



AICPA[®]

Peer Review
Program

ANNUAL REPORT ON OVERSIGHT

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Introduction

Purpose of this report

The Annual Report on Oversight (report) provides a general overview and information on the results of the AICPA Peer Review Program (Program) oversight procedures. This report concludes as to whether the objectives of the AICPA Peer Review Board's (PRB) oversight processes performed in 2021 were compliant with the requirements of the Program.

Scope and use of this report

This report contains data pertaining to the Program and should be reviewed in its entirety to understand the full context. Information presented in this report pertains to peer reviews accepted during calendar years 2019–2021, which covers a full three-year peer review cycle. Oversight procedures included in this report are performed on a calendar-year basis.

Letter to the AICPA Peer Review Board

To the members of the AICPA Peer Review Board:

This report includes oversight procedures performed in 2021. Information presented in this report pertains to peer reviews accepted¹ during the calendar years 2019–2021, which covers a full three-year peer review cycle. As a result of the COVID 19 pandemic and the automatic six-month extensions approved by the Peer Review Board (PRB) in May 2020 for all firms with reviews, corrective actions, and implementation plans originally due from January 1 to September 30, 2020, fewer reviews were accepted during 2020. With the ongoing impact of the pandemic, administering entities (AEs) were encouraged to continue to be lenient when considering due date extension requests from firms in 2021 which has further delayed reviews being performed and accepted.

In planning and performing our procedures, we considered the objectives of the oversight program, which state that there should be reasonable assurance that (1) AEs are complying with the administrative procedures established by the PRB; (2) the reviews are being conducted and reported upon in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)*; (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees; and (4) the information disseminated by AEs is accurate and timely.

Our responsibility is to oversee the activities of AEs that elect and are approved to administer the Program, including the establishment and results of each AE's oversight processes. The ongoing COVID-19 pandemic impacted oversight procedures in 2020 and 2021. Certain procedures were not performed in 2021 and others continued with a reduced scope. These impacts are described throughout this report.

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

- *Oversight of peer reviews and reviewers.* Oversight of various reviews, selected based on reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2021, 133 were selected for oversight at the AE level. See pages 12–13, "Oversight of peer reviews and reviewers."
- *Annual verification of reviewers' resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2021, AEs were not required to perform resume verification due to the ongoing COVID-19 pandemic. For a description of the resume verification process, see pages 13–14, "Annual verification of reviewers' resumes."
- *Benchmarks.* Since 2018, AEs have monitored and periodically reported on compliance with AE benchmarks, which are qualitative, objective and measurable criteria to enhance overall quality and effectiveness of Program administration. See pages 14–15, "Evolution of peer review administration."

The Oversight Task Force (OTF) utilizes subgroups, known as focus groups, to monitor and perform procedures in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook*. These focus groups report to the full OTF.

¹ All peer reviews accepted by a Report Acceptance Body (RAB) during the period, regardless of when the peer review was performed or the peer review year-end.

AE Oversight Focus Group

The AE oversight focus group monitors the results of AE oversights performed by OTF members (which occur on a rotating basis, ordinarily every other year). These oversights include testing the administrative and report acceptance procedures established by the PRB. OTF members oversighted 15 AEs in 2020 and 11 AEs in 2021. See pages 7–8 “Oversights of the Administering Entities” for further information.

Report Acceptance Body (RAB) Observation Focus Group

The RAB observation focus group reviews and approves RAB observation reports, including any responses received from the AEs. Periodically, the focus group will review the process, including applicable checklists. RAB observations, which are performed by OTF members and Program staff, focus on whether the report acceptance process is being conducted in accordance with *Standards* and guidance. In 2021, RAB observations were performed on 78 RAB meetings and 327 peer reviews were selected during these observations. See pages 8–9 “RAB Observations” for a detailed description of the process.

Enhanced Oversight Focus Group

Enhanced oversights are performed by approved subject matter experts (SMEs) on must-select engagements and include the review of financial statements and working papers for such engagements. The enhanced oversight focus group reviews and evaluates the results of enhanced oversights and the oversight reports with comments, then provides input and feedback to Program staff and SMEs. The focus group also evaluates the reviewer performance feedback issued by AE peer review committees as a result of these oversights and recommends that the reviewer performance focus group consider issuing feedback when necessary. See pages 9–11 “Enhanced Oversights” for a detailed description of the process.

Evolution Focus Group

The evolution focus group developed the AE benchmark criteria approved by the PRB. AEs submit three benchmark summary forms during the year, each covering a four-month period. The focus group reviews the results of the benchmark summary forms submitted by the AEs, evaluates AE performance and provides feedback to AEs as necessary. The focus group also considers whether modifications to the benchmarks are needed.

Plan of Administration (POA) Focus Group

The POA focus group reviews and annually approves the plans submitted by the AEs agreeing to administer the Program in compliance with *Standards* and guidance. Information is submitted in two parts. The first part is due each November and typically includes various acknowledgments, policies and procedures. The second part is due each April and reports on compliance with oversight requirements. Final approval of the POA is evaluated after the completion of the second submission.

Reviewer Performance Focus Group

The reviewer performance focus group reviews the reviewer performance monitoring report prepared by Program staff. This report summarizes Program staff’s procedures to evaluate and monitor peer reviewers and AEs for compliance with *Standards*. The focus group evaluates the results to determine if further action should be taken when performance continues to be unsatisfactory or not in compliance with *Standards*.

Conclusion

Based on the results of the oversight procedures performed in 2021, the OTF concluded the objectives of the PRB oversight program were met.

Respectfully submitted,

Brian Bluhm

Brian Bluhm, Chair
Oversight Task Force
AICPA Peer Review Board

AICPA Peer Review Program

There are approximately 21,400 firms currently enrolled in the Program within the United States and its territories, that have a peer review performed once every three years. In recent years, the AICPA has noted a decrease in the number of firms enrolled in the Program. This is attributed to firm mergers and firms no longer performing the accounting and auditing engagements that would subject them to a peer review. There are also approximately 1,400 firms enrolled in the Program that indicated they do not currently perform any engagements subject to peer review. Approximately 7,900 peer reviews are performed each year by a pool of approximately 1,600 qualified peer reviewers. Refer to appendix 2 for an additional overview of the Program and information about the AEs.

Results of AICPA Peer Review Program

Overall results

From 2019–2021, approximately 23,600 peer reviews were accepted in the Program. During the three-year period, more peer reviews were accepted than the number of firms currently enrolled because a firm could have multiple peer reviews accepted during the period, or a firm could have had a peer review accepted and subsequently resigned from the Program. Exhibit 1 shows a summary of these reviews by type of peer review and report issued. The overall results of the reviews accepted during the three-year period by report type were:

	System Reviews	Engagement Reviews
Pass	82%	82%
Pass with deficiency(ies)	12%	11%
Fail	6%	7%

A list of recent examples of matters noted in peer review is available on the [AICPA's website](#). Although this list is not all-inclusive and is not representative of all peer review results, it contains examples of noncompliance with professional standards (both material and immaterial) that were most frequently identified during the peer review process.

Exhibit 2 summarizes the number and type of reasons by quality control element as defined by the Statement on Quality Control Standards (SQCS), for report deficiencies (that is, pass with deficiency[ies] or fail) on system reviews accepted from 2019–2021 in the Program.

Nonconforming engagements identified

The *Standards* state that an engagement is ordinarily considered “not being performed or reported on in conformity with applicable professional standards in all material respects” (hereinafter referred to as nonconforming) when deficiencies, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards. Exhibit 3 shows the total number of individual engagements reviewed for both system and engagement reviews, along with those identified as nonconforming.

The percentage of nonconforming engagements identified each year from 2019–2021 (for system and engagement reviews combined) were:

Year	% of nonconforming engagements
2019	10%
2020	16%
2021	14%

The percentage of nonconforming audit engagements each year were:

Year	% of nonconforming audits
2019	15%
2020	26%
2021	27%

Multiple factors contributed to the increase in nonconforming audit engagements identified in 2020 and 2021, including the implementation or renewed focus on specific professional standards. Since 2018, there has been an increased focus on compliance with risk assessment standards. The PRB issued guidance enhancing the evaluation of noncompliance with the risk assessment standards effective for peer reviews commencing on or after October 1, 2018. Beginning April 1, 2019, Program staff began tracking the number of nonconforming audits that included noncompliance with the risk assessment standards. In 2019, 2020, and 2021 respectively, approximately 12%, 16%, and 17% of audits reviewed were identified as nonconforming due to noncompliance with the risk assessment standards. Note that those audits may have been nonconforming for additional reasons beyond noncompliance with the risk assessment standards.

In addition to the focus on compliance with the risk assessment standards, significant new accounting and auditing standards became effective that likely contributed to the increased percentage of nonconforming audits in 2020 and 2021. The *Government Auditing Standards (GAS) 2018 Revision* became effective for periods ending after June 30, 2020. In addition, other new accounting standards, including financial reporting on not-for-profit engagements and revenue recognition, became effective during this period.

Corrective actions and implementation plans

During the report acceptance process, an AE’s peer review committee determines the need for, and type of, any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. It also considers whether the reviewed firm’s responses are comprehensive, genuine and feasible. Corrective actions are remedial in nature and are imposed to strengthen the performance of the firm. The firm acknowledges that it will perform and complete the corrective action plan as a condition of its peer review acceptance. The firm’s peer review is not complete until the AE’s peer review committee has accepted the completed corrective actions.

In addition to corrective actions, there may be instances in which an implementation plan is required to be completed by the firm as a result of Findings for Further Consideration (FFCs).

There can be multiple corrective actions and implementation plans required on an individual review. For implementation plans, the firm is required to acknowledge that it will perform and complete the implementation plan 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 termination of the firm's enrollment in the Program.

Overall, the total number of corrective actions and implementation plans issued in 2021 was higher than the number issued in 2020, but significantly lower than the number issued in 2019. This correlates with the total number of reviews and number of non-pass reviews accepted each year.

The number of corrective actions and implementation plans as a percentage of overall reviews accepted decreased in 2021 compared to both 2019 and 2020. The decrease is likely due to the increase in the percentage of pass reports accepted during 2021 compared to the other two years. Additionally, the number of nonconforming engagements compared to the total number of engagements reviewed decreased compared to 2020. Corrective actions and/or implementation plans required from 2019–2021 are summarized in exhibit 4.

Since a firm can receive a pass with deficiency(ies) or fail report in addition to FFCs, it is possible for a corrective action plan to be imposed upon the firm for the deficiency(ies) or significant deficiency(ies) in the peer review report, as well as an implementation plan for the FFCs.

Oversight process

The PRB is responsible for oversight of all AEs. In turn, each AE is responsible for overseeing peer reviews and peer reviewers for the jurisdictions it administers. See exhibit 5 for a list of approved AEs. This responsibility includes having written oversight policies and procedures.

All states and jurisdictions that require peer review accept the Program as satisfying their peer review licensing requirements. Some state boards of accountancy (SBOAs) oversee AEs' administration of the Program. This report does not describe or report on that process.

Objectives of PRB oversight process

The PRB appointed the OTF to oversee the administration of the oversight program and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that:

- AEs comply with the administrative procedures established by the PRB,
- Reviews are conducted and reported upon in accordance with the *Standards*,
- Results of the reviews are evaluated on a consistent basis by all AE peer review committees and
- Information disseminated 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:

- Obtain feedback from AEs' peer review committees and staff,
- Provide consultation on matters applicable to specific AEs and
- Develop guidance on a national basis, when appropriate.

OTF oversight procedures

The following Program oversight procedures were performed:

Oversights of the Administering Entities

Description

Each AE is oversighted by a member of the OTF (ordinarily, at least once every other year). No member of the OTF is permitted to perform the oversight of the AE in the state that his or her main office is located, where he or she serves as a technical reviewer, may have a conflict of interest (for example, performing the oversight of the AE that administers the OTF member's firm's peer review) or where he or she performed the most recently completed oversight.

Oversight procedures

During these oversights, the OTF member will:

- 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, as needed,
- Interview the administrator(s), technical reviewer(s), CPA on staff and peer review committee chair and
- Evaluate the various policies and procedures for administering the Program.

As part of the oversight, the AE completes an information sheet that documents policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the Program. The OTF member evaluates the information sheet, results of the prior oversight and comments from RAB observations to develop a risk assessment. A comprehensive oversight work program that contains the various procedures performed during the oversight is completed with the OTF member's comments. At the end of the oversight, the OTF member discusses any comments identified during the oversight with the AE's peer review committee and CPA on staff. The OTF member then issues an AICPA Oversight Report (report) to the AE that discusses the purpose of the oversight and objectives of the oversight program considered in performing those procedures. The report also contains the OTF member's conclusion about whether the AE has complied with the Program's administrative procedures and *Standards* in all material respects.

In addition to the report, the OTF member issues an AICPA Oversight Letter of Procedures and Observations (letter) that details the oversight procedures performed and observations noted by the OTF member. The letter also includes recommendations to enhance the quality of the AE's administration of the Program. The AE is then required to respond, in writing, to any findings included in the report and letter or, at a minimum, acknowledge the oversight if there are no findings reported. The oversight documents, which include the report, the letter of procedures and observations and the AE's response, are presented to the OTF for acceptance. The AE may be required to complete corrective actions as a condition of acceptance. The acceptance letter would

reflect corrective actions, if any. A copy of the acceptance letter, the report, the letter of procedures and observations and the AE’s response are available on the [AICPA’s website](#).

Results

For 2020 and 2021, a member of the OTF performed an oversight of each AE. See exhibit 6 for a list of the 26 AE oversights performed for 2020 and 2021. See exhibit 7 for a summary of observations from the oversights performed during the two years.

RAB observations

Description

The primary objectives of the RAB observation are to determine whether:

- Reviews are conducted and reported on in accordance with the *Standards*,
- Results of reviews are evaluated on a consistent basis within an AE and in all jurisdictions,
- Administrative procedures established by the PRB are being followed and
- Administrators, technical reviews, peer review committee/RAB members and the CPA on staff are complying with applicable benchmarks monitored through RAB observations.

RAB observations allow for real-time feedback to RABs and AEs, which helps improve overall quality and consistency of the RAB process. The process for RAB observations is similar to the process used during the AE oversights. Prior to the meeting, the RAB observer receives the materials that will be presented to the RAB, selects a sample of reviews of firms enrolled in the Program and reviews the materials. During the meeting, the RAB observer offers comments at the close of discussions based on issues or items noted during his or her review of the materials. All significant items that were noted by the RAB observer, but not the RAB, are included as comments in the RAB observation report, which is reviewed and approved by the OTF. The final report is sent to the AE’s peer review committee chair and CPA on staff. Peer review committees may respond after the final report is issued by the OTF.

Results

For 2020, all AEs had at least one RAB observation, and in 2021, all AEs had at least two RAB observations. RAB observations were performed by OTF members or Program staff. Recurring comments generated by RAB observations are summarized in exhibit 8. Individual peer reviews selected during an observation incorporate an element of risk and are not reflective of the entire population. RAB observation results for 2020 and 2021 are as follows:

	2020	2021
RAB meetings observed	70	78
Peer reviews selected during observations	263	327
Peer reviewers	196	222
Based on observers’ comments:		
Acceptance delayed or deferred	21	24
Feedback forms issued to reviewers	2	3

The number of reviews delayed or deferred as a result of the RAB observers’ comments decreased from 8.0% in 2020 to 7.3% in 2021.

Enhanced oversights

Description

In May 2014, the PRB approved the addition of enhanced oversights performed by subject matter experts (SMEs). SMEs consist of current or former members of the applicable Audit Quality Center executive committee and expert panels, current or former PRB members, individuals from firms that perform a large number of engagements in a must-select category, individuals recommended by the Audit Quality Center executive committees and expert panel members and other individuals approved by the OTF. Enhanced oversights are one element of the AICPA's [Enhancing Audit Quality](#) (EAQ) initiative.

The enhanced oversights identify areas that need improvement and provide meaningful data to inform other EAQ activities. As a result of these oversights, the PRB has approved multiple initiatives to improve reviewer performance on must-select engagements, such as additional training requirements for reviewers. The results of the enhanced oversight findings are shared with other teams at the AICPA to further the goal of improving audit quality.

Enhanced oversight samples

One objective of the enhanced oversight program is to increase the probability that peer reviewers are identifying all material issues on must-select engagements, including whether engagements are properly identified as nonconforming. Ordinarily this objective is achieved through the selection of two samples.

- *Random sample* – Selected from all peer reviews that include at least one must-select engagement. Each peer review included in the population has an equal chance at being selected for oversight.
- *Risk-based sample* – Selected based on certain criteria established by the OTF.

The oversight samples are selected from peer reviews with must-select engagements performed during the calendar year. In 2020, the OTF suspended the enhanced oversight process due to the COVID-19 pandemic; however, the process resumed in September 2021. As a result, a random sample was not performed in 2021 and all selections were risk-based.

Beginning in 2021, peer reviewers generally were limited to being selected for oversight no more than once per year. These oversights neither replace nor reduce the minimum number of oversights currently required by AEs.

Enhanced oversight scope

Enhanced oversights focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), and examinations of service organizations). Prior to 2021, when *Government Auditing Standards* engagements with single audits were selected, the oversight focused only on the Single Audit portion of the audit. Beginning in 2021, the entire engagement was reviewed as part of these oversights. Most oversights are performed on employee benefit plan, single audit and *Government Auditing Standards* engagements as these are the most common must-select engagements. Only one engagement is reviewed for each firm selected, and the SME does not expand the scope of the oversight.

Enhanced oversight process

The enhanced oversight process consists of the review of the financial statements and working papers by the SME for the engagement selected. Program staff notifies the peer reviewer and the firm that they have been selected for oversight and the engagement selected after the peer review working papers and report have been submitted to the AE.

The SME reviews the same working papers and compares his or her results to those of the peer reviewer. The SME issues a report, with comments, if applicable, detailing any material items not identified by the peer reviewer that cause the engagement to be considered nonconforming. If the report includes comments, the peer reviewer has an opportunity to provide a letter of response (LOR) explaining whether he or she agrees with the oversight report and any additional procedures that he or she will perform.

The enhanced oversight report and LOR (if applicable) are provided to the AE for consideration during the peer review report acceptance process. If the peer reviewer disagrees with the results of the oversight, the AE will follow the disagreement guidance in the RAB Handbook.

Program staff monitors the effects of the oversights on the peer review results (report rating change from “pass” to “pass with deficiency” or “pass with deficiency” to “fail”), and the type of reviewer performance feedback (feedback form or performance deficiency letter) issued to the peer reviewer, if any.

OTF review of enhanced oversight reports

The OTF reviews the enhanced oversight reports when the SME identifies material items not identified by the peer reviewer that cause the engagement to be considered nonconforming. The OTF reviews the reports for consistency and to verify that the items identified by the SME are material departures from professional standards.

Feedback issued from the enhanced oversight process

The OTF monitors the types of feedback issued for oversights where a nonconforming engagement was not originally identified by the peer reviewer or for oversights where the peer reviewer identified the engagement as nonconforming but failed to identify additional material items. If an AE does not issue feedback, the OTF considers if any further actions are necessary, including whether to issue a reviewer performance finding, reviewer performance deficiency or performance deficiency letter to the peer reviewer.

- *Reviewer performance finding* – Issued when a peer reviewer does not identify a nonconforming engagement but demonstrates sufficient knowledge and experience required to review the engagement.
- *Reviewer performance deficiency* – Issued when a peer reviewer does not identify a nonconforming engagement and does not demonstrate sufficient knowledge and experience required to review the engagement.
- *Performance deficiency letter* – Issued when a peer reviewer has a pattern of reviewer performance findings or more than one performance deficiency is noted.

Results

As previously discussed, in 2018, an increased focus was placed on evaluating noncompliance with the risk assessment standards with the PRB issuing guidance effective for peer reviews commencing on or after October 1, 2018. This increased focus impacted the Program, as neither peer reviewers nor SMEs were raising risk assessment issues to the level of nonconforming, whereas these engagements are now being deemed nonconforming.

The following table summarizes the annual results, including an adjusted nonconforming rate beginning in 2018 to remove those engagements that are nonconforming only due to risk assessment issues. Because the guidance was only effective for the last quarter of 2018, it had a limited impact on the results of the 2018 oversight sample; however, there was a significant impact on the results in 2019. Of the 46 engagements identified as nonconforming in 2019, 17 were nonconforming only because of risk assessment issues. When excluding those engagements with only risk assessment issues, the adjusted nonconforming rate is 37%, which is an improvement from prior years.

Year	Sample size	Total nonconforming engagements identified	%	Nonconforming engagements with only risk assessment issues	Adj %	Number of nonconforming engagements identified by peer reviewer	% of Nonconforming engagements identified by peer reviewer
2014	90	40	44%	N/A	44%	7	18%
2015	190	104	55%	N/A	55%	42	40%
2016	108	38	35%	N/A	35%	18	47%
2017	87	43	49%	N/A	49%	27	63%
2018	185	108	58%	11	52%	68	63%
2019	79	46	58%	17	37%	37	80%
2020	*	*	*	*	*	*	*
2021**	32	13	41%	0	41%	7	54%

* The OTF suspended the enhanced oversight process due to the COVID-19 pandemic; therefore, no oversights were performed for 2020 and resumed in September 2021.

** As of the date of this report, the 2021 enhanced oversight sample is 94% complete.

The enhanced oversights indicate considerable improvement in peer reviewer performance since the enhanced oversight program began in 2014. Through 2019, peer reviewers improved in detecting nonconforming engagements. In the first year of oversights, peer reviewers only identified nonconforming engagements 18% of the time prior to the oversight and this detection rate improved in subsequent years. The detection rate decreased in 2021; however, with a limited sample size, caution should be exercised in drawing any inferences from this data. The PRB's focus on oversight and reviewer education has led to significant improvements in peer reviewer performance, which will ultimately, result in improved firm performance and higher audit quality.

Exhibit 9 lists items identified by SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a nonconforming engagement.

Oversight by the AEs' peer review committees

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

In conjunction with AE staff, the peer review committee establishes oversight policies and procedures that meet the minimum requirements 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 on in accordance with the *Standards*,
- Results of reviews are evaluated on a consistent basis,
- Open reviews are monitored on a timely and consistent basis and
- Information disseminated by the AE is accurate and timely.

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. The following oversight procedures are performed as part of the AE oversight program:

Oversight of peer reviews and reviewers

Description

Throughout the year, the AE selects various peer reviews for oversight. The selections for oversight are made by the peer review committee chair or designated task force of peer review committee members, based on input from AE staff, technical reviewers, and peer review committee members and can be on a random or targeted basis. The oversight may consist of completing 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 visit the firm, either while the peer review team is performing the review or after the review. It is recommended that the oversight be performed prior to presenting the peer review documents to the peer review committee, as this allows the peer review committee to consider all the facts before accepting the review. However, a RAB may review the peer review documents and decide an oversight should be performed before they can accept the peer review.

As part of its oversight process, the peer review committee considers various factors and criteria when selecting peer reviews for oversight, such as the following.

- *Firm based* – Selection considers various factors, such as 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.
- *Reviewer based* – Selection considers various factors, including random selection, an unusually high percentage of pass reports as compared to non-pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, performance of the peer reviewer's first peer review for an AE or performing high volumes of reviews. Oversight of a reviewer can also occur due to previously noted performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review

report, not considering significant matters or failure to select an appropriate number and cross-section of engagements.

- *Minimum requirements* – At a minimum, typically each AE is required to conduct oversight on two percent of all reviews performed in a 12-month period (ordinarily the previous calendar year), and within the two percent selected, there must be at least two system and two engagement reviews. Additionally, at least two system review oversights are required to be performed on-site. Due to the ongoing COVID-19 pandemic, the minimum requirements continue to be reduced. For 2021, each AE was required to conduct oversight on one percent of all reviews performed in a 12-month period (ordinarily the previous calendar year), and within the one percent, generally there must be at least one system and one engagement review. Furthermore, for 2021, there was no requirement to perform any on-site oversights.
- *Exception* – AEs that administer fewer than 25 system reviews annually are required to perform a minimum of one system review oversight on-site. As noted above, there was no requirement for an oversight to be performed on-site in 2021. If the AE administers fewer than 25 engagement reviews annually, ordinarily a minimum of one must be selected for oversight. Waivers may be requested in hardship situations, such as a natural disaster or other catastrophic event.

Results

For 2021, AEs conducted oversight on 133 reviews. There were 87 system and 46 engagement reviews oversights. See exhibit 10 for a summary of oversights by AEs.

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(s) with whom the member is associated should have received a pass report on either its most recent system or engagement review. The reviewer should obtain at least 48 hours of CPE in subjects related to accounting and auditing every three years, with a minimum of eight hours in any one 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.

A critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review includes providing reasonable assurance that reviewers' resumes are updated annually and are accurate. Typically, the AE verifies information within a sample of reviewers' resumes on an annual basis. All reviewer resumes should be verified over a three-year period, as long as, at a minimum, one-third are verified in year one, a total of two-thirds have been verified by year two and 100 percent have been verified by year three. Verification includes the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards (GAGAS), audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), audits of insured depository institutions subject to the FDICIA, and examinations of SOC 1[®]

engagements and SOC 2[®] engagements, as applicable. Verification procedures may include requesting copies of their license to practice as a CPA, CPE certificates from a qualified reviewer training course, CPE certificates that document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least eight hours in one year and CPE certificates that document qualifications to perform audits under *Government Auditing Standards*, if applicable. The AE also verifies whether the reviewer is a partner or manager in a firm enrolled in the Program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Due to the ongoing COVID-19 pandemic, AEs were not required to perform resume verification procedures in 2020 or 2021; however, AEs could use the verification process to monitor reviewer performance issues, if necessary. The OTF has been evaluating the resume verification process for potential revisions.

Evolution of peer review administration

Description

The evolution of peer review administration is part of the AICPA's EAQ initiative, with the objective to ultimately improve audit performance by increasing the consistency, efficiency and effectiveness of the Program administration.

Each of the state CPA societies and all AEs have been integral to the success of the Program, which is enormous in both scope and size across the country. Their commitment to meeting the needs of practitioners, members and regulators has been, and continues to be, tremendous. At the same time, the need for an evolution of peer review administration was overwhelmingly validated by stakeholder feedback.

Benchmark model

As part of evolution and the AICPA's EAQ initiative, the PRB approved AE benchmarks to enhance overall quality and effectiveness of Program administration. Benchmarks are divided into four categories based on the individual(s) with primary responsibility: administrators, technical reviewers, peer review committee/RAB members and the CPA on staff. The benchmarks include qualitative, objective measurable criteria, which may be modified over time due to advances in technology and other factors.

The benchmark model started with a pilot period for monitoring and reporting on the benchmarks. During the pilot period, which began on July 2, 2018 and ended on December 31, 2019, AEs were not subject to fair procedures. During the pilot, the OTF monitored benchmarks and reporting requirements to determine if modifications were needed, including the frequency and timing of reporting. Revisions to the benchmarks were made during this process.

For reporting periods beginning January 1, 2020 and afterwards, AEs are subject to fair procedures when there is a pattern of consistent noncompliance with the benchmarks. As anticipated by the OTF, many AEs reported noncompliance with certain benchmarks because of the ongoing COVID-19 pandemic. The OTF did not plan to and has not commenced fair procedures against any AE for benchmark noncompliance related to the pandemic. The OTF continues to evaluate the benchmark measurements and will make modifications, as needed.

Results

AEs report on their compliance with the benchmarks three times per year, with each reporting period covering four months. The OTF did not identify any AEs with patterns of consistent noncompliance that required further actions. See exhibit 11 for a summary of results for 2020 and 2021.

Exhibit 1
Results by type of peer review and report issued

The following shows the results of the Program from 2019–2021 by type of peer review and report issued. This data reflects the results based on the report acceptance date of the peer review.

System Reviews

	2019		2020		2021		Total	
	#	%	#	%	#	%	#	%
<i>Pass</i>	3,246	79	2,316	79	3,200	86	8,762	82
<i>Pass with deficiency(ies)</i>	579	14	394	14	358	10	1,331	12
<i>Fail</i>	263	7	219	7	167	4	649	6
Subtotal	4,088	100	2,929	100	3,725	100	10,742	100

Engagement Reviews

	2019		2020		2021		Total	
	#	%	#	%	#	%	#	%
<i>Pass</i>	3,867	79	2,814	83	3,890	85	10,571	82
<i>Pass with deficiency(ies)</i>	532	11	365	11	467	10	1,364	11
<i>Fail</i>	483	10	190	6	245	5	918	7
Subtotal	4,882	100	3,369	100	4,602	100	12,853	100

Exhibit 2
Type and number of reasons for report deficiencies

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 QC section 10, *A Firm’s Systems of Quality Control*, in all material respects. QC section 10 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.

The following table lists the reasons for report deficiencies (that is, pass with deficiency[ies] or fail reports) from system reviews in the Program accepted from 2019–2021 summarized by each element of quality control as defined by QC section 10. Since pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in exhibit 1, “*Results by type of peer review and report issued.*”

REASON	2019	2020	2021
Leadership responsibilities for quality within the firm ("the tone at the top")	144	99	67
Relevant ethical requirements	76	67	47
Acceptance and continuance of client relationships and specific engagements	78	77	52
Human resources	266	207	219
Engagement performance	728	530	433
Monitoring	438	309	237
TOTALS	1,730	1,289	1,055

Exhibit 3
Number of engagements not performed or reported on in conformity
with applicable professional standards in all material respects

The following shows the total number of engagements reviewed, for both system and engagement reviews, and the number identified as not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming) from peer reviews accepted from 2019–2021 in the Program.

On April 1, 2019, Program staff began tracking the number of nonconforming audits due to noncompliance with the risk assessment standards. In 2019, 2020 and 2021 respectively, approximately 12%, 16% and 17% of audits reviewed were identified as nonconforming due to noncompliance with the risk assessment standards. Furthermore, those audits may have been nonconforming for additional reasons beyond noncompliance with the risk assessment standards.

Engagement Type	2019			2020			2021		
	Total engagements reviewed (#)	Total non-conforming (#)	%	Total engagements reviewed (#)	Total non-conforming (#)	%	Total engagements reviewed (#)	Total non-conforming (#)	%
Audits:									
Single Audits	1,353	304	22%	1,314	532	40%	1,346	554	41%
Government Auditing Standards - All Other	1,955	292	15%	1,617	494	31%	1,812	526	29%
ERISA	2,527	400	16%	2,249	724	32%	2,380	665	28%
FDICIA	47	12	26%	71	24	34%	46	3	7%
Broker-Dealers	121	21	17%	144	61	42%	121	48	40%
Other	5,349	635	12%	6,434	1,261	20%	6,016	1,387	23%
Reviews	6,140	423	7%	4,435	450	10%	5,787	616	11%
Compilations & Preparations:									
With Disclosures	3,894	244	6%	2,725	149	5%	3,629	250	7%
Omit Disclosures	10,696	1,057	10%	7,330	639	9%	10,736	647	6%
Forecasts & Projections	21	3	14%	22	1	5%	17	2	12%
SOC® Reports	167	19	11%	199	22	11%	215	28	13%
Agreed Upon Procedures	1,223	91	7%	987	143	14%	1,232	99	8%
Other SSAEs	161	2	1%	165	11	7%	194	18	9%
Totals	33,654	3,503	10%	27,692	4,511	16%	33,531	4,843	14%

Exhibit 4
Summary of required follow-up actions

The AEs' peer review committees are authorized by the *Standards* to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Follow up actions include both corrective actions and implementation plans. Follow up actions are remedial and educational in nature and imposed to strengthen the performance of the firm. A review can have multiple corrective actions and/or implementation plans. For 2019–2021 reviews, the following represents the type of corrective actions and/or implementation plans required.

Type of follow-up action	2019	2020	2021
Agree to take/submit proof of certain (CPE)	2,974	2,276	2,561
Submit to review of correction of nonconforming engagements	272	235	246
Agree to pre-issuance reviews	641	364	352
Agree to post-issuance reviews	820	468	522
Agree to review of remedial actions	143	105	108
Submit monitoring or inspection report to team captain or peer review committee	297	200	129
Submit to outside party revisit	187	84	76
Elect to have accelerated review	11	1	1
Submit evidence of proper firm licensure	87	62	63
Firm has represented in writing they no longer perform or are engaged to perform any engagements subject to peer review	63	62	39
Agree to hire outside party or consultant for inspection	70	46	25
Team captain to review Quality Control Document	37	26	25
Submit proof of purchase of manuals	23	13	13
Agree to join an Audit Quality Center	56	20	29
Other	204	62	102
TOTALS	5,885	4,024	4,291

Exhibit 5
Administering Entities approved to administer the Program in 2021

Administering Entity	Licensing jurisdiction(s)
California Society of CPAs	California, Arizona, Alaska
Coastal Peer Review, Inc. ²	Maryland, North Carolina
Colorado Society of CPAs	Colorado, New Mexico
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Society of Louisiana CPAs	Louisiana
Massachusetts Society of CPAs	Massachusetts, New Hampshire
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota, North Dakota
Missouri Society of CPAs	Missouri
National Peer Review Committee	All jurisdictions
Nevada Society of CPAs	Nevada, Idaho, Montana, Nebraska, Utah, Wyoming
New England Peer Review, Inc.	Maine, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, Kansas, South Dakota
Oregon Society of CPAs	Oregon, Guam, Hawaii, Northern Mariana Islands
Partners in Peer Review ³	Alabama, Arkansas, Mississippi
Peer Review Alliance	Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia, Wisconsin
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, New York, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington

² Effective January 2021, Maryland and North Carolina created Coastal Peer Review, Inc., to administer the Program for both states.

³ During 2021, the Alabama Society of CPAs renamed their administering entity to Partners in Peer Review. There were no changes to the jurisdictions administered.

Exhibit 6
Oversights of Administering Entities
performed by the AICPA Oversight Task Force

For the years 2020 and 2021, an OTF member performed an oversight of each of the following AEs. The oversight results are available on the [AICPA's website](#).

2020	2021
Alabama	Coastal Peer Review, Inc.
California	Colorado
Florida	Connecticut
Georgia	Louisiana
Michigan	Massachusetts
Missouri	Minnesota
National Peer Review Committee	Oklahoma
Nevada	Peer Review Alliance
New England Peer Review, Inc.	Texas
New Jersey	Virginia
Ohio	Washington
Oregon	
Pennsylvania	
Puerto Rico	
Tennessee	

Exhibit 7
Observations from oversights of Administering Entities
performed by the AICPA Oversight Task Force

The following represents a summary of observations made by the OTF during the 2020 and 2021 AE oversights. The observations are examples not indicative of every AE and may have been a single occurrence that has since been corrected.

Administrative procedures

- All required materials not provided to the RAB
- AE did not perform evaluations for technical reviewers that were specific to their performance as a technical reviewer
- Open reviews, including those with open corrective actions or implementation plans, did not appear to be actively monitored for completion
- Peer review data maintained on the website is not current or not in accordance with Program guidance
- Appropriate signed versions of confidentiality agreements were not obtained based on the individual's role (i.e., administrator, technical reviewer, CPA on staff or committee member) or did not adhere to the current templates
- Hearing referral decision letter regarding firm's consecutive non-pass report was sent, though it was unclear if an assessment had been performed and documented in accordance with guidance

Technical reviewer procedures

- Technical reviewers did not address issues before reviews were presented to the RAB
- Technical reviewer recommended an implementation plan to the RAB that was not allowable per guidance
- Reviews were not consistently presented to the RAB within 120 days of receipt of working papers from the reviewer

Peer review committee/RAB procedures

- Reviewer performance feedback not issued when appropriate
- The RAB did not initially identify issues noted by the OTF member
- Guidance for assessment of firms with consecutive non-pass reports had been misinterpreted and misapplied resulting in referral decision letters being sent before the committee had completed their assessment

Exhibit 8
Comments from RAB observations
performed by AICPA Peer Review Program staff and OTF members

The following is a summary of comments generated from RAB observations performed by the Program staff and OTF members for 2020 and 2021. These comments provide the AEs' peer review committee/RAB members, technical reviewers, and CPAs on staff with information that will increase consistency and improve the peer review process. The comments vary in degree of significance and are not applicable to all the respective parties.

- Firm representation letters were not tailored appropriately or not consistent with the *Standards*
- RAB agreed to a recommended implementation plan or corrective action that was not in accordance with RAB Handbook guidance
- Peer review report was not properly tailored or was not consistent with the *Standards*
- Technical issues and questions were not appropriately identified and/or addressed prior to the review being presented to the RAB
- RAB did not contain the minimum number of qualified members (e.g., team captain qualified for system reviews or RAB member with current must-select engagement experience) to present, discuss and accept a peer review
- Firm's letter of response did not adequately address the firm's actions taken or planned to remediate nonconforming engagements nor the timing of the remediation
- Single audit engagement profile was unclear regarding the firm's safeguards in place to address nonattest services performed, requiring follow up to determine the impact on the engagement
- Single audit profile identified a high-risk Type A program that was not audited as a major program
- Technical reviewers did not evaluate reviewer performance history and present it to the RAB
- Firm's response to an FFC form was not clear enough to suggest that the firm understood the requirements of SQCS No. 8
- Systemic cause missing or did not appropriately address the underlying cause of deficiencies in the report or findings on FFC forms
- Systemic cause of a finding was the same on the current and prior peer reviews, but the finding was not identified as a repeat finding
- Finding for risk assessment noncompliance was not appropriately elevated to a deficiency when other deficiencies or significant deficiencies exist that resulted in omitted audit procedures
- Reviewer did not appropriately identify a nonconforming engagement
- Peer review documentation was not clear enough to determine if an engagement was nonconforming

Exhibit 9
Material departures from professional standards identified in the enhanced oversight process

As discussed in more detail in the “Enhanced Oversight” section, the following is a list of example departures from professional standards identified by the SMEs in the 2021 sample that were not identified by the peer reviewers. The SMEs identified these departures from professional standards, individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered nonconforming.

Employee Benefit Plan engagements

- Failure to perform an appropriate risk assessment including not assessing risk at the assertion level, not supporting inherent risk assessments, not properly linking audit procedures performed to the risk assessment, not documenting understanding of controls including IT and complementary user controls, and not appropriately testing controls
- Lack of documentation over tests of operating effectiveness on key complementary user controls for a SOC[®] report upon which reliance was placed
- Control risk assessed at less than high without obtaining a SOC[®] report or performing other control testing
- Failure to perform or document sufficient procedures over participant data, participant contributions, benefit/distribution payments or income allocation to participant accounts
- Failure to perform or document sufficient procedures to conclude whether employer contributions were correctly calculated
- Failure to appropriately include sufficient documentation such that an experienced auditor can understand the nature, timing and extent of procedures performed; results of procedures performed; audit evidence obtained; conclusions reached; and any professional judgments used
- Failure to identify and report prohibited transactions
- Failure to appropriately report on prior year when the firm early adopted SAS 136
- Failure to sufficiently document how the auditor was able to properly test plan document compliance or plan attributes based on the Plan document in effect for the year under audit
- Auditor’s report and financial statements stated use of modified cash basis; however, various receivables and disclosures seemed to indicate preparation on a GAAP basis

Single audit and Government Auditing Standards engagements

- Failure to document the safeguard applied to address a significant threat to independence
- Failure to sufficiently test or document testing of all direct and material compliance requirements
- Insufficient documentation of auditor analysis and judgment of which applicable compliance requirements were determined not to be direct and material
- Failure to appropriately update a legal letter initially provided approximately two months prior to the report date and failure to document resolution of legal cases discussed in the letter

Exhibit 10
Summary of oversights performed by Administering Entities

The following shows the number of oversights performed by each AE for 2021.

Administering Entity	2021		
	System	Engagement	Total
California	9	1	10
Coastal Peer Review	2	2	4
Colorado	1	1	2
Connecticut	2	1	3
Florida	7	1	8
Georgia	1	3	4
Louisiana	3	3	6
Massachusetts	1	1	2
Michigan	2	1	3
Minnesota	1	1	2
Missouri	1	1	2
National Peer Review Committee	23	1	24
Nevada	1	2	3
New England Peer Review	1	1	2
New Jersey	1	3	4
Ohio	5	1	6
Oklahoma	1	1	2
Oregon	1	1	2
Partners in Peer Review	4	2	6
Peer Review Alliance	4	4	8
Pennsylvania	7	3	10
Puerto Rico	1	0	1
Tennessee	1	1	2
Texas	4	4	8
Virginia	1	3	4
Washington	2	3	5
Total	87	46	133

Exhibit 11
Summary of benchmark results for 2020 and 2021

AEs report on their compliance with the benchmarks three times per year, with each reporting period covering four months. The following shows the number of AEs not in compliance during at least one of the benchmark reporting periods in 2020 and 2021. The OTF did not identify any AEs with a pattern of consistent noncompliance that required further actions.

Benchmark reference	Benchmark	AEs not in compliance during one or more reporting periods (#)	
		2020	2021
Administrators			
Admin 1	Perform tasks associated with cases and letters (e.g., Peer Review Information or Scheduling) in PRIMA within 14 calendar days of receipt. Over this reporting period, an AE should have 10% or fewer not performed within this timeframe.	4	1
Admin 2	Provide RAB materials electronically to RAB members at least seven calendar days before RAB meetings.	4	2
Admin 3	Send revised acceptance letters within 14 calendar days of the committee granting firm requests for waiver or replacement of corrective actions or implementation plans.	8	8
Technical Reviewers			
TR 1	Meet all qualifications established in the RAB Handbook, including training requirements.	0	1
TR 2	Perform the technical review in accordance with guidance.	4	3
TR 3	Maintain objectivity and skepticism to mitigate familiarity threat and implement appropriate safeguards while performing the technical review.	0	1
TR 4	Complete technical reviews to meet the 120-day rule for initial presentation of reviews. Over this reporting period, an AE should have fewer than 10% of reviews not presented within this timeframe.	22	4
TR 5	Complete technical reviews to meet the 60-day rule for engagement reviews with certain criteria. Over this reporting period, an AE should have fewer than 10% of reviews not accepted within this timeframe.	8	2
TR 6	Thoroughly review and prepare peer reviews for RAB meetings to minimize the number of reviews that are deferred. Over this reporting period, an AE should have fewer than 10% of reviews deferred.	12	7

Exhibit 11, continued
Summary of benchmark results for 2020 and 2021

Benchmark reference	Benchmark	AEs not in compliance during one or more reporting periods (#)	
		2020	2021
TR 7	Limit reviews with open items and missing relevant information from the RAB package unless RAB consultation is necessary.	1	1
TR 8	Evaluate reviewer performance history and present to RAB.	0	0
TR 9	Provide reviewer performance feedback recommendations to the committee or RAB on reviewer performance issues.	1	1
TR 10	Be available during RAB meetings in which his or her reviews are presented to answer questions to avoid deferrals or delays.	0	0
Committee/RAB			
Comm/RAB 1	Meet all qualifications established in the RAB Handbook, including training requirements.	0	0
Comm/RAB 2	Follow peer review standards, interpretations and related guidance in the evaluation and acceptance of peer reviews.	5	2
Comm/RAB 3	Maintain objectivity and skepticism to mitigate familiarity threat and implement appropriate safeguards while considering the results of peer reviews.	0	1
Comm/RAB 4	Issue reviewer performance feedback forms and performance deficiency letters when appropriate.	1	1
Comm/RAB 5	Waive or replace corrective actions and implementation plans in accordance with guidance except in hardship situations.	1	1
Comm/RAB 6	Assess firm referrals for noncooperation related to consecutive non-pass reports.	0	1
Comm/RAB 7	Perform oversights on firms and reviewers (or review oversights performed by technical reviewer(s)) in accordance with the Oversight Handbook and risk criteria included in policies and procedures.	0	0
CPA on staff			
CPA 1	Submit current benchmark forms signed by CEO to OTF by due date.	4	1
CPA 2	Monitor committee and RAB members' qualifications established in the RAB Handbook.	0	1
CPA 3	RAB member composition includes members with current experience in must-select engagements.	0	1

Exhibit 11, continued
Summary of benchmark results for 2020 and 2021

Benchmark reference	Benchmark	AEs not in compliance during one or more reporting periods (#)	
		2020	2021
CPA 4	A minimum of three RAB members evaluate every peer review for acceptance in accordance with the RAB Handbook.	0	2
CPA 5	Maintain documentation of committee/RAB's decision for firm referrals for noncooperation related to consecutive non-pass reports.	0	0
CPA 6	Decisions on due date extensions and year-end changes are approved in accordance with guidance and documented.	0	0
CPA 7	Scheduling error overrides are appropriate and approved in accordance with AE's policies and procedures.	2	7
CPA 8	Implement appropriate remediation such that RAB observation report comments are not consistently repeated in subsequent observations.	0	3
CPA 9	Respond to requests from OTF or AICPA staff by due date.	0	0
CPA 10	Submit complete Plan of Administration including all AE oversight requirements by April 1.	2	2
CPA 11	Annual reviewer resume verification process is performed in accordance with the Oversight Handbook and verification information is included in Plan of Administration.	0	0
CPA 12	Policies and procedures designed to mitigate familiarity threat for committee/RAB members and technical reviewers are submitted with the Plan of Administration by the due date.	0	1
CPA 13	Submit complete Plan of Administration by November 1.	2	1
CPA 14	Meet all qualifications of the CPA on staff, including training requirements.	1	0
CPA 15	Oversight procedures are approved by the Committee and in place by the Plan of Administration due date.	0	0
CPA 16	Obtain confidentiality and administration agreements from all AE staff associated with peer review on an annual basis.	1	1

Appendix 1 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 this method to monitor their accounting and auditing practices and to make certain that their different offices maintained consistent standards. Firm-on-firm peer review emerged in the 1970s. No real uniformity to the process existed until 1977, when the AICPA's Governing Council (council) established the Division for CPA Firms to provide a system of self-regulation for its member firms. Two voluntary membership sections within the Division for CPA Firms were created—the SEC Practice Section (SECPS) and the Private Companies Practice Section (PCPS).

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

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

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

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

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

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with and inspected by the

Appendix 1, continued

History of Peer Review at the AICPA

PCAOB. Because many SBOAs and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAIF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their SBOA licensing and other state and federal governmental agency peer review requirements.

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

Since peer review became a mandatory AICPA membership requirement in 1988, 53 states and territories have adopted peer review licensure requirements. Many licensees are also required to submit certain peer review documents to their SBOA as a condition of licensure. To help firms comply with state peer review document submission requirements, the AICPA created facilitated state board access (FSBA). FSBA allows firms to give permission to the AICPA or their AEs to provide access to the firms' documents (listed in the following paragraph) to SBOAs through a state-board-only-access website. Permission is granted through various opt-out and opt-in procedures. Some jurisdictions now require their licensees to participate in FSBA, whereas others recognize it as an acceptable process to meet the peer review document submission requirements.

Documents included in FSBA are:⁴

- 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 to the satisfaction of the peer review committee (if applicable)

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

⁴ As of February 2015, a firm's current and prior peer review documents are available via 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.

Appendix 2 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.

Firms enrolled in the Program are required to have a peer review of their accounting and auditing practice once every three years, 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 (SSARSs); 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 Accounting 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 reviews and engagement reviews.

System reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations 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, *A Firm's System of Quality Control (Redrafted)* (QC sec. 10)⁵, 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 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 or 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 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 or 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 at least one, but not all, the

⁵ QC section 10 can be found in AICPA *Professional Standards*.

Appendix 2, continued
AICPA Peer Review Program Overview

engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when the reviewer concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

AEs

Each state CPA society elects the level of involvement that it desires in the administration of the Program. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the Program 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 Program for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the Program in compliance with the *Standards* and related guidance materials issued by the PRB. The PRB approved 26 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the Program in 2021. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the Program.

To receive approval to administer the Program, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted as part of the annual Plan of Administration (POA). The annual POA is the AE's request to administer the Program and is reviewed and approved by the OTF.

AEs may also elect to use the *Standards* and administer a PRP for non-AICPA firms and individuals who chose not to enroll in the Program. These firms and individuals are enrolled in the state CPA society PRPs and these reviews, although very similar to reviews administered by the Program, are not considered as being performed under the auspices of the Program. The reviews are not oversighted by the AICPA PRB; so, this report does not include information or oversight procedures performed by the AEs on their PRPs of non-AICPA firms and individuals.

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board (PRB)	Functions as the “senior technical committee” governing the AICPA Peer Review Program (PRP) and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	A publication that is developed by the PRB. It includes the revised AICPA <i>Standards for Performing and Reporting on Peer Reviews</i> , interpretations to the revised AICPA <i>Standards for Performing and Reporting on Peer Reviews</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 administering entity (AE) oversight process for the Program.
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 (RAB) and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
Administering entity	A state CPA society, group of state CPA societies or other entity annually approved by the PRB to administer the Program in compliance with the <i>Standards</i> and related guidance materials issued by the PRB.
Agreed-upon procedures (AUP) engagement	An engagement in which a practitioner is engaged to issue, or does issue, a practitioner’s report of findings based on specific agreed-upon procedures applied to subject matter for use by specified parties. Because the specified parties require that findings be independently derived, the services of a practitioner are obtained to perform procedures and report the practitioner’s findings. The specified parties determine the procedures they believe to be appropriate to be applied by the practitioner. Because the needs of specified parties may vary widely, the nature, timing and extent of the agreed-upon procedures may vary, as well; consequently, the specified parties assume responsibility for the sufficiency of the procedures because they best understand their own needs. In such an engagement, the practitioner does not perform an examination or a review and does not provide an opinion or conclusion. Instead, the report on agreed-upon procedures is in the form of procedures and findings.
Attest engagement	An engagement that requires independence, as set forth in the AICPA Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARs) and Statements on Standards for Attestation Engagements (SSAEs).
Audit	An engagement which provides financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

Glossary, continued

<u>Term</u>	<u>Definition</u>
Compilation	An engagement in which an accountant applies accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with SSARS without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.
Corrective action	A corrective action is a course of action that a reviewed firm has agreed to take in response to deficiencies.
CPA on staff	Individual at the AE responsible for managing the Program.
Employee Retirement Income Security Act (ERISA) of 1974	The Employee Retirement Income Security Act (ERISA) of 1974 is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans.
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, compilations or preparation engagements).
Enhancing Audit Quality initiative	The Enhancing Audit Quality (EAQ) initiative is the AICPA's commitment to providing the resources and tools, as well as standards, monitoring and enforcement, necessary to move the profession further on its journey toward greater audit quality.
Facilitated State Board Access (FSBA)	<p>Developed by the AICPA to assist firms in complying with state peer review document submission requirements. Firms give permission to provide the results of their peer reviews to SBOAs via the secure FSBA website. Several SBOAs allow firms to voluntarily meet their state peer review document submission requirements using FSBA and many SBOAs require firms to use FSBA.</p> <p>FSBA was enhanced in January 2020 to provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when a firm gives permission.</p>
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 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.

Glossary, continued

<u>Term</u>	<u>Definition</u>
Financial statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.
Finding for further consideration (FFC)	One or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
Firm	A form of organization permitted by law or regulation whose characteristics conform 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 Program 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 an FFC form.
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.
Matters	Matters are typically one or more "no" answers to questions in peer review questionnaires. A matter is documented on a Matter for Further Consideration (MFC) form.
Oversight Task Force (OTF)	Appointed by the PRB to oversee the administration of the Program 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 (POA)	A form completed annually by entities requesting to administer the program whereby the entity agrees to administer the program in compliance with the <i>Standards</i> , interpretations and other guidance established by the PRB.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.

Glossary, continued

<u>Term</u>	<u>Definition</u>
Preparation engagement	An engagement performed in accordance with SSARS in which a practitioner is engaged to prepare financial statements in accordance with a specified financial reporting framework but is not engaged to perform a compilation, review, or audit of those financial statements.
PRIMA	An online system that is accessed to carry out the Program administrative functions.
Report Acceptance Body (RAB)	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 Program are being complied with.
Review	An engagement in which the accountant obtains limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures.
Reviewer feedback form	A form used to document a peer reviewer's performance on individual reviews and give constructive feedback.
Reviewer resume	A document within PRIMA required to be updated annually by all active peer reviewers, that is used by AEs to determine whether individuals meet the qualifications for service as reviewers as set forth in the <i>Standards</i> .
Special purpose framework	A financial reporting framework other than GAAP that is one of the following bases of accounting; cash basis, tax basis, regulatory basis, or contractual basis, commonly referred to as <i>other comprehensive bases of accounting</i> .
State board of accountancy	An independent state governmental agency that licenses and regulates CPAs, each jurisdiction may use a different name for this agency.
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 form.
System of quality control	Policies and procedures designed and implemented to provide a firm with reasonable assurance that: <ol style="list-style-type: none">the firm and its personnel comply with professional standards and applicable legal and regulatory requirements andreports issued by the firm are appropriate in the circumstances.

Glossary, continued

<u>Term</u>	<u>Definition</u>
System review	A type of review that 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 Statement on Quality Control Standards (SQCS) No. 8, <i>A Firm's System of Quality Control</i> (QC sec. 10), in all material respects.
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 and the Virgin Islands.