

# Peer Review Board Open Session Meeting

**September 18, 2015**

**Conference Call**

**AICPA Peer Review Board  
Open Session Agenda  
September 18, 2015  
Durham, NC**

Date/Time: Friday, September 18, 2015 1:00 PM (Eastern Daylight Time)  
**Conference Call**

- 1.1 Welcome Attendees and Roll Call of Board\*\* – Ms. Ford
- 1.2 Approve Revisions to the SRM and Review Captain Summary related to the Issue Resolution Hotline\* – Mr. Parry
- 1.3 Approve AICPA PRB Annual Oversight Report\* – Mr. Hill
- 1.4 Update on Planning Task Force\*\* – Ms. Ford
- 1.5 Operations Director's Report\*\* – Ms. Thoresen
- 1.6 Report from State CPA Society CEOs\*\* – Mr. Jones
- 1.7 Update on the Peer Review Program Manual\*\* - Ms. Rowley
- 1.8 For Informational Purposes\*:
  - A. Report on Firms Whose Enrollment was Dropped or Terminated
  - B. Standards Task Force Update and Future Agenda Items
  - C. Education and Communication Task Force Update and Future Agenda Items
  - D. Oversight Task Force Update and Future Agenda Items
  - E. National Peer Review Committee Update
- 1.9 Future Open Session Meetings\*\* – Ms. Thoresen
  - November 10, 2015 Open Session 1-4pm Eastern Time – Conference Call
  - January 13, 2016 Open Session – Sarasota, FL
  - May 3, 2016 Open Session – Durham, NC
  - August 11, 2016 Open Session – San Diego, CA
  - September 27, 2016 Open Session 1-4pm Eastern Time – Conference Call

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\*- Document Provided

\*\*-Verbal Discussion

## Issue Resolution Hotline

### Why is this on the Agenda?

The Issue Resolution Hotline has been established for the primary purpose of resolving differences of opinion between a peer reviewer and a reviewed firm regarding the application of established accounting and auditing guidance. That is, if an issue arises during a peer review as to whether the reviewed firm appropriately applied authoritative guidance on a selected engagement, the peer reviewer and the reviewed firm are able to call the Hotline together and discuss the issue with a member of our Accounting & Auditing team. The objective of this discussion is to determine how the standard was intended to be applied. Once the Accounting & Auditing team member has provided further explanation regarding the intended application of the standard, it will be the peer reviewer's responsibility to use their professional judgment as to whether the reviewed firm complied with the standard in respect to the selected engagement being reviewed.

In order to provide peer reviewers with a place to document consultations with the Issue Resolution Hotline, minor changes have been made to the Summary Review Memorandum (for system reviews) and the Review Captain Summary (for engagement reviews); refer to Agenda Items 1.2A and 1.2B.

### Feedback Received

None

### PRISM Impact

None

### AE Impact

None

### Communications Plan

A Reviewer Alert and a Q&A document were distributed to reviewers on August 24, 2015. Additionally, information regarding the Issue Resolution Hotline has been added to the Peer Review section of AICPA.org.

### Manual Production Cycle (estimated)

Contingent upon approval, it is expected the revised Summary Review Memorandum and Review Captain Summary documents will be updated in the October 2015 production cycle.

### Effective Date

Effective upon approval.

### Board Consideration

1. Review and approve the revised Summary Review Memorandum as presented at Agenda Item 1.2A.
2. Review and approve the revised Review Captain Summary as presented at Agenda Item 1.2B.

**Proposed Revisions to Summary Review Memorandum**

**Overall Findings and Conclusions**

G1. Describe any situations encountered which require consultation with the administering entity. Indicate name of person consulted and date.

<<blank lines>>

Consulted:

Date:

*Examples of such situations:*

- a. When the firm has sold a portion of its non-attest practice to a non-CPA owned entity and entered into a service arrangement with that non-CPA owned entity to provide employees, office space, or equipment for which the firm remits a percentage of its revenues or profits.
- b. The review team feels it may not have the expertise required under the applicable *Standards for Performing and Reporting on Peer Reviews* to accomplish the required reviews of engagements satisfactorily.
- c. The review team determines that reliance upon the firm's current year monitoring procedures could significantly reduce the scope of the procedures it will perform (Interpretation 45-2, "Considering the Firm's Monitoring Procedures," of paragraph .45 in section 1000 [sec. 2000]).
- d. The reviewed firm is deemed to not be cooperating (Interpretation 5h-1, "Cooperating in a Peer Review," of paragraph .05 in section 1000 [sec. 2000]).
- e. The review team is considering whether to discontinue the review, for example, because of a lack of cooperation.
- f. The review team and the reviewed firm have a disagreement on
  - the type of report to be issued, the FFC form(s) to be issued, or any other substantive issue.
  - issues that may require the application of the guidance in AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date*, and AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, *Professional Standards*), or similar matters with respect to engagements to compile or review historical financial statements or to examine prospective financial statements.
- g. There is any uncertainty about the report to be issued or the findings to be included in the FFC form(s).
- h. When the firm has not obtained a waiver for excluding an engagement(s) or certain aspects of functional area(s) from the scope of the review.
- i. Difficulties in complying with the applicable *Standards for Performing and Reporting on Peer Reviews*.
- j. Uncertainty of whether matters were isolated and difficulties in determining the cause for a finding.
- k. The firm failed to perform or report in conformity with applicable professional standards in all material respects and the review team determines the cause of the failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal

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experience or knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion. (Par. 83d sec. 1000)

- l. A team captain who is considering whether a peer review report should be issued with an additional paragraph for a scope limitation due to a divestiture should consult with the administering entity. (Interpretation 5c-1, "Acquisitions and Divestitures and Their Effect on Peer Review Scope," of paragraph 5c in section 1000 [sec. 2000])
- m. If an engagement(s) within the team captain's selection is not available for review, a comparable engagement within the peer review year-end is also not available, nor is there a prior year's engagement that may be reviewed, the team captain should consult with the administering entity to determine the effects on the timing or year-end of the peer review, if any, and whether a report with a peer review rating with a scope limitation should be issued. (Interpretation 56-1, "Office and Engagement Selection in System Reviews," of paragraph .56 in section 1000 [sec. 2000])
- n. A reviewed firm is required 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. If the reviewed firm fails to discuss such communications with the reviewer, the reviewer should immediately consult with the administering entity because this constitutes a failure to cooperate, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated. (Interpretation 181-1b-1, "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," of paragraph .181 in section 1000 [sec. 2000])
- o. A team captain or review team encounters difficulties in complying with the standards, especially in selecting engagements or offices for review. If the team captain finds that meeting all of the selection criteria for selection of engagements results in an inappropriate scope of the firm's accounting and auditing practice, the team captain should consult with the administering entity about the selection of engagements for review. (Interpretation 56-1)

G2. Describe any situations where the Issue Resolution Hotline was consulted.

Documentation should include the following:

- a. Name of person consulted
- b. Date of consultation
- c. Explanation of the facts and circumstances of the issue(s)
- d. Basis for concluding whether the selected engagement is non-conforming
- e. Impact to the peer review as a whole

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**Proposed Revisions to Review Captain Summary**

**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):
  - Consideration of the financial statements or information and the related accountant's report on the compilation, review, and preparation 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.
  - Document within the notes section of this Summary (Item VI), consultation with the Issue Resolution Hotline and/or the Administering Entity, if applicable.
  - 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. An MFC should also be created and elevated to a deficiency or significant deficiency, as applicable.



# Peer Review Program

**ANNUAL REPORT ON OVERSIGHT**

**Issued  
September 18, 2015**

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## 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   |
| CPE       | Continuing Professional Education                                   |
| CPCAF PRP | Center for Public Company Audit Firms Peer Review Program           |
| EAQ       | Enhancing Audit Quality   |
| ECTF      | Education and Communication Task Force                              |
| EQCR      | Engagement Quality Control Review                                   |
| ERISA     | Employee Retirement Income Security Act                             |
| FDICIA    | Federal Deposit Insurance Corporation Improvement Act               |
| FFC       | Finding for Further Consideration                                   |
| FSBA      | Facilitated State Board Access                                      |
| GAAP      | Generally Accepted Accounting Principles                            |
| GAGAS     | Generally Accepted Government Auditing Standards                    |
| GAO       | Government Accountability Office (U.S.)                             |
| IP        | Implementation Plan   |
| MFC       | Matter for Further Consideration                                    |
| NPRC      | National Peer Review Committee                                      |
| OTF       | Oversight Task Force (AICPA Peer Review Board)                      |
| PCAOB     | Public Company Accounting Oversight Board                           |
| PCPS      | Private Companies Practice Section                                  |
| POA       | Plan of Administration  |
| PRISM     | Peer Review Information System Management                           |
| PRB       | Peer Review Board (AICPA)   |
| PRP       | Peer Review Program   |
| QCPP      | Quality Control Policies and Procedures                             |
| RAB       | Report Acceptance Body (Administering Entity Peer Review Committee) |
| SASs      | Statements on Auditing Standards                                    |
| SBA       | State Board of Accountancy  |
| SEC       | Securities and Exchange Commission (U.S.)                           |
| SECPS     | Securities and Exchange Commission Practice Section                 |
| SEFA      | Schedule of Expenditures of Federal Awards                          |
| SOC       | Service Organization Control  |
| SME       | Subject Matter Expert   |
| STF       | Standards Task Force  |
| SQCS      | Statements on Quality Control Standards                             |
| SRM       | Summary Review Memorandum   |
| SSAEs     | Statements on Standards for Attestation Engagements                 |
| SSARS     | Statements on Standards for Accounting and Review 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) 2014 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<sup>1</sup> 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<sup>2</sup> administering entities (AEs) cover 55 licensing jurisdictions.
- There are more than 670 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 2012 - 2014. 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 2,900 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

2 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 accounting and auditing engagements. Firms without audit clients that only performed engagements under the attestation standards or accounting and review services standards would undergo off-site peer reviews, which also included a review of selected engagements to determine if they were 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, 52 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. FSBA allows firms to give permission to the AICPA or to their AEs to provide access to the firms' documents (listed below) 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.

The FSBA documents typically include the following:<sup>3</sup>

- Peer review reports
- Letters of response (if applicable)
- 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 (if applicable)
- Letters notifying the reviewed firm that required actions have been completed (if applicable)

<sup>3</sup> Beginning in February 2015, a firm's current and prior peer review documents are available on FSBA. The documents are available if the state participated in FSBA for both review periods and the firm did not opt out of FSBA for either review.

**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 accounting, auditing and attestation engagements not subject to PCAOB permanent inspection 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 accounting, auditing and attestation engagements not subject to PCAOB permanent inspection 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. Task forces are formed on an ad hoc basis to address various initiatives of the PRB.

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 2014 - OCTOBER 2015**

Anita Ford, **Chair**  
 CliftonLarsonAllen LLP  
 Tampa, FL

James Clausell  
 Clausell & Associates, CPAs, PC  
 Decatur, GA

Lawrence Gray  
 EisnerAmper LLP  
 Iselin, NJ

Richard E. Jones  
 Washington Society of CPAs  
 Bellevue, WA

Michael LeBlanc  
 Postlethwaite & Netterville  
 Donaldsonville, LA

G. Alan Long  
 Baldwin CPAs, PLLC  
 Richmond, KY

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

Robert (Bob) Rohweder  
 Ernst & Young LLP  
 Cleveland, OH

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 Seefeld Lawson Moeller LLP  
 The Woodlands, TX

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 Deloitte & Touche LLP  
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Richard W. Hill  
 Mitchell Emert & Hill P.C.  
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Karen Kerber  
 KerberRose S.C.  
 Showano, WI

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

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

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 Grant Thornton LLP  
 Columbia, SC

Keith Rowden  
 PricewaterhouseCoopers LLP  
 Houston, TX

Todd Shapiro  
 Illinois Society of CPAs  
 Chicago, IL

**AICPA Peer Review Board  
Oversight Task Force  
(October 2014 – October 2015)**

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

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

Michael LeBlanc\*  
Postlethwaite & Netterville  
Donaldsonville, LA

John A. Lynch  
Blum, Shapiro & Company, PC  
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Steven K. Stucky  
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Robert C. Bezgin  
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Paul V. Inserra  
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John C. Lechleiter  
AKT, LLP  
Carlsbad, CA

Debra Seefeld\*  
Seefeld Lawson Moeller LLP  
The Woodlands, TX

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

Gary Freundlich, Technical Director

Susan Lieberum, Associate Director

Rachelle Drummond, Senior Technical  
Manager

Tim Kindem, Senior Technical Manager

Laurel Gron, Technical Manager

Tracy Peterson, Technical Manager

Karl Ruben, Technical Manager

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

Beth Thoresen, Director of Operations

Frances McClintock, Associate Director

LaVonne Montague, Senior Technical Manager

Jennifer Capoccia, Technical Manager

Lisa Joseph, Technical Manager

Susan Rowley, Technical Manager

Andrew Volz, 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 2014 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 Peer Review Board (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 Administering Entities (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 Peer Review Program (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:

- *Oversight Visits of Administering Entities* - Visits to the AEs, on a rotating basis ordinarily every other year, by a member of the Oversight Task Force (OTF). The visits included testing the administrative and report acceptance procedures established by the PRB. OTF members visited 23 AEs in 2014. See pages 13–14, “Oversight Visits of the Administering Entities.”
- *Review of AICPA PRP Statistics* - Monitoring the overall activities of the program. As of August 2015, there were 895 incomplete peer reviews. See pages 14–15, “Review of AICPA PRP Statistics.”
- *Report Acceptance Body (RAB) Observations* - RAB Observations are performed by OTF members and AICPA PRP staff. The RAB Observations began in July 2014 and include the review of materials provided to RAB members to ensure that RABs are performing all of their responsibilities. For 2014, 500 reviews were selected for RAB Observations or approximate 5.6 percent of the total reviews performed in 2014. See pages 15–16 for a detailed description of the RAB Observation process.
- *Engagement Level Oversight* - Oversight performed by Subject Matter Experts (SMEs) on must-select engagements that include the review of the financial statements and working papers for the must-select engagements. The 2014 sample consisted of 90 engagements selected for oversight, 74 random selections and 16 targeted selections. The random selections were selected to obtain a 95% confidence rating for peer reviews with must-select engagements performed in 2014. The confidence rating indicates that there is a 95% likelihood that the sample is representative of the overall population. For the random sample, the SMEs identified 32 of the 74 (43%) engagements as not being performed and/or reported on in accordance with professional standards in all material respects (non-conforming). The peer reviewers identified 7 of the 74 (9%) engagements as non-conforming. The peer reviewers did not identify 25 of the 74 (34%) of the engagements as non-conforming. See pages 16–18 for a detailed description of the enhanced oversight process.
- *Peer Review Working Paper Oversight* - Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the 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. 2013 was the final year a full sample was selected for reviews of peer review working papers. These reviews were replaced by the RAB Observations. After 2013, the reviews of peer review working papers are performed as needed. For 2014, 26 reviews were selected for oversight. The 26 reviews selected were replacement reviews that resulted from the Department of Labor (DOL) staff project that received a pass rating. See pages 18–19, “Peer Review Working Paper Oversights.”

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

- *Administrative Oversight of the AE* - 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. 18 administrative oversights were performed in 2014. See pages 19, “Administrative Oversight of the AE.”
- *Oversight of Peer Reviews and Reviewers* - Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2014, approximately 3.5% of total reviews were selected for oversight at the AE level. See pages 20–21, *Oversight of the Peer Reviews and Reviewers*.
- *Annual Verification of Reviewers’ Resumes* – Verification of accuracy of information included on peer reviewer resumes. For 2014, resumes were verified for 806 reviewers. See pages 21–22, “Annual Verification of Reviewers’ Resumes.”

Based on the results of the oversight procedures performed, the OTF has concluded, for the 2014 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 18, 2015

## 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 2,500 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 not subject to PCAOB permanent inspection 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.

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<sup>1</sup> under the SSAEs, or engagements under PCAOB standards. In addition, agreed-upon procedures, reviews, compilations, and preparation engagements are also included in the scope of the peer review. 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 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

1 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.

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<sup>3</sup> 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.<sup>1</sup>

### **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, known as Administering Entities (AEs), to administer the AICPA PRP in 2014. 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

<sup>1</sup> Effective January 1, 2015, for engagement reviews, if a firm performs more than one engagement, and the same deficiency is identified on each engagement selected for review, the firm will receive a fail report. Prior to January 1, 2015, for firms that performed more than one engagement, if the same deficiency was identified on each engagement selected for review, the firm would receive a pass with deficiencies report.

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**

### *Overall Results*

From 2012–2014, approximately 26,000 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 85 percent of the reviews resulted in pass reports, 11 percent were pass with deficiency(ies) and 4 percent were fail. For engagement reviews performed during that three-year period, approximately 79 percent of the reviews resulted in pass reports, 16 percent were pass with deficiency(ies) and 5 percent were fail. Exhibit 5 is a list of items noted as matters in engagements with year-ends between March 31, 2014 and June 30, 2015. 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 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 quality control element 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 2012–2014.

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. In 2012, 2013, and 2014, approximately 9, 10, and 7 percent, respectively, of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects” otherwise known as a non-conforming engagement.. Although the overall percentage of non-conforming engagements identified decreased in 2014, the percentage of audits identified as non-conforming increased over the three year period. In 2012, 2013 and 2014, approximately 6, 10, and 11 percent, respectively, of the audit engagements reviewed were identified as non-conforming. The decrease in the overall percentage of non-conforming engagements for 2014 is due to the large decrease in non-conforming SSARS engagements identified in 2014. The decrease in non-conforming SSARS engagements can be attributed to the fact that SSARS 19 was effective for SSARS engagements with financial statement years ending on or after December 15, 2010. 2011 was the first peer review year that included engagements performed under SSARS 19. SSARS 19 included a change to the report language for SSARS engagements and required an engagement letter with specific elements. If the significant changes for SSARS 19 were not fully implemented, the engagement is considered non-conforming. A large number of firms did not properly implement SSARS 19, leading to the identification of a large number of non-conforming SSARS engagements. SSARS 19 has been effective for one full peer review cycle from 2011-2013 and, as expected, the number of non-conforming SSARS engagements has decreased significantly in 2014.

### *Non-Conforming Engagements Identified*

Exhibit 7 shows the total number of individual engagements reviewed along with those identified as non-conforming engagements. There was a large increase in the number of non-conforming engagements in the Other Audit category in 2013. This increase can be attributed to the clarified auditing standards, which 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. There was also a large increase in the number of non-conforming engagements in the ERISA category in 2013 and 2014. This increase can be attributed to multiple factors. First, the clarified auditing standards were effective for financial statements with periods ending on or after December 15, 2012. 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. Finally, a large number of non-conforming engagements were identified in the replacement reviews that resulted from the AICPA PRP Staff project focusing on ERISA engagements (detailed in the following paragraph).

### *Department of Labor (DOL) Staff Project*

In 2013, the AICPA began a project focusing on ERISA engagements. The DOL provided a listing to the AICPA of all of the firms who were listed as the auditor on the form 5500 for 2011 to determine if the firms were enrolled in the peer review program. 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. The list included 4,918 firms. AICPA PRP staff compared the list to internal information in order to determine if the firms were in compliance with peer review requirements. The results of the comparison are as follows:

|   |              |
|---|--------------|
| Firms determined to be in compliance with peer review requirements                                    | 3,892        |
| Firms referred to AICPA Ethics Division for not having a peer review                                  | 493          |
| Firms required to provide updated scheduling information  | 97           |
| Firms required to have an accelerated review  | 161          |
| Firms whose peer review acceptance letter was recalled and were required to have a replacement review | 275          |
|   |              |
| <b>Total</b>  | <b>4,918</b> |

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 were recalled were from 2011 and 2012. The recalled peer reviews are no longer included in the statistics for those years. The project led 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 10, 2015, 229 of the 275 replacement reviews have been accepted. Of those 229 replacement reviews, 22 percent have received a pass rating, 43 percent have received a pass with deficiencies, and 35 percent have received a fail.

### *Corrective Actions and Implementation Plans*

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 were fluctuations in the overall number of corrective actions from 2012-2014, the number of corrective actions as a percentage of overall reviews performed has remained consistent. The number of corrective actions as a percentage of overall reviews performed was 25% in 2012, 25% in 2013, and 23% in 2014. There was an increase in 2014 in the number of corrective actions that included pre-issuance reviews (218 in 2013 and 271 in 2014) and corrective actions where the firm indicated that they no longer perform any auditing engagements (28 in 2013 and 56 in 2014). There was also a decrease in 2014 in the number of corrective actions that included CPE (1,102 in 2013 to 950 in 2014). These changes in corrective actions were the result of the increase in non-pass system review reports and the decrease in non-pass engagement review reports. The OTF continues to provide guidance and education in the effective use of both implementation plans and corrective actions. In total, 6,446 corrective actions were required from 2012–2014 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 PRB. 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 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.

#### ***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 comments from working paper oversights, and comments from RAB observations 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 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](http://www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx)).

## **Results**

During 2013–2014, a member of the OTF performed at least one on-site oversight visit to 41 AEs (excludes NPRC). See exhibit 10 for a listing of the AEs and the year of oversight. See exhibit 11 for a summary of observations from the on-site oversight visits performed during 2013-2014.

## ***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 2015, there were 895 incomplete reviews (164 due through 2013 and 591 due in 2013). Of these, 857 were in various stages of the evaluation process and 38 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.

In 2015, AICPA Staff began monitoring the system generated letters for each AE to ensure that the letters are being sent timely. If the system-generated letters are not being sent timely, AICPA Staff contacts the AE to determine the reasons for the delay in the letters. If the AEs do not respond to AICPA Staff inquiries in a reasonable amount of time, the fact that the AE is not responding to AICPA inquiries will be included in the AE's AICPA Oversight Visit Report.

Results of AICPA PRP are further summarized on pages 10-12 of this Report.

## ***RAB Observations***

### **Description**

PRB approved the increase to the number of RAB observations in May of 2014. The purpose of the RAB observation is to determine whether:

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

The objective of the RAB observations is to provide real time feedback to the RABs to improve overall quality of the RAB process. Previously, RAB observations were only performed during the oversight visits of the AE once every other year. The process for the increased RAB observations is similar to the process used during the oversight visits. The RAB observer receives the materials that will be presented to the RAB prior to the RAB meeting. The observer selects a sample of AICPA member firm reviews from the package and reviews the materials that will be presented to the RAB. The observer notes any issues or items that are unclear for each review selected. During the RAB, the observer allows 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, are included as comments in a RAB observation report. The OTF approves the report and the report is submitted to the AEs peer review committee for its consideration. Each peer review committee has the opportunity to respond to the report.

## Results

For 2014, each AE had at least one RAB observation. The RAB observations were performed by OTF members as well as AICPA PRP staff. 500 reviews were selected for RAB observation for 2014. This represents approximately 5.6 percent of peer reviews conducting in 2014. The comments generated by the RAB observations are summarized in exhibit 15.

### ***Engagement-Level Oversight***

#### **Description**

In May 2014, the PRB approved the addition of engagement-level oversights (also known as enhanced oversights) performed by Subject Matter Experts (SMEs). For 2014, the SMEs consisted of members of the applicable Audit Quality Center executive committees and expert panels, PRB members, former PRB members, and individuals recommended by the Audit Quality Center executive committee and expert panel members. The SMEs were approved by the OTF.

The objective of the engagement-level oversight is to ensure that peer reviewers are identifying all issues in must-select engagements, including whether engagements are properly identified as non-conforming. The oversights increase confidence in the peer review process and identify areas that need improvement, such as peer reviewer training. The objective is achieved by selecting oversights in two samples. The first sample is a random sample that will achieve a 90 to 95 percent confidence level. The second sample is a risk based sample based on risk criteria established by the OTF. The random sample is used to set a quality benchmark for evaluating whether there are improvements to audit quality. For 2014, the risk based sample consisted of peer reviewers that served as team captain on the largest number of system reviews. If an individual was selected in the random sample, they were not selected for the targeted sample.

The engagement-level oversights focus exclusively 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). For *Government Auditing Standards* engagements with Single Audit Act/A-133 portions of the engagement, the oversight focused only on the Single Audit Act/A-133 portion of the audit. These oversights will neither replace nor reduce the number of oversights currently required by AEs.

The engagement-level oversight process consists of the review of the financial statements and working papers by the SME for the engagement selected. AICPA PRP staff notifies the peer reviewer and the firm that they have been selected for oversight once the peer review working papers and peer review report have been submitted to the AE. This ensures 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 SME completes the relevant peer review checklist and compares their results to the results of the peer reviewer. The SME issues a report detailing any differences between the items they noted and the items noted by the peer reviewer. The report is provided to the AE for consideration during the report acceptance process. AICPA Staff monitors the effects of the oversights on the peer review results and what type of reviewer feedback (feedback form, performance monitoring letter, or performance deficiency letter) is provided to the peer reviewers.

## Overall Results

For 2014, 90 reviews were selected for engagement-level oversight, 74 random selections and 16 targeted selections. 73 different team captains were selected for oversight through the random and targeted samples. From 2012-2014, 1,278 different peer reviewers served as team captains on system reviews. The 73 team captains selected for oversight served as the team captain on 26% of all system reviews performed from 2012-2014.

The 90 must-select engagements selected for oversight consisted of:

| Employee Benefit Plans | Single Audit/A-133 | Government Auditing Standards | SOC 1 | Total |
|------------------------|--------------------|-------------------------------|-------|-------|
| 48                     | 32                 | 9                             | 1     | 90    |

Exhibit 16 provides a listing of items identified by the SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a non-conforming engagement. Exhibit 17 and 18 shows the percentage of non-conforming engagements identified based on the number of must-select engagements performed by the firm in the category selected. Only one engagement was reviewed for each firm selected and the SME did not expand the scope of the oversight.

For the oversights where the SME identified material departures from professional standards that were not identified by the peer reviewer, a limited number of these reviews have been accepted by RABs. AICPA Staff will continue to monitor the effects of the oversights on the peer review results and what type of reviewer feedback (feedback form, performance monitoring letter, or performance deficiency letter) is provided to the peer reviewers and the results will be included in next year's report.

## Random Sample

The random sample was selected in order to achieve a 95% confidence rating for the population as a whole. This means that the sample has a 95% chance of representing the overall population. For the random sample, the SMEs identified 32 of the 74 (43%) engagements as not being performed and/or reported on in accordance with professional standards in all material respects (non-conforming). The peer reviewers only identified 7 of the 74 (9%) engagements as non-conforming. All 7 of the non-conforming engagements identified by the peer reviewers were Employee Benefit Plan engagements.

The 74 must-select engagements randomly selected for oversight consisted:

| Employee Benefit Plans | Single Audit/A-133 | Government Auditing Standards | SOC 1 | Total |
|------------------------|--------------------|-------------------------------|-------|-------|
| 37                     | 27                 | 9                             | 1     | 74    |

As detailed in Exhibit 18, 17 Employee Benefit Plan engagements and 14 Single Audit/A-133 and Government Auditing Standards engagements were identified as non-conforming by the SMEs for the random sample

## Targeted Sample

The targeted sample for 2014 consisted of reviewers who served as team captain on the largest number system reviews between 2011 and 2013. If a team captain was selected during the random sample, they were not selected for the targeted sample. For the targeted sample, the SME identified 8 of the 16 (50%) engagements as non-conforming. The peer reviewers did not identify any of the engagements as non-conforming. The 16 must-select engagements selected for oversight consisted of 11 Employee Benefit Plan engagements and 5 Single Audit/A-133 engagements.

## *Peer Review Working Paper Oversight*

### Description

A selection of peer reviews are selected as needed (by AICPA PRP staff and approved by the OTF) for submission to the AICPA PRP staff for a comprehensive review of all the documents prepared during a peer review. The selections are risk based selection. 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 comprehensive 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.

## **Results**

For the year 2014, working paper reviews were selected as needed. For 2014, 26 reviews were selected for oversight. The 26 reviews selected were replacement reviews that resulted from the Department of Labor (DOL) staff project that received a pass rating. The oversight of the 26 reviews has not been fully completed and the results will be included in next year's oversight 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 12. 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 are also 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 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 2014, the AEs conducted oversight on 310 reviews, representing approximately 3.5 percent of all reviews performed in a twelve-month period of time. There were 176 system and 134 engagement reviews oversighted. Approximately 35 percent of the system oversights were conducted on-site. In addition, 82 ERISA, 83 GAGAS, 1 SOC, and 1 FDICIA engagement were oversighted. See Exhibit 13 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 2014. See exhibit 14

### Enhancing Audit Quality (EAQ) Initiative

The engagement-level oversights performed by SMEs revealed that peer reviewers are not properly identifying material departures from professional standards on must-select engagements. The 2014 sample of oversights will be used as a benchmark to measure audit quality improvements going forward. For 2015, the engagement-level oversights will be expanded to at least 150 oversights. The enhanced oversights are one element of the AICPA's Enhancing Audit Quality (EAQ) initiative.

The AICPA's EAQ initiative, launched in May 2014, addresses quality challenges on a holistic, ongoing basis with the goal of improving audit performance, particularly in specialized industries such as employee benefit plans and governmental entities. The components of the EAQ's [6-Point Plan to Improve Audits](#), released in May 2015, include enhancements to Pre-licensure; Standards and ethics; CPA learning and support; Peer review; Practice monitoring of the future; and Enforcement.

The EAQ initiatives related to peer review are:

1. Actions to Enhance Reviewer Quality
2. Actions to Improve Review Process
3. Actions to Strengthen Firm Quality

The reviewer quality enhancements include enhanced oversight (as referenced above), increased initial and ongoing training requirements, changes to reviewer performance guidance and accelerated reviewer remediation. The review process enhancements include a new issue resolution process, an expedited disagreement process and an improved focus on emerging industries and areas of focus. The firm quality enhancements include verifying a complete population of engagements, expansion of no A&A letter language, an accelerated remediation process, validation of firm and individual licenses, and an elimination of a previous exception on engagement reviews so now firms receive a fail report if the firm had the same deficiency on every engagement.

For details on any of the EAQ initiatives related to peer review, please see related articles in the [Peer Review News and Publication](#) area of [aicpa.org](http://aicpa.org). The anticipated outcome of all of the AICPA's EAQ initiatives will be the continued strong reputation of the CPA profession for competence, integrity and objectivity, coupled with a heightened understanding of the audit's value.

| <b>Licensing Jurisdiction</b> | <b>Required for State CPA Society Membership</b> | <b>Required for State Board of Accountancy Licensure</b> |
|-------------------------------|--|--|
| Alabama                       | No   | Yes  |
| Alaska                        | No   | Yes  |
| Arizona                       | No   | Yes  |
| Arkansas                      | No   | Yes  |
| California                    | No   | Yes  |
| Colorado                      | Yes  | Yes  |
| Connecticut                   | Yes  | Yes  |
| Delaware                      | Yes  | No   |
| District of Columbia          | No   | Yes  |
| Florida                       | No   | Yes  |
| Georgia                       | Yes  | Yes  |
| Guam                          | No   | Yes  |
| Hawaii                        | No   | Yes  |
| 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  |

| <b>Licensing Jurisdiction</b> | <b>Required for State CPA Society Membership</b> | <b>Required for State Board of Accountancy Licensure</b> |
|-------------------------------|--|--|
| 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  |
| Washington                    | No   | Yes  |
| West Virginia                 | No   | Yes  |
| Wisconsin                     | Yes  | Yes  |
| Wyoming                       | No   | Yes  |

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**Enrolled Firms by Number of Professionals in Practice**


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| <b>Licensing<br/>Jurisdiction</b> | <b>Sole</b> | <b>2 to 5</b> | <b>6 to 10</b> | <b>11 to 19</b> | <b>20 to 49</b> | <b>50 to 99</b> | <b>100+</b> | <b>Total</b> |
|-----------------------------------|-------------|---------------|----------------|-----------------|-----------------|-----------------|-------------|--------------|
| AK                                | 20          | 40            | 9              | 9               | 2               | 0               | 0           | 80           |
| AL                                | 126         | 208           | 78             | 29              | 19              | 5               | 3           | 468          |
| AR                                | 38          | 87            | 53             | 17              | 6               | 2               | 0           | 203          |
| AZ                                | 131         | 186           | 76             | 20              | 8               | 4               | 0           | 425          |
| CA                                | 833         | 1,277         | 486            | 233             | 125             | 29              | 18          | 3,001        |
| CO                                | 158         | 277           | 102            | 32              | 15              | 5               | 2           | 591          |
| CT                                | 139         | 193           | 76             | 32              | 14              | 2               | 1           | 457          |
| DC                                | 10          | 13            | 5              | 4               | 1               | 2               | 1           | 36           |
| DE                                | 6           | 20            | 17             | 6               | 8               | 0               | 0           | 57           |
| FL                                | 245         | 648           | 243            | 109             | 49              | 9               | 5           | 1,308        |
| GA                                | 223         | 425           | 160            | 65              | 16              | 10              | 6           | 905          |
| GU                                | 4           | 0             | 0              | 0               | 1               | 2               | 0           | 7            |
| HI                                | 32          | 67            | 31             | 18              | 3               | 3               | 0           | 154          |
| IA                                | 50          | 94            | 55             | 21              | 18              | 3               | 1           | 242          |
| ID                                | 32          | 78            | 41             | 12              | 6               | 0               | 0           | 169          |
| IL                                | 242         | 398           | 125            | 59              | 41              | 10              | 9           | 884          |
| IN                                | 100         | 178           | 92             | 29              | 19              | 4               | 3           | 425          |
| KS                                | 42          | 121           | 52             | 30              | 14              | 2               | 2           | 263          |
| KY                                | 83          | 153           | 81             | 29              | 12              | 4               | 2           | 364          |
| LA                                | 159         | 265           | 82             | 38              | 16              | 6               | 3           | 569          |
| MA                                | 235         | 357           | 139            | 51              | 31              | 7               | 1           | 821          |
| MD                                | 115         | 218           | 105            | 50              | 41              | 8               | 5           | 542          |
| ME                                | 26          | 37            | 21             | 11              | 6               | 1               | 2           | 104          |
| MI                                | 188         | 395           | 149            | 84              | 23              | 5               | 5           | 849          |
| MN                                | 100         | 190           | 74             | 33              | 22              | 6               | 4           | 429          |
| MO                                | 74          | 201           | 93             | 29              | 27              | 5               | 3           | 432          |
| MS                                | 74          | 127           | 44             | 18              | 12              | 2               | 2           | 279          |
| MT                                | 27          | 49            | 20             | 7               | 7               | 0               | 1           | 111          |
| NC                                | 234         | 426           | 157            | 57              | 25              | 3               | 1           | 903          |
| ND                                | 24          | 28            | 12             | 1               | 1               | 1               | 2           | 69           |
| NE                                | 16          | 57            | 41             | 16              | 13              | 2               | 1           | 146          |
| NH                                | 45          | 68            | 23             | 4               | 7               | 2               | 0           | 149          |
| NJ                                | 315         | 517           | 154            | 63              | 36              | 10              | 4           | 1,099        |
| NM                                | 64          | 108           | 36             | 16              | 3               | 1               | 1           | 229          |
| NV                                | 63          | 89            | 41             | 20              | 6               | 1               | 0           | 220          |
| NY                                | 264         | 543           | 293            | 133             | 75              | 26              | 24          | 1,358        |
| OH                                | 246         | 407           | 159            | 81              | 32              | 9               | 9           | 943          |

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**Enrolled Firms by Number of Professionals in Practice**


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| <b>Licensing<br/>Jurisdiction</b> | <b>Sole</b>         | <b>2 to 5</b>        | <b>6 to 10</b>      | <b>11 to 19</b>     | <b>20 to 49</b>     | <b>50 to 99</b>   | <b>100+</b>       | <b>Total</b>         |
|-----------------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|-------------------|-------------------|----------------------|
| OK                                | 77                  | 158                  | 72                  | 22                  | 8                   | 1                 | 1                 | 339                  |
| OR                                | 105                 | 181                  | 75                  | 34                  | 12                  | 4                 | 2                 | 413                  |
| PA                                | 237                 | 436                  | 210                 | 86                  | 44                  | 14                | 3                 | 1,030                |
| PR                                | 34                  | 77                   | 19                  | 11                  | 9                   | 2                 | 0                 | 152                  |
| RI                                | 37                  | 71                   | 24                  | 6                   | 6                   | 2                 | 0                 | 146                  |
| SC                                | 110                 | 194                  | 57                  | 28                  | 11                  | 0                 | 2                 | 402                  |
| SD                                | 10                  | 31                   | 12                  | 8                   | 4                   | 1                 | 0                 | 66                   |
| TN                                | 166                 | 268                  | 100                 | 36                  | 20                  | 6                 | 5                 | 601                  |
| TX                                | 741                 | 1,034                | 377                 | 161                 | 81                  | 21                | 10                | 2,425                |
| UT                                | 56                  | 102                  | 43                  | 20                  | 13                  | 4                 | 0                 | 238                  |
| VA                                | 188                 | 282                  | 112                 | 47                  | 26                  | 5                 | 7                 | 667                  |
| VI                                | 6                   | 1                    | 0                   | 0                   | 0                   | 0                 | 0                 | 7                    |
| VT                                | 21                  | 33                   | 14                  | 10                  | 2                   | 0                 | 0                 | 80                   |
| WA                                | 117                 | 222                  | 95                  | 45                  | 17                  | 1                 | 3                 | 500                  |
| WI                                | 49                  | 122                  | 69                  | 27                  | 16                  | 7                 | 3                 | 293                  |
| WV                                | 34                  | 77                   | 32                  | 11                  | 4                   | 0                 | 2                 | 160                  |
| WY                                | <u>15</u>           | <u>38</u>            | <u>19</u>           | <u>10</u>           | <u>3</u>            | <u>1</u>          | <u>0</u>          | <u>86</u>            |
| <b>Total</b>                      | <b><u>6,786</u></b> | <b><u>11,872</u></b> | <b><u>4,755</u></b> | <b><u>2,028</u></b> | <b><u>1,036</u></b> | <b><u>260</u></b> | <b><u>159</u></b> | <b><u>26,896</u></b> |

**Administering Entity**

Alabama Society of CPAs  
Arkansas Society of CPAs  
California Society of CPAs  
Colorado Society of CPAs  
Connecticut Society of CPAs  
Florida Institute of CPAs  
Georgia Society of CPAs  
Hawaii Society of CPAs  
Idaho Society of CPAs  
Illinois CPA Society  
Indiana CPA Society  
Kansas Society of CPAs  
Kentucky Society of CPAs  
Society of Louisiana CPAs  
Maryland Association of CPAs  
Massachusetts Society of CPAs  
Michigan Association of CPAs  
Minnesota Society of CPAs  
Mississippi Society of CPAs  
Missouri Society of CPAs  
Montana Society of CPAs  
National Peer Review Committee  
Nevada Society of CPAs  
New England Peer Review, Inc.  
New Jersey Society of CPAs  
New Mexico Society of CPAs  
New York State Society of CPAs  
North Carolina Association of CPAs  
North Dakota Society of CPAs  
The Ohio Society of CPAs  
Oklahoma Society of CPAs  
Oregon Society of CPAs  
Pennsylvania Institute of CPAs  
Puerto Rico Society of CPAs  
South Carolina Association of CPAs  
Tennessee Society of CPAs  
Texas Society of CPAs  
Virginia Society of CPAs  
Washington Society of CPAs  
West Virginia Society of CPAs  
Wisconsin Institute of CPAs

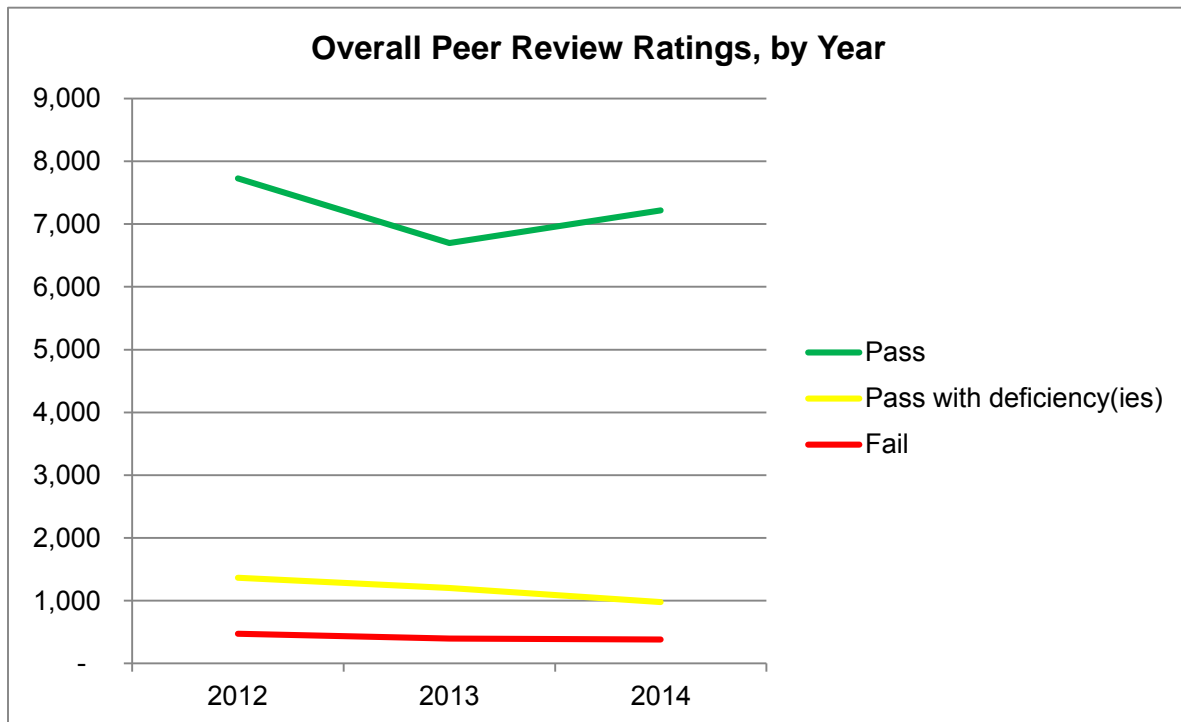
**Licensing Jurisdiction**

Alabama  
Arkansas  
California, Arizona, Alaska  
Colorado  
Connecticut  
Florida  
Georgia  
Hawaii  
Idaho  
Illinois, Iowa  
Indiana  
Kansas  
Kentucky  
Louisiana  
Maryland  
Massachusetts  
Michigan  
Minnesota  
Mississippi  
Missouri  
Montana  
N/A  
Nevada, Wyoming, Nebraska, Utah  
Maine, New Hampshire, Rhode Island, Vermont  
New Jersey  
New Mexico  
New York  
North Carolina  
North Dakota  
Ohio  
Oklahoma, South Dakota  
Oregon, Guam, Northern Mariana Islands  
Pennsylvania, Delaware, Virgin Islands  
Puerto Rico  
South Carolina  
Tennessee  
Texas  
Virginia, District of Columbia  
Washington  
West Virginia  
Wisconsin

The following shows the results of the AICPA PRP from 2012–2014 by type of peer review and report issued.

|                           | 2012         |            | 2013         |            | 2014         |            | Total         |            |
|---------------------------|--------------|------------|--------------|------------|--------------|------------|---------------|------------|
|                           | #            | %          | #            | %          | #            | %          | #             | %          |
| <u>System reviews</u>     |              |            |              |            |              |            |               |            |
| Pass                      | 3,957        | 88         | 3,023        | 84         | 3,249        | 81         | 10,229        | 85         |
| Pass with deficiency(ies) | 416          | 9          | 435          | 12         | 508          | 13         | 1,359         | 11         |
| Fail                      | 127          | 3          | 134          | 4          | 232          | 6          | 493           | 4          |
| Subtotal                  | <u>4,500</u> | <u>100</u> | <u>3,592</u> | <u>100</u> | <u>3,989</u> | <u>100</u> | <u>12,081</u> | <u>100</u> |

|                           | 2012         |            | 2013         |            | 2014         |            | Total         |            |
|---------------------------|--------------|------------|--------------|------------|--------------|------------|---------------|------------|
|                           | #            | %          | #            | %          | #            | %          | #             | %          |
| <u>Engagement reviews</u> |              |            |              |            |              |            |               |            |
| Pass                      | 3,771        | 74         | 3,673        | 78         | 3,968        | 87         | 11,412        | 79         |
| Pass with deficiency(ies) | 949          | 19         | 765          | 16         | 468          | 10         | 2,182         | 16         |
| Fail                      | 345          | 7          | 265          | 6          | 151          | 3          | 761           | 5          |
| Subtotal                  | <u>5,065</u> | <u>100</u> | <u>4,703</u> | <u>100</u> | <u>4,587</u> | <u>100</u> | <u>14,355</u> | <u>100</u> |



Note: The above data reflects peer review results as of July 20, 2015. Approximately 3% of 2014 reviews are in process and their results are not included in the preceding totals.

The following is a list of items noted as matters in engagements with year-ends between March 31, 2014 and June 30, 2015. 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*

Matters included failure to:

- Conform the auditor's report to the clarified auditing standards requirements
- Date the auditor's report appropriately, such as dating the report significantly earlier than the date of the review of the workpapers and the release date
- Appropriately document planning procedures, including:
  - Risk assessment (and linkage of risks to procedures performed)
  - Planning analytics
  - Understanding of IT environment
  - Internal control testing
- Appropriately address fraud considerations
- Obtain appropriate management representation letters. Matters included failure to:
  - Update the letter in conformity with the clarified auditing standards requirements
  - Date the letter appropriately
  - Include appropriate financial statement periods
  - Include required representations
- Communicate and/or document required communications with those charged with governance
- Include audit documentation that contains sufficient competent evidence to support the firm's opinion on the financial statements
- Address the reason(s) accounts receivable were not confirmed
- Adequately document sampling methodology
- Document consideration of the group audit standard when a component unit was audited by another auditor
- Appropriately report on supplemental information such as:
  - Not identifying all supplemental information presented
  - Use of outdated language

### *Accounting and Review Services*

#### Compilations

Matters included failure to:

- Prepare reports in accordance with professional standards. The following matters were noted:
  - Not updated for SSARS 19
  - No headings on the report
  - Inappropriate titles or lack of a title
  - 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 include a reference to the accountant's report on each page of the financials
- Obtain an engagement letter or failure to contain all elements (e.g. objectives of the engagements) required by SSARSs.
  - 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 engagement performed in accordance with a special purpose framework.
- Appropriately label select disclosures as "Selected Information – Substantially All Disclosures Required by [Applicable Financial Reporting Framework] Are Not Included"

## Reviews

### Matters included failure to:

- Obtain appropriate management representation letters. Matters included failure to:
  - include all representations required by the applicable professional standards
  - Date the letter appropriately
  - Include appropriate financial statement periods
- Update reports in conformity with the applicable professional standards or to include inappropriate titles
- Obtain an engagement letter or failure to have all the required elements within the engagement letter
- Report the degree of responsibility taken with respect to supplementary information presented in the financial statements
- Document expectations or the comparison of expectations to recorded amounts for analytical procedures

### General SSARS

- Failure to cover all of the periods or the correct periods presented in the financial statements in the accountant's report

### *Attestation Standards*

### Matters included failure to:

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

- Include the following in an AUP report:
  - A title
  - The word "Independent" in the title
  - Reference of the AICPA attestation standards
  - 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.
- Include all elements required by attestation standards in the engagement letter
- Provide sufficient documentation to understand the nature, timing, extent and results of the attest procedures performed as well as who performed and reviewed the work

*Code of Professional Conduct*

Matters included failure to:

- Establish and document in writing the understanding with the client with regard to non-attest services provided
- Address management's responsibilities to oversee and evaluate the results of the services performed
- Collect fees for professional services provided more than one year prior to the date of the current report

*Statements on Quality Control*

- Leadership Responsibilities for Quality within the Firm, failure to:
  - Have a written quality control document in accordance with SQCS 8
  - Communicate quality control policies and procedures with staff
  - Devote sufficient resources for the support of its quality control policies and procedures
- Relevant Ethical Requirements
  - Failure to obtain written confirmation on independence for all personnel
- Acceptance & Continuance, failure to:
  - Obtain a license in all states where engagements were accepted
  - Evaluate the risk of performing an engagement in a specialized industry and/or to obtain the necessary knowledge of current standards in specialized areas prior to performance of the audit.
- Human Resources, failure to:
  - Design policies that ensure partners and staff obtain appropriate CPE to meet state board requirements, membership requirements, etc.
  - Design policies to require relevant CPE for levels of service and industries of engagements performed
  - Maintain current licenses within all jurisdictions the firm practices
- Engagement Performance, failure to:
  - Establish appropriate criteria for Engagement Quality Control Review (EQCR)
  - Perform EQCR on engagements that meet the firm's criteria
  - Maintain current quality control materials for the performance of engagements
  - Establish a policy for the retention of engagement documentation
- Monitoring, failure to:
  - Design appropriate policies and procedures for the completion of monitoring
  - Include all elements of quality control in monitoring procedures
  - Document the results of monitoring and inspections

*FASB Accounting Standards Codification*

Matters included failure to:

- Disclose the date through which subsequent events were evaluated
- Correctly classify cash flows, present gross amounts instead of net, and identify non-cash transactions on the cash flow statements
- Appropriately disclose related-party transactions, debt maturation schedules and significant estimates
- Appropriately disclose fair value hierarchy of investments, description of the levels, description of the assumption methods used and tabular presentation of amounts

- Perform sufficient procedures or sufficiently document 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, 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
- 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 or incorrect 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
- Follow the Uniform Reporting Standards and current reporting format for HUD financial statements in accordance with the HUD Consolidated Audit Guide
- Prepare an engagement letter or issue an agreed upon procedures report related to REAC submissions
- Properly and consistently report the results of the single audit between the auditor's reports, the Schedule of Findings and Questioned Costs, and the Data Collection Form, including major program determination and threshold, low-risk auditee status, and evaluation of findings.

Disclosure and Presentation, failure to:

- Present the financial statements in accordance with professional standards including Fund Balance and Net Position presentation and reconciliations, presentation of funds, missing significant policy footnotes, missing disclosures related to fair value, debt, impairment of fixed assets and improper financial statement titles
- Properly implement GASB 65, properly present deferred inflows and outflows, or modify accountant's report for failure to write off unamortized bond issuance cost
- Use proper terminology required by GASB standards including net position, classifications of fund balance, and deferred inflows/outflows
- Include the REAC financial data templates as supplemental information as required by HUD

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

non-audit services performed by the auditor, evaluation of significant threats, and safeguards applied to reduce threats to an acceptable level

- Meet the Yellow Book CPE requirements including 80 hours of A&A and 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the auditee operates
- Document required communications with those charged with governance, including proper communication of internal control findings
- 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. Also improper consideration of the date of the representations in relation to the audit report
- 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, failure to properly perform Type A and Type B program risk assessments, failure to group programs with the same CFDA number, and incorrect determination of the auditee as low-risk resulting in insufficient coverage
- SINGLE AUDIT: Failure to properly conclude and document either that an applicable compliance requirement does not apply to the particular auditee or that noncompliance with the requirements could not have a direct and material effect on a major program
- 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 applicable 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 applicable compliance requirement with a direct and material effect for the major program, including insufficient documentation and usage of dual-purpose testing.
- SINGLE AUDIT: Failure to document internal controls over the preparation of the Schedule of Federal Awards (SEFA).

## *ERISA*

Matters include failure to:

- Sufficiently perform participant testing related to demographic data and payroll
- Sufficiently perform and document reliance on SOC 1 reports
- Sufficiently perform procedures related to benefit and claims payment testing including evaluating participant's eligibility, examining approvals and recalculation of benefit or claims amounts
- Report significant plan information, such as related party (party in interest) transactions and prohibited transactions between a plan and a party in interest
- Obtain an understanding of the actuary's objectives, scope of work, methods and assumptions, and consistency of application on defined benefit plans
- Present a complete Schedule of Assets (Held at End of Year)

*Broker-Dealers*

Matters include failure to:

- Comply with SEC Independence Rules. Violations include assisting with client financial statements
- Perform sufficient revenue testing by placing too much reliance on a SOC 1 report
- Make or document the required communications with the audit committee (or board)
- Obtain a concurring review as required by PCAOB Standards

*Service Organization Control (SOC) Reports*

Matters include failure to:

- Obtain the experience and training required under SSAE 16 to properly complete a Service Organization Control Report
- Include required elements in the report such as:
  - Management assertions
  - Complementary user entity controls
  - Carve outs
  - Criteria for the principles being opined on
  - Management responsibilities
  - Inclusion of all controls in control activity section
- Have sufficient working paper support for information included in the report, such as lack of or poor documentation of:
  - Procedures to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
  - Procedures to test carve outs
  - Procedures to support the Other Information included in the report
  - Procedures to assess the suitability criteria to evaluate whether management's description of the service organization's system is fairly presented
- Sufficient test controls, including failure to:
  - Address the elements of the control, all IT general controls and change management controls
  - Document which controls at the service organization were necessary to achieve the control objectives stated in management's description of the service organization's system and assess whether those controls were suitably designed to achieve the control objectives
- Update engagement letter for changes in the audit guide
- Document how sample sizes were selected
- Coordinate the use of inquiry with other procedures
- Ensure that the assertions provided by management were sufficient in detail

*Banking, including FDICIA*

Matters include failure to:

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

- Properly disclose:
  - Loans by type, delinquencies by type, and other segmentation information of the loan portfolio
  - The policy for recognizing interest income on impaired loans, including how cash receipts are recorded
  - Valuation allowances, changes in allowances, and related segmentation information, and the allowance account methodology
  - Credit quality disclosures related to loans receivable
  - 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
  - Loan servicing fees including the amount of contractual fees and assumptions used to estimate the fair value of the fees
- Perform sufficient 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
- Perform sufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias
- Obtain a management representation letter with representations specific to financial institutions
- Adequately document testing of member shares and loans receivable, including confirmations and compliance with FASB ASC 310-20

•  
*PCAOB*

- Failure to also perform and report under U.S. GAAS when an audit is performed under PCAOB standards for a non-SEC issuer not under the PCAOB's jurisdiction

*Not for profit*

Matters include failure to:

- Properly classify net assets as unrestricted, temporarily restricted and permanently restricted
- Adequately disclose the nature, amounts and types of net asset restrictions
- Disclose policies regarding donated goods and services
- Refer to the Statement of Functional Expenses in the report
- Properly expense classifications on the Statement of Functional Expenses

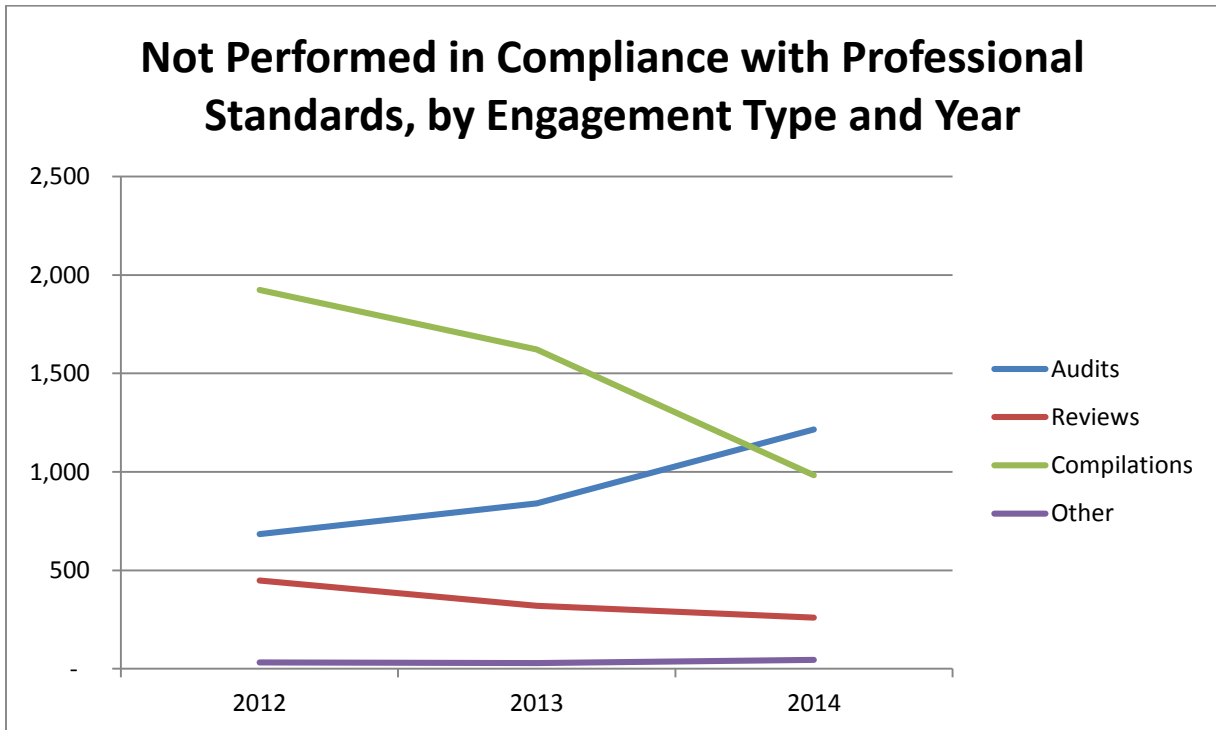
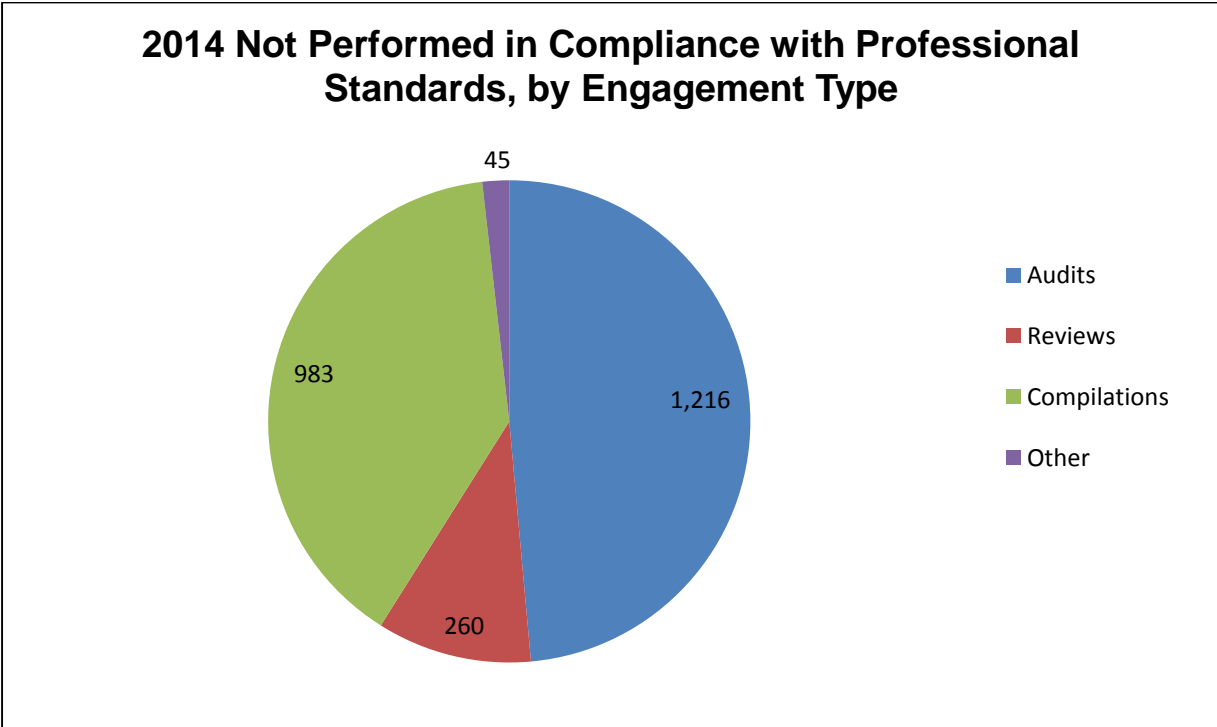
The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews performed in the AICPA PRP from 2012–14 summarized by elements of quality control as defined by the SQCS No. 8, *A Firm's System of Quality Control*. A system review includes 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."*

|   | <u>2012</u>       | <u>2013</u>       | <u>2014</u>         |
|---|-------------------|-------------------|---------------------|
| Leadership responsibilities for quality within the firm ("the tone at the top") | 60                | 51                | 109                 |
| Relevant ethical requirements   | 12                | 10                | 27                  |
| Acceptance and continuance of client relationships and specific engagements     | 41                | 53                | 78                  |
| Human resources   | 93                | 94                | 136                 |
| Engagement performance  | 459               | 483               | 572                 |
| Monitoring  | <u>230</u>        | <u>232</u>        | <u>331</u>          |
| <b>Totals</b>   | <b><u>895</u></b> | <b><u>923</u></b> | <b><u>1,253</u></b> |

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 2012–14. 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.

| Engagement Type          | 2012                  |   |           | 2013                  |   |            | 2014                  |   |           |
|--------------------------|-----------------------|---|-----------|-----------------------|---|------------|-----------------------|---|-----------|
|                          | Number of Engagements |   | %         | Number of Engagements |   | %          | Number of Engagements |   | %         |
|                          | Reviewed              | Not Performed in Accordance with Professional Standards |           | Reviewed              | Not Performed in Accordance with Professional Standards |            | Reviewed              | Not Performed in Accordance with Professional Standards |           |
| Audits:                  |                       |   |           |                       |   |            |                       |   |           |
| Single Audit Act (A-133) | 1,743                 | 190   | 11%       | 1,387                 | 171   | 12%        | 1,714                 | 196   | 11%       |
| Governmental - All Other | 1,500                 | 110   | 7%        | 1,296                 | 122   | 9%         | 1,538                 | 177   | 12%       |
| ERISA                    | 2,519                 | 138   | 5%        | 1,977                 | 182   | 9%         | 2,671                 | 457   | 17%       |
| FDICIA                   | 10                    | -   | 0%        | 30                    | 3   | 10%        | 19                    | -   | 0%        |
| Carrying Broker-Dealers  | 6                     | -   | 0%        | 8                     | 1   | 13%        | 5                     | 2   | 40%       |
| Other                    | 4,896                 | 246   | 5%        | 4,049                 | 361   | 9%         | 4,917                 | 384   | 8%        |
| Reviews                  | 5,867                 | 449   | 8%        | 5,006                 | 320   | 6%         | 5,663                 | 260   | 5%        |
| Compilations:            |                       |   |           |                       |   |            |                       |   |           |
| With Disclosures         | 3,858                 | 320   | 8%        | 3,297                 | 256   | 8%         | 3,651                 | 158   | 4%        |
| Omit Disclosures         | 11,773                | 1,603   | 14%       | 10,434                | 1,365   | 13%        | 11,683                | 825   | 7%        |
| Forecasts & Projections  | 144                   | 9   | 6%        | 86                    | 5   | 6%         | 115                   | 5   | 4%        |
| SOC Reports              | 53                    | 1   | 2%        | 63                    | 1   | 2%         | 111                   | 11  | 10%       |
| Agreed Upon Procedures   | 1,010                 | 16  | 2%        | 930                   | 19  | 2%         | 1,359                 | 24  | 2%        |
| Other SSAEs              | 223                   | 6   | 3%        | 150                   | 4   | 3%         | 146                   | 5   | 3%        |
| <b>Totals</b>            | <b>33,602</b>         | <b>3,088</b>  | <b>9%</b> | <b>28,713</b>         | <b>2,810</b>  | <b>10%</b> | <b>33,592</b>         | <b>2,504</b>  | <b>7%</b> |





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 2012–14 reviews, committees required 6,290 corrective actions. The following represents the type of corrective actions required.

| <b>Type of Corrective Action</b>  | <b><u>2012</u></b>  | <b><u>2013</u></b>  | <b><u>2014</u></b>  |
|---|---------------------|---------------------|---------------------|
| Agree to take/submit proof of certain (CPE)   | 1,370               | 1,102               | 950                 |
| Submit to review of correction of engagements that were not performed in accordance with professional standards | 479                 | 403                 | 338                 |
| Agree to pre-issuance reviews   | 178                 | 218                 | 271                 |
| Submit monitoring report to Team Captain or Peer Review Committee   | 82                  | 78                  | 89                  |
| Submit Inspection Report to Team Captain, Peer Review Committee or outside party                                | 45                  | 39                  | 40                  |
| Submit to revisit (Team Captain or Peer Review Committee Member)  | 88                  | 91                  | 103                 |
| Elective to have accelerated review   | 25                  | 11                  | 6                   |
| Submit evidence of proper firm licensure  | 9                   | 14                  | 7                   |
| Firm has represented in writing they no longer perform any auditing engagements                                 | 26                  | 28                  | 56                  |
| Agree to hire consultant for inspection   | 11                  | 8                   | 14                  |
| Review of formal CPE plan   | 5                   | 9                   | 4                   |
| Team captain to review Quality Control Document   | 20                  | 13                  | 20                  |
| Submit inspection completion letter   | 2                   | 2                   | 4                   |
| Submit proof of purchase of manuals   | 33                  | 29                  | 23                  |
| Submit report of consultant   | 11                  | 3                   | 7                   |
| Oversight of Inspection – Review  | 7                   | 13                  | 14                  |
| Submit quarterly progress reports   | 5                   | 1                   | 6                   |
| Oversight of Inspection – Visitation  | 13                  | 8                   | 13                  |
| Agree to strengthen staff   | -                   | 1                   | 1                   |
| <b>Total</b>  | <b><u>2,409</u></b> | <b><u>2,071</u></b> | <b><u>1,966</u></b> |

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.

| <u>Administering Entity</u>   | <u>State Board of<br/>Accountancy</u> | <u>Oversight Relationship<br/>Between AE and<br/>State Board</u> |
|-------------------------------|---------------------------------------|--|
| 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   |
| Virginia Society of CPAs      | District of Columbia                  | No   |
| Florida Institute of CPAs     | Florida                               | No   |
| Georgia Society of CPAs       | Georgia                               | No   |
| Oregon Society of CPAs        | Guam                                  | No   |
| Hawaii Society of CPAs        | Hawaii                                | Yes  |
| Idaho Society of CPAs         | Idaho                                 | Yes  |
| Illinois Society of CPAs      | Illinois                              | No   |
| Indiana CPA Society           | Indiana                               | Yes  |
| Illinois 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  |

| <u>Administering Entity</u>        | <u>State Board of<br/>Accountancy</u> | <u>Oversight Relationship<br/>Between AE and<br/>State Board</u> |
|------------------------------------|---------------------------------------|--|
| 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  |
| Pennsylvania Institute of CPAs     | U.S. Virgin Islands                   | No   |
| 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   |

During 2013–2014, 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](#).

2013

Connecticut  
 Georgia  
 Hawaii  
 Idaho  
 Illinois  
 Indiana  
 Iowa  
 Kentucky  
 Louisiana  
 Maryland  
 Massachusetts  
 Minnesota  
 North Carolina  
 Oklahoma  
 South Carolina  
 Texas  
 Virginia  
 Washington

2014

Alabama  
 Arkansas  
 California  
 Colorado  
 Florida  
 Kansas  
 Michigan  
 Mississippi  
 Missouri  
 Montana  
 Nevada  
 New England  
 New Jersey  
 New Mexico  
 New York  
 North Dakota  
 Ohio  
 Oregon  
 Pennsylvania  
 Puerto Rico  
 Tennessee  
 West Virginia  
 Wisconsin

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 2012–2014. 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.
- Inadequate monitoring of open corrective actions, implementation plans and reviews by staff and committee members.
- Annual plan of administration not submitted timely.
- Extensions were not granted in accordance with the guidelines.
- Acceptance letters were not sent timely.
- Documents were not uploaded timely to the Facilitated State Board Access (FSBA) website

#### 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 resume 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.

#### 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.
- The status of open reviews and follow-up status was 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 were not prepared to document Committee meetings.
- Technical reviewers were not evaluated annually.
- RAB members did not have the required team captain training.
- 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.

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 POA. Comments or suggestions contained in the reports are summarized below 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.
- Acceptance letters for reviews were not 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.
- 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
- Implement report system to monitor follow-up actions and provide updates to the committee
- Ensure appropriate documentation of approval
- Develop a written back-up and succession plan for technical reviewers
- Reviewer resumes were not appropriately verified
- Ensure timely assignment of reviews to technical managers



AEs are required to conduct oversight on a minimum of 2 percent of all reviews performed in a 12-month period of time. Within the 2 percent selected for oversight, the AE must evaluate at least two of each type of peer review. 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 2014 oversight year.

| Administering Entity | Type of Review/Oversights |            |            | Type of Engagement Oversights |           |          |          |            | Total Oversights Performed at Firm |
|----------------------|---------------------------|------------|------------|-------------------------------|-----------|----------|----------|------------|------------------------------------|
|                      | System                    | Engagement | Total      | ERISA                         | GAGAS     | FDICIA   | SOC      | Total      |                                    |
| Alabama              | 4                         | 2          | 6          | 3                             | 3         | -        | -        | 6          | 4                                  |
| Arkansas             | 3                         | 2          | 5          | 3                             | 2         | -        | -        | 5          | 2                                  |
| California           | 12                        | 15         | 27         | 3                             | 7         | -        | -        | 10         | 2                                  |
| Colorado             | 2                         | 5          | 7          | 2                             | 1         | -        | -        | 3          | 2                                  |
| Connecticut          | 2                         | 2          | 4          | 2                             | 1         | -        | -        | 3          | 2                                  |
| Florida              | 7                         | 5          | 12         | 3                             | 1         | -        | -        | 4          | 3                                  |
| Georgia              | 5                         | 2          | 7          | 2                             | 3         | -        | -        | 5          | 3                                  |
| Hawaii               | 2                         | 2          | 4          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Idaho                | 2                         | 1          | 3          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Illinois             | 11                        | 2          | 13         | 2                             | 3         | -        | -        | 5          | 4                                  |
| Indiana              | 2                         | 2          | 4          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Iowa                 | 7                         | 2          | 9          | 1                             | 2         | -        | -        | 3          | 4                                  |
| Kansas               | 3                         | 2          | 5          | 1                             | 2         | -        | -        | 3          | 3                                  |
| Kentucky             | 2                         | 5          | 7          | 1                             | 2         | -        | -        | 3          | 3                                  |
| Louisiana            | 5                         | 6          | 11         | 2                             | 2         | -        | -        | 4          | 2                                  |
| Maryland             | 2                         | 3          | 5          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Massachusetts        | 7                         | 3          | 10         | 5                             | 4         | -        | -        | 9          | 2                                  |
| Michigan             | 4                         | 4          | 8          | 3                             | 3         | -        | -        | 6          | 3                                  |
| Minnesota            | 2                         | 4          | 6          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Mississippi          | 2                         | 2          | 4          | 1                             | 2         | -        | -        | 3          | 2                                  |
| Missouri             | 3                         | 2          | 5          | 2                             | 3         | -        | -        | 5          | 3                                  |
| Montana              | 7                         | 1          | 8          | 1                             | 1         | -        | -        | 2          | 4                                  |
| Nevada               | 2                         | 6          | 8          | 1                             | 1         | -        | -        | 2          | 2                                  |
| New England          | 2                         | 2          | 4          | 1                             | 2         | -        | -        | 3          | 2                                  |
| New Jersey           | 7                         | 2          | 9          | 3                             | 4         | -        | -        | 7          | 2                                  |
| New Mexico           | 1                         | 2          | 3          | 1                             | 1         | -        | -        | 2          | 1                                  |
| New York             | 15                        | 2          | 17         | 8                             | 4         | -        | -        | 12         | 5                                  |
| North Carolina       | 9                         | 5          | 14         | 2                             | 1         | 1        | -        | 4          | 5                                  |
| North Dakota         | 1                         | 1          | 2          | -                             | 1         | -        | -        | 1          | 1                                  |
| Ohio                 | 5                         | 5          | 10         | 2                             | 1         | -        | -        | 3          | 5                                  |
| Oklahoma             | 2                         | 2          | 4          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Oregon               | 4                         | 2          | 6          | 2                             | 2         | -        | -        | 4          | 3                                  |
| Pennsylvania         | 5                         | 4          | 9          | 4                             | 4         | -        | -        | 8          | 4                                  |
| Puerto Rico          | 4                         | 1          | 5          | -                             | 2         | -        | -        | 2          | 4                                  |
| South Carolina       | 2                         | -          | 2          | 2                             | 2         | -        | -        | 4          | 2                                  |
| Tennessee            | 3                         | 3          | 6          | 3                             | 2         | -        | -        | 5          | 2                                  |
| Texas                | 9                         | 10         | 19         | 6                             | 4         | -        | 1        | 11         | 4                                  |
| Virginia             | 2                         | 6          | 8          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Washington           | 3                         | 3          | 6          | 1                             | 1         | -        | -        | 2          | 2                                  |
| West Virginia        | 2                         | 2          | 4          | 1                             | 1         | -        | -        | 2          | 2                                  |
| Wisconsin            | 2                         | 2          | 4          | 1                             | 1         | -        | -        | 2          | 2                                  |
| <b>TOTAL</b>         | <b>176</b>                | <b>134</b> | <b>310</b> | <b>82</b>                     | <b>83</b> | <b>1</b> | <b>1</b> | <b>167</b> | <b>110</b>                         |

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 2012–2014.

| <u>Administering Entity</u> | <u>2012</u>       | <u>2013</u>       | <u>2014</u>       |
|-----------------------------|-------------------|-------------------|-------------------|
| Alabama                     | 4                 | 36                | 36                |
| Arkansas                    | 8                 | 7                 | 6                 |
| California                  | 59                | 59                | 74                |
| Colorado                    | 17                | 10                | 7                 |
| Connecticut                 | 6                 | 17                | 6                 |
| Florida                     | 43                | 36                | 25                |
| Georgia                     | -                 | 49                | 15                |
| Hawaii                      | 4                 | 5                 | 2                 |
| Idaho                       | 6                 | 4                 | 6                 |
| Illinois                    | 42                | 27                | 41                |
| Indiana                     | 11                | 17                | 11                |
| Iowa                        | 9                 | 8                 | 8                 |
| Kansas                      | -                 | 2                 | 19                |
| Kentucky                    | 14                | 10                | 12                |
| Louisiana                   | -                 | 48                | 48                |
| Maryland                    | 18                | 17                | 14                |
| Massachusetts               | 38                | 6                 | 18                |
| Michigan                    | 19                | 34                | 23                |
| Minnesota                   | 17                | 9                 | 10                |
| Mississippi                 | 13                | 16                | 17                |
| Missouri                    | 24                | 14                | 20                |
| Montana                     | 8                 | 6                 | 3                 |
| Nevada                      | 76                | 70                | 44                |
| New England                 | 14                | 7                 | 10                |
| New Jersey                  | 28                | 35                | 37                |
| New Mexico                  | 19                | 18                | 16                |
| New York                    | 28                | 48                | 39                |
| North Carolina              | 33                | 30                | 32                |
| North Dakota                | 1                 | 1                 | 1                 |
| Ohio                        | 36                | 26                | 26                |
| Oklahoma                    | 17                | 15                | 9                 |
| Oregon                      | 15                | 1                 | 10                |
| Pennsylvania                | 47                | 37                | 31                |
| Puerto Rico                 | 12                | 11                | 11                |
| South Carolina              | 15                | 13                | 7                 |
| Tennessee                   | 20                | 24                | 25                |
| Texas                       | 44                | 40                | 45                |
| Virginia                    | 23                | 19                | 8                 |
| Washington                  | 25                | 14                | 16                |
| West Virginia               | 7                 | 7                 | 7                 |
| Wisconsin                   | 7                 | 16                | 11                |
| <b>Totals</b>               | <b><u>827</u></b> | <b><u>869</u></b> | <b><u>806</u></b> |

Throughout each year, a sample of RABs are selected for observation. At least one RAB Observation is performed for each AE per year. The documents provided to the RAB are reviewed (by PRP Staff, OTF members, or both) to ensure that the RAB process is operating properly and to ensure the results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions. The following is a summary of the most prevalent comments that were generated as a result of the RAB Observations performed by the AICPA PRP staff and OTF members during the year 2014. 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.

- Findings for Further Consideration (FFC) form did not contain all of the required information to be provided in the reviewed firm's response.
- Overdue notices not sent in accordance with the manual.
- The systemic cause on the FFCs was not clear.
- In the engagement selection documentation, it was not clear why a certain level of service was not selected by the team captain (including different types of ERISA engagements).
- Representation letters were either not prepared in conformity with the recent guidance or were prepared using the outdated version.
- FFC was worded similar to the listing of items from PRP 6200 that would generally lead to a deficiency and it was not clear if a deficiency was warranted.
- Representation letters signed in the firm's name.
- Lack of consideration of supplemental guidance on deficient Yellow Book CPE
- Unclear whether MFCs should have been elevated to FFCs.
- A-133 supplemental checklists, prior report, corrective actions and prior FFCs were not provided to the RAB in advance of the meeting.
- RAB did not discuss or recommend a corrective action included in the recommended corrective actions section of the RAB Handbook.
- Extension was requested and granted for the reviewed firm when the request did not indicate the reason for the extension request.
- FFC was created but it was unclear whether it was a departure from professional standards or an advisory comment.
- No consideration given to issuing a fail report when multiple non-conforming engagements were identified by the team captain.
- The major program determination was not included in the RAB package for the A-133 engagement reviewed.
- The review captain did not appropriately identify a non-conforming engagements on the review captain summary.
- Team captain reviewed an employee benefit plan engagement that had not been issued by the firm.
- An employee benefit plan engagement was deemed non-conforming by the team captain, but, the team captain did not indicate whether they expanded scope to look at the other employee benefit plan engagement performed.
- On a system review, the team captain performed the review well in advance of the due date, which likely led to the selection of an employee benefit plan engagement that was

outside of the peer review year. The working papers did not indicate why the peer review was performed so far in advance of the due date.

- Team captain did not document their consideration of the firm's response to a non-conforming engagement.
- Representation letter included the reviewing firm's name in the body of the letter, instead of the reviewed firm's name.
- Representation letter was not dated as of the exit conference date as required on a System Review.
- Review Captain used an outdated Engagement Summary Form and the form was unsigned.
- Team Captain referenced an engagement with a year-end outside of the peer review's scope and it was unclear if the engagement had been included in scope.
- Team Captain indicated that the firm had a HUD concentration in the Summary Review Memorandum (and it was on the Background Form), but, the Team Captain indicated that there were "no HUD or Yellow Book audits in this period".
- Reviews presented more than 120 days after the receipt of the documents by the administering entity.
- Reviews were accepted by the RAB without a formal vote of the members.
- FFC was not signed.
- FFC did not include a reviewer recommendation.
- Implementation plan was not required in accordance with PRP 3100 when an FFC indicated that the firm's license had lapsed.
- The materials not provided to the RAB members far enough in advance of the meeting to allow enough time to thoroughly review the materials prior to the teleconference.
- A large number of reviews were included on the consent agenda that required further discussion.
- A majority of the RAB did not possess the qualifications of a system review team captain.
- Informal reviewer feedback had been issued where formal feedback should have been issued.
- RAB did not include a member with current experience in a must-select category due to the recusal of one of the RAB members.
- Lack of consideration of guidance related to the Clarified Auditing Standards
- MFCs appeared to indicate a nonconforming engagements but they were not identified as such by the team captain.
- A nonconforming employee benefit plan audit was noted, but, the team captain did not consider issuing a report rating of pass with deficiencies.
- Reviewed firm's response with regard to actions the firm planned to take to remediate a nonconforming engagement was not adequate.
- On a system review presented, the report rating was a pass with deficiencies; however, the Summary Review Memorandum indicated that the deficiencies were significant deficiencies.
- A compilation engagement was not identified in the Summary Review Memorandum (SRM) engagement statistics as a non-conforming engagement.
- Two separate issues were included on one FFC that should have been separated on two FFCs.
- Team captain incorrectly identified the issues as a compliance finding on the FFC.

- Use of outdated SRM by Team Captain.
- Peer review report was not addressed to the peer review committee.
- System Review report did not include a sentence regarding consideration of regulatory reports.
- Inconsistencies between the MFC, FFC, and DMFC forms as to which matters related to the finding.
- SRM indicated that the firm only performed monitoring over functional areas and it was not clear whether the item should have been included in an MFC and should have been elevated to an FFC or a deficiency.

In 2014, the PRB approved the addition of engagement level oversights performed by SMEs. As discussed in more detail in the *Engagement Level Oversights* section, the SMEs identified a large number of material departures from professional standards that were not identified by the peer reviewers. The following is a listing of departures from professional standards identified by the SMEs that were not identified by the peer reviewer. The SMEs identified these departures from professional standards, either individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered non-conforming.

#### *Employee Benefit Plan Engagements*

- No documentation of evaluation of SOC report
- Failure to obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements (including appropriate leveling) and disclosures in the financial statements are in conformity with generally accepted accounting principles (GAAP)
- Overreliance on SOC report. Missing testing included:
  - No specific testing of allocation of contributions.
  - No specific testing of allocation of investment income.
  - No specific testing of investment elections
- No testing of benefit payments or distributions
- Lack of testing of eligibility
- No direct confirmation of existence or valuation of investments in a full scope audit
- Internal control documentation consisted of generic forms that contained no specific information about the auditee
- No documentation identifying the parties-in-interest or consideration of any party-in-interest transactions to consider whether or not any prohibited transactions had occurred during the year under audit.
- No documentation of testing of employer contributions
- Inadequate testing of investment transactions or earning for a full scope audit
- No documentation of procedures to test eligibility of actives or comparing participant data used by the actuary to the plan sponsor records for a frozen plan
- No testing of participant loans
- No documentation of significant processes or internal control
- Audit programs missing for significant areas including preliminary and final analytical review; related parties/parties in interest, allocations to participant accounts, fraud brainstorming, commitments/contingencies, subsequent events and required communications with those charged with governance
- Auditor's report was not modified based on missing participant data in accordance with DOL field assistance bulletin 2009-02
- Auditor's report indicated that the audit was performed and reported on the cash basis of accounting when it was actually performed under the modified cash basis of accounting. The required additional language was not included in the auditor's report

- The risk assessment for all audit areas was low except for participant data and employee contributions which was moderate with extended procedures. Extended procedures and the linkage to tests of controls were not documented in the workpapers or the audit program in accordance with AU-C 230

#### *Single Audit/A-133 and Government Auditing Standards Engagements*

- Compliance requirements were documented as applicable, but, no testing was performed for the compliance requirement
- Lack of testing of internal controls over direct and material compliance requirements
- Lack of documentation of skills, knowledge, or experience
- Lack of documentation or incomplete documentation of risk assessment of Type A or Type B programs
- Lack of documentation supporting the assessment that compliance requirements were not applicable
- No documentation of fraud risk regarding noncompliance for major programs
- No documentation of internal control over preparation of the SEFA
- Schedule of Findings and Questioned costs did not contain all required elements
- Financial statements presented under GAAP instead of Government Accounting Standards
- No materiality calculation on opinion units
- No documentation of risk of management override of controls
- No documentation to support designation as a low risk auditee
- Type A program designated as low risk when it did not meet all of the requirements
- Auditor's report on internal control did not include all required elements
- The report on compliance with requirements applicable to each major program and internal controls over compliance did not contain all required elements
- Data Collection Form did not properly summarize auditor's results
- Calculation of amounts tested as major programs was incorrect. Amount of expenditures tested did not reach 50% for an entity that did not qualify as a low-risk auditee
- Federal program was part of a cluster and was not included in testing of major programs
- Improper surplus cash calculation performed that led to the improper identification of noncompliance findings for a HUD engagement

#### *Service Organization Controls (SOC) 1 Engagement*

- The SOC 1 report was missing a critical element. It did not include a description of the system of controls provided by the service organization. The requirement for management to include a system description is fundamental to AT 801 as the assertion provided by management of the service organization and the opinion provided by the service auditor are attesting to and opining on the completeness and accuracy thereof and this component of the overall report is created to provide user auditors with an understanding of why the service auditor tested the specific controls that were tested.
- Acknowledgements and assurances that the standard requires the auditor to obtain from the service organization during client acceptance were not obtained or documented. AT 801.09 requires that the service auditor only accept the engagement when specific conditions exist, including several acknowledgements to be provided by management of the service organization.

- The extent of testing performed for numerous control activities was insufficient. Numerous instances were identified where sample testing would appear to have been appropriate, yet the service auditor chose to perform observations, tests of one, or inquiry only. Inquiry only is insufficient to determine the operating effectiveness of controls.



The enhanced oversights were divided into two samples, a random sample and a targeted sample. 90 must-select engagements were selected for oversight, 74 random selections and 16 targeted selections. The tables presented below detail the number of non-conforming engagements identified in relation to the number of must-select engagements performed by the firm in that category for all 90 must-select engagements selected for oversight.

| Overall Sample  |                                      |  |   |
|---|--------------------------------------|--|---|
| Number of Must-Select Engagements Performed by Each Firm Selected | Number of Non-Conforming Engagements | Must-Select Audit Engagements Reviewed | Percentage of Engagements Reviewed Identified as Non-Conforming |
| 1-2   | 19                                   | 43                                     | 44%   |
| 3-5   | 10                                   | 22                                     | 45%   |
| 6-10  | 9                                    | 15                                     | 60%   |
| 11 or more  | 2                                    | 10                                     | 20%   |
| Total   | 40                                   | 90                                     | 44%   |

| Employee Benefit Plan Engagements                                 |                                      |  |   |
|---|--------------------------------------|--|---|
| Number of Must-Select Engagements Performed by Each Firm Selected | Number of Non-Conforming Engagements | Must-Select Audit Engagements Reviewed | Percentage of Engagements Reviewed Identified as Non-Conforming |
| 1-2   | 15                                   | 30                                     | 50%   |
| 3-5   | 4                                    | 10                                     | 40%   |
| 6-10  | 3                                    | 4                                      | 75%   |
| 11 or more  | 0                                    | 4                                      | 0%  |
| Total   | 22                                   | 48                                     | 46%   |

| GAS/A-133 Engagements   |                                      |  |   |
|---|--------------------------------------|--|---|
| Number of Must-Select Engagements Performed by Each Firm Selected | Number of Non-Conforming Engagements | Must-Select Audit Engagements Reviewed | Percentage of Engagements Reviewed Identified as Non-Conforming |
| 1-2   | 3                                    | 12                                     | 25%   |
| 3-5   | 6                                    | 12                                     | 50%   |
| 6-10  | 6                                    | 11                                     | 55%   |
| 11 or more  | 2                                    | 6                                      | 33%   |
| Total   | 17                                   | 41                                     | 41%   |

Note: 1 SOC engagement was selected for oversight. The engagement was identified as non-conforming by the SME.

The enhanced oversights were divided into two samples, a random sample and a targeted sample. 90 must-select engagements were selected for oversight, 74 random selections and 16 targeted selections. The tables presented below detail the number of non-conforming engagements identified in relation to the number of must-select engagements performed by the firm in that category for the 74 must-select engagements randomly selected for oversight.

| Random Selections   |                                      |  |   |
|---|--------------------------------------|--|---|
| Number of Must-Select Engagements Performed by Each Firm Selected | Number of Non-Conforming Engagements | Must-Select Audit Engagements Reviewed | Percentage of Engagements Reviewed Identified as Non-Conforming |
| 1-2   | 13                                   | 33                                     | 39%   |
| 3-5   | 9                                    | 19                                     | 47%   |
| 6-10  | 8                                    | 13                                     | 62%   |
| 11 or more  | 2                                    | 9                                      | 22%   |
| Total   | 32                                   | 74                                     | 43%   |

| Employee Benefit Plan Engagements                                 |                                      |  |   |
|---|--------------------------------------|--|---|
| Number of Must-Select Engagements Performed by Each Firm Selected | Number of Non-Conforming Engagements | Must-Select Audit Engagements Reviewed | Percentage of Engagements Reviewed Identified as Non-Conforming |
| 1-2   | 10                                   | 21                                     | 48%   |
| 3-5   | 4                                    | 9                                      | 44%   |
| 6-10  | 3                                    | 4                                      | 75%   |
| 11 or more  | 0                                    | 3                                      | 0%  |
| Total   | 17                                   | 37                                     | 46%   |

| GAS/A-133 Engagements   |                                      |  |   |
|---|--------------------------------------|--|---|
| Number of Must-Select Engagements Performed by Each Firm Selected | Number of Non-Conforming Engagements | Must-Select Audit Engagements Reviewed | Percentage of Engagements Reviewed Identified as Non-Conforming |
| 1-2   | 2                                    | 11                                     | 18%   |
| 3-5   | 5                                    | 10                                     | 50%   |
| 6-10  | 5                                    | 9                                      | 56%   |
| 11 or more  | 2                                    | 6                                      | 33%   |
| Total   | 14                                   | 36                                     | 39%   |

Note: 1 SOC engagement was selected for oversight. The engagement was identified as non-conforming by the SME.

| <u>Term</u>   | <u>Definition</u>  |
|---|--|
| 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 <i>Standards</i> , Interpretations to the <i>Standards</i> 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                           | The 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.   |
| Preparation Engagement                                    | An engagement to prepare financial statements  |
| 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.  |

| <u>Term</u>                             | <u>Definition</u>   |
|---|---|
| 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 engagements 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.   |

| <u>Term</u>                            | <u>Definition</u>   |
|--|---|
| 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 reviewers as set forth in the standards.  |

| <u>Term</u>                | <u>Definition</u>  |
|----------------------------|--|
| 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 accounting and auditing practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on accounting and auditing 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.   |

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**Agenda Item 1.8A**

**Firms Dropped from the AICPA Peer Review Program for Non-Cooperation between July 11, 2015, and September 10, 2015, and Not Enrolled as of April 20, 2015.**

None to report since the August PRB Meeting

**Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program**

Bennett & Company, CPAs – Louisville, KY  
Costin, Hammel & Leake, LLC - Orland Park, IL  
Mullen and Company – Lexington, MS  
O'Leary & Associates – Elmhurst, IL  
Plaut & Associates – Louisville, KY  
S.B. Mukherjee & Co., CPAs, PC - Yorktown Heights, NY  
Vondercrone and Behrens- Nazareth, PA

## 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.

### Board Consideration

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

- Peer Review Report and Letter of Response
  - The STF is considering changes to standards, interpretations, and related guidance to
    - Clarify the peer review report by adding headings to the report, restructuring the placement of information within the report, clarifying when tailoring of the report is appropriate, etc.
    - Clarify what the SQCS element requires and related nonconforming engagements in deficiency descriptions.
    - Shift responsibility of determining appropriate remedial actions from the reviewer to the firm by removing reviewer recommendations and “closing the loop” from the report and requiring the firm to address these items in its LOR.
- Peer Review Quality Control Enhancements
  - The ASB and PRB have been working together to provide firms and peer reviewers the guidance necessary for appropriately establishing, maintaining, and peer reviewing systems of quality control. Some of the topics being discussed include:
    - A more in depth Guidelines for Review of Quality Control Policies and Procedures checklist to assist reviewers in assessing the design of policies and procedures, along with example tests of compliance to determine compliance with SQCS 8. The checklist will provide guidance on identifying risks that a firm’s system of quality control will not provide the firm with reasonable assurance that engagements will be performed in conformity with professional standards and when an MFC should be created.
    - Enhanced staff interviews to assist with testing compliance with the firm’s policies and procedures.
    - Clarified guidance for determining how risks in the firm’s system of quality control impact overall risk assessment, engagement selection, and peer review reporting.
- Other Future Topics:
  - Consideration of non-AICPA firm enrollment in the Peer Review Program.
  - Consideration of guidance for selecting engagements outside of the peer review year.
  - Consideration of additional guidance for the review of quality control materials.
  - Consideration of engagement selection criteria for Engagement Reviews.
  - Consideration of removing industries from the Engagement Summary Form.
  - Clarification of the guidance for determining nonconforming engagements in an Engagement Review.



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- Clarification of the representation letter guidance.
  - Develop guidance addressing firms operating under more than one name or legal entity (e.g. when is it appropriate that only one peer review occurs vs. when there should be separate peer reviews, reporting considerations, etc.).
  - 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.
  - 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.
  - Consideration of whether past history of firms and reviewers should be part of the reviewer process.
  - Consideration of whether surprise engagements are necessary in an electronic working paper environment.
  - Consideration of subsequent events and the impact on the peer review.

## Update on Education and Communications Task Force

### Why is this on the Agenda?

The ECTF is responsible for overseeing the development of guidance and training materials for administrative personnel, technical reviewers, peer reviewers and committee members. The task force will provide an update 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.

### Board Consideration

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

- Conference
  - Assess feedback received from the 2015 AICPA Peer Review Program conference and continue planning for the 2016 conference, to be held in San Diego August 8<sup>th</sup> through the 10<sup>th</sup>.
  - Review materials (for example draft agendas, Conference Cases and Exchange of Ideas topics) that are produced for the 2016 Conference.
- Training Materials and Programs
  - Determine what type of additional training materials and learning opportunities to develop or require for administrators, technical reviewers and committee members.
  - Determine what type of additional training materials and learning opportunities to develop for reviewers based what is already planned or in development.
  - Discuss additional guidance related to the new training requirements for both new and existing peer reviewers. This includes, but is not limited to:
    - Discussing which pre-existing AICPA Conferences (e.g. NAAATS) should host alternative sessions that would meet the requirements.
    - Discussing the structure and format of these alternative sessions.
    - Developing the process for submitting alternative courses to meet the must training requirement for certain must select industries
  - Approve instructors for the live seminar peer review training courses.
- Communications
  - Review and approve any required additional communications to administrators, technical reviewers, committee members, and reviewers
  - Communicate changes to pertinent groups regarding changes adopted by the Peer Review Board or other task forces

**Oversight Task Force Update and 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 21 visits are planned for 2015).
- Consider the timing of Oversight Visits to each Administering Entity.
- Review and approve comments on desk reviews of system and engagement reviews selected for oversight.
- Review and approve RAB Observation reports
- Review of progress of Enhanced Oversight
- Monitor results of the Enhanced Oversight
- Review referrals from Ethics to Peer Review
- Supervise implementation of new AE monitoring procedures
- 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.
- Issue Annual Report on Oversight.

**Update on National Peer Review Committee**

**Why is this on the Agenda?**

The National Peer Review Committee will provide this information to the Board at each open session meeting as it is considered a senior task force of the Peer Review Board. This update serves as an FYI.

**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**

- Full NPRC Meetings
  - There have not been any full NPRC meetings since the last PRB update
  
- Future Meeting Dates and Locations
  - October 22, 2015 conference call – NPRC Annual Oversight Report and Internal Inspection Report is expected to be presented
  - December 8, 2015 meeting in DC – 3 large firm review will be presented at this meeting.
  - February 2, 2016 conference call



## Peer Review Program