PRC evaluates the reviewer’s performance on each peer review. In addition to the National PRC’s evaluation, the PRB and AICPA staff also evaluate and track reviewers’ performance on peer reviews.

On occasion, weaknesses will be noted in the performance of reviewers. In such circumstances, the National PRC or its RABs advise the reviewers of the weaknesses noted so that improvements are made on reviews performed in the future. Performance matters are initially communicated to the reviewer through the use of a reviewer feedback form issued by the National PRC or RAB. The reviewer feedback form is designed to give reviewers positive and constructive feedback directly from the National PRC or RAB. Reviewer feedback forms document a reviewer’s performance on individual reviews and provide the National PRC and the OTF with useful evidence to determine whether a pattern of weaknesses is evident in the reviewer’s performance. Formal reviewer feedback included, but was not limited to, the following:

- issues noted related to documentation,
- underdeveloped risk assessments,

- low scope,
- failure to consult,
- inappropriate disposition of findings and
- insufficient identification of systemic cause and engagements not performed or reported in conformity with professional standards in all material respects.

If serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the PRB or National PRC, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer through the issuance of the performance deficiency letter. If performance issues continue to be present once a performance deficiency letter is issued, then the National PRC will consider referring the reviewer to the PRB for removal.

Results of the National Peer Review Program

As provided for in the *Standards*, firms can receive a rating of pass, pass with deficiency(ies) or fail. In a system review, this rating relates to whether or not the firm's system of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In an engagement review, this rating relates to whether or not the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects. Exhibits A – D illustrate the results of the National PRC for the years 2017-2019 and in comparison to the AICPA PRP.

Peer Reviews of Quality Control Materials (QCM)

The National PRC is responsible for the administration of QCM reviews, including acceptance of the resultant QCM review reports. QCM reviews have inherently higher risks due to firm use of and reliance on the QCM. In response to that higher risk and public interest in the process to evaluate QCM, the National PRC created the QCM Task Force for added involvement in the administration and acceptance process. The task force's involvement includes facilitating oversights of QCM reviews, developing practice aids, and recommending enhancements to the standards, interpretations, and other guidance related to QCM reviews.

Oversight and Acceptance Process of QCM Reviews

Similar to peer reviews of firms, QCM reviews undergo full working paper technical reviews and concurring reviews. In addition, all QCM reviews are subject to oversight. Oversight is intended to corroborate the review team's overall review results to provide the National PRC (as the acceptance body) with comfort that the review team's overall procedures have detected any issues with the system to develop and maintain the materials or with the resultant materials. To provide this corroboration, oversight entails reviewing a sample of the QCM opined upon in the report, focusing on the areas of the materials that were reviewed or tested by the review team.

Oversight is performed by a panel that is typically composed of a chair and two to four other members. A member of the QCM Task Force is generally the chair of the panel. The other panel members can be solicited either from the task force, the National PRC or the PRB on an as needed basis. Oversight encompasses reviewing and approving the review team's planned review procedures and scope prior to the commencement of fieldwork (including the risk assessment and planning portions of the Team Captain's Checklist and SRM), reviewing other

peer review documentation as considered necessary and performing a review of a sample of the QCM opined upon in the report.

In addition to panel oversight, staff will perform on-site oversight procedures on all QCM reviews. The on-site visit will include observing and reviewing the QCM reviewer's procedures for testing the functional aspects of the provider's system for developing and maintaining QCM. The panel may judgmentally determine that due to the higher risk nature of a QCM review, a panel member should perform the on-site oversight procedures.

Once technical, concurring and oversight reviews are completed, QCM reviews are presented to the full National PRC for acceptance with a recommendation from the panel.

Oversight was performed on one QCM review in 2019, five QCM reviews in 2018 and three QCM reviews in 2017. The decline in the number of oversights from 2017 to 2019 is partially the result of timing, as some providers currently obtain a QCM review every three years. Additionally, one QCM provider has opted to obtain an examination of QCM performed under the Statements on Standards for Attestation Engagements (SSAEs) (QCM Examination). As the AICPA PRP continues working on a project to transition QCM reviews to QCM Examinations, QCM reviews and associated oversights are expected to continue to decrease.

Exhibit A

Results, by Type and Report Issued, of Peer Reviews Performed for the Years 2017 – 2019

The data reflected in the following charts are the results based on the report acceptance date of the peer review.

	2017				2018				2019			
	AICPA Peer Review Program		National PRC		AICPA Peer Review Program		National PRC		AICPA Peer Review Program		National PRC	
	#	%	#	%	#	%	#	%	#	%	#	%
System Reviews												
Pass	2,489	80	198	80	3,098	78	202	82	3,246	79	167	84
Pass with deficiency(ies)	416	13	27	11	587	15	27	11	579	14	19	9
Fail	207	7	21	9	276	7	16	7	263	7	13	7
Total	3,112	100	246	100	3,961	100	245	100	4,088	100	199	100
Engagement Reviews	#	%	#	%	#	%	#	%	#	%	#	%
Pass	2,763	77	3	100	3,591	76	3	75	3,867	79	4	100
Pass with deficiency(ies)	390	11	-	-	488	10	-	-	532	11	-	-
Fail	421	12	-	-	641	14	1	25	483	10	-	-
Total	3,574	100	3	100	4,720	100	4	100	4,882	100	4	100

As discussed earlier in this report, National PRC firms generally are larger firms that typically have extensive audit and accounting practices. Therefore, engagement reviews represent a very small part of National PRC's administered reviews. Further, National PRC firms typically are more heavily regulated, necessitating more developed internal quality control systems and more resources devoted to this function. Therefore, the National PRC typically administers fewer peer reviews in which a report other than pass is issued by the nature of the firms it administers.

Exhibit B

Type and Number of Reasons for Report Modifications in the Years 2017 - 2019

The following charts summarize the number and type of reasons by quality control element as defined by the Statement on Quality Control Standards (SQCS), for report modifications (that is, pass with deficiency(ies) or fail) on system reviews accepted from 2017-19 in the AICPA PRP. The reasons noted in the tables are only for system reviews as deficiencies and significant deficiencies noted in engagement reviews are not linked to an element of quality control. Note that since pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in the “*Results by Type of Peer Review and Report Issued*” charts.

	2017				2018				2019			
	AICPA PRP		National PRC		AICPA PRP		National PRC		AICPA PRP		National PRC	
	#	%	#	%	#	%	#	%	#	%	#	%
Leadership responsibilities for quality within the firm (“the tone at the top”)	97	9	3	4	140	9	8	11	144	8	10	15
Relevant ethical requirements	39	3	9	11	72	4	7	9	76	4	3	4
Acceptance and continuance of client relationships and specific engagements	30	3	6	8	84	5	4	5	78	5	5	8
Human resources	117	11	4	5	192	12	7	9	266	16	7	11
Engagement performance	544	51	36	46	768	47	38	50	728	42	29	44
Monitoring	243	23	20	26	368	23	12	6	438	25	12	18
Total	1,070	100	78	100	1,624	100	76	100	1,730	100	66	100

When a peer review report other than pass is issued, the firm should respond in writing to the deficiencies or significant deficiencies and related recommendations to indicate what appropriate actions it will take in response. Per the *Standards*, the National PRC may require certain remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. The National PRC required a wide variety of corrective actions, such as, agreement to take or submit proof of certain continuing professional education, agreement to pre-issuance reviews, agreement to hire a consultant for inspections and oversight of inspections via an acceptable third party.

Firms are sometimes requested to complete an implementation plan to address findings noted in FFC forms issued as a result of their peer review. Implementation plans requested by the National PRC adhere to the actions allowable by guidance, such as submission of internal inspection reports, etc.

Corrective actions and/or implementation plans required from 2017-19 are summarized in Exhibit D.

Exhibit C

Number of Engagements Not Performed in Accordance with Professional Standards in All Material Respects for the Years 2017-2019

The following shows the total number of engagements reviewed (system reviews and engagement reviews) and the number identified as not performed in accordance with professional standards in all material respects.

The information presented in the chart below is based on firms currently administered by the NPRC. Firms that historically were administered by the NPRC but are currently administered by a different AE will not be included in the data below.

Engagement Type	2017						2018						2019					
	AICPA Peer Review Program			National PRC			AICPA Peer Review Program			National PRC			AICPA Peer Review Program			National PRC		
	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%
	Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards	
Audits:																		
Single Audit (Uniform Guidance)	1,365	299	22%	278	42	15%	1,426	260	18%	216	37	17%	1,353	304	22%	182	31	17%
Governmental – All Other	1,374	193	14%	212	25	12%	1,855	239	13%	200	24	12%	1,955	292	15%	170	16	9%
ERISA	2,368	356	15%	622	51	8%	2,595	406	16%	543	37	7%	2,527	400	16%	443	33	7%
FDICIA	58	4	7%	41	2	5%	46	5	11%	33	3	9%	47	12	26%	31	10	32%
Broker-Dealers ²	162	35	22%	155	35	23%	160	32	20%	155	32	21%	121	24	20%	120	24	20%
Other	4,268	271	6%	1,118	27	2%	5,433	318	6%	907	29	3%	5,349	635	12%	1,640	30	2%
Reviews	4,624	377	8%	434	21	5%	5,943	480	8%	387	10	3%	6,140	423	7%	284	4	1%

² The information pulled in the reports is for firms that are currently enrolled in the NPRC. If a firm performed a broker-dealer in the past under the NPRC but is no longer administered by the NPRC, they will not be reflected in the NPRC statistics but will be captured in the AICPA PRP statistics.

Engagement Type	2017						2018						2019					
	AICPA Peer Review Program			National PRC			AICPA Peer Review Program			National PRC			AICPA Peer Review Program			National PRC		
	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%
	Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards	
Compilations and Preparations:																		
With Disclosures	2,837	219	8%	237	8	3%	3,766	283	8%	214	4	2%	3,894	244	6%	164	3	2%
Omit Disclosures	8,247	1,020	12%	339	29	9%	10,707	1,457	14%	338	22	7%	10,696	1,057	10%	250	15	6%
Financial Forecasts & Projections	57	2	4%	14	0	0%	91	7	8%	12	0	0%	21	3	14%	2	0	0%
SOC Reports	188	27	14%	110	16	15%	209	21	10%	86	9	10%	167	19	11%	79	9	11%
Agreed Upon Procedures	1,104	29	3%	184	4	2%	1,348	38	3%	165	3	2%	1,223	91	7%	113	17	15%
Other SSAEs	208	24	12%	42	4	10%	141	3	2%	40	0	0%	161	2	1%	38	1	3%
Totals	26,860	2,856	11%	3,786	264	7%	33,720	3,549	11%	3,296	210	6%	33,654	3,506	10%	3,516	193	5%

Exhibit D

Summary of Required Follow-Up Actions for the Years 2017-2019

The National PRC is authorized by the *Standards* to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions and implementation plans are remedial and educational in nature and imposed to strengthen the performance of the firm. A review can have multiple corrective actions and/or implementation plans.

Type of Follow-Up Action	2017				2018				2019			
	AICPA Peer Review Program		National PRC		AICPA Peer Review Program		National PRC		AICPA Peer Review Program		National PRC	
	#	%	#	%	#	%	#	%	#	%	#	%
Agree to take/submit proof of certain CPE	1,311	43	74	33	2,099	43	71	35	2,974	51	88	40
Submit to review of correction of engagements that were not performed in accordance with professional standards	112	4	1	0	173	4	2	1	272	5	0	0
Agree to pre-issuance reviews	442	15	46	21	702	14	33	16	641	11	38	17
Agree to post-issuance reviews	503	16	30	14	835	17	38	19	820	14	40	18
Agree to review of remedial actions	33	1	4	2	113	2	11	5	143	2	13	6
Submit monitoring or inspection report to Team Captain or Peer Review Committee	174	6	27	12	309	6	18	9	297	5	12	6
Submit to revisit (Team Captain or Peer Review Committee Member)	163	5	3	1	172	4	1	1	187	3	2	1
Elect to have accelerated review	6	0	0	0	6	1	1	1	11	0	3	1
Submit evidence of proper firm licensure	26	1	0	0	61	1	3	1	87	1	0	0
Firm has represented in writing they no longer perform any auditing engagements	51	2	2	1	68	1	5	2	63	1	5	2
Agree to hire outside party or consultant for inspection	36	1	16	7	61	1	12	6	70	1	12	5
Team Captain to review Quality Control Document	20	1	1	1	54	1	0	0	37	1	2	1
Submit proof of purchase of manuals ³	31	1	1	1	50	1	0	0	23	0	0	0
Agree to join a Quality Center	38	1	1	0	55	1	5	3	56	1	5	2
Other	103	3	15	7	153	3	2	1	204	4	2	1
Total	3,049	100	221	100	4,911	100	202	100	5,775	100	222	100

³ This corrective action is generally recommended for firms undergoing an engagement review. As engagement reviews represent a very small part of National PRC's administered reviews, it is expected this type of corrective action would be minimal for the NPRC.

Exhibit E

2020-2021 NATIONAL PEER REVIEW COMMITTEE ROSTER

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Karen Aylor, Manager

Jaime Beasley, Manager

Brad Coffey, Manager

Jennifer Dintsch, Manager

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Justin Long, Manager

Tracy Peterson, Manager

Susan Rowley, Manager

Andrew Volz, Manager

Exhibit F

History of the National PRC

A system of internal inspection was first used regularly in the early 1960s, when a number of large firms used it to monitor their accounting and auditing practices and to make certain that their different offices maintained consistent standards. Firm-on-firm peer review emerged in the 1970s. No real uniformity to the process existed until 1977, when the AICPA's Governing Council (council) established the Division for CPA Firms to provide a system of self-regulation for its member firms. Two voluntary membership sections within the Division for CPA Firms were created—the SEC Practice Section (SECPS) and the Private Companies Practice Section (PCPS).

One of the most important membership requirements common to both sections was that once every three years, member firms were required to have a peer review of their accounting and auditing practices to monitor adherence to professional standards. The requirements also mandated that the results of peer review information be made available in a public file. Each section formed an executive committee to administer its policies, procedures, and activities as well as a peer review committee to create standards for performing, reporting, and administering peer reviews.

AICPA members voted overwhelmingly to adopt mandatory peer review, effective in January 1988, and the AICPA Quality Review Program was created. Firms could enroll in the newly created AICPA Quality Review Program or become a member of the Division for CPA Firms and undergo an SECPS or PCPS peer review. Firms enrolling in the AICPA Quality Review Program that had audit clients would undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected accounting and auditing engagements. Firms without audit clients that only performed engagements under the attestation standards or accounting and review services standards would undergo off-site peer reviews, which also included a review of selected engagements to determine if they were compliant with professional standards.

From its inception, the peer review program has been designed to be educational and remedial in nature. Deficiencies identified within firms through this process are then corrected. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether the reviewed firm's system of quality control for its accounting and auditing practice has been appropriately designed and whether the firm is complying with that system.

In 1990, a new amendment to the AICPA bylaws mandated that AICPA members who practice public accounting with firms that audit one or more SEC clients must be members of the SECPS. In 1994, council approved a combination of the PCPS Peer Review Program and the AICPA Quality Review Program under the Program governed by the PRB, which became effective in 1995. Thereafter, because of this vote, the PCPS no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB) as a private sector regulatory entity to replace the accounting profession's self-regulatory structure as it relates to public company audits. One of the PCAOB's primary activities is the operation of an inspection program that periodically evaluates registered firms' SEC issuer audit practices.

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with and inspected by the PCAOB. Because many SBOAs and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their SBOA licensing and other state and federal governmental agency peer review requirements.

Because both programs (AICPA and CPCAF PRPs) were only peer reviewing non-SEC issuer practices, the PRB determined that the programs could be merged and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved the revised *Standards* effective for peer reviews commencing on or after January 1, 2009. This coincided with the official merger of the programs, at which time the CPCAF PRP was discontinued, and the Program became the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAF PRP, the activities of the former program were succeeded by the National Peer Review Committee (NPRC), a committee of the AICPA PRB.

The National PRC became one of the 42 administering entities of the AICPA PRP, at that time; now one of 26. The mission of the National PRC is achieved through supporting the PRB in meeting its vision, which is stated as follows:

- Maintain the AICPA Peer Review Program as the globally recognized, preeminent practice-monitoring program;
- Cultivate exceptional reviewers and superb staff and develop innovative technologies; and
- Lead development of timely, focused recommendations for accounting service and audit quality improvements.

The National PRC supports this mission by fulfilling its responsibilities as a task force of the PRB and as an AE.

Exhibit G

Common Acronyms

AE	Administering Entity
AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
CPE	Continuing Professional Education
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
EAQ	Enhancing Audit Quality
ECTF	Education and Communication Task Force
EQCR	Engagement Quality Control Review
ERISA	Employee Retirement Income Security Act
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FFC	Finding for Further Consideration
FSBA	Facilitated State Board Access
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office (U.S.)
IP	Implementation Plan
MFC	Matter for Further Consideration
NPRC	National Peer Review Committee
OTF	Oversight Task Force (AICPA Peer Review Board)
PCAOB	Public Company Accounting Oversight Board
PCPS	Private Companies Practice Section
POA	Plan of Administration
PRIMA	Peer Review Information Management Application
PRISM	Peer Review Information System Management
PRB	Peer Review Board (AICPA)
PRP	Peer Review Program
QCPP	Quality Control Policies and Procedures
RAB	Report Acceptance Body (Administering Entity Peer Review Committee)
SASs	Statements on Auditing Standards
SBA	State Board of Accountancy
SEC	Securities and Exchange Commission (U.S.)
SECPS	Securities and Exchange Commission Practice Section
SEFA	Schedule of Expenditures of Federal Awards
SOC	Service Organization Control
SME	Subject Matter Expert
STF	Standards Task Force
SQCS	Statements on Quality Control Standards
SRM	Summary Review Memorandum
SSAEs	Statements on Standards for Attestation Engagements
SSARS	Statements on Standards for Accounting and Review Service