AICPA® Peer Review Program

Peer Review Board Open Session Materials

September 30, 2014

Conference Call

AICPA Peer Review Board
Open Session Agenda
September 30, 2014
Durham, NC

Date/Time: Tuesday, September 30, 2014 1:00 PM (Eastern Daylight Time)
WebEx Conference Call

1.1 Welcome Attendees and Roll Call of Board** – Mr. Reeder/Ms. McClintock
1.2 Approve Guidance on Firm and Individual License* – Ms. Ford
1.3 Approve Guidance on Coordination of Noncooperation and Recall Guidance* – Ms. Ford
1.4 Approve AICPA PRB Annual Oversight Report* – Mr. Hill
1.5 Operations Director's Report** – Ms. Thoresen
1.6 Report from State CPA Society CEOs** – Mr. Ahler
1.7 Update on the DOL Research Project**-Ms. Lieberum
1.8 Update on National Peer Review Committee** – Mr. Gray
1.9 For Informational Purposes*:
  A. Report on Firms Whose Enrollment was Dropped or Terminated
  B. Standards Task Force Future Agenda Items
  C. Education and Communication Task Force Future Agenda Items
  D. Oversight Task Force Future Agenda Items
1.10 Future Open Session Meetings** – Ms. Thoresen
- November 14, 2014 Open Session – Conference Call
- January 26-27, 2015 Task Force Meetings/Open/Closed sessions – Puerto Rico
- May 4-5, 2015 Task Force Meetings/Open/Closed Sessions – Durham, NC
- August 5, 2015 Open/Closed Session – New Orleans, LA

---

*- Document Provided
**-Verbal Discussion

Agenda Item 1.2

Legal & Regulatory Requirements – Firm & Individual Licenses

Why is this on the Agenda?
The STF has concluded that enhancing peer reviewers' responsibility regarding licensing is important to addressing the public's expectations of the peer review program, improving the program's credibility and affirming its commitment to quality. It would also help firms adhere to SQCS 8 which requires compliance with "applicable legal and regulatory requirements", which includes firm and individual licensing requirements.

Therefore, the proposed revised guidance requires:

- For System Reviews, obtaining an understanding of the firm's system of quality control with respect to firm and individual licensing.
- For System and Engagement Reviews,
  - Verification of home state firm licenses, and individual licenses (extent depending on System vs. Engagement Review).

Requiring verification of out of state licenses is not warranted at this time. Individual licensing in out of state jurisdictions is often not required due to improved mobility. Further, it is most important that firms and individuals are licensed in their home state. However the proposed revised guidance does require an understanding of the system for out of state licensing and encourages a risk-based consideration of testing out of state licensing.

Changes to existing guidance are proposed in Agenda Item 1.2A and effect:

- Interpretations 208-1a-1 and 2, and 52-1
- Supplemental Guidance
- For System Reviews: All Quality Control Questionnaires
- For Engagement Reviews: Review Captain Summary and Engagement Questionnaire (Appendix A & B)

Feedback Received:
Testing of firm licensure has been discussed and vetted by the PRB several times but the most recent discussions were during the September 26, 2013, and May 12 and September 22, 2014 STF meetings.

PRISM Impact: None

AE Impact: None except for assistance in addressing reviewer's implementation issues

Communications Plan: Peer Review Alert provided for approval.

Manual Production Cycle (estimated):
Changes will be included in the next manual production (expected in January 2015 if approved by PRB by September 30, 2014).

Effective Date: Guidance is effective for reviews commencing on or after January 1, 2015.

Peer Review Board Considerations:
Review and approve the changes to Interpretations 208-1a-1 and 2, and 52-1, Supplemental Guidance, all Quality Control Questionnaires, 6300-Review Captain Summary and 6100 Appendix A-Engagement Summary Form and Appendix B-Engagement Questionnaire, and the Peer Review Alert which summarizes the changes.

Firm and Individual Licenses

208-1a-1 *Question*—Paragraph .208(1)(a) (appendix B) of the standards advises that firms include representations to the team captain or review captain concerning when management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review). What further guidance should be followed in regards to firm and individual licenses?

Interpretation—SQCS 8 requires firms to comply with "applicable legal and regulatory requirements", which includes firm and individual licensing requirements. Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the states where they practice.

For System Reviews, the team captain should ~~also~~ obtain an understanding of the firm's system of quality control with respect to firm and individual licensing.

As a part of a System or Engagement Review~~the peer review~~, reviewers should make inquiries of the firm to determine if the firm and its personnel are appropriately licensed as required by the state boards of accountancy in the state(s) in which the firm and its personnel practice. In addition, F~~f~~irms should submit written representations from the firm's management indicating compliance with such required rules and regulations. If the reviewed firm is aware of any situation whereby they are not in compliance with the rules and regulations of the state boards of accountancy or other regulatory bodies, they should tailor the representation letter to provide information on the areas of non-compliance.

To support the firm's responses and representations, a reviewer is required to verify:

- the *practice unit* license (firm license) in the state in which the practice unit is domiciled (main office is located).
- individual (personnel) licenses in the state in which the individual primarily practices public accounting
  - For System Reviews, for a sample of appropriate personnel
  - For Engagement Reviews, for appropriate personnel on engagements selected

~~Reviewers should continue to make inquiries of the firm to determine if it is appropriately licensed as required by the state boards of accountancy in the state or states in which it practices. In addition, a reviewer is not prohibited, as a part of a System or Engagement Review, from verifying the *practice unit* license (firm license) in the state in which the practice unit is domiciled (main office is located). A reviewer is also not prohibited from verifying an out-of-state *practice unit* license or an out-of-state individual license, on an individual engagement basis when that engagement is selected for review and was performed by the reviewed firm in another state requiring a firm or individual license.~~

The reviewer should verify the license by requiring the firm to provide documentation from the licensing authority that the license is appropriate and active during the peer review year, and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork. Acceptable documentation includes an original/copy of the license, print-out from an on-line license verification system, correspondence from the licensing authority, or other reasonable alternative documentation. The reviewer's judgment may be needed to determine what alternative documentation is reasonable.

It is the reviewed firm's responsibility to have understood and complied with its licensing requirements. Therefore it should be prepared to respond to the reviewer's inquiries and requests for documentation. This is also important for out-of-state firm and individual licenses when licensing requirements may be more difficult to identify and understand. The reviewer should expect the firm to provide documentation supporting its compliance with, or approach to, out-of-state licensing requirements. Firm and individual CPA mobility provisions may be used to assist the reviewer in verifying some out-of-state licenses.

A reviewer is not required to verify an out-of-state *practice unit* license or an out-of-state individual license, on an individual engagement basis when that engagement is selected for review and was performed by the reviewed firm in another state requiring a firm or individual license. In a System Review, the reviewer's understanding of the firm's quality control procedures related to licensing and related risk of noncompliance are considerations in determining whether any further testing is appropriate. ~~.~~In an Engagement Review, the reviewer should consider the firm's responses to inquiries in determining whether any further testing is appropriate.

~~Testing *individual* licenses should be limited to inquiry and should not extend to verification unless there is evidence obtained as a part of the peer review that the firm is not accurately representing its compliance with individual licensure requirements.~~

The reviewer ~~must~~ should analyze the information obtained through these steps to determine the firm's compliance with firm and individual licensing requirements and then the impact on the peer review.

Communication of Report Acceptances

208-1a-2 *Question*—In furtherance to Interpretation 208-1a-1, what additional guidance should be followed in regards to firm and individual licenses?

Interpretation—Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the states where they practice. Therefore, t~~T~~he state board of accountancy may be sent a list of firms with *accepted* peer reviews ("accepted" as defined in the Interpretations to the standards) in a given period which would allow the state board of accountancy to verify that firms undergoing peer review are licensed in that state.

Entities administering the AICPA Peer Review Program are not prohibited outside of the peer review process from gathering information from firms and communicating to the state boards of accountancy on licensure compliance matters.

3

Supplemental Guidance:
Impact on the Peer Review When Firm or Individual(s) Do Not Possess Licenses

Firm Licenses: For System and Engagement Reviews, when a reviewer identifies that a firm does not possess the required applicable license(s) to issue accounting and auditing engagements, for any period of time covered by the peer review year, a Finding for Further Consideration (FFC) must indicate this fact.

Further, ~~On all peer reviews,~~ the administering entity's peer review committee (committee) must require an implementation plan that the firm submits a valid license(s) to the committee. If the reviewed firm obtains a valid license(s) prior to the committee requesting the implementation plan, they should immediately submit the license to the committee. In this situation, the committee will be able to consider the review without the need to request an implementation plan because the reviewed firm will have already obtained a valid license(s). The firm's license number should not be identified on the peer review documents and the information obtained should not be reported directly to the state board since it was obtained as a part of the peer review.

Firms in states with retroactive license provisions must apply the preceding rules even though the firm has the opportunity to obtain a valid license.

Individual License(s): For System and Engagement Reviews, engagements should be classified as not complying with professional standards if the partners or other employees with reporting responsibilities do not have a current individual license to practice public accounting as required by the state board(s) of accountancy.

- System Reviews: The presence of an engagement not complying with professional standards ~~identified in a System Review~~ does not automatically result in a *pass with deficiency* or *fail* report. ~~For System Reviews, r~~Reviewers must consider the nature, causes, pattern, pervasiveness, and relative importance to the system of quality control, including the lack of an individual license, in determining the systemic failure in the firm's system of quality control.

- ~~For~~ Engagement Reviews: I~~, i~~f a reviewer reviews an engagement that was issued when the individual did not possess the required license to practice, it is a deficiency ~~and a report with a rating of *pass with deficiency* should be issued. Consistent with the guidance for determining the nature of the peer review to issue in~~ On an Engagement Review, if deficiencies are not evident on all of the engagements submitted for review, ~~or the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ a *pass with deficiency* report should be issued. However, when the reviewer otherwise concludes that deficiencies are evident on all of the engagements submitted for review, a *fail* report is issued.

(Excerpt)

Understanding, Assessing, and Documenting Peer Review Risk Factors and Risk Assessment

52-1 *Question—*

Control Risk Factors

Assessing control risk requires reviewers to evaluate the effectiveness of the reviewed firm's quality control policies and procedures in preventing the performance of engagements that do not comply with professional standards. When assessing control risk, the review team should evaluate the reviewed firm's quality control policies and procedures and discuss with the firm if it considered the guidance in AICPA Accounting and Auditing Practice Aid *Establishing and Maintaining A System of Quality Control for a CPA Firm's Accounting and Auditing Practice.* The reviewer should evaluate whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures for each of the elements of quality control in the context of the firm's overall control environment and the inherent risk embodied in its accounting and auditing practice.

The assessed levels of risk are the key considerations in deciding the number and types of engagements to review and, where necessary, offices to visit. Through the assessment of risk, the reviewer determines the coverage of the firm's accounting and auditing practice that will result in an acceptably low peer review risk. Engagements selected should provide a reasonable cross-section of the firm's accounting and auditing practice, with a greater emphasis on those engagements in the practice with higher assessed levels of peer review risk.

Reviewers must document, as part of the Summary Review Memorandum (SRM), the risk assessment of the firm's accounting and auditing practice and its system of quality control, the number of offices and engagements selected for review, and the basis for that selection in relation to the risk assessment. To effectively assess risk of the firm's accounting and auditing practice and its quality control policies, risk assessment documentation should not only address the engagements selected and the reasoning behind that selection, but also the environment of the firm and its system of quality controls. Some factors that should be considered in assessing risk include the following:

- The relationship of the firm's audit hours to total accounting and auditing hours
- Size of the firm's major engagement(s), relative to the firm's practice as a whole
- Initial engagements and their impact on the firm's practice
- The industries in which the firm's clients operate, especially the firm's industry concentrations
- The results of the prior peer review
- The results of any regulatory and/or governmental oversight or inspection procedures
- Owners' CPE policies and the firm's philosophy toward continuing education (Accumulate the necessary hours or maintain the needed skills and improve delivery of professional services.)

5

- Firm’s policies and procedures to determine and monitor compliance with legal and regulatory requirements in accordance with SQCS 8, including but not limited to:
    - firm and individual licenses to practice, ~~both~~ in the state the practice unit is domiciled (main office is located)and int the~~/~~state in which the individual primarily practices public accounting,
    - additional policies and procedures to comply with applicable ~~or~~ out-of state firm and individual licensing requirements
- The firm’s monitoring policies
- Adequacy of the firm’s professional library
- Risk level of the engagements performed (For example, does the firm perform audits of employee benefit plans, entities subject to Circular A-133, and others under *Government Auditing Standards*, HUD-regulated entities, and others with high-risk features or complex accounting or auditing applications?)
- Have there been any major changes in the firm’s structure or personnel since the prior peer review?

6

SYSTEM REVIEW–EXCERPT from SRM --Other Planning

A. Describe any matters of firm or individual regulatory noncompliance within the three years preceding the firm's current peer review year-end and through the date of the exit conference. Discuss how the firm is addressing the matter, the effect on the firm's accounting and audit practice, any consultations with the administering entity (AE), and the impact on your risk assessment and scope of the peer review.

If any licensing exceptions are noted, prepare a MFC. Guidance on the types of matters to be addressed:

1. Noncompliance with the rules and requirements of state board(s) of accountancy or other regulatory bodies by the firm or its personnel.

   (Consider applicable firm and individual licensing requirements in each state in which it practices for the year under review.)

2. Communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm or its personnel.

   (Consider communications from bodies such as PCAOB, SEC, GAO, Department of Labor, any state board of accountancy, AICPA or state society professional ethics committee, or any other government agency.)

3. Any restrictions or limitations on the firm's or its personnel's ability to practice public accounting that were imposed by or agreed to with other regulatory, monitoring, or enforcement bodies.

7

ENGAGEMENT REVIEW--Since questions on looking at documentation of the firm's license and testing individual licenses will be in the Quality Control Questionnaires for System Reviews, staff proposes adding the following to an Engagement Review's "6300 Review Captain Summary", with boxes for designation when "Completed":

II. Planning the Review:

4. Communicate with the firm about the peer review timing, responsibilities and administrative matters:
(excerpt…)

- Inquire whether the ~~partners of the firm~~firm and its personnel are appropriately licensed ~~have licenses to practice public accounting in the state(s) in which the firm practices~~ as required by the ~~applicable~~ state board(s) of accountancy in the state(s) in which the firm and its personnel practice. ~~:~~

  ~~— These procedures should not extend to verification unless there is evidence that the firm is not accurately representing its compliance with individual licensure requirements.~~

  Obtain documentation of the firm license in the state in which the practice unit is domiciled (main office is located). The license should have been active during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork.

  ~~The review captain may verify (although is not required to do so) (*a*) the practice unit (firm) license in the state where the practice unit is domiciled and (*b*) an out-of-state practice unit (firm) license on an individual engagement basis when the engagement selected for review was performed in another state that requires a firm license.~~

  — If any exception was noted, the review captain should add an addendum to the Review Captain Summary explaining the effect on the firm's accounting practice and on the performance of the review.

  — If the firm does not have the applicable license(s) for the period when the engagements selected for review were issued, the representation letter should be tailored to provide information on the areas of noncompliance.

  — An FFC should also be created.

III. Performing the Review:

8. Perform any procedures deemed necessary to conclude that nothing came to your attention that caused you to believe that the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. An Engagement Review includes the following (see Standards paragraph .108 and Interpretation 208-1a-1):

- Consideration of the financial statements or information and the related accountant's report on the compilation and review engagements performed under SSARS and engagements performed under SSAEs.
- Consideration of the documentation on the engagements performed via reviewing the *Engagement Questionnaire*, representations made by the firm, and inquiries.
- Review of all other documentation required by applicable professional standards on the engagements.
- Complete supplemental checklists for all required engagements submitted for review. If supplemental checklists are not completed, provide explanation in the notes section.
- Obtain documentation of individual licenses for practitioners in charge of engagements reviewed in the state in which the individual(s) primarily practice public accounting. The license(s) should have been active during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork.

- If any exception was noted, the review captain should add an addendum to the Review Captain Summary explaining the effect on the firm's accounting practice and on the performance of the review.
- If the practitioner does not have the applicable license(s) for the period when the engagements selected for review were issued, the representation letter should be tailored to provide information on the areas of noncompliance.
- A deficiency should also be created.

9

Staff also proposes adding the following to the "Instructions to Firms Having an Engagement Review (to be completed by Reviewed Firm)", Engagement Review Summary Form, Appendix A at 6100:

Appendix A

ENGAGEMENT SUMMARY FORM[1]

Peer Review Due Date (from Background Form) ____________

12-Month Peer Review Year-Ended[2] _____________

Industry of the client[4]	*Level of service provided*[5]	*Number of engagements performed*[3] *Responsible Party 1*	*Responsible Party 2*	*Responsible Party 3*
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________
______________	R	________	________	________
	C	________	________	________
	CO	________	________	________
	AT[†]	________	________	________

Total number of C-8[‡] engagements performed __________________

Does the firm have a license to practice in the state in which the practice unit is domiciled (main office is located)? The license should have been active during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork. Y/N/Explain____

[1] Please refer to paragraph .06 for instructions on completing this form. Ordinarily, list engagements with reports with financial statement periods ended during the peer review year.
[2] Year-end should be 6 months prior to peer review due date from background form.
[3] Each monthly compilation engagement counts as one engagement.
[4] Please use the industry codes in this appendix.
[5] Please use the level of service codes in this appendix.
[†] Engagements subject to selection for review ordinarily should be those with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection.
[‡] Compilation engagements when the compiled financial statements are not expected to be used by a third party (management use only) where an engagement letter was issued instead of a report.

10

Attach documentation of the license to this checklist. Acceptable documentation includes an original/copy of the license, print-out from an on-line license verification system, correspondence from the licensing authority, or other reasonable alternative documentation.

Signature ____ Date ____________________________Title ____

11

Staff also proposes adding the following to the “Instructions to Firms Having an Engagement Review (to be completed by Reviewed Firm)”, Engagement Questionnaire-Appendix B at 6100 as the first question under “Specific Engagement Questions”

Does the practitioner in charge of this engagement have a license to practice in the state in which the practitioner primarily practices public accounting? The license should have been active during the peer review year and through the earlier of the engagements issuance date.

Attach documentation of the license to this checklist. Acceptable documentation includes an original/copy of the license, print-out from an on-line license verification system, correspondence from the licensing authority, or other reasonable alternative documentation. YES/NO/NA

12

EXCERPTS from 4400 Quality Control Policies & Procedures-Firms with Two or More Personnel (similar changes to be made to 4300)

B. Relevant Ethical Requirements

Quality control policies and procedures provide the firm with reasonable assurance that the firm and its personnel comply with relevant ethical requirements when discharging professional responsibilities. Relevant ethical requirements include independence, integrity, and objectivity. These requirements include regulations, interpretations, and rules of the AICPA, state CPA societies, state boards of accountancy, state statutes, the U.S. Government Accountability Office, and any other applicable regulators.

17. Describe the firm's policies and procedures for ensuring that the firm is maintaining the appropriate firm license(s), including for states other than where its main office is domiciled, including whether:

    - The firm is licensed under the same name(s) under which it practices
    - The firm license(s) were effective during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork
    - The firm has considered variations in licensing bodies' rules and regulations and how they impact the firm's need to be licensed in that state
    - Any restrictions on practice imposed by the licensing bodies

C. Acceptance and Continuance of Client Relationships and Specific Engagements

Quality control policies and procedures for acceptance and continuance of client relationships and specific engagements provide the firm with reasonable assurance that the firm and its personnel will undertake or continue relationships and engagements only where it has considered the integrity of the client, is competent to perform the engagement, can comply with the legal and ethical requirements, and has reached an understanding with the client regarding the services to be performed.

2. Do the firm's policies and procedures include obtaining and evaluating the following relevant information before accepting or continuing a client relationship?

    a. The nature and purpose of the services to be provided to the client and management's understanding thereof

    b. The identity of the client's principal owners, key management, related parties, and those charged with governance

    c. The nature of the client's operations, including its business practices, from sources such as annual reports, interim financial statements, reports to and from regulators, income tax returns, and credit reports

    d. Information obtained from third parties (bankers, factors, attorneys, credit services, and others who have business relationships with the entity)

    e. Information concerning the attitude of the client's principal owners, key management, and those charged with governance toward such matters as aggressive interpretation of accounting standards and internal control over financial reporting

    f. The risk of providing services in highly specialized or regulated industries

    g. Engagements that require an inordinate amount of time to complete relative to the available resources of the firm

h. Communicating with the predecessor accountant or auditor when required by professional standards

i. Conducting background checks of the business, its officers, and so on

j. The risk of providing services to significant clients or to other clients for which the firm's objectivity or the appearance of independence may be impaired

k. The need for additional firm and individual licenses for states other than where the firm's main office is domiciled or for states other than where an individual primarily practices.

k. Describe any other procedures the firm performs in making acceptance and continuance of client decisions or variations in procedures based on factors such as the nature and size of the engagement and prior experience with the client.

14

D. Human Resources

The firm assigns personnel (including partners) based on the knowledge, skills, and abilities required in the circumstances and the nature and extent of supervision needed.

4. Does the firm have policies and procedures to ensure personnel assigned to engagements have the degree of technical training and proficiency required in the circumstances considering the nature and extent of supervision to be provided?

   a. If "yes," answer the following:

   i. Who is responsible for the assignment of personnel to engagements, including high-risk engagements and industries? ________

   ____

   ____

   ii. What factors are used to determine how personnel are assigned to engagements (for example, engagement size and complexity, specialized experience or expertise required, personnel availability and involvement of supervisory personnel, timing of the work to be performed, continuity and rotation of personnel, opportunities for on-the-job training, previous knowledge, skills, and abilities [competencies] gained through other experience, situations where independence or objectivity concerns exist)? _____________

   ____

   ____

   ____

   ____

   b. If "no," describe how the firm determines that the personnel assigned to engagements are qualified to perform the engagements. ___________

   ____

   ____

   ____

   ____

   ____

5. Describe the firm's policies and procedures for ensuring that individuals are maintaining the appropriate individual licenses, including for states other than where the individual primarily practices public accounting.

   ____

~~5~~. Does the firm specify the knowledge, skills, and abilities (competencies) the practitioner in charge of the firm's accounting, auditing, or attestation engagements (the partner or other person who is responsible for supervising those types of engagements and signing or authorizing someone to sign the accountant's report on such engagements) should possess to fulfill his or her engagement responsibilities? Do such competencies for the practitioner-in-charge include the following:

   a. An understanding of the role of the firm's system of quality control and the AICPA Code of Professional Conduct

   b. An understanding of the performance, supervision, and reporting aspects of the engagement

c. An understanding of the applicable accounting, auditing, or attestation professional standards, including those standards directly related to the industry in which a client operates

d. An understanding of the industry in which a client operates, including the industry's organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement, and to evaluate the reasonableness of industry-specific estimates

e. Skills that indicate sound professional judgment

f. An understanding of how the organization is dependent on or enabled by information technologies, and the manner in which information systems are used to record and maintain financial information

EXCERPTS to 4600 Quality Control Policies and Procedures for Firms With Two or More Personnel (similar changes to be made to 4500)

B. Relevant Ethical Requirements

11. Were the firm's policies and procedures appropriate for ensuring that the firm is maintaining the appropriate firm license(s), including for states other than where its main office is domiciled?

a. Did you examine the firm's documentation of its firm license which was active (during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork) in the state in which the practice unit is domiciled (main office is located). Yes No (Explain any discrepancies)

D. Human Resources

6. Were the firm's policies and procedures appropriate for ensuring that individuals are maintaining the appropriate individual licenses, including for states other than where the individual primarily practices public accounting.

a. Did you select a sample of personnel (indicate number __________), review the firm's documentation, and determine that licenses which were active (during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork) in the states in which the individuals primarily practice public accounting? Yes No (Explain any discrepancies)

17

Peer Review Alert

In order to address the public's expectations of the AICPA Peer Review Program (Program), improve the Program's credibility and affirm its commitment to quality, the Peer Review Board has approved revisions to guidance relating to firm and individual licensing. The guidance will also help firms adhere to SQCS 8 which requires compliance with "applicable legal and regulatory requirements", which includes firm and individual licensing requirements. The approved revisions are summarized as follows:

- Interpretation 208-1a-1 "Firm and Individual Licenses" now indicates that a reviewer is *required* to verify:
  - the practice unit license (firm license) in the state in which the practice unit is domiciled (main office is located).
  - individual (personnel) licenses in the state in which the individual primarily practices public accounting
    - o For System Reviews, for a sample of appropriate personnel
    - o For Engagement Reviews, for appropriate personnel on engagements selected

  The reviewer should verify the license by requiring the firm to provide documentation from the licensing authority that the license is appropriate and active during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork.

  For System Reviews, the team captain should also obtain an understanding of the firm's system of quality control with respect to firm and individual licensing.

  These steps are in addition to the existing requirements that reviewers should make inquiries of the firm to determine if the firm and its personnel are appropriately licensed, and the existing requirement that reviewed firm's submit written representations indicating compliance with such required rules and regulations.

  The reviewer must analyze the information obtained through these steps to determine the firm's compliance with firm and individual licensing requirements and then the impact on the peer review.

- Interpretation 52-1 "Understanding, Assessing, and Documenting Peer Review Risk Factors and Risk Assessment" has been enhanced to add the following as a control factor that should be considered in assessing risk:
  - o Firm's policies and procedures to determine and monitor compliance with legal and regulatory requirements in accordance with SQCS 8, including but not limited to:
    - o firm and individual licenses to practice both in the state the practice unit is domiciled (main office is located)/state in which the individual primarily practices public accounting, or out-of state

- Additional questions have been added:
  - o For System Reviews: to the "Quality Control Policies & Procedures Questionnaires and Guidelines for Review of Quality Control Policies & Procedures" to describe the firm's policies and procedures for ensuring that the firm is maintaining the appropriate firm and individual licenses, including for states other than where its main office is domiciled/ the individual primarily performs public accounting.

18

- For Engagement Reviews to the:
  - “Engagement Summary Form” and ”Engagement Questionnaire” for the firm to confirm that the firm and practitioner has the appropriate firm and individual licenses and that documentation is attached
  - “Review Captain Summary” to confirm that the firm has provided documentation of its firm license and selected individual licenses

There were no substantive changes to the Supplemental Guidance article “Impact on the Peer Review When Firm or Individual(s) Do Not Possess Licenses”, except to conform to recent changes to Paragraph .118 of the Standards for Performing and Reporting on Peer Reviews relating to the Engagement Review “pass with deficiency” and “fail” report ratings.

A conforming change was made to separate the paragraph “Communication of Report Acceptances” previously under Interpretation 208-1a-1 Interpretation 208-1a-2.

These changes can be found as the September 30, 2014 Board Open Session Agenda Item 1.2 and will be included in the January 2015 Peer Review Program Manual. The guidance is effective for reviews commencing on or after January 1, 2015.

19

Agenda Item 1.3

Coordination of Noncooperation and Recall Guidance

Why is this on the Agenda?
This agenda item proposes revisions to coordinate the noncooperation guidance with the recall guidance for peer reviews that commence on or after April 1, 2014.

The existing recall guidance (RAB Handbook, Chapter 3, section VII) indicates that if a peer review is not properly performed or reported on in compliance with peer review standards in all material respects, acceptance of the peer review documents will be recalled and the firm will be required to have a replacement review due 90 days after the firm is notified.

The existing noncooperation guidance effective for peer reviews that commenced on or after April 1, 2014 indicates that if a firm omits or misrepresents its accounting and auditing practice as defined in the peer review standards, it will be deemed as noncooperation. The firm will be subjected to a hearing panel of the Peer Review Board (PRB) to determine if the firm's enrollment in the program should be terminated.

This agenda item proposes the following clarifications if a firm omits or misrepresents information that results in a material departure in the firm's most recently accepted peer review:

- Acceptance of the peer review documents will be recalled and the firm will be subject to a hearing panel to determine if the firm's enrollment in the program should be terminated.
- If a hearing panel determines that the firm will not be terminated, the firm will be required to have a replacement review by the due date which will be approximately 60 days after the hearing panel decision.
- In addition to a replacement review, a hearing panel may impose other corrective actions or sanctions on a firm. If a firm's enrollment is terminated, re-enrollment will be subject to approval by a hearing panel.

In addition, this agenda item proposes that if a firm is dropped from the program for an omission or misrepresentation about its accounting and auditing practice after signing a revised "no &A" letter, re-enrollment in the program will be subject to approval by a hearing panel.

<u>Voluntary Correction Program (VCP)</u>

In an effort to encourage enrolled firms to voluntarily comply with peer review requirements and enable timely remediation, this agenda item also includes an exemption to the noncooperation provisions. The VCP would apply to firms that come forward and notify their administering entities or AICPA of an omission or misrepresentation about the firm's accounting and auditing practice that may have resulted in a material departure in the firm's most recently accepted peer review.

Such firms would not be subjected to a hearing panel that could result in the termination of the firm's enrollment in the program, and subsequent referral to AICPA Professional Ethics Division. For firms that had a material departure in their most recent peer review, acceptance of the peer review documents will be recalled, and the firm will be required to undergo a replacement review due approximately 90 days after the firm's notification to the administering entity or AICPA. The remaining recall guidance, including appropriate notifications to state boards of accountancy would continue to be applicable.

Agenda Item 1.3A (Interpretation 5h-1) Agenda Item 1.3B (RAB Handbook) incorporate the above stated revisions. Agenda item 1.3C is the Peer Review Alert summarizing the proposed changes.

Agenda Item 1.3D is the Notification of Discovery and Resolution Letter (Hearing) for firms to reflect the proposed changes for peer reviews that commence on or after April 1, 2014.

Feedback Received
Staff received feedback from STF during multiple discussions on May 12, June 30, July 8, and August 21-22, 2014. AICPA internal legal counsel was also consulted to consider any legal impact or exposure. Input from those discussions is incorporated into this agenda item.

PRISM Impact
Currently, all letters related to the recall of peer reviews and hearing procedures related to noncooperation are processed manually. Procedures related to the replacement review follow similar procedures as other reviews that are processed through PRISM. This includes the Peer Review- IT team performing the steps necessary to recall the review and set up a new review based on the established due date. No immediate PRISM changes are being proposed related to the guidance included in this agenda item. However, staff will be undertaking efforts to evaluate the effort and benefit of incorporating any additional recall and replacement review procedures into PRISM.

AE Impact
AEs would need to follow the revised guidance upon adoption by the PRB, including changes in administrative procedures for sending the file to a hearing for this type of noncooperation (omissions and misrepresentations). For reviews that commence on or after April 1, 2014, the AEs would be reliant upon a PRB hearing panel to determine if the firm's enrollment will be terminated from the program or if a replacement review is required instead. See new Notification of Discovery and Resolution Letter (Hearing) at agenda item 1.3D. If a replacement review is required by the hearing panel, the related administrative procedures will not change.

Communications Plan
Peer Review Alert will be distributed to reviewers to summarize the technical changes (Agenda Item 1.3C).

A communication was sent by AICPA Peer Review to the managing partners and peer review contacts of all AICPA enrolled firms on August 28, 2014 and forwarded to AEs for distribution to non-AICPA member firms enrolled in the program. This communication discussed the recent recall and non-cooperation guidance changes, importance of peer review compliance and population completeness, and encouraged firms to come forward if they were aware of previous errors or omissions. After approval of the technical guidance by PRB, an additional communication about the newly approved guidance, including the VCP, will be distributed to enrolled firms via e-mail using the same channels as the August 28, 2014 communication.

Manual Production Cycle (estimated)
The changes to Interpretations (PRP Section 2000) and the Report Acceptance Body Handbook (PRP Section 3300, Chapter 3) will be included in the next manual production (expected in January 2015 if approved by PRB by September 30, 2014)

Effective Date
Guidance is effective upon adoption by the PRB related to reviews that commenced on or after April 1, 2014. The Voluntary Correction Plan is effective upon adoption regardless of the peer review commencement date.

Peer Review Board Considerations

1. Review and approve the changes to Interpretation 5h-1 (Agenda Item 1.3A)
2. Review and approve the changes to the RAB Handbook (Agenda Item 1.3B)
3. Review and approve the Peer Review Alert (Agenda Item 1.3C)
4. Review and approve the new Notification of Discovery and Resolution Letter (Hearing) (Agenda Item 1.3D)
5. For discussion and possible future board consideration: The proposed VCP is related to material departures in the firm's most recently accepted peer review documents. should the Voluntary Correction Plan (VCP) also apply to firms that erroneously signed a no A&A letter?
    - The existing noncooperation provisions approved by the PRB on January 30, 2014 indicate that firms that fail to accurately represent information about the firm's accounting and auditing practice (I.E.--firms that erroneously signed a revised "no A&A letter" exempting them from having a peer review) will be dropped from the program and referred to Ethics.
    - Concerns about extending the VCP to such firms include an expectation that such omissions are more likely to be egregious or intentional and that due to confidentiality provisions would preclude notification by the program to the state boards of accountancy. Are there sufficient benefits to allowing a firm to self-report that offset these concerns?

Cooperating in a Peer Review

5h-1 *Question*—Paragraph .05(h) of the standards notes that firms (and individuals) enrolled in the program have the responsibility to cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review, that could impact the firm's enrollment in the program, including arranging, scheduling, and completing the review and taking remedial, corrective actions as needed (paragraph .143 of the standards). Under what circumstances will a firm (or individual) be not cooperating, and what actions can be taken by the board for noncooperation?

Interpretation—The board has issued a resolution regarding dropping a firm's enrollment from the program that is as follows:

AICPA Peer Review Board Resolution
(Adopted April 29, 1996 with amendments through January 1, 2009, and May 3, 2011, ~~and~~ January 30, 2014, and September 30, 2014)

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the peer reviewer, administering entity and the AICPA Peer Review Board in all matters related to the review, that could impact the firm's enrollment in the program;

NOW, THEREFORE, BE IT RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be dropped by the AICPA Peer Review Board, without a hearing, thirty days after the AICPA Peer Review Program notifies the firm by certified mail that the firm has failed to:

(1) Timely file requested information with the entity administering the firm's peer review concerning the arrangement or scheduling of that peer review, prior to the commencement of the peer review,

(2) Timely submit requested information to the reviewer necessary to plan or perform the firm's peer review, prior to the commencement of the peer review,

(3) Have a peer review by the required date,

(4) Accurately represent its accounting and auditing practice, as defined by the AICPA Standards for Performing and Reporting on Peer Reviews, ~~and timely~~ after notifying its administering entity that it does not perform engagements that ~~of its~~ require the firm ~~ment~~ to have a peer review.

(5) Timely pay in full the fees and expenses of the review team formed by an administering entity, or

(6) Timely pay fees related to the administration of the program that have been authorized by the governing body of an administering entity.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, a firm enrolled in the AICPA Peer Review Program has the right to appeal to the AICPA Joint Trial Board within 30 calendar days of being notified that the firm's enrollment has been dropped.

If a firm's enrollment is dropped for not accurately representing its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* or subsequent failure to~~not~~ submit~~ting~~ a peer review by a required due date.~~ established by a hearing panel~~, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA *Code of Professional Conduct.* If a firm's enrollment is dropped for such an omission or misrepresentation, re-enrollment will be subject to approval by a hearing panel.

Interpretation—The AICPA Peer Review Board has issued a resolution regarding terminating a firm's enrollment from the AICPA Peer Review Program that is as follows:

AICPA Peer Review Board Resolution
(Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, August 8, 2012, ~~and~~ January 30, 2014, and September 30, 2014)

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the peer reviewer, administering entity and the AICPA Peer Review Board in all matters related to the review, that could impact the firm's enrollment in the program;

NOW, THEREFORE, BE IT RESOLVED: A firm is deemed as failing to cooperate by actions including but not limited to:

- Not responding to inquiries once the review has commenced
- Withholding information significant to the peer review, for instance but not limited to:

1. failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements from regulatory, monitoring or enforcement bodies;
2. omission or misrepresentation of information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, including, but not limited to, engagements performed under Government Auditing Standards; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements],

- Not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, all aspects of functional areas,
- Not responding to MFCs or FFCs timely,
- Limiting access to offices, personnel or other, once the review has commenced
- Not facilitating the arrangement for the exit conference on a timely basis,
- Failing to timely file the report and the response thereto related to its peer review, if applicable,
- Failing to cooperate during oversight, or
- Failing to timely acknowledge and complete required corrective actions or implementation plans.

The firm will be advised by certified mail that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated. A firm enrolled in the AICPA Peer Review Program that has been notified that it is the subject of such a hearing may not resign until the matter causing the hearing has been resolved. After a hearing is held, a firm whose enrollment in the AICPA Peer Review Program has been terminated has the right to appeal the panel's decision to the AICPA Joint Trial Board within 30 calendar days of the hearing; and

If a firm omits or misrepresents information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* that results in a material departure[1] in the firm's most recently accepted peer review, acceptance of the peer review

[1] Material departure is defined in the Report Acceptance Body Handbook, Chapter 3, Section VII, Recall of Peer Review Documents.

documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision.

Firms that voluntarily notify the administering entity of an omission or misrepresentation resulting in a material departure will not be subject to a hearing panel. This notification from the firm must be prior to the AICPA or administering entity being otherwise notified of or discovering the omission or misrepresentation and prior to the firm receiving notification from another regulatory or monitoring agency. Acceptance of the peer review documents will be recalled and the firm will be required to submit a replacement review to its administering entity by the due date which will be approximately 90 days after the firm's notification to the administering entity.

If a firm's enrollment is terminated for omission or misrepresentation of information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* or subsequent failure to submit a replacement review by the due date established by a hearing panel, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA *Code of Professional Conduct.* If a firm's enrollment is terminated for such an omission or misrepresentation, re-enrollment will be subject to approval by a hearing panel.

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to receive a report with a rating of pass after (1) receiving at least two consecutive peer reviews prior to the third that had a report with a peer review rating of *pass with deficiencies* and/or *fail* (previously referred to as modified or adverse reports) AND (2) receiving notification via certified mail after the second consecutive report with a peer review rating of *pass with deficiencies* and/or *fail* (previously referred to as modified or adverse reports), that a third consecutive failure to receive a report with a peer review rating of *pass* (previously referred to as an unmodified report) may be considered a failure to cooperate with the administering entity. Report Reviews[2] containing significant comments are considered equivalent to failing to receive a report with a peer review rating of *pass* (previously referred to as an unmodified report) for the purposes of this resolution.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if a firm's response is substantive. If the administering entity determines that a response is not substantive, and the firm does not revise its response or submits additional responses that are not substantive as determined by the administering entity, this would also be deemed as a firm's failure to cooperate.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if erroneously provided or omitted information by a firm result~~s~~ in a significant change in the planning, performance, evaluation of results, or peer review report is a matter of non-cooperation. The firm's failure to provide substantive responses during the process of resolving such a matter may also be deemed as a firm's failure to cooperate.

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to timely notify the administering entity that it is performing a type of engagement(s) or engagement(s) in an industry in which the firm had previously represented by written communication to the administering entity that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan wherein the corrective action or implementation plan was eliminated by the administering entity based on the representation.

BE IT FURTHER RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be terminated for failure to cooperate in any of the preceding situations, without a hearing, upon receipt of a plea of guilty from the firm; and BE IT FURTHER RESOLVED: That pursuant to the

[2] Although standards no longer permit the performance of Report Reviews as of January 1, 2009, a firm's last peer review could have been a Report Review.

AICPA *Standards for Performing and Reporting on Peer Reviews*, the fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, whether with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe.

VII. Considerations for the Recall of Peer Review Documents

Overview

Peer reviewers or reviewing firms (reviewer) and reviewed firms (firm) are responsible for complying with the standards and guidance issued by the AICPA Peer Review Board (board) throughout the entire peer review process. This includes communicating with all appropriate parties involved in the program regarding information that could affect the performance or results of the peer review. Fulfilling all reviewer and firm responsibilities is required as a matter of cooperation with the administering entity, peer review committee (committee), the board, and AICPA staff (staff). After the date of acceptance by the committee, the administering entity (including the administrator, committee, and technical reviewer) or reviewer generally have no obligation or expectation to make any further inquiry or perform any other peer review procedures with respect to the peer review report, acceptance letter, or letter of response, if applicable (referred to hereafter in this section as *peer review documents*), unless information that may affect an accepted peer review comes to the parties' attention.

This section describes actions that should[1] be considered by the reviewer, committee, or staff member who, subsequent to the date of peer review acceptance, becomes aware of facts that existed as of the date of the peer review report or acceptance that might have affected the performance or acceptance of the peer review had such information been known. Instances for recall consideration include, but are not limited to, situations in which there were errors or omissions or when the reviewer was not qualified or eligible to perform the peer review.

Note: When peer review documents are being considered for recall, staff should be notified and consulted early in the process. For discoveries of information not covered by this guidance or that do not originate from staff, staff should be notified before proceeding with any recall considerations**.** During recall considerations all parties involved in the peer review process should continue to adhere to the confidentiality guidelines in paragraph .20 of the standards.

Generally, recall considerations should not be made for fee disputes, disagreements that occur after acceptance by the report acceptance body, or other situations that did not have a direct impact on the underlying peer review period, procedures performed, or peer review documents. Additionally, the reviewer, firm, or committee should not consider recalling peer review documents if a subsequent peer review report has been accepted, for situations outside of the scope of peer review, or situations not addressed within the standards of the program.

Before making any recall decisions, the facts of the situation must be confirmed. The recall considerations should be documented and retained until the firm's subsequent peer review has been completed.

Potential Reasons for Recall of Peer Review Documents

Recalling previously accepted peer review documents should be considered in instances including, but not limited to, the following situations.

Errors or Omissions

Errors or omissions that may have caused a significant change in the planning, performance, evaluation of results, peer review documents, or acceptance of the review are as follows:

[1] This section uses the term *should* to indicate a presumptively mandatory requirement in all cases in which such a requirement is relevant. However, in rare circumstances, the reviewer, firm, or committee may depart from a presumptively mandatory requirement, provided there is consultation with and concurrence by staff and the parties document the justification for the departure and how the alternative decisions or actions in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. Use of the term *must* in this section indicates an unconditional requirement in all cases in which such a requirement is relevant.

- Material Departures Directly Affecting the Peer Review Report: *(See section A.)*
  - — The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known to the administering entity or reviewer.
  - — The firm performed an engagement in a must-select category during the period covered by the peer review, and the reviewer did not consider or select a comparable must-select engagement during the system review.
- Other Departures That May Change the Peer Review Report: *(See section B.)*
  - — The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed a particular level of service required to be selected in an engagement review, and the reviewer did not consider or select a comparable engagement during the engagement review. For instance, compilations with disclosures were included in the engagement review, but compilations without disclosures performed by the firm were not considered in the engagement review.
  - — The firm omitted or misrepresented information relating to its accounting and auditing practice, other than instances covered in section A.
  - — The firm failed to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm or limitations or restrictions on the firm's ability to practice public accounting related to the firm or its personnel within the three years preceding the firm's current peer review year-end and through the date of the exit conference.
  - — The firm provided erroneous information in response to inquiries from the administering entity, staff, or reviewer in relation to the peer review.

Reviewer Disqualifications (See section C.)

- The reviewer or reviewing firm was not qualified (was ineligible) to perform or issue the peer review report because certain peer reviewer qualifications were not met at the time of the review, and this was not made known to staff or the administering entity during the scheduling, performance, or acceptance of the review.
- The reviewer or reviewing firm failed to inform staff or the administering entity about limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting. Considerations for recalling peer review documents should not be made if there are allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported by the reviewer or reviewing firm that are discovered subsequent to the acceptance of the peer review, but that have not resulted in limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting.

The preceding examples are not intended to be all-inclusive or indicate when peer review documents should be recalled. The reviewer needs to be aware that reviewer noncompliance could affect his or her ability to perform future reviews, and the firm needs to be aware that firm noncompliance could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

General Guidance

When the reviewer or administering entity becomes aware of information that relates to previously accepted peer review documents but was not known to the reviewer, firm, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. The reviewer and committee should consider whether the information may have caused a significant change in the peer review.

After the confirmation of evidence supporting the facts and considerations discussed in the following guidance, if the reviewer determines that the peer review report should be recalled, then both the peer review report and acceptance letter should be recalled.

Material Departures

The board considers errors or omissions that result in a change in the peer review report for the type of peer review, period covered, or must-select categories to be material departures from the AICPA *Standards for Performing and Reporting on Peer Reviews.* Such a departure results in a peer review that is not properly performed or reported on in conformity with the standards in all material respects. Generally, the reviewer should recall the peer review report if the previously accepted peer review report was not properly performed or reported on in all material respects. If such a report was accepted more than three years and six months prior to discovery of the information or a more recent peer review has been accepted, then recall considerations are ordinarily not necessary. When the peer review was not performed or reported on in conformity with the standards in all material respects, there is no need for deliberation by the committee about the recall of the acceptance letter, and the guidance in section A should be followed.

Other Departures

For instances covered in section B, if a reviewer decides not to recall a peer review report, the committee should independently consider whether or not to withdraw acceptance of the peer review report. The committee's reconsideration of peer review acceptance should take into account the reviewer's considerations, but is not fully dependent on the reviewer's recall of the peer review report. The committee's decision to recall an acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity.

Replacement Review

A replacement review ~~addressing previously omitted engagement(s) or information or reviewer disqualification~~ is ~~another peer review that takes~~required when ~~the place of a~~ a ~~r~~previous peer review is recalled. ~~peer review that addresses the concerns related to the previously omitted engagement(s) or information or reviewer disqualification. The resolutions~~ As discussed below, considerations for the replacement review depends upon the commencement date of the recalled review. The timing of the discovery should also be considered because of the peer review working paper retention period, which is 120 days after the peer review is completed. Considerations for a replacement review further discussed in this guidance include revising the peer review report (only if within 120 days of peer review completion), full reperformance of the peer review of the same period, or performance of a peer review of a subsequent period.

Recalls of peer reviews that commenced prior to April 1, 2014--

When the decision is made to recall peer review documents, the administering entity should notify the firm about the need for a replacement review. ~~A replacement review is another peer review that takes the place of a recalled peer review that addresses the concerns related to the previously omitted engagement(s) or information or reviewer disqualification. The resolutions depend upon the timing of the discovery, because the peer review working paper retention period must be considered, which is 120 days after the peer review is completed. Resolutions for a replacement review further discussed in this guidance include revising the peer review report (only if within 120 days of peer review completion), full reperformance of the peer review of the same period, or performance of a peer review of a subsequent period.~~ The due date by which the working papers should be submitted to the administering entity is approximately 90 days after the date of notification that a replacement review is required.

Recalls of peer reviews that commenced on or after April 1, 2014--

In accordance with the noncooperation guidance (Interpretation 5h-1), if a firm omits or misrepresents information relating to its accounting and auditing practice the firm will be subject to a hearing panel to consider whether the firm's enrollment in the program should be terminated. If the omission or misrepresentation results in a material departure ~~for which the acceptance of the peer review~~ the acceptance letter ~~and report~~ must be recalled. If ~~, and t~~the hearing panel determines that the firm's enrollment in the program should not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision. The hearing panel may also indicate other specific criteria for the replacement review.

Voluntary Correction Program

Firms that voluntarily notify the administering entity of an omission or misrepresentation resulting in a material departure will not be subject to a hearing panel. This notification from the firm must be prior to the AICPA or administering entity being otherwise notified of or discovering the omission or misrepresentation and prior to the firm receiving notification from another regulatory or monitoring agency. Acceptance of the peer review documents will be recalled and the firm will be required to submit a replacement review to its administering entity by the due date which will be approximately 90 days after the firm's notification to the administering entity.

A. Considerations Related to Material Departures Directly ~~Impacting~~ Affecting the Peer Review Report

1. *Confirmation of Facts and Evidence*

   Awareness of errors or omissions that result in material changes in the peer review report could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or other substantiated and reliable sources. When the reviewer, administering entity, or staff become aware of information that relates to previously accepted peer review documents but may not have been known to the reviewer, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. Any parties presenting such information to the administering entity must undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review or as of the date of the peer review report and provide verifiable evidence to support the facts.

2. *Communication With the Administering Entity*

   Once the information and evidence is confirmed as factual and reliable, the administering entity should promptly communicate the discovery and resolutions to the firm and reviewer. The administering entity should document the situation in the Notification of Discovery and Resolution Letter from the administering entity, addressed to the firm, and copied to the reviewer and staff. The administering entity should include evidence supporting the discovery, indication that the acceptance letter will be recalled, and requirement for a replacement review, including the due date in the Notification of Discovery and Resolution Letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery and Resolution Letter.

3. *Reviewer Considerations of Relevance and Impact*

   By copy of the Notification of Discovery and Resolution Letter, the reviewer should (presumptively mandatory) recall the previously accepted peer review report. The reviewer should respond in writing to the firm and the administering entity about his or her decision to recall the peer review report. Errors or omissions that directly result in a change in the peer review report for the type of peer review, period covered, or must-select categories are considered to be material departures from the standards of the program for which the reviewer should recall the peer review report. Unless the reviewer recalls the peer review report, the reviewer will not be allowed to revise the peer review report or perform the firm's replacement review.

4. *Recall of Peer Review Documents and Resolutions*

The administering entity must recall its acceptance letter when notified by staff that the peer review report is not correct in all material respects. The peer review information and peer review documents must be removed from view on Facilitated State Board Access (FSBA), and the administering entity must notify the applicable state board(s) of accountancy of information allowed by the guidance.

~~Generally a replacement peer review should be performed and~~If a replacement review is required, the documents should be submitted to the administering entity for technical review and committee acceptance considerations ~~within 90 days of the date of the Notification of Discovery and Resolution Letter~~by the due date prescribed.

5. *Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion*

Recalls of peer reviews that commenced prior to April 1, 2014--

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery and Resolution Letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. Upon receipt of this notification, the reviewer should continue to retain the working papers for the recalled review until completion of the revised or replacement review. The original reviewer should be willing, qualified, and able to submit the revised peer review report and working papers to the administering entity for acceptance by the established due date, which is ~~generally within~~approximately 90 days ~~of~~ after the date of the Notification of Discovery and Resolution Letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period. (See section A.6.)

If the original reviewer chooses to recall the previous report and reissue a revised report, the revised report should be dated as of the date that the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review Memorandum or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review Memorandum or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating. The reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further Consideration (MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) form or deficiency in the report. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. In addition, the reviewer should also request the representation letter from the firm, specifically addressing the circumstances about information previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the report acceptance body (RAB). Such information should be considered in conjunction with the previously submitted and retained peer review documents and working papers that were not revised as well as the previous technical reviewer's checklist.

If the subsequently discovered information would have changed the type of peer review from an engagement review to a system review, then the reviewer does not have the option to revise and reissue the peer review report. Such situation would necessitate a completely new replacement review of the same period or a subsequent period. If feasible, the reviewer may consider procedures performed during the recalled review to assist with the performance of the new system review.

Recalls of peer reviews that commenced on or after April 1, 2014--

If a firm omits or misrepresents information relating to its accounting and auditing practice resulting in a material departure in the firm's most recently accepted peer review, acceptance of the peer review documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision. The aforementioned guidance for recalls of peer reviews that commenced prior to April 1, 2014 in this section should be considered for the revised or replacement review. The hearing panel may also make additional considerations and set other criteria related to a reissued or replacement peer review.

6. *Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion*

For recalled peer reviews that commenced prior to April 1, 2014--

If the Notification of Discovery and Resolution Letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date, which is ~~generally within~~approximately 90 days ~~of~~ after the date of the Notification of Discovery and Resolution Letter.

The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to include the previously omitted engagement(s). The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or subsequently completed engagement(s), time elapsed, and the established due date of the firm's replacement review. For replacement reviews, the reviewer and firm should determine the year end based on the examples below. The reviewer or firm should consult with the administering entity to determine the peer review period that should be covered.

While performing the replacement review, the reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare an MFC form. Further evaluation of the systemic cause could lead to an FFC or deficiency in the report. Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity~~, which should be 90 days from the date of the Notification of Discovery and Resolution Letter~~ or hearing panel. The firm and reviewer should consider the following examples in determining the period to be covered by the replacement review:

Example 1. Firm no longer performs similar engagements (Discovery within 12 months of ~~peer~~ recalled review year-end - replacement review of same period)

A firm failed to inform the administering entity or reviewer that it performed a particular level of service requiring a system review (for example, engagement year end June 30, 2012) for the period under review (for example, January 1, 2012 to December 31, 2012), and the firm no longer performs that level of service after the period covered by the recalled review. If 12 months or less have elapsed between the period covered by the ~~previous peer~~recalled review and the Notification of Discovery and Resolution Letter (for example, discovery communicated prior to December 31, 2013), ordinarily, another peer review of the original period (January 1, 2012 to December 31, 2012) should be performed to include the level of service that caused the replacement review. If reviewing a subsequent 12-month period would not include the level of service or engagement(s) in question, then a replacement review of a subsequent period may not be appropriate.

Example 2. Firm no longer performs similar engagements (Discovery more than 12 months after ~~peer~~ recalled review year-end - replacement review of subsequent period)

A firm failed to inform the administering entity or reviewer that it performed a must-select engagement(s) (for example, engagement year end June 30, 2012) for the period under review (for example, January 1, 2012 to December 31, 2012), and the firm no longer performs engagements in the same must-select category after the period covered by the recalled review. If more than 12 months have elapsed between the period covered by the ~~previous peer~~recalled review and the Notification of Discovery and Resolution Letter (for example, discovery communicated after December 31, 2013), ordinarily the reviewer should perform a replacement review of a subsequent period but include the previously omitted engagement(s) within scope. The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt reperformance of the peer review of the original period.

Example 3. Firm continues to perform similar engagements

A firm failed to inform the administering entity or reviewer that a particular level of service requiring a system review was performed or neglected to disclose that it performed a must-select engagement (for example, engagement year end June 30, 2012) for the period under review (for example, January 1, 2012 to December 31, 2012), and the firm has or will continue to perform similar engagements. The replacement review should include the most recently completed engagement similar to those previously omitted and the period covered should be determined by the firm and the reviewer. The period covered should consider the time elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution Letter. ~~The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt reperformance of the peer review of the original period.~~

In all the preceding examples, the firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

Recalls of peer reviews that commenced on or after April 1, 2014--

If a firm omits or misrepresents information relating to its accounting and auditing practice resulting in a material departure in the firm's most recently accepted peer review, acceptance of the peer review documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision. The aforementioned guidance for recalls of peer reviews that commenced prior to April 1, 2014 in this section should be considered for the replacement review. The hearing panel may also make additional considerations and set other criteria related to the replacement peer review.

7. *Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that those documents do not comply with standards in all material respects and the peer review documents are recalled. This includes, but is not limited to notification to the state board(s) of accountancy (regardless of agreeing to the waiver), current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies, if applicable. The firm is also responsible for the removal of the documents from publicly available sources, such as the firm's website. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

8. *Notification to State Boards of Accountancy*

In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should immediately notify the applicable state board(s) of accountancy of changes to information and documents that were previously made available and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. In addition, a similar communication should be sent when the replacement review is accepted.

9. Additional Considerations by AICPA Staff

In instances where there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the staff include referral to a hearing panel of the board for termination from the AICPA Peer Review Program. The fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA membership for all individuals within the firm. ~~Depending on the circumstances, if the firm's enrollment is terminated through such procedures, staff may make a referral to the AICPA's Professional Ethics Division for individuals who may have violated the Code of Professional Conduct.~~For recalled reviews that commenced on or after April 1, 2014 for which the firm's enrollment is terminated due to the firm omitting or misrepresenting information related to the firm's accounting and auditing practice, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.

Agenda Item 1.3C

Peer Review Alert
Revisions to Noncooperation and Recall Guidance

In January 2014, the Peer Review Board (board) approved revised noncooperation guidance related to a firm's omission or misrepresentation of its accounting and auditing practice. That guidance, effective for reviews commencing on or after April 1, 2014, indicated the firm would be subject to a hearing panel of the board to determine whether the firm's enrollment in the program should be terminated.

In May 2014, the board approved revised recall guidance that indicated if there was an error or omission that resulted in a material departure from peer review standards the firm's peer review acceptance must be recalled and the firm is required to have a replacement review submitted to the administering entity approximately 90 days after the notification.

To coordinate the noncooperation guidance with the revised recall guidance, on September 30, 2014 the board approved additional revisions.

A summary of the major revisions to noncooperation and recall guidance for reviews that commence on or after April 1, 2014 are as follows:

- Interpretation 5h-1 and Report Acceptance Body (RAB) Handbook Chapter 3, Recall of Peer Review Documents, were revised to indicate that if a firm omits or misrepresents information about its accounting and auditing practice that results in a material departure from peer review standards (as identified in the RAB Handbook, Chapter 3, Recall of Peer Review Documents) the firm will be subject to a hearing panel of the board to determine whether a firm's enrollment in the program will be terminated.
    - If a hearing panel determines that the firm's enrollment will not be terminated, a replacement review will be due approximately 60 days after the hearing panel decision. In addition to a replacement review, a hearing panel may also impose other corrective actions or sanctions on a firm.
    - If a hearing panel determines that the firm's enrollment will be terminated, subsequent re-enrollment in the program is subject to approval by a hearing panel.
- Firms that voluntarily notify the administering entity of an omission or misrepresentation regarding the firm's accounting and auditing practice, will not be subject to a hearing panel for termination from the program under the following conditions:
    - Voluntary notification to the administering entity must be prior to the AICPA or administering entity being otherwise notified of or discovering the omission or misrepresentation and prior to the firm receiving notification from another regulatory or monitoring agency.
    - If the misrepresentation results in a material departure on its most recently accepted peer review, recall of the peer review acceptance and other aspects of the recall guidance remain applicable, including administering entity notification to applicable state boards of accountancy.
    - For material departures, the firm will be required to have a peer review submitted to its administering entity 90 days after the firm's notification to the administering entity.

Interpretation 5h-1 was also revised to reflect that if a firm's enrollment is dropped from the program for not accurately representing its accounting and auditing practice, re-enrollment in the program will be subject to approval by a hearing panel. This relates to firms that signed a revised "no A&A" letter indicating that the firm was not required to have a peer review.

These changes to the noncooperation and recall guidance can be found as Agenda Item 1.3 in the Peer Review Board Open Session Materials for September 30, 2014 and will be included in the next revision of the Peer Review Program Manual. The guidance was effective upon board approval.

Agenda Item 1.3D

Notification of Discovery and Resolution Letter (Hearing)
(For AICPA Firms Only- recall of reviews commenced on or after 4/1/14)
(Errors or Omissions Resulting in Material Departures-)

[*Date*]

[*Managing Partner of Reviewed Firm*]
[*Firm Name*]
[*Firm Address*]

<u>Proof of Delivery Required</u>

Dear [*Mr. / Ms.*] [*Last Name of Managing Partner of Reviewed Firm*]:

This letter is to inform you that the accepted peer review documents for your firm's most recent peer review cannot be relied upon due to a material departure from the AICPA Standards for Performing and Reporting on Peer Reviews (standards) which impacts the peer review report. Therefore the acceptance letter for your firm's peer review is being recalled.

The attached evidence indicates information omitted from your firm's most recently accepted peer review. AICPA staff has undertaken appropriate efforts to confirm the validity of this information and has determined that the information is both reliable and existed as of the date of the peer review report. This information was provided to the administering entity subsequent to the acceptance of the review. The AICPA Peer Review Board has determined that such omitted information would have caused a significant change in the planning, performance, evaluation of results, peer review documents (peer review report, acceptance letter, [and letter of response, if applicable]) and acceptance of the review.

Specifically, omitted information was as follows: *[insert the summary of the omitted information- see examples on next page (**) and enclose any evidence supporting this information]*.

If you believe that the information presented herein is incorrect, the administering entity must receive an explanation and evidence within 15 days of the date of this letter.

By copy of this letter, your peer reviewer should follow the peer review guidance that indicates the reviewer should (presumptively mandatory) recall the peer review report. Regardless of your reviewer's decision to recall your firm's peer review report, we will recall the acceptance of the peer review, which invalidates the peer review report.

Your firm is responsible for notifying any parties that may be relying on recalled peer review documents to discontinue reliance on those documents. Such parties include, but are not limited to, state boards of accountancy, current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies. The firm should cease further dissemination, and remove the peer review documents from public view.

[When your firm's peer review is recalled, the peer review documents and related information will no longer be available on Facilitated State Board Access (FSBA). We will notify the applicable state board(s) of accountancy of information as allowed in Standards paragraph .146. This notification includes the date of acceptance and period covered of your firm's most recently accepted peer review (which is generally the peer review prior to the recalled peer review).][1] Please be aware that the recall of peer review documents may result in a lack of compliance with licensing and regulatory agencies.

In accordance with a Peer Review Board resolution for reviews commencing after April 1, 2014, if a firm omits or misrepresents information relating to its accounting and auditing practice the firm will be subject to a hearing panel of the AICPA Peer Review Board to consider whether the firm's enrollment in the AICPA Peer Review Program (program) should be terminated. If your firm's enrollment is terminated, that fact will be published in such form and manner as the AICPA Council may prescribe and you [and the members of your firm] may no longer be eligible for AICPA membership. Re-enrollment into the program is subject to approval by a hearing panel. Additionally, if the hearing panel determines that the firm's enrollment should be terminated, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.

If the hearing panel determines that the firm's enrollment in the program should not be terminated, the firm will be required to have a replacement review approximately 60 days after the date of the hearing panel decision. The hearing panel may also require additional sanctions or specific criteria for the replacement review. Your firm's failure to comply with the terms to submit the replacement peer review by the established due date, may be deemed as a failure to cooperate with the program. Failure to cooperate with the program may subject your firm to fair procedures that could result in termination of your firm's enrollment in the program. You will receive additional information related to the hearing panel in a separate communication from the AICPA.

The goal of the AICPA Peer Review Program is quality in the performance of accounting and auditing engagements by AICPA members and other parties who are permitted to use and who are expected to comply with the standards of the program. This goal can only be achieved if the program is conducted in compliance with the standards. We would appreciate your cooperation to rectify this situation. Please acknowledge your agreement to the terms set out in this letter.

If you wish to discuss this situation, please contact me at [*telephone number*].

---

[1] The information about FSBA changes and notifications to state boards should only be included in states and territories where the state or territory has mandatory peer review and the state board is not prohibited from accessing peer review documents.

Sincerely,

[*Name*]
[*Title*]
[*Administering Entity]*

cc:
[Reviewed Firm Peer Review Contact]
[Reviewer Name]
AICPA Peer Review Program staff

Firm # Review #

Acknowledged for the Firm-

Signature of Reviewed Firm Managing Partner:

____

Date: ______________________________

Notification of Discovery and Resolution Letter (Hearing)
(Recall of reviews commenced on or after 4/1/14)
(Material Departures- Errors or Omissions)

(Examples **)

Example wording for omission or misrepresentations resulting in material departures (Notification of Discovery and Resolution Letters should include sufficient detail of the situation):

- The firm had an engagement review performed and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known; or
- The firm performed an engagement in a must-select category for the period covered by the peer review and a comparable must-select engagement was not considered or selected during the system review.
- The scheduling information provided by the firm provided proper information about the firm's accounting and auditing practice. However, a must-select engagement was not reviewed during the system review.

AICPA®

Peer Review Program

ANNUAL REPORT ON OVERSIGHT

Issued
September 30, 2014

TABLE OF CONTENTS

Acronyms

Certain acronyms are used throughout this Report.

AE	Administering Entity
AICPA	American Institute of Certified Public Accountants
PRP	Peer Review Program
CPA	Certified Public Accountant
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
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
PRISM	Peer Review Information System Management
PRB	Peer Review Board (AICPA)
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
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 Services

Introduction

Purpose of This Report

The purpose of this Annual Report on Oversight (report) is to provide a general overview; statistics and information; the results of the various oversight procedures performed on the AICPA Peer Review Program (AICPA PRP); and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2013 oversight process were met.

Scope and Use of This Report

This report contains data pertaining solely to the AICPA PRP and should be reviewed in its entirety and not taken out of context because:

- approximately 27,000[1] firms enrolled in the AICPA PRP have a peer review performed once every 3 years.
- approximately 9,000 peer reviews take place each year.
- 42[2] administering entities (AEs) cover 55 licensing jurisdictions.
- There are more than 660 volunteer Peer Review Committee members.

Years Presented in This Report

Statistical information presented in this report pertains to peer reviews commenced and performed during the calendar years 2011 - 2013. Accordingly, oversight procedures included in this report are performed on a calendar year basis.

---

1 Approximately 30,000 firms are enrolled in the AICPA PRP. Approximately 3,000 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

2 The National Peer Review Committee (National PRC) became an AE of the AICPA PRP effective January 1, 2009. Prior to January 1, 2009, the National PRC was a separate peer review program called the CPCAF PRP. The National PRC has issued a separate report for the calendar year and its results are not included within this Report.

History of Peer Review at the AICPA

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 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 Securities and Exchange Commission (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 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 the 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 audit and accounting 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 in compliance 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 designed appropriately 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 name AICPA PRP governed by the PRB, which became effective in 1995. Thereafter, as a result 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 state boards of accountancy (SBAs) 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 state board of accountancy 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 *AICPA Standards for Performing and Reporting on Peer Reviews (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 AICPA PRP 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.

In the more than 25 years since peer review became mandatory for AICPA membership, 51 SBAs have adopted peer review requirements and many require their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with state board peer review document submission requirements, the AICPA created FSBA through which firms may give permission to the AICPA or their AEs to give access to the firms' documents mentioned subsequently to state boards through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some state boards now require their licenses to participate in FSBA; others recognize it as an acceptable process to meet the peer review document submission requirements.

These documents typically include one or more of the following:

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

About the AICPA Peer Review Board

The PRB is the senior technical committee governing the AICPA PRP and, as such, it is responsible for overseeing the entire peer review process. The PRB is dedicated to enhancing the performance and quality of non-SEC accounting, auditing and attestation engagements performed by AICPA members and their firms that are enrolled in the program. The PRB seeks to attain its mission through education and remedial corrective actions which serves the public interest and enhances the significance of AICPA membership.

The mission of the PRB is achieved through establishing and conducting the program. This includes developing, implementing, maintaining and enhancing comprehensive peer review standards and related guidance for firms subject to peer review, those performing peer reviews and others involved in administering the program for the PRB. In addition, the PRB is responsible for overseeing the entire peer review process. By reevaluating the validity and objectives of the program, the PRB ensures continuous enhancement of the quality in the performance of non-SEC accounting, auditing and attestation engagements by AICPA members and their firms enrolled in the program, and explicitly recognizes that protecting the public interest is an equally important objective of the program.

The PRB composition has been developed to comprise of 20 members representing public practitioners from various size firms, including an individual from each of the four largest firms, state society CEOs and regulators.

Various subcommittees and task forces are appointed to assist the PRB in carrying out its responsibilities. Their work is subject to review by the PRB. Currently, the PRB has task forces for planning, oversight, standards, education and communication, the National Peer Review Committee, associations, quality control materials, technical reviewers' advisory, administrative advisory, strategic planning and practice monitoring.

The activities of the PRB and its task forces and subcommittees are supported by AICPA peer review program staff who assist with drafting standards and interpretations; developing peer review guidance related to emerging issues; and work on projects in cooperation with other teams at the AICPA.

AICPA PEER REVIEW BOARD ROSTER
OCTOBER 2013 - OCTOBER 2014

Richard W. Reeder, **Chair**
Reeder & Associates PA
Tampa, FL

Michael A. Fawley
BDO USA, LLP
Atlanta, GA

Scott W. Frew
KPMG LLP
New York, NY

Richard W. Hill
Mitchell Emert & Hill P.C.
Knoxville, TN

Michael LeBlanc
Postlethwaite & Netterville
Donaldsonville, LA

G. Alan Long
Baldwin CPAs, PLLC
Richmond, KY

Randy L. Milligan
Thomas and Thomas LLP
Little Rock, AR

Thad E. Porch
Porch & Associates, LLC
Albuquerque, NM

Robert (Bob) Rohweder
EY LLP
Cleveland, OH

Steven K. Stucky
Sikich LLP
Indianapolis, IN

James T. Ahler
North Carolina Association of CPAs
Raleigh, NC

Anita Ford, Vice Chair
CliftonLarsonAllen LLP
Milwaukee, WI

Lawrence Gray
EisnerAmper LLP
Iselin, NJ

Richard E. Jones
Washington Society of CPAs
Bellevue, WA

Toni Rae T. Lee-Andrews
Andrews Barwick & Lee PC
Colonial Heights, VA

Michael W. McNichols
McGowen, Hurst, Clark & Smith, P.C.
West Des Moines, IA

Thomas J. Parry
Benson & Neff CPAs
San Francisco, CA

Jodi L. Rinne
HSMC Orizon LLC
Omaha, NE

Keith Rowden
PricewaterhouseCoopers LLP
Houston, TX

AICPA Peer Review Board
Oversight Task Force
(October 2013 – October 2014)

Richard W. Hill, **Chair***
Mitchell Emert & Hill P.C.
Knoxville, TN

Robert C. Bezgin
Robert C. Bezgin, CPA
Downingtown, PA

J. Phillip Coley
Coley, Eubank & Company, P.C.
Lynchburg, VA

Jerry W. Hensley
Ray, Foley, Hensley and Company, PLLC
Lexington, KY

Paul V. Inserra
McClure, Inserra & Company, Chtd.
Arlington Heights, IL

Michael LeBlanc*
Postlewaite & Netterville
Donaldsonville, LA

John C. Lechleiter
AKT, LLP
Carlsbad, CA

John A. Lynch
Blum, Shapiro & Company, PC
Rockland, MA

Steven K. Stucky*
Sikich LLP
Indianapolis, IN

Randy Watson
Yanari Watson McGaughey PC
Greenwood Village, CO

*Member, AICPA Peer Review Board

AICPA
Staff

Susan S. Coffey, Senior Vice President
Public Practice and Global Alliances

James W. Brackens, Jr., Vice President
Ethics and Practice Quality

Gary Freundlich, Technical Director

Beth Thoresen, Director of Operations

Susan Lieberum, Senior Technical Manager

Frances McClintock, Senior Technical

Melissa Dunn, Technical Manager

Rachelle Drummond, Technical Manager

Laurel Gron, Technical Manager

Lisa Joseph, Technical Manager

Tim Kindem, Technical Manager

LaVonne Montague, Technical Manager

Susan Rowley, Technical Manager

Karl Ruben, Technical Manager

Letter to the AICPA Peer Review Board

To the Members of the AICPA Peer Review Board:

We have completed a comprehensive oversight program for the 2013 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state there should be reasonable assurance that (1) AEs are complying with the administrative procedures established by the PRB as set forth in the *AICPA Peer Review Program Administrative Manual*, (2) the reviews are being conducted and reported upon in accordance with the standards, (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees and (4) the information provided via the Internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of state CPA societies or groups of state societies (AEs) that elect and are approved to administer the AICPA PRP, including the establishment and results of each AE's oversight processes.

Our procedures were conducted in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook* and included the following procedures:

- Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the Oversight Task Force (OTF), including its PRB members, which covered all parts of the peer review process from administrative functions, peer reviewer documents and checklists, technical reviewer procedures and peer review committee actions. For 2013, 201 or approximately 2.3 percent of total reviews were selected for oversight by the AICPA PRP staff which also covered 179 different peer reviewers or 9 percent of all active peer reviewers. These reviewers selected for oversight performed approximately 12 percent of the 2013 peer reviews. See pages 12–13, "Peer Review Working Paper Oversights."
- Visits to the AEs, on a rotation basis ordinarily every other year, by a member of the OTF. The visits include testing the administrative and report acceptance procedures established by the PRB. See pages 13–14, "Oversight Visits of the Administering Entities."
- Monitoring the overall activities of the program. See pages 15, "Review of AICPA PRP Statistics."
- Report Acceptance Body (RAB) Observations performed by OTF members and AICPA PRP staff. The RAB Observations began in July 2014. RAB Observations will include the review of RAB packages to ensure that RABs are performing all of their responsibilities. See pages 15-16 for a detailed description of the RAB Observation process.
- Enhanced oversights performed by designees of the OTF. The enhanced oversights began in the summer of 2014. The enhanced oversights include the review of the financial statements and working papers for must-select engagements by designees of the OTF. See pages 16-17 for a detailed description of the enhanced oversight process.

Oversight procedures performed by the AEs in accordance with the *AICPA Peer Review Program Oversight Handbook* included the following procedures:

- Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the OTF. See pages 17-18, "Administrative Oversight of the AE."

- Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2013, approximately 3.9% of total reviews were selected for oversight at the AE level. See pages 18–19, *Oversight of the Peer Reviews and Reviewers.*

- Verification of reviewers' resumes. For 2013, resumes were verified for 905 reviewers. See pages 19-20, "Annual Verification of Reviewers' Resumes."

During the year, 201 working paper oversights were conducted by AICPA PRP staff and 339 on-site and off-site oversights were conducted by AEs.

Based on the results of the oversight procedures performed, the OTF has concluded that in all material respects (1) the AEs were complying with the administrative procedures established by the PRB, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all AE peer review committees and (4) the information provided via the Internet or other media by AEs was accurate and timely. Based upon the OTF's conclusions, we believe for the 2013 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Richard W. Hill

Richard W. Hill, Chair
Oversight Task Force
AICPA Peer Review Board

September 30, 2014

The AICPA Peer Review Program

Overview

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards. In addition, 15 state CPA societies currently have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, of the 55 licensing jurisdictions, currently 52 SBAs have made participation in a type of practice-monitoring program mandatory for licensure. See exhibit 1.

The AICPA PRP has approximately 27,000 enrolled firms within the United States and its territories at the time this report was prepared. See exhibit 2. Approximately 9,000 peer reviews are performed each year by a pool of approximately 2,200 qualified peer reviewers.

Firms enrolled in the program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-SEC issuers covering a one-year period. The peer review is conducted by an independent evaluator known as a peer reviewer. The AICPA oversees the program and the review is administered by an entity approved by the AICPA to perform that role. An accounting and auditing practice, as defined by the standards, is "all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office (GAO); and engagements performed under Public Company Oversight Board (PCAOB) standards. Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection.

The following summarizes the different peer review types, objectives and reporting requirements as defined under the standards. There are two types of peer reviews: system and engagement.

System reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations[3] under the SSAEs, or engagements under PCAOB standards, in addition to reviews, compilations or agreed-upon procedures. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including statement on quality control standards (SQCS) No. 8, in all material respects. The peer review report rating may be *pass* (firm's system of quality control is adequately designed and firm has complied with its system of quality control); *pass with deficiency(ies)* (firm's system

---

3 Prior to March 1, 2013, for SSAE engagements, the scope of the system review only included examinations of prospective financial statements or examinations of service organization's controls likely to be relevant to user entities' internal control over financial reporting. Prior to 2011, for SSAE engagements, the scope of a system review did not include examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting.

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 with the exception of deficiency[ies] described in the report); or *fail* (firm's system of quality control is not adequately designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects).

Engagement reviews: Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations[3] under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects except for the deficiency(ies) that are described in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.

Administering Entities

Each state CPA society annually elects the level of involvement that it desires in the administration of the AICPA PRP. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the AICPA PRP for enrolled firms whose main offices are located in that state or (3) ask the AICPA to request another state CPA society to administer the AICPA PRP for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB. The PRB approved 42 state CPA societies, groups of state societies or specific-purpose committees, AEs, to administer the AICPA PRP in 2013. See exhibit 3. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the AICPA PRP.

In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted with the annual Plan of Administration (POA). The annual POA is the AE's request to administer the peer review program and is reviewed by the OTF. In addition, all AEs are required to issue and post to their website an annual report on their oversight of the previous calendar year.

AEs may also elect to use the standards and administer a peer review program for non-AICPA firms (and individuals). Non-AICPA firms (and individuals) are enrolled in the State CPA Society (AE) peer review programs and these, while very similar to the AICPA PRP, are not considered as being performed under the auspices of the AICPA PRP. They are not oversighted by the AICPA PRB; therefore, this Report does not include information or oversight procedures performed by the AEs on their peer review programs of non-AICPA firms (and individuals).

Results of AICPA PRP

From 2011–2013, approximately 27,000 peer reviews were performed in the AICPA PRP. Exhibit 4 shows a summary of these reviews by type of peer review and report issued. For system reviews performed during that three-year period, approximately 87 percent of the reviews resulted in pass reports, 10 percent were pass with deficiency(ies) and 3 percent were fail. For engagement reviews performed during that three-year period, approximately 77 percent of the reviews resulted in pass reports, 17 percent were pass with deficiency(ies) and 6 percent were fail. As clearly depicted on Exhibit 4, the percent of other than pass reports in system reviews has increased since the implementation of new auditing standards in 2012. Exhibit 5 is a list of items noted as matters in engagements with year-ends between April 30, 2013 and June 30, 2014. This list contains examples of noncompliance with professional standards. Although this list is not all-inclusive and is not representative of all peer review results, it does contain more common examples of matters that were identified during the peer review process.

Exhibit 6 summarizes the number and type of reasons by elements of quality control as defined by the SQCS, for report modifications (that is, pass with deficiency[ies] or fail) on system reviews performed in the AICPA PRP from 2011–2013.

In 2011, 2012, and 2013, approximately 8, 9, and 10 percent, respectively, of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects.” The standards state that an engagement is ordinarily considered “not being performed and/or reported in accordance with professional standards in all material respects” when deficiencies, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report or represents omission of a critical accounting, auditing or attestation procedure required by professional standards.

Exhibit 7 shows the total number of individual engagements reviewed along with those identified as “not being performed and/or reported in accordance with professional standards in all material respects” also known as non-conforming engagements. There was a large increase in the number of non-conforming engagements in the ERISA and Other Audit categories in 2013. This increase can be attributed to two factors. First, the clarified auditing standards were effective for financial statements with periods ending on or after December 15, 2012. 2013 was the first peer review year that included these engagements. Second, the peer review Employee Benefit Plan Audit Engagement Checklist was redesigned in January 2013 to focus the reviewer’s attention on areas that lead to engagements being identified as non-conforming. As a reminder, the results of the NPRC are not included in this report.

In 2013, the AICPA began a project focusing on ERISA engagements. The Department of Labor (DOL) provided a listing to the AICPA of all of the firms who were listed as the auditor on the form 5500 for 2011. The DOL removed members of the Employee Benefit Plan Audit Quality Center (EBPAQC) from the list due to the fact that members of the EBPAQC must make their peer review reports public as a condition of membership in the quality center. AICPA PRP staff compared the list to internal information in order to determine if the firms properly included an employee benefit plan audit in their most recent peer review. The comparison indicated many firms were not in compliance with peer review requirements and, as a result of this project, numerous peer review acceptance letters and peer review reports have been recalled. When the peer review acceptance letter is recalled, the related peer review is no longer valid and the reviewed firm must have a replacement review within 90 days of the notice of recall. Many of the peer reviews that have been recalled so far were from 2011 and 2012. The recalled peer reviews are no longer included in the statistics for those years. This project also led to a large number of accelerated reviews, when the acceptance letter was not recalled by the AE. The replacement reviews and accelerated reviews are being performed in 2014 and will be included in next year's oversight report. The Board expects the project, which is expected to be completed by the end of 2014, to lead to the identification of a large number of non-conforming ERISA engagements and peer review reports with a rating of other than pass. As of August 22, 2014, 42 replacement reviews have been completed. Of those 42 replacement reviews, 50 percent have received a pass rating, 14 percent have received a pass with deficiencies, and 36 percent have received a fail.

During the report acceptance process, the AEs' peer review committees determine the need for and nature of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the recommendations of the review team appear to address the engagement deficiencies adequately and whether the reviewed firm's responses to the review team's recommendations are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple corrective actions required on an individual review. Although there was a reduction in the number of corrective actions in 2013, the number of corrective actions as a percentage of overall reviews performed has remained steady. The number of corrective actions as a percentage of overall reviews performed was 25% in 2012 and 24% in 2013. Also, the percentage of other than pass peer review reports for engagement reviews decreased in 2013, while the percentage of other than pass ratings for system reviews increased in 2013. Overall, it appears that corrective actions have remained consistent from 2012 to 2013. Further, the OTF continues to provide guidance and education in the effective use of both implementation plans and corrective actions as noted in the Comments from Working Papers Oversights (exhibit 11) and the items noted as a result of Administrative Oversights Performed (exhibit 14). In total, 6,251 corrective actions were required from 2011–2013 that are summarized in exhibit 8.

In addition to the aforementioned corrective actions, there may be instances in which an implementation plan is required as a result of FFCs. For implementation plans, the firm will be required to evidence its agreement to perform and complete the implementation plan in writing as a condition of cooperation with the AE and the board. Agreeing to and completing such a plan is *not* tied to the acceptance of the peer review. The reviewed firm would receive an acceptance letter with no reference to the implementation plan if the peer review committee did not otherwise request the firm to also perform a corrective action plan related to the deficiencies or significant deficiencies, if any, noted in the peer review report. However, if the firm fails to cooperate with the implementation plan, the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated.

Because it is possible for a firm to receive a pass with deficiency or fail report, as well as FFCs that had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

Oversight Process

The PRB has the responsibility of oversight of all AEs. In addition, each AE is responsible for overseeing peer reviews and peer reviewers for each state they administer. This responsibility includes having written oversight policies and procedures.

All SBAs that require peer review accept the AICPA PRP as a program satisfying its peer review licensing requirements. Some SBAs have entered into an agreement with state CPA societies to perform oversight of their administration of the AICPA PRP. The SBA's oversight process is designed to assess its reliance on the AICPA PRP for re-licensure purposes. This report is not intended to describe or report on that process. Exhibit 9 shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice-monitoring program mandatory for licensure as indicated in exhibit 1.

Objectives of Peer Review Board Oversight Process

The PRB has appointed an OTF to oversee the administration of the AICPA PRP and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that the

- AEs are complying with the administrative procedures established by the PRB.
- reviews are being conducted and results of reviews are being evaluated and reported in accordance with the standards and on a consistent basis in all jurisdictions.
- information provided to firms and reviewers (via the Internet or other media) by AEs is accurate and timely.

The oversight program also establishes a communications link with AEs and builds a relationship that enables the PRB to accomplish the following: obtain information about problems and concerns of AEs' peer review committees, provide consultation on those matters to specific AEs and initiate the development of guidance on a national basis, when appropriate.

OTF Oversight Procedures

The following oversight procedures were performed as a part of the OTF oversight program.

Peer Review Working Paper Oversights

Description

Throughout each year, a sample of peer reviews are randomly selected (by AICPA PRP staff and approved by the OTF) from each of the AEs for submission to the AICPA PRP staff for a comprehensive review of all the documents prepared during a peer review. Documents from all parts of the peer review process (administrative, peer review checklists, technical reviewer checklist, peer review committee actions, warning letters, extensions and reviewer feedback) are submitted and then reviewed by the AICPA PRP staff to determine whether

- the reviews are being conducted and reported on in accordance with the standards.
- the AE is in compliance with the administrative procedures established by the PRB.
- information is being entered into the computer system correctly.

- reviewers are following the guidance and use the most current materials contained in the AICPA Peer Review Program Manual.

- results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

As the AICPA PRP staff completes the desk review of all the documents prepared during the peer review, a summary report with AICPA PRP staff comments is prepared for each AE and submitted to the OTF members for review and approval. Once approved, the summary report is submitted to the respective AEs' peer review committee chairs requesting that they share the findings with their committees, technical reviewers, peer reviewers and team captains, as applicable. The committee chair is asked to communicate the comments to the committee and return the acknowledgement of communication letter to the AICPA PRP staff. Normally, the cover letter (included with the summary report) sent to the AEs indicates that they are not asked to take any additional actions on the specific reviews.

If issues are noted with reviewer performance, the OTF may choose to suggest or require, depending upon significance of issues, additional oversight. If significant pervasive deficiencies, problems or inconsistencies are encountered during the review of the aforementioned materials, the OTF may choose to (1) visit the AE in which the deficiencies, problems or inconsistencies were noted to assist them in determining the cause of these problems and prevent their recurrence; or (2) request the AE to take appropriate corrective or monitoring actions, or both.

As a result of additions to the oversight process approved by the PRB in May of 2014, the final sample of working paper oversights for 2013 was not selected. In previous years, 3 percent of all reviews were selected for working paper oversight. Due to the fact that the final sample of desk oversights was not selected for 2013, the percentage of reviews selected for oversight was 2 percent of all reviews. The desk oversights are being replaced by RAB observations. RAB observations will cover a larger percentage of overall reviews and feedback will be given to RABs in real time. The PRB believes that the real time feedback will improve the overall quality of the program and the effectiveness of the oversight process. See below for a further discussion of the RAB observation process.

Results

For the year 2013, 201 working paper reviews were selected for oversight covering 179 different peer reviewers. This represents approximately 2.3 percent of peer reviews conducted in 2013 and approximately 9 percent of peer reviewers active in that same period. Exhibit 10 shows, by AE, the number and type of reviews selected. The most prevalent comments from the working paper oversight process are summarized in exhibit 11.

Oversight Visits of the Administering Entities

Description

Each AE is visited by a member of the OTF (ordinarily, at least once every other year). No member of the OTF is permitted to visit the AE in the state that his or her main office is located; where he or she serves as a technical reviewer or may have a conflict of interest; or performed the most recently completed oversight visit.

During these visits, the member of the OTF will at a minimum

- meet with the AE's peer review committee during its consideration of peer review documents.

- evaluate a sample of peer review documents and applicable working papers on a post acceptance basis.

- perform face to face interviews with the administrator, committee chair, and technical reviewers.

- evaluate the various policies and procedures for administering the AICPA PRP.

As part of the visit, the OTF member will request that the AE complete an information sheet documenting policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the AICPA PRP. The OTF member evaluates the information sheet, results of the prior oversight visit, POA and comments from working paper oversights to develop a risk assessment. A comprehensive oversight work program that contains the various procedures performed during the oversight visit is completed with the OTF member's comments. At the conclusion of the visit, the OTF member discusses any comments and issues identified as a result of the visit with the AE's peer review committee. The OTF member then issues an AICPA Oversight Visit Report (Report) to the AE that discusses the purpose of the oversight visit and that the objectives of the oversight program were considered in performing those procedures. The Report also contains the OTF member's conclusion regarding whether the AE has complied with the administrative procedures and standards in all material respects as established by the PRB.

In addition to the aforementioned Report, the OTF member issues the AE an AICPA Oversight Visit Letter of Procedures and Observations (Letter) that details the oversight procedures performed and observations noted by the OTF member. The Letter also includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is then required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter or at a minimum, when there are no findings reported, an acknowledgement of the visit. The oversight documents, including the Oversight Visit Report, the letter of procedures and observations and the AE's response, are presented to the OTF members at the next OTF meeting for acceptance. The AE may be required to take corrective actions as a condition of acceptance. The acceptance letter would reflect corrective actions, if any. A copy of the acceptance letter, the oversight visit report, letter of procedures and observations and the response are posted to the following AICPA Peer Review Program web page: (www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx).

Results

During 2012–2013, a member of the OTF performed at least one on-site oversight visit to 41 AEs (excludes NPRC). See exhibit 12 for a listing of the AEs and the year of oversight. See exhibit 13 for a summary of observations from the on-site oversight visits performed during 2012-2013.

Review of AICPA PRP Statistics

Description

To monitor the overall activities of the program, the OTF periodically reviews the following types of statistical data for each AE and evaluates whether any patterns are emerging that should be addressed:

- The status of reviews in process
- The results of reviews
- The number and types of corrective actions
- The number, nature and extent of engagements not performed in accordance with professional standards in all material respects
- The number of overdue peer reviews

Results

As of August 2014, there were 722 incomplete reviews (125 due through 2012 and 591 due in 2013). Of these, 666 were in various stages of the evaluation process and 56 were in the background or scheduling phases of the review. AICPA PRP staff has been working with the AEs on these open reviews to ensure an appropriate course of action is taken on a case by case basis for each of these.

The status of 2013 reviews has been monitored on a periodic basis to determine reviews are being processed timely and to identify any reviews that are delinquent in the process. Firms that had not submitted background information or provided scheduling information were reviewed to determine that the appropriate overdue requests were mailed and notification sent to the AICPA to drop the firm from the program for failure to comply. For reviews that were scheduled but past their due date, inquiries were made to determine the proper extension procedures were followed.

Results of AICPA PRP are further summarized on pages 10-11 of this Report.

RAB Observations

Description

In May 2014, the PRB approved two changes to the existing oversight process. The first change approved by the PRB was to increase the number of RAB observations. The purpose of the RAB observation is to:

- determine whether the RAB is performing all of their responsibilities,
- determine whether the technical reviewer is performing all of their responsibilities,
- determine whether the reviews are being conducted and reported on in accordance with the peer review standards,
- ensure that the administrative procedures established by the board are being complied with,
- ensure that information is being entered into the computer system correctly, and
- ensure the results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

Previously, RAB observations were only performed during the oversight visits of the AE once every other year. The process for the increased RAB observations will be similar to the process used during the oversight visits. The RAB observer will receive the RAB package prior to the RAB meeting. The observer will select a sample of reviews from the package and review the materials that will be presented to the RAB. The observer will note any issues or items that are unclear for each review selected. During the RAB, the observer will allow the RAB to deliberate each review. If the RAB does not address the items noted by the observer, the observer will bring those items to the RAB's attention prior to the RAB voting on whether or not to accept the review. All items that were noted by the observer, but, were not noted by the RAB will be included as comments in a RAB observation report. The report will be submitted to the administering entity's peer review committee for their consideration and each peer review committee will have the opportunity to respond to the report.

The changes to the oversight process were approved by the PRB on a pilot basis for 2014. The final procedures will be approved by the PRB in 2015, at the completion of the pilot period. The RAB observations will be performed by OTF members as well as AICPA PRP staff and at least one RAB observation will be performed per AE in 2014.

Results

Results for the RAB observation process are not available as of the publication of this report. Information about the number of reviews observed and general comments that were issued will be included in future oversight reports.

Engagement-Level Oversights

Description

As noted in the previous section, in May 2014, the PRB approved two changes to the existing oversight process. The second change to the oversight process approved by the PRB was the addition of engagement-level oversights performed by designees of the OTF. The objective of the engagement-level oversights will be to ensure that peer reviewers are identifying all issues in must-select engagements, including, whether engagements are properly identified as non-conforming. The oversights will increase confidence in the peer review process and identify areas that need improvement, such as, peer reviewer training. The objective will be achieved by selecting oversights in two samples. The first sample is a risk based sample based on risk criteria established by the OTF. The second sample is a random sample that will achieve a 90 to 95 percent confidence level. The engagement-level oversights will focus on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations). These oversights will neither replace nor reduce the number of engagements oversight currently performed by AEs.

The engagement-level oversight process consists of the review of the financial statements and working papers by the OTF designee for the engagement selected. AICPA PRP staff will notify the peer reviewer and the firm that they have been selected for oversight once the peer review working papers are submitted to the AE. This will ensure that the peer reviewer is not aware of the fact that they have been selected for oversight until after the peer review has been completed. The OTF designee will complete the relevant peer review checklist and compare their results to the results of the peer reviewer. The OTF designee will issue a report detailing any differences between the items they noted and the items noted by the peer reviewer. The report will be provided to the AE for consideration during the report acceptance process.

The engagement-level oversights were approved on a pilot basis for 2014. The final procedures will be approved by the PRB in 2015, at the completion of the pilot period. The population for the 2014 engagement-level oversight samples will be peer reviews performed in 2014. The oversights will be performed throughout 2014 and into early 2015.

Results

Results for the engagement-level oversights are not available as of the publication of this report. Information regarding the number of oversights performed, the number of non-conforming engagements not identified by peer reviewers, and a general listing of the items not identified by peer reviewers will be included in next year's report.

Oversight by the Administering Entities' Peer Review Committees

The AEs' peer review committees are responsible for monitoring and evaluating peer reviews of those firms whose main offices are located in its licensing jurisdiction(s). Committees may designate a task force to be responsible for the administration and monitoring of its oversight program.

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with the AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements (discussed on pages 17–20, "AE Oversight Procedures") established by the PRB to provide reasonable assurance that

- reviews are administered in compliance with the administrative procedures established by the PRB.
- reviews are conducted and reported upon in accordance with the standards.
- results of reviews are evaluated on a consistent basis.
- information disseminated by the AE is accurate and timely.

AE Oversight Procedures

The following oversight procedures are performed as part of the AE oversight program.

Administrative Oversight of the AE

Description

At a minimum, a committee member or a subcommittee of the AE's peer review committee should perform the administrative oversight in those years when there is no oversight visit by OTF. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP.

Results

The administrative oversight reports were submitted to the AICPA by the AE as part of the 2014 POA. Comments or suggestions resulting from the administrative oversights are summarized in exhibit 14. In addition, the OTF member reviewed the results of the administrative oversight during his or her oversight visit (described on pages 13–14, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight to those noted during the OTF oversight visit.

Oversight of Peer Reviews and Reviewers

Description
Throughout the year, the AE selects various peer reviews for oversight. The selections can be on a random or targeted basis. The oversight may consist of doing a full working paper review after the review has been performed, but prior to presenting the peer review documents to the peer review committee. The oversight may also consist of having a peer review committee member or designee actually visit the firm, either while the peer review team is performing the review, or after the review, but prior to final committee acceptance.

As part of its oversight process, the peer review committee oversees firms being reviewed as well as reviewers performing reviews. Minimum oversight selection requirements also are imposed by the PRB.

Firms – The selection of firms to be reviewed is based on a number of factors, including but not limited to, the types of peer review reports the firm has previously received, whether it is the firm's first system review (after previously having an engagement or report review) and whether the firm conducts engagements in high risk industries.

Reviewers – All peer reviewers are subject to oversight and they may be selected based on a number of factors, including but not limited to random selection, frequent submission of pass reports, conducting a significant number of reviews for firms with audits in high risk industries, performance of their first peer review or performing high volumes of reviews. Oversight of a reviewer can also occur due to performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, not considering matters that turn out to be significant or failure to select an appropriate number of engagements. When an AE oversees a reviewer from another state, the results are conveyed to the AE of that state.

Minimum Requirements – At a minimum, the AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time, and within the 2 percent selected, there must be at least two of each type of peer review evaluated (that is, system and engagement reviews). The oversight involves doing a full working paper review and may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended the oversight be performed prior to presenting the peer review documents to the peer review committee. This allows the committee to consider all the facts prior to acceptance of the review. At a minimum, two system review oversights are required to be performed on-site. Oversights could be random or could be a combination of a targeted and random selection.

AEs that administer fewer than 100 reviews annually can apply for a waiver from the minimum requirements. The request for a waiver includes the reason(s) for the request and suggested alternatives to the minimum requirements. The waiver is to be submitted and approved by the PRB each year.

Also, at least two engagement oversights must be performed by the AE's peer review committee or by its designee from a national list of qualified reviewers, on an annual basis.

An *engagement oversight* (performed either off-site or on-site) is the review of all peer reviewer materials and the reviewed firm's financial statements and working papers on the engagement. The two engagement oversights must include audits of employee benefits plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), engagements performed under generally accepted government auditing standards (GAGAS), audits of insured depository institutions subject to the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of carrying broker-dealers, or examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]. Also, the two oversights selected should not be of the same types of audits. No waivers of oversight of these types of engagements are permitted.

Results

For 2013, the AEs conducted oversight on 339 reviews, representing approximately 4.0 percent of all reviews performed in a twelve-month period of time. There were 188 system and 151 engagement reviews oversighted. Approximately 46 percent of the system oversights were conducted on-site. In addition, 74 ERISA, 78 GAGAS and 2 FDICIA engagements were oversighted. See exhibit 15 for a summary of oversights by AE.

Annual Verification of Reviewers' Resumes

Description

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in accounting or auditing functions. The firm that the member is associated with should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every 3 years, with a minimum of 8 hours in any 1 year.

A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The AE has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review. The AE must verify information within a sample of reviewers' resumes on an annual basis. All reviewer resumes should be verified over a 3-year period, as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. Verification must include the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans subject to ERISA, audits of insured depository institutions subject to FDICIA, audits of carrying broker-dealers, or examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements. Verification procedures may include requesting copies of their license to practice as a CPA; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates to document the required 48 CPE credits related to accounting and auditing to be obtained every 3 years with at least 8 hours in 1 year; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The AE should also verify whether the reviewer is a partner or manager in a firm enrolled in a practice-monitoring program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2013. See exhibit 16.

Feedback and Enhancements

Feedback from the Administering Entities

In order to maintain effective oversight procedures, the PRB obtains information from the AEs about matters to address, in order to provide consultation and additional guidance as needed on a national basis. The following are areas in which feedback has been received during 2011 through 2013 and subsequently addressed.

Guidance, manuals and checklists. Requests for additional guidance, as a result of issues noted during desk reviews and AE oversights, related to implementation plans have been received.

Enhanced guidance related to completion of Finding for Further Consideration (FFC) forms and appropriate implementation plans (IPs) was issued in 2011. This was communicated by issuance of a Peer Review Alert. The Peer Review Manual includes the enhanced guidance for firms and reviewers in the *Report Acceptance Body Handbook*. The manual was made available on the AICPA website.

In addition, an administrative alert was issued and the changes were addressed during an AE training call. The Administrative Manual also includes the enhanced guidance for AEs. The manual was made available on the AICPA state administrator's website.

Training for administrators. Requests have been received for additional training for administrators outside of the annual peer review conference.

Web and audio conferences have been held on various training issues for administrators. Biweekly calls are also held to address issues.

Firm Membership Changes. Concerns have been expressed over the length of time it is taking to process firm changes, including addresses, phone numbers or e-mails, enrollments, terminations, mergers or dissolutions.

AICPA PRP staff continually reviews this process and works with other teams involved in this process. Revisions made during the year included focusing on technology issues, processes and communications. The AICPA implemented a tracking system that allows the AEs access to additional information regarding the status of its changes. In addition, AICPA is exploring technology that will allow firms to enter the information directly into the peer review system.

Frequency of issuance of new guidance. Concerns have been expressed over the frequency with which updates to peer review program guidance have been made.

The Peer Review Board Standards Task Force (STF) has established a framework to help balance the needs of reviewers and AEs to receive information and tools that may help them, as soon as possible, while ordinarily allowing for a transitional period to implement these items. However, on occasion there are circumstances in which delaying the effective date is not practical. Additionally, AICPA PRP staff has enhanced the peer review website to create a single place that provides information on changes since the previous manual update.

Reviewer Education. Concerns have been expressed over changes to the frequency and format of required reviewer training that is offered.

The Peer Review Board Education and Communication Task Force (ECTF) has approved changes to ensure that experienced peer reviewers are obtaining ongoing education which builds upon their existing skills and knowledge. Accordingly, a rewritten “Advanced Course”, which will contain extensive material on new and challenging areas of peer review guidance, will be introduced. Additionally, the AICPA will offer a *minimum* of two two-hour webinars annually, starting in 2013, with rebroadcasts where demand warrants thereby increasing scheduling opportunities for reviewers who wish to participate.

Exhibit 1

State CPA Societies and State Boards of Accountancy That Have Made Participation in an Approved Practice-Monitoring Program a Condition of Membership or Licensure As of August 2014

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Alabama	No	Yes
Alaska	No	Yes
Arizona	No	Yes
Arkansas	No	Yes
California	No	Yes
Colorado	Yes	Yes in 2014
Connecticut	Yes	Yes
Delaware	Yes	No
District of Columbia	No	Yes
Florida	No	Yes in 2015
Georgia	Yes	Yes
Guam	No	Yes
Hawaii	No	Yes in 2015
Idaho	No	Yes
Illinois	No	Yes
Indiana	No	Yes
Iowa	No	Yes
Kansas	Yes	Yes
Kentucky	No	Yes
Louisiana	Yes	Yes
Maine	Yes	Yes
Maryland	No	Yes
Massachusetts	No	Yes
Michigan	No	Yes
Minnesota	Yes	Yes
Mississippi	Yes	Yes
Missouri	No	Yes
Montana	No	Yes
Nebraska	No	Yes
Nevada	No	Yes
New Hampshire	No	Yes
New Jersey	No	Yes
New Mexico	No	Yes
New York	No	Yes
North Carolina	Yes	Yes
North Dakota	No	Yes
Northern Mariana Islands (MP)	N/A	Statutorily passed with no effective date
Ohio	Yes	Yes
Oklahoma	No	Yes
Oregon	No	Yes

Exhibit 1

State CPA Societies and State Boards of Accountancy That Have Made Participation in an Approved Practice-Monitoring Program a Condition of Membership or Licensure As of August 2014

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Pennsylvania	No	Yes
Puerto Rico	No	No
Rhode Island	No	Yes
South Carolina	Yes	Yes
South Dakota	No	Yes
Tennessee	No	Yes
Texas	Yes	Yes
Utah	No	Yes
Vermont	No	Yes
Virginia	Yes	Yes
Virgin Islands	No	Yes in 2015
Washington	No	Yes
West Virginia	No	Yes
Wisconsin	Yes	Yes
Wyoming	No	Yes

Exhibit 2

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

	Enrolled Firms by Number of Professionals in Practice							
Licensing Jurisdiction	**Sole**	**2 to 5**	**6 to 10**	**11 to 19**	**20 to 49**	**50 to 99**	**100+**	**Total**
AK	19	40	10	6	4	0	0	79
AL	135	205	79	28	21	8	2	478
AR	39	87	58	12	7	1	0	204
AZ	134	189	76	26	9	2	0	436
CA	903	1,262	483	223	105	28	17	3,021
CO	159	292	95	26	16	4	2	594
CT	158	197	73	32	12	2	1	475
DC	11	14	6	4	4	1	0	40
DE	11	16	17	8	8	0	0	60
FL	266	633	221	102	45	10	3	1,280
GA	254	449	149	46	25	9	6	938
GU	4	1	1	0	1	1	0	8
HI	34	73	29	16	5	2	0	159
IA	54	105	53	19	18	3	0	252
ID	31	84	39	9	5	1	0	169
IL	260	395	127	57	42	11	11	903
IN	87	201	92	34	16	5	2	437
KS	46	123	54	31	14	2	4	274
KY	92	142	82	24	16	4	2	362
LA	168	268	79	38	15	6	3	577
MA	250	384	133	44	36	7	1	855
MD	126	224	100	40	45	6	5	546
ME	29	38	20	11	6	1	2	107
MI	199	414	135	78	27	6	4	863
MN	111	188	76	35	20	7	3	440
MO	83	205	78	31	27	3	3	430
MS	85	133	43	17	9	2	2	291
MT	25	46	22	8	5	1	2	109
NC	258	422	161	60	23	2	2	928
ND	23	34	9	0	1	1	2	70
NE	20	65	38	13	12	2	1	151
NH	47	72	21	5	6	2	0	153
NJ	333	512	161	65	35	7	5	1,118
NM	66	109	33	14	2	1	2	227
NV	68	93	40	17	5	2	0	225
NY	273	562	278	139	71	31	23	1,377
OH	227	442	166	86	37	9	9	976

Exhibit 2, continued

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice							
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	Total
OK	88	162	69	21	10	2	0	352
OR	113	188	80	31	11	5	1	429
PA	255	462	194	86	46	19	4	1,066
PR	43	69	19	12	11	1	1	156
RI	45	69	26	6	6	2	0	154
SC	125	196	56	22	13	0	2	414
SD	12	29	16	9	2	1	0	69
TN	179	274	95	31	21	7	6	613
TX	802	1,033	369	173	65	21	8	2,471
UT	56	113	37	18	12	3	0	239
VA	206	286	108	43	25	3	6	677
VI	5	1	1	0	0	0	0	7
VT	21	34	11	11	2	0	0	79
WA	117	215	103	44	17	3	2	501
WI	56	124	63	23	19	7	4	296
WV	39	79	30	13	4	0	2	167
WY	16	41	18	7	3	1	0	86
Total	**7,266**	**12,094**	**4,632**	**1,954**	**1,022**	**265**	**155**	**27,388**

Exhibit 3

Administering Entities Approved to Administer the 2014 AICPA PRP

Administering Entity	**Licensing Jurisdiction**
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois
Indiana CPA Society	Indiana
Iowa Society of CPAs	Iowa
Kansas Society of CPAs	Kansas
Kentucky Society of CPAs	Kentucky
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota
Mississippi Society of CPAs	Mississippi
Missouri Society of CPAs	Missouri
Montana Society of CPAs	Montana
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Wyoming, Nebraska, Utah
New England Peer Review, Inc.	Maine, New Hampshire, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New Mexico Society of CPAs	New Mexico
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
South Carolina Association of CPAs	South Carolina
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington
West Virginia Society of CPAs	West Virginia
Wisconsin Institute of CPAs	Wisconsin

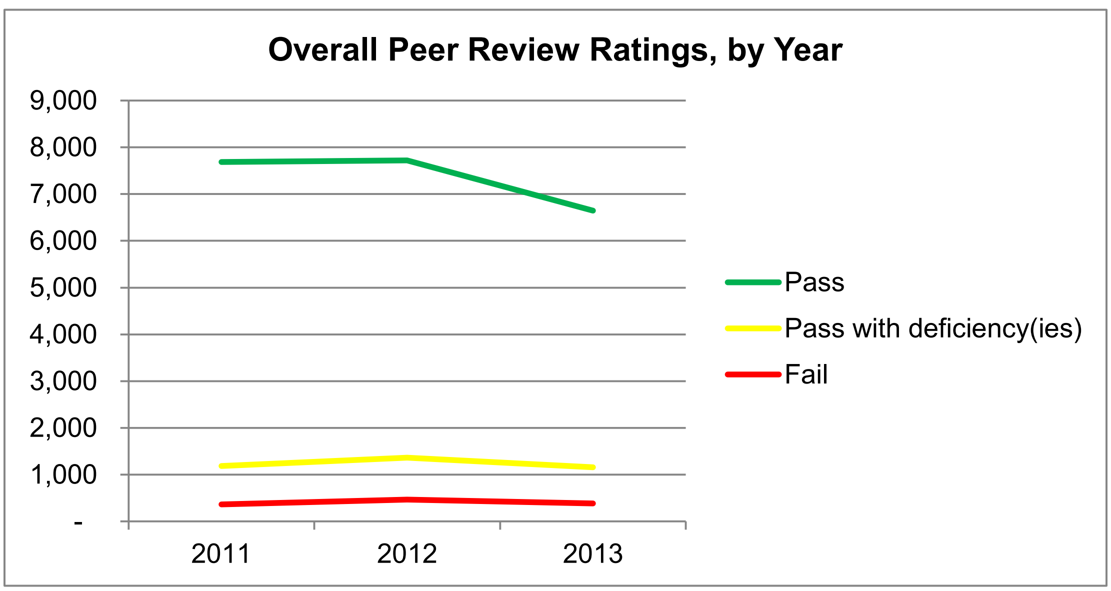
Exhibit 4

Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2011–2013 by type of peer review and report issued.

	2011		2012		2013		Total	
System reviews	#	%	#	%	#	%	#	%
Pass	3,730	88	3,969	88	2,996	85	10,695	87
Pass with deficiency(ies)	376	9	420	9	413	12	1,209	10
Fail	113	3	125	3	123	3	361	3
Subtotal	4,219	100	4,514	100	3,532	100	12,265	100

	2011		2012		2013		Total	
Engagement reviews	#	%	#	%	#	%	#	%
Pass	3,954	79	3,752	74	3,653	78	11,359	77
Pass with deficiency(ies)	808	16	943	19	743	16	2,494	17
Fail	249	5	342	7	263	6	854	6
Subtotal	5,011	100	5,037	100	4,659	100	14,707	100



Note: The above data reflects peer review results as of August 13, 2014. Approximately 3% of 2013 reviews are in process and their results are not included in the preceding totals.

Exhibit 5

Examples of Matters Noted in Peer Reviews

The following is a list of items noted as matters in engagements with year-ends between April 30, 2013 and June 30, 2014. This list contains examples of noncompliance (both material and immaterial) with professional standards. Although this list is not all-inclusive and is not representative of all peer reviews, it does note some examples of matters that were identified during the peer review process. The most recent examples of matters noted in peer review can be found on the AICPA's website.

Professional Standards

Clarified Auditing Standards

- The auditor's report was dated significantly earlier than the date of the review of the workpapers and the release date.
- Failure to appropriately document planning procedures, including risk assessment (and linkage of risks to procedures performed), planning analytics, and internal control testing
- Representation letters that were dated incorrectly, did not cover the appropriate periods or were missing required representations.
- Failure to communicate and/or document required communications with those charged with governance.
- The audit documentation did not contain sufficient competent evidence to support the firm's opinion on the financial statements.

Accounting and Review Services

Compilations

- Reports were not prepared in accordance with professional standards. The following matters were noted:
    - Not updated for SSARS 19
    - No headings on the report
    - Inappropriate titles
    - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information.
    - Failure to mention that substantially all disclosures are omitted
- Failure to obtain an engagement letter or revise the letter for SSARS 19.
    - Other miscellaneous matters were noted relative to the engagement letter including failure to note the lack of independence or the letter referred to GAAP on an OCBOA engagement.

Reviews

- Representation letters that were dated incorrectly or did not cover the appropriate periods.
- Reports were not updated for SSARS 19 or had inappropriate titles
- Failure to obtain an engagement letter or revise the letter for SSARS 19

Attestation Standards

(Note: Most MFCs in this area are related to AUPs or SOCs. SOC related MFCs are included in the practice area section below.)

- Various matters were identified related to AUP reports, most frequently failure to include the word "independent" in the report title.
- Other report matters included failure to include:
    - A title
    - Reference of the AICPA attestation standards

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

- A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
- Identification of the subject matter or the engagement or written assertion or the character of the engagement.

- Failure to include all elements required by attestation standards in the engagement letter.

Code of Professional Conduct

- Failure to establish and document in writing their understanding with the client with regard to non-attest services provided.

Statements on Quality Control

- Monitoring
  - QC document did not include monitoring procedures
  - Monitoring procedures did not include review of all elements of quality control
  - Results of monitoring and inspections were not documented
- Engagement Performance
  - Criteria for Engagement Quality Control Review not established
  - EQCR not performed on engagements that meet the firm's criteria
- Human Resources
  - Policies not sufficient to ensure partners and staff obtain appropriate CPE
  - Policies not set to require relevant CPE for levels of service and industries of engagements performed
- Leadership Responsibilities for Quality Within the Firm
  - Failure to have a written quality control document in accordance with SQCS 8

FASB Accounting Standards Codification

- No disclosure of tax years that remain subject to examination by major tax jurisdictions and disclosure of uncertain tax positions
- No disclosure of the date through which subsequent events were evaluated
- Incorrect classifications, net amounts instead of gross and non-cash transactions on the cash flow statement
- Long-term debt was not segregated into current and long-term portions.
- Missing or insufficient sinking funds disclosure, term, interest rate, maturity, covenants and collateral, if any, for a note payable.
- Missing or insufficient fair value disclosures related to fair value hierarchy of investments, description of the levels, descriptions of the methods used and tabular presentation of amounts. Also included insufficient procedures and documentation regarding the procedures to obtain assurance of the fair value measurements.

Practice Areas

Issues noted above related to professional standards and FASB Accounting Standards Codification were prevalent in each of these practice areas. Matters included in this section are those trends identified for each specific practice area.

Governmental, A-133, and HUD

Reporting

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

- Failure to include all of the required elements of professional standards in the Independent Auditor's Report including the following omissions: reference to the engagement being performed in accordance with *Government Auditing Standards*, identification of the governmental entity's major funds and opinion units presented, and addressing supplemental information and required supplemental information, reference to prior year financial statements when comparative years are presented, reference to the Yellow Book Internal Control report.
- Failure to include all of the required elements of professional standards in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters including: omitted "Independent" from report title, omitted reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs, indication that there were no significant deficiencies identified, omitted a clause stating that the entity's responses were not audited and that the auditor expresses no opinion on those responses, and omitted purpose alert.

Disclosure and Presentation

- Failure to present the financial statements in accordance with professional standards including Equity and Net Asset presentation and reconciliations, presentation of funds, missing significant policy footnotes, and financial statement titles.

Documentation and Performance

- Failure to properly document independence considerations required by Yellow Book including the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor, evaluation of threats, and safeguards applied to reduce threats to an acceptable level.
- Failure to meet the Yellow Book CPE requirements including 80 hours of A&A and 24 hours of Yellow Book specific courses.
- Failure to document audit planning and procedures including consideration of IT systems, testing of significant accounts and transactions, fraud procedures, internal controls, and linkage of risk assessment to procedures performed.
- Failure to document required communications with those charged with governance.
- Failure to ensure that the written representations from the audited entity contained all applicable elements including the following: representations tailored to the entity and governmental audit regarding federal awards, and representations covering both years when comparative financial statements are presented.
- SINGLE AUDIT: Failure to identify and test sufficient and appropriate major programs. These errors were the result of using preliminary expenditures when the final expenditures resulted in a high risk Type A program, failure to cluster, and failure to group programs with the same CFDA number.
- SINGLE AUDIT: Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each compliance requirement and major program.
- SINGLE AUDIT: Failure to document the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk.
- SINGLE AUDIT: Failure to document the testing of controls and compliance for the relevant assertions related to each compliance requirement with a direct and material effect for the major program.

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

ERISA

- Missing or insufficient documentation of allocation of investment income to participant accounts.
- Insufficient participant testing related to demographic data and payroll.
- Insufficient procedures and documentation for reliance on SOC 1 reports.
- Supplemental schedules required by ERISA and DOL regulations are not presented in the prescribed format.

Broker-Dealers

- Failure to comply with SEC Independence Rules, including not preparing financial statements for clients
- Audit reports inappropriately referenced use of the PCAOB standards to perform the audits (when SAS were followed)
- Audit reports on internal controls were not appropriate, including using the non-carrying format for a carrying firm, outdated definitions of internal control and restrictions of the report to management and regulations
- Failure to use a broker-dealer specific financial statement checklist thus missing required disclosures

Service Organization Control (SOC) Reports

SOC 1

- The service auditor lacked the experience and training required under SSAE 16 to properly complete a Service Organization Control Report.
- The client acceptance, the description of controls and the audit documentation omitted reference to the need for complimentary user controls if any exist, the risks that threaten the achievement of the control objectives and the linkage between the controls included in the control description, and the proper identification of subservice organizations and related services and ultimate use of the carve out method.
- The information included in the report did not have sufficient support in the workpapers, such as
    - No documentation to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
    - Control testing did not address the elements of the control, all IT general controls and change management controls
    - No documentation of procedures to support the Other Information included in the report
- Incorrect references included or incorrect language used in the report including user controls, carve outs, and other information.

SOC 2

- The report issued included non-standard wording regarding complementary user entity controls

Banking, including FDICIA

- Failure to include all elements required by professional standards in the accountant's report on internal controls

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

- Failure to understand and comply with the independence rules applicable to these engagements, i.e. SEC independence rules do not allow the auditor to also prepare the client's financial statements
- Failure to properly disclose:
    - valuation allowances and related segmentation information of the loan portfolio
    - consolidated capital ratios and requirements
    - that the entity was subject to expanded regulatory supervision and why
    - OREO's and goodwill in the fair value footnote as a non-recurring measurement item
- Insufficient audit testing of real estate lending including inadequate quantitative information such as aging, past due status, or historical charge-offs. Similarly, insufficient audit testing of foreclosed property data, including inadequate testing of current year additions, analysis of fair value/carrying value.
- Insufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias.
- Management representation letter did not contain representations specific to financial institutions.

Not for profit

- Open tax years were not disclosed because the firm believed the disclosure was not required for tax-exempt entities
- Net assets not properly classified as unrestricted, temporarily restricted and permanently restricted
- Inadequate disclosure of the nature, amounts and types of net asset restrictions
- Policies regarding donated goods and services not disclosed
- Auditors' report did not refer to the Statement of Functional Expenses
- Improper expense classifications on the Statement of Functional Expenses

Exhibit 6

Type and Number of Reasons for Report Modifications

The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews performed in the AICPA PRP from 2011–13 summarized by elements of quality control as defined by the SQCS No. 8, *A Firm’s System of Quality Control* (no change in elements from SQCS No. 7, which was superseded by SQCS No. 8 as of January 1, 2012). A system review includes determining whether the firm’s system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 8, in all material respects. SQCS No. 8 states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm (“the tone at the top”); relevant ethical requirements; acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. Because 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 exhibit 4, “*Results by Type of Peer Review and Report Issued*.”

	2011	**2012**	**2013**
Leadership responsibilities for quality within the firm ("the tone at the top")	56	60	44
Relevant ethical requirements	17	12	10
Acceptance and continuance of client relationships and specific engagements	35	41	44
Human resources	98	93	85
Engagement performance	405	462	418
Monitoring	211	231	189
Totals	**822**	**899**	**790**

Exhibit 7

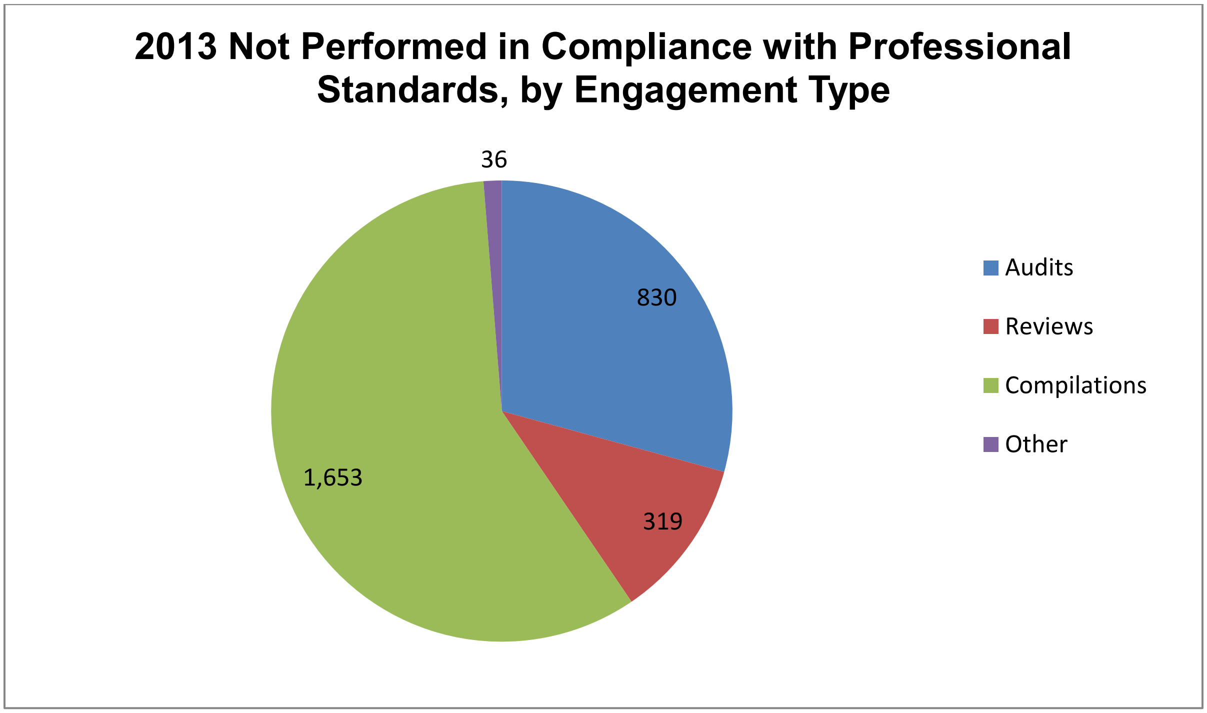
Number of Engagements Not Performed in Accordance With Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as not performed in accordance with professional standards in all material respects from peer reviews performed in the AICPA PRP from 2011–13. The standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards in all material respects when issues, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents the omission of a critical accounting, auditing or attestation procedure required by professional standards.

	2011			2012			2013		
	Number of Engagements			Number of Engagements			Number of Engagements		
Engagement Type	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 Act (A-133)	1,704	196	12%	1,780	209	12%	1,393	168	12%
Governmental - All Other	1,407	96	7%	1,519	112	7%	1,295	120	9%
ERISA	2,152	112	5%	2,569	141	5%	1,974	174	9%
FDICIA	24	-	0%	10	-	0%	31	3	10%
Carrying Broker-Dealers	6	-	0%	7	-	0%	6	-	0%
Other	4,816	239	6%	5,040	254	5%	4,067	365	9%
Reviews	5,630	350	6%	6,051	471	8%	5,038	319	6%
Compilations:									
With Disclosures	3,785	240	6%	3,979	337	8%	3,317	255	8%
Omit Disclosures	11,404	1,210	11%	12,266	1,706	14%	10,598	1,398	13%
Forecasts & Projections	129	6	5%	148	8	5%	88	10	11%
SOC Reports	38	-	0%	60	1	2%	62	1	2%
Agreed Upon Procedures	1,028	26	3%	1,036	17	2%	941	21	2%
Other SSAEs	164	7	4%	225	6	3%	147	4	3%
Totals	**32287**	**2,482**	**8%**	**34,690**	**3,262**	**9%**	**28,957**	**2,838**	**10%**

Exhibit 7, continued

Number of Engagements Not Performed in Accordance With Professional Standards in All Material Respects



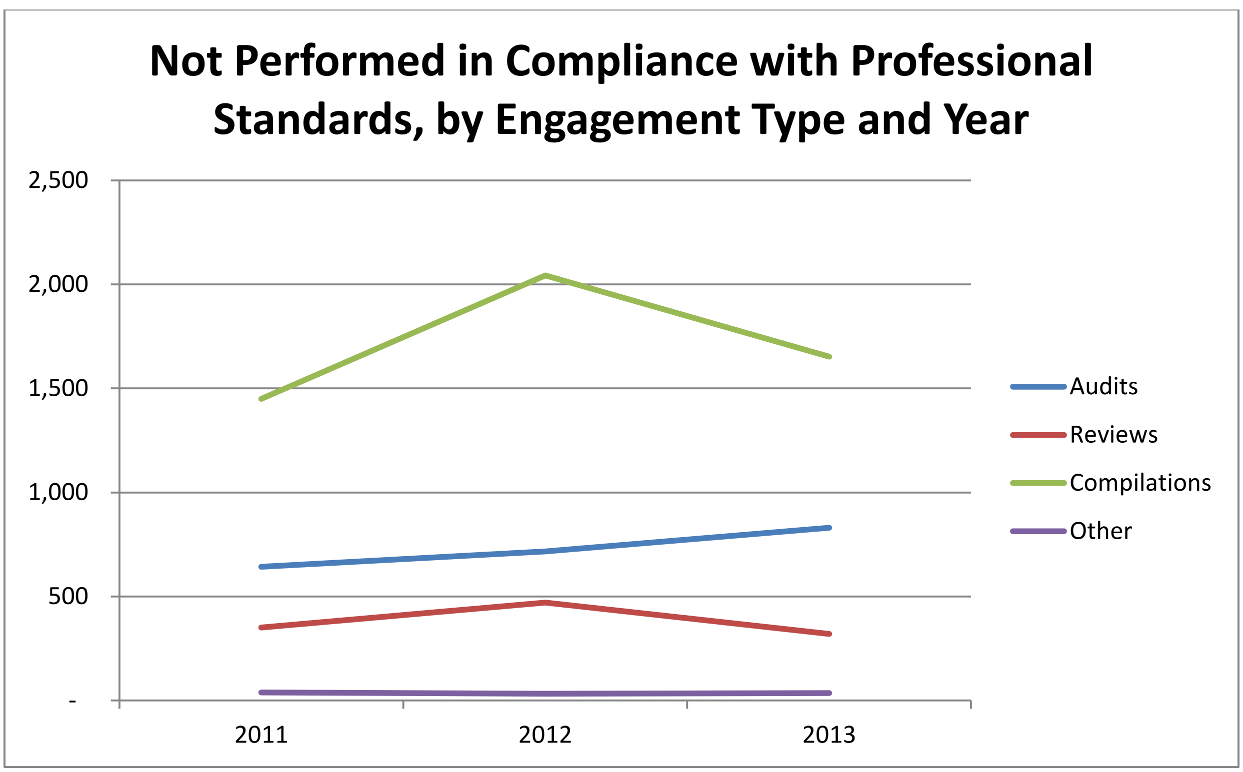


Exhibit 8

Summary of Required Corrective Actions

The AEs' peer review committees are 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. During the report acceptance process, the AE peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple corrective actions. For 2011–13 reviews, committees required 6,251corrective actions. The following represents the type of corrective actions required.

Type of Corrective Action	**2011**	**2012**	**2013**
Agree to take/submit proof of certain Continuing Professional Education (CPE)	1,064	1,361	1,056
Submit to review of correction of engagements that were not performed in accordance with professional standards	367	471	378
Agree to preissuance reviews	172	179	193
Submit monitoring report to Team Captain or Peer Review Committee	69	81	70
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	43	45	34
Submit to revisit (Team Captain or Peer Review Committee Member)	81	86	84
Agree to have accelerated review	26	23	9
Submit evidence of proper firm licensure	9	9	13
Firm has stated they do not perform any auditing engagements	17	25	19
Agree to hire consultant for inspection	12	10	9
Review of formal CPE plan	5	5	7
Team captain to review Quality Control Document	15	19	13
Submit inspection completion letter	5	2	2
Submit proof of purchase of manuals	21	32	28
Outside party to visit during inspection	1	1	-
Submit report on consultant	4	11	2
Oversight of Inspection - - Review	6	7	13
Submit quarterly progress reports	2	5	1
Oversight of Inspection – Visitation	8	13	8
Total	**1,927**	**2,385**	**1,939**

Exhibit 9

Administering Entities That Have Entered Into a Peer Review Oversight Relationship with a State Board of Accountancy

The following shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice monitoring program mandatory for licensure as indicated in exhibit 1, State CPA Societies and State Boards of Accountancy That Have Made Participation in an Approved Practice Monitoring Program a Condition of Membership or Licensure.

Administering Entity	State Board of Accountancy	Oversight Relationship Between AE and State Board
Alabama Society of CPAs	Alabama	No
California Society of CPAs	Alaska	No
California Society of CPAs	Arizona	Yes
Arkansas Society of CPAs	Arkansas	No
California Society of CPAs	California	Yes
Colorado Society of CPAs	Colorado	Yes
Connecticut Society of CPAs	Connecticut	No
Georgia Society of CPAs	Georgia	No
Oregon Society of CPAs	Guam	No
Idaho Society of CPAs	Idaho	Yes
Illinois Society of CPAs	Illinois	No
Indiana CPA Society	Indiana	Yes
Iowa Society of CPAs	Iowa	No
Kansas Society of CPAs	Kansas	Yes
Kentucky Society of CPAs	Kentucky	No
Society of Louisiana CPAs	Louisiana	Yes
New England Peer Review, Inc.	Maine	No
Maryland Association of CPAs	Maryland	Yes
Massachusetts Society of CPAs	Massachusetts	No
Michigan Association of CPAs	Michigan	No
Minnesota Society of CPAs	Minnesota	Yes
Mississippi Society of CPAs	Mississippi	Yes
Missouri Society of CPAs	Missouri	Yes

Exhibit 9, continued

Administering Entities That Have Entered Into a Peer Review Oversight Relationship with a State Board of Accountancy

Administering Entity	State Board of Accountancy	Oversight Relationship Between AE and State Board
Montana Society of CPAs	Montana	Yes
Nevada Society of CPAs	Nebraska	No
Nevada Society of CPAs	Nevada	Yes
New England Peer Review, Inc.	New Hampshire	No
New Jersey Society of CPAs	New Jersey	Yes
New Mexico Society of CPAs	New Mexico	No
New York State Society of CPAs	New York	Yes
North Carolina Association of CPAs	North Carolina	No
North Dakota Society of CPAs	North Dakota	No
The Ohio Society of CPAs	Ohio	Yes
Oklahoma Society of CPAs	Oklahoma	Yes
Oregon Society of CPAs	Oregon	Yes
Pennsylvania Institute of CPAs	Pennsylvania	No
New England Peer Review, Inc.	Rhode Island	No
South Carolina Association of CPAs	South Carolina	Yes
Oklahoma Society of CPAs	South Dakota	No
Tennessee Society of CPAs	Tennessee	Yes
Texas Society of CPAs	Texas	Yes
Nevada Society of CPAs	Utah	No
New England Peer Review, Inc.	Vermont	No
Virginia Society of CPAs	Virginia	Yes
Washington Society of CPAs	Washington	Yes
West Virginia Society of CPAs	West Virginia	No
Wisconsin Institute of CPAs	Wisconsin	No
Nevada Society of CPAs	Wyoming	No

Exhibit 10

Number and Type of Working Paper Oversights Performed by AICPA Staff

The following shows the number and type of working paper oversights performed by AICPA Peer Review Program staff for 2013.

AE	Engagement	System	Total
Alabama Society of CPAs	3	2	5
Arkansas Society of CPAS	3	3	6
California Society of CPAs	10	7	17
Colegio de Contadores Pulicos Autorizados de Puerto Rico	0	3	3
Colorado Society of CPAs	3	1	4
Connecticut Society of CPAs	2	1	3
Florida Institute of CPAs	6	3	9
Georgia Society of CPAs	4	3	7
Hawaii Society of CPAs	2	2	4
Idaho Society of CPAs	2	1	3
Illinois CPA Society	3	5	8
Indiana CPA Society	2	1	3
Iowa Society of CPAs	1	1	2
Kansas Society of CPAs	0	2	2
Kentucky Society of CPAs	1	2	3
Maryland Association of CPAs	2	1	3
Massachusetts Society of CPAs	2	2	4
Michigan Association of CPAs	4	2	6
Minnesota Society of CPAs	4	3	7
Mississippi Society of CPAs	1	2	3
Missouri Society of CPAs	2	1	3
Montana Society of CPAs	2	0	2
Nevada Society of CPAs	1	2	3
New England Peer Review	2	2	4
New Jersey Society of CPAs	5	1	6
New Mexico Society of CPAs	3	3	6
New York State Society of CPAs	2	7	9
North Carolina Association of CPAs	4	1	5
North Dakota Society of CPAs	4	1	5
Ohio Society of CPAs	5	3	8
Oklahoma Society of CPAs	2	1	3
Oregon Society of CPAs	2	1	3
Pennsylvania Institute of CPAs	2	3	5
Society of Louisiana CPAs	2	1	3
South Carolina Association of CPAs	2	1	3
Tennessee Society of CPAs	1	2	3
Texas Society of CPAs	9	4	13
Virginia Society of CPAs	2	3	5
Washington Society of CPAs	3	0	3
West Virginia Society of CPAs	1	2	3
Wisconsin Institute of CPAs	2	2	4
Total	113	88	201

Exhibit 11

Comments from Working Paper Oversights Performed by AICPA Peer Review Program Staff

Throughout each year, a sample of reviews is selected (by AICPA PRP staff and approved by the OTF from the AEs for submission to the AICPA PRP staff for a full working paper review. Documents from all parts of the peer review process (administrative, peer review information system management (PRISM) computer system, peer review checklists, technical reviewer checklist and peer review committee actions) are reviewed to determine whether the reviews are being performed and reported on in accordance with the standards. The following is a summary of the most prevalent comments that were generated as a result of the working paper oversights performed by the AICPA PRP staff during the year 2013. The comments are intended to provide the AEs, their committees, report acceptance bodies, peer reviewers and technical reviewers with information and constructive recommendations that will help ensure consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all of the respective parties. Ordinarily, AEs do not receive all of the peer review checklists that are obtained as part of the working paper reviews and therefore, would not be able to identify some of these comments.

Engagement Quality Control Review

- The firm failed to establish or established inappropriate, vague or insufficient criteria for the purposes of establishing a threshold for EQCR and it was not appropriately highlighted in the peer review documentation.

Monitoring

- The firm failed to appropriately respond to questions pertaining to performance of post-issuance review, review of compliance with firm quality control policies and procedures (QCPP) and/or documentation of firm monitoring procedures. Based upon the peer review documentation, it is unclear how these responses or lack of responses were addressed by the reviewer.

Reviewer Feedback

- Feedback was not issued to the peer reviewer when it would have been appropriate. Some examples include scope matters, incomplete matters for further consideration (MFC) forms (for example, not referencing professional standards) and late submission of the report to the reviewed firm.
- Reviewer feedback forms were not used appropriately or were not signed by a member of the peer review committee.

Engagement Checklists

- Peer reviewer checklists and documents were not submitted or were incomplete. Failure to complete and/or submit all relevant programs and checklists may create a presumption that the review has not been performed in conformity with the standards governing the program.
- There were multiple “no” responses on the engagement checklists which did not have a documented resolution. They were not mentioned in the exit conference summary contained in the Summary Review Memorandum and there was no MFC prepared.
- There were sections on the engagement checklists which were not completed in their entirety. Some examples included: the general data, audit engagement risk assessment, the identification of significant audit areas.

Exhibit 11, continued

**Comments from Working Paper Oversights
Performed by AICPA Peer Review Program Staff**

Engagements not in conformity with applicable professional standards in all material respects

- There were inconsistencies within the peer review documentation regarding evaluation of whether engagement(s) were performed and/or reported on in conformity with applicable professional standards in all material respects.
- Non-conforming engagements were not properly identified by the reviewer.

Engagement Selection

- A selection was not made from all levels of service provided by the firm, and the reviewer did not provide an explanation as to why this was appropriate.
- There were engagements reviewed which were outside of the scope of the peer review year, and no explanation was provided as to why this was appropriate.

Independence

- The information provided by the firm was incomplete in regards to the prior year's fees and also in regards to providing nonattest services, which are needed to appropriately determine the firm's independence on the engagement.

Risk Assessment

- The risk assessment included in the SRM failed to comprehensively address the inherent and control risks and discuss the firm's system of quality control.
- The risk assessment did not address why a particular type of ERISA engagement was selected when the firm performed multiple types of ERISA engagements.
- The representation letter was modified to indicate that the firm communicated investigations and/or allegations to the peer reviewer, but, the risk assessment did not include any consideration of allegations or investigations.

Firm Representation Letter

- The peer review representation letter did not include all required representations.

Matters for Further Consideration (MFCs) and Findings for Further Consideration (FFCs

- MFCs should have been prepared, but were not. For example, if the engagement checklists address several "no" answers relating to disclosure and documentation, they should be carried forward to an MFC.
- MFCs did not reflect the respective professional standards in order to lend support for the matter being addressed as a deficiency and did not include the engagement, checklist page, or question where the comment was derived.
- MFCs did not include the correct industry type.
- The FFC form was not written systemically. Paragraphs .83-.85 of the standards contain guidelines on identifying the underlying cause of a finding. The team captain should identify the underlying systemic cause of all findings.
- The reviewed firm's response on the FFC form was not complete and did not indicate the persons responsible for implementation or the timing of implementation.

Report Release Date

- Significant difference between the report date and the report release date on audit engagements.

Exhibit 11, continued

**Comments from Working Paper Oversights
Performed by AICPA Peer Review Program Staff**

Summary Review Memorandum (SRMs)

- The reviewer did not adequately document in the SRM their consideration of issuing another type of report.
- Items included in the exit conference section of the SRM appear to have been material enough to warrant an MFC in order for the reviewer and the firm to evaluate the matters in the aggregate.
- Questions regarding comparing issues noted during the review with issues noted in the internal monitoring were answered "n/a" when they should have been properly considered.
- The reviewer did not adequately assess the firm's quality control materials. For example, the firm used materials that were not subject to AICPA quality control material (QCM) review and the reviewer indicated that the materials received a QCM review.

Surprise Engagement

- The surprise selection was not the firm's highest level of service and the team captain's conclusion for the selection was not documented in the SRM.
- A firm's only engagement subject to *Government Auditing Standards* was selected as the surprise engagement.

Engagement Statistics in the PRISM System

- Engagement statistics were not recorded into PRISM or were recorded incorrectly (that is, types of engagements reviewed and if an engagement was not in compliance with applicable professional standards).

Review Acceptance

- The review was not presented to the peer review committee within 120 days of receipt of the report and letter of response, if applicable, from the reviewed firm.

Overdue Reviews

- The peer review was completed and/or submitted to the AE late and there was no extension granted or no overdue letters generated.

Client financial statements

- Client financial statements provided to the reviewer for the peer review were forwarded for oversight though required to be returned or destroyed.

Background Information

- The background information entered in PRISM did not agree with the information included on the background form.

Team member approval

- A team member was included on the SRM that was not approved by the AE.

Corrective actions and/or implementation plans

- Failure to utilize or improper use of implementation plans and/or corrective actions.

Exhibit 12

On-Site Oversights of Administering Entities
Performed by AICPA Oversight Task Force

During 2012–2013, a member of the OTF performed an on-site oversight visit to each of the following 41 AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year. The oversight results can be found on the AICPA's website.

2012	2013
Alabama	Connecticut
Arkansas	Georgia
California	Hawaii
Colorado	Idaho
Florida	Illinois
Kansas	Indiana
Michigan	Iowa
Mississippi	Kentucky
Missouri	Louisiana
Montana	Maryland
Nevada	Massachusetts
New England	Minnesota
New Jersey	North Carolina
New Mexico	Oklahoma
New York	South Carolina
North Dakota	Texas
Ohio	Virginia
Oregon	Washington
Pennsylvania	
Puerto Rico	
Tennessee	
West Virginia	
Wisconsin	

Exhibit 13

Observations from On-Site Oversights of Administering Entities Performed by the AICPA Oversight Task Force

As discussed in more detail in the *Oversight Visits of the AEs* section, each AE is visited at least every other year by an OTF member who performs various oversight procedures. At the conclusion of the visit, the OTF member issues an AICPA oversight visit report as well as an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed, observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter, or at a minimum, when there are no findings reported, an acknowledgement of the visit. The two oversight documents and the AE's response are presented by the AICPA OTF Peer Review Board (PRB) members at the next AICPA PRB meeting for acceptance. A copy of the acceptance letter, the two oversight visit letters and the response are posted to the following AICPA PRP web page:
(http://www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx).

The following represents a summary of common observations made by the OTF resulting from the on-site oversight visits performed during 2011–2013. The observations listed below are not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- The appropriate letters for overdue information and documents, reviewer performance, and other reminders were not generated according to the time requirements in the administrative manual.
- Confidentiality Agreements were not obtained annually for committee members/technical reviewers.
- Inadequate monitoring of open corrective actions, implementation plans, and reviews by staff and committee members.
- Technical reviewer should monitor experience and training requirements for their role.
- Annual confirmations not obtained for firms that have represented they no longer perform accounting and auditing engagements.
- Annual plan of administration not timely submitted.
- Extensions were not granted in accordance with the guidelines.
- Back-up plan was not documented.

Reviewer Resume Verification

- Procedures not performed timely.
- Procedures performed on reviewer resume information obtained did not include all those required by the standards and related guidance.
- Reviewer resumes population was not monitored to ensure that every active reviewer's resume were verified every three years.
- Peer reviewers were not notified of education shortfalls discovered during resume verification and their inability to perform peer reviews due to the shortfall.

Web site and Other Media Information

- The data maintained on the website as it relates to peer review was not current.
- The annual report was not included on the website.

Exhibit 13

Observations from On-Site Oversights of Administering Entities Performed by the AICPA Oversight Task Force

Working Paper Retention

- Working papers were not retained and then destroyed 120 days after acceptance by the peer review committee in accordance with the working paper retention policy of the administrative manual.
- Reviewer feedback was maintained beyond the recommended guidelines.

Committee Procedures

- Reviewer feedback was not issued when necessary. Also, the reviewer feedback was not signed by a peer review committee member.
- Technical reviewers did not address all significant issues before reviews are presented to the RAB.
- Guidelines regarding conditional acceptance not followed.
- The status of open reviews and follow-up status not periodically monitored and discussed by the Committee and related documentation of such presentations and discussions recorded in the Committee minutes.
- Accurate and contemporaneous minutes are not prepared to document Committee meetings.
- Reviewer feedback not disseminated when warranted by AICPA desk oversight comments
- Confidentiality agreements were not obtained from Committee meeting visitors prior to the meeting
- Technical reviewers were not evaluated annually.
- RAB members did not have the required team captain training.
- Accelerated reviews were used as a corrective action in lieu of other actions.
- A quorum was not present for certain meetings which delayed the timeliness of acceptance of reviews.
- Committee meetings were not scheduled to ensure timely acceptance of reviews.
- Internal oversight of the administration of the Program was not performed timely.
- Required oversights not performed timely each year.

Exhibit 14

Administrative Oversights Performed By Peer Review Committees of Administering Entities

The AE's peer review committee is required to establish administrative oversight procedures to provide reasonable assurance that the AICPA PRP is being administered in accordance with guidance as issued by the PRB. An administrative oversight should be performed in those years when there is no AICPA oversight visit. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP. Each AE was requested to submit documentation indicating that an administrative oversight was performed with its 2013 and 2014 POAs. Comments or suggestions contained in the reports are summarized subsequently and are not indicative of every AE. They also vary in degree of significance. In addition, the OTF member reviewed the results of the administrative oversight during the oversight visit (described on pages 13–14, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight with those noted during the OTF oversight visit to evaluate whether any matters still need improvement.

- Files contained documents that should have been destroyed.
- Delinquent letters on reviews were not being sent in a timely manner.
- Reviewer feedback and performance deficiency letters were not being issued when necessary.
- Reviews were not always presented to the peer review committee in accordance with the timelines specified by the standards.
- The committee chair and technical reviewer did not always resolve inconsistencies and disagreements before submitting reviews to the RABs.
- Ensure Plan of Administration is accurate and timely filed.
- In order to reduce misplaced or incomplete files, the Society should explore the possibility of computerized record keeping solutions.
- Acceptance letters not sent timely.
- Review website for technical material and check for updates.
- RAB members must maintain qualifications required by the scope of their duties.
- Review committee member qualifications to ensure they are in compliance with CPE requirements.
- Establish method to utilize reviewer feedback and deficiency letters to target reviewers for oversight.
- Oversight report was not posted to AE website

Exhibit 15

Summary of Oversights Performed by Administering Entities

AEs are required to conduct oversight on a minimum of 2 percent of all reviews performed in a 12-month period of time and within the 2 percent selected, there must be at least two of each type of peer review must be evaluated. Also, at least 2 engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2013 oversight year.

Administering Entity	Type of Review/Oversights			Type of Engagement Oversights				Total Oversights Performed at Firm
	System	Engagement	Total	ERISA	GAGAS	FDICIA	Total	
Alabama	2	2	4	1	1	-	2	2
Arkansas	6	2	8	4	2	-	6	4
California	16	20	36	9	10	-	19	3
Colorado	2	2	4	1	1	-	2	2
Connecticut	2	3	5	1	1	-	2	2
Florida	7	9	16	2	2	-	4	6
Georgia	2	4	6	2	2	-	4	2
Hawaii	2	1	3	1	1	-	2	2
Idaho	2	1	3	1	1	-	2	1
Illinois	9	4	13	1	1	-	2	5
Indiana	3	2	5	1	2	-	3	2
Iowa	6	2	8	1	1	-	2	4
Kansas	5	2	7	2	1	1	4	2
Kentucky	5	2	7	1	1	-	2	1
Louisiana	4	4	8	1	2	-	3	2
Maryland	3	4	7	1	1	-	2	2
Massachusetts	9	4	13	6	8	-	14	2
Michigan	5	7	12	2	2	-	4	2
Minnesota	2	4	6	1	1	-	2	2
Mississippi	2	2	4	-	2	-	2	2
Missouri	3	2	5	3	2	-	5	2
Montana	4	2	6	1	1	-	2	-
Nevada	5	2	7	1	1	-	2	2
New England	7	2	9	4	1	-	5	4
New Jersey	7	2	9	1	4	-	5	2
New Mexico	3	2	5	2	1	-	3	2
New York	8	4	12	4	4	-	8	3
North Carolina	5	5	10	1	1	-	2	3
North Dakota	1	1	2	1	-	-	1	1
Ohio	5	3	8	1	3	-	4	5
Oklahoma	3	2	5	1	2	-	3	2
Oregon	2	2	4	1	1	-	2	2
Pennsylvania	7	5	12	3	3	-	6	7
Puerto Rico	2	-	2	-	2	-	2	2
South Carolina	2	1	3	1	1	-	2	2
Tennessee	3	5	8	1	1	-	2	2
Texas	9	14	23	6	3	-	9	2
Virginia	6	6	12	1	1	-	2	2
Washington	3	4	7	1	1	-	2	2
West Virginia	5	4	9	-	1	1	2	2
Wisconsin	4	2	6	1	1	-	2	2
TOTAL	**188**	**151**	**339**	**74**	**78**	**2**	**154**	**101**

Exhibit 16

Summary of Reviewer Resumes Verified by Administering Entities

AEs are required to verify all reviewer resumes over a 3-year period as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. The following shows the number of reviewer resumes verified by AEs for the years 2011–2013.

Administering Entity	2011	2012	2013
Alabama	9	4	36
Arkansas	15	8	7
California	70	59	59
Colorado	9	17	10
Connecticut	12	6	17
Florida	40	43	36
Georgia	48	-	49
Hawaii	-	4	5
Idaho	17	6	4
Illinois	39	42	27
Indiana	12	11	17
Iowa	11	9	8
Kansas	18	-	2
Kentucky	16	14	10
Louisiana	48	-	48
Maryland	18	18	17
Massachusetts	14	38	6
Michigan	42	19	34
Minnesota	7	17	9
Mississippi	12	13	16
Missouri	20	24	14
Montana	5	8	6
Nevada	61	76	70
New England	7	14	7
New Jersey	28	28	35
New Mexico	20	19	18
New York	28	28	48
North Carolina	31	33	30
North Dakota	1	1	1
Ohio	36	36	26
Oklahoma	11	17	15
Oregon	9	15	1
Pennsylvania	26	47	37
Puerto Rico	12	12	11
South Carolina	46	15	13
Tennessee	20	20	24
Texas	61	44	40
Virginia	21	23	19
Washington	25	25	14
West Virginia	9	7	7
Wisconsin	7	7	16
Totals	**941**	**827**	**869**

Glossary

Term	Definition
AICPA Peer Review Board	Functions as the "senior technical committee" governing the AICPA PRP and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the *Standards*, Interpretations to the *Standards* and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the AE oversight process for the AICPA PRP.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications and responsibilities of AE peer review committees, report acceptance bodies and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
AICPA PRP Administrative Manual	Publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.
Administering Entity	A state CPA society, group of state CPA societies, or other entity annually approved by the PRB to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB.
Agreed Upon Procedures	Specific procedures agreed to by a CPA, a client and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
Attest Engagement	An engagement that requires independence as defined in the AICPA professional standards.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a CPA.
Compilation	Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements performed under SSARS.
Employment Retirement Income Security Act of 1974	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.

Glossary

Term	Definition
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) recapitalized the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), expanded the authority of banking regulators to seize undercapitalized banks and expanded consumer protections available to banking customers.
Engagement Review	A type of peer review for firms that do not perform audits or certain SSAE engagement that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles, a comprehensive basis of accounting other than generally accepted accounting principles, or a special purpose framework.
Finding for Further Consideration (FFC)	A finding is one or more matters that the reviewer concludes does not rise to the level of a deficiency or significant deficiency and is documented on a Finding for Further Consideration Form.
Firm	A form of organization permitted by law or regulation whose characteristics conforms to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA PRP should be terminated or whether some other action should be taken.
Implementation Plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to Findings For Further Consideration. A RAB may require an implementation plan when the responses to a firm's FFC(s) are not comprehensive, genuine and feasible.
Licensing Jurisdiction	For purposes of this Report, licensing jurisdiction means any state or commonwealth of the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands.

Glossary

Term	Definition
Matter for Further Consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards in all material respects. Matters are typically one or more "No" answers to questions in peer review questionnaires(s). A matter is documented on a Matter for Further Consideration Form.
Other Comprehensive Basis of Reporting	Consistent accounting basis other than generally accepted accounting principles (GAAP) used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the AICPA PRP and make recommendations regarding the PRB oversight procedures.
Peer Review Committee	An authoritative body established by an AE to oversee the administration, acceptance, and completion of the peer reviews administered and performed in the licensing jurisdiction(s) it has agreed to administer.
Plan of Administration	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the AICPA PRP.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
PRISM System	An online system that is accessed to carry out the AICPA PRP administrative functions.
Report Acceptance Body	A committee or committees appointed by an AE for the purpose of considering the results of peer reviews and ensuring that the requirements of the AICPA PRP are being complied with.
Review	Performing inquiry and analytical procedures on financial statements that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with GAAP.
Reviewer Feedback Form	A form used to document a peer reviewer's performance on individual reviews and give constructive feedback.
Reviewer Resume	A document residing on the AICPA website and required to be updated annually by all active peer reviewers which is used by AEs to determine if individuals meet the qualifications for service as a reviewer as set forth in the standards.

Glossary

Term	Definition
Reviewer Resume	A document residing on the AICPA website and required to be updated annually by all active peer reviewers which is used by AEs to determine if individuals meet the qualifications for service as a reviewer as set forth in the standards.
Scheduling Status Report	A report which provides key information on peer reviews such as firm name, due date, review number, type, status and the date background information was received.
Special Purpose Framework	A financial reporting framework, other than generally accepted accounting principles, that is one of the following bases of accounting: cash basis, tax basis, regulatory basis, contractual basis, or another basis.
State Board of Accountancy	An independent state governmental agency that licenses and regulates CPAs.
State CPA Society	Professional organization for CPAs providing a wide range of member benefits.
Summary Review Memorandum	A document used by peer reviewers to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in an FFC.
System of Quality Control	A process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.
System Review	A type of peer review for firms that have an audit and accounting practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on auditing and accounting engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
Technical Reviewer	Individual(s) at the AE whose role is to provide technical assistance to the RAB and the Peer Review Committee in carrying out their responsibilities.
Territory	A territory of the United States is a specific area under the jurisdiction of the United States and for purposes of this Report includes Guam, the District of Columbia, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands.

Agenda Item 1.9A

Firms Dropped from the AICPA Peer Review Program for Non-Cooperation between July 15, 2014 and September 11, 2014, and Not Enrolled as of September 11, 2014.

Firm Number	Firm Name	State	Admin By
10115093	Moody and Hodgson	AL	AL
10131640	Tkatchov & Tkatchov, CPA's, PC	CA	CA
5417279	Richard White, CPA	CA	CA
6621759	James M Cortez, CPA	CA	CA
10099127	Michael Glinsky & Company, P. A.	FL	FL
10116742	J. Wayne Purvis	GA	GA
10143616	Magoon, Freeman, Spain & Jones, LLC	GA	GA
81556416	Robert Allen Elkowitz Jr	GA	GA
10052490	Seino, Horikawa & Nekoba	HI	HI
4975452	Mary Beth Kamrath-Ovel CPA, PC	IA	IA
5613196	Richard E. Poynter	IL	IL
10102150	Donald M. Gravett P. S. C.	KY	KY
5667145	Humphrey Lowe, PLLC	KY	KY
10105773	Don M. McGehee Inc APAC	LA	LA
10113076	Eugene Lapidas	MA	MA
10120915	Bruce E. Brabec Ltd.	MN	MN
1096192	Lori Huston-Vadnais	MN	MN
1032519	Laurence W. Gold	NJ	NJ
10148818	Scott Kelsey, P.C.	NV	NV
1146425	E. Michael Hoffman	NY	NY
10147699	Jan E. Nolis	NY	NY
10121898	Lucena & Raices, PSC	PR	PR
34616	Mize CPA, P.C.	TN	TN
10154021	Gaye G. Thompson	TN	TN
10150065	J. David Flynn PC	TX	TX
5887823	Michael D Dunlap PC	TX	TX
10103290	Brunk & Company, P.C.	VA	VA
10150796	McMaster & Associates, PC	VA	VA
10154595	Cheryl Brown Biondolillo CPA, P C	VA	VA
81558891	Leslie Thomas Fritz	VA	VA
4105003	Taylor Group CPA, LLC, Michael E. Taylor, CPA	VA	VA
5549878	Lisa A Parrish & Associates, Inc.	VA	VA
6162380	Conyngham and Associates, CPA's	VA	VA
6432303	Smartcat Financial Services, LLC	VA	VA

Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program

John M Pentz, CPA – Oak Ridge, NC

Agenda Item 1.9B

Standards Task Force Future Agenda Items

Why is this on the Agenda?
The Standards Task Force will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that will be considered in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to feedback received.

Feedback Received
N/A

PRISM Impact
N/A

AE Impact
N/A

Communications Plan
N/A

Manual Production Cycle (estimated)
N/A

Effective Date
N/A

Board Consideration
Review the list of Standards Task Force future agenda items below and provide feedback.

- Focus for 2014 will primarily be on the proposals from the Enhancing Quality Initiative Task Forces.
- Topics Expected to Be Addressed in 2014:
  - Consideration of whether or not it is appropriate for Joint Trial Board members to also be members of a Peer Review Committee or Report Acceptance Body.
  - Consideration of tone at the top guidance
- Other Future Topics
  - Expansion of Interpretation 5c-1 (which discusses the impact of acquisitions and divestitures) to include further discussion of acquisitions and effect on the peer review scope.
  - Address feedback that Engagement Review representation letter and Engagement Summary Form should be combined.
  - Update definitions of "personnel" and "professionals" used in various forms, practice aids, and guidance.
  - Revise all relevant peer review guidance for revisions to Consolidated OMB (previously A-133). This includes language changes to all forms and guidance, and significant changes to single audit checklists (to be done with assistance from GAQC staff). Final OMB guidance not yet approved and effective date is not known.

- Modify, expand and finalize guidance in Interpretations 6-7 and 6-8 for engagements performed under international standards, and develop new guidance on addressing the design of the system of quality control for engagements performed under international standards.
- Continue to enhance QCM related guidance
- Guidance for enlisting committee chairs to assist with AE monitoring

Agenda Item 1.9C

Education and Communication Task Force Future Agenda Items

Why is this on the Agenda?
The Education and Communication Task Force will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that will be considered in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to feedback received.

Feedback Received
N/A

PRISM Impact
N/A

AE Impact
N/A

Communications Plan
N/A

Manual Production Cycle (estimated)
N/A

Effective Date
N/A

Board Consideration
Review the list of Education and Communication Task Force future agenda items below and provide feedback.

- Conference
  - Assess feedback received from the 2014 AICPA Peer Review Program conference and continue planning for the 2015 conference. This will consist of developing conference materials such as conference cases and the general session agenda.
- Training Materials and Programs
  - Determine the need to develop additional training materials and learning opportunities specifically for individual groups (administrators, technical reviewers, committee members, and reviewers).
  - Discuss and approve the changes in requirements (e.g. training) for both new and existing peer reviewers.
- Training Courses
  - Develop web events which would meet the requirements for continued peer review education for reviewers (minimum of two 2-hour webinars per calendar year)
- Peer Reviewer Pool
  - Aggregate and discuss the results of the recently completed survey of high-volume reviewers
  - Determine the extent of any additional surveys sent to the peer reviewer pool

Agenda Item 1.9D

Oversight Task Force Future Agenda Items

Why is this on the Agenda?

The Oversight Task Force will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that the Oversight Task Force will consider in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to new information and circumstances.

Feedback Received

N/A

PRISM Impact

N/A

AE Impact

N/A

Communications Plan

N/A

Manual Production Cycle (estimated)

N/A

Effective Date

N/A

Board Consideration

Review the list of items below and provide feedback.

- Conduct Oversight Visits to each Administering Entity at least every other year (approximately 23 visits are planned for 2014).
- Implement the pilot program for the RAB observations and the new engagement-level oversights
- Monitor the results of the RAB Observations and enhanced oversights to determine if any changes are necessary to the processes
- Review and approve comments on desk reviews of system and engagement reviews selected for oversight.
- Review and update the Oversight Handbook as necessary.
- Communicate changes to pertinent groups regarding changes adopted by the Peer Review Board or other task forces.
- Review reviewer performance issues and requests for national suspension.
- Maintain National RAB listing, including approval of SOC specialists.

Peer Review Program