



AICPA[®]

Peer Review
Program

ANNUAL REPORT ON OVERSIGHT

**Issued
May 3, 2021**

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Table of Contents

Introduction	i
Letter to the Peer Review Board	1
Peer Review Program	4
Exhibit 1 Administering Entities Approved to Administer the Program in 2020	16
Exhibit 2 Results by Type of Peer Review and Report Issued	17
Exhibit 3 Type and Number of Reasons for Report Modifications	18
Exhibit 4 Number of Engagements Not Performed in Accordance with Professional Standards in All Material Respects	19
Exhibit 5 Summary of Required Follow-Up Actions	20
Exhibit 6 Oversight of Administering Entities Performed by the AICPA Oversight Task Force	21
Exhibit 7 Observations from Oversight of Administering Entities Performed by the AICPA Oversight Task Force	22
Exhibit 8 Comments from RAB Observations Performed by AICPA Peer Review Program Staff and OTF Members	23
Exhibit 9 Material Departures from Professional Standards Identified by SMEs	24
Exhibit 10 Summary of Oversight Performed by Administering Entities.....	25
Exhibit 11 Summary of Reviewer Resumes Verified by Administering Entities	26
Exhibit 12 Summary of Benchmark Results for 2020	27
Appendix 1 History of Peer Review at the AICPA	30
Appendix 2 AICPA Peer Review Program Overview	32
Glossary	34

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 2020 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 2018–2020, 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 2020. Information presented in this report pertains to peer reviews accepted¹ during the calendar years 2018–2020, which covers a full three-year peer review cycle. Due to the COVID-19 pandemic and the automatic six-month extensions approved by the 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.

In planning and performing our procedures, we considered the objectives of the oversight program, which state that there should be reasonable assurance that (1) administering entities (AEs) are complying with the administrative procedures established by the Peer Review Board (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 provided via the AEs' websites is accurate and timely.

Our responsibility is to oversee the activities of AEs that elect and are approved to administer the AICPA Peer Review Program (Program), including the establishment and results of each AE's oversight processes. The COVID-19 pandemic impacted oversight procedures in 2020. Certain procedures were not performed in 2020 and others were performed 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 2020, 146 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 2020, AEs were not required to perform resume verification due to the COVID-19 pandemic. For a description of the resume verification process, see pages 13–14, "Annual Verification of Reviewers' Resumes."
- *Benchmarks.* In 2018, AEs started monitoring and periodically reporting 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, "Benchmark Model."

The Oversight Task Force (OTF) utilizes focus groups of OTF members to monitor and perform procedures in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook*.

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 oversees the AE oversight process. Oversight of the AEs occur on a rotating basis, ordinarily every other year, by a member of the OTF. The oversights include testing the administrative and report acceptance procedures established by the PRB. OTF members oversighted 12 AEs in 2019 and 15 AEs in 2020. 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 are performed by OTF members and Program staff. RAB observations focus on whether the report acceptance process is being conducted in accordance with *Standards* and guidance. In 2020, RAB observations were performed on 70 RAB meetings and 263 peer reviews were selected during these observations. See page 8 “RAB Observations” for a detailed description of the process.

Enhanced Oversight Focus Group

Enhanced oversights are performed by subject matter experts 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. The focus group also evaluates the reviewer performance feedback issued 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 and evaluates AE performance and whether modifications to the benchmarks are needed.

Plan of Administration (POA) Focus Group

The POA focus group reviews and approves the plans submitted annually by the AEs agreeing to administer the Program in compliance with *Standards* and guidance.

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 satisfactory performance and compliance with *Standards*. The focus group evaluates the report 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 2020, the OTF has concluded that 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 22,800 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 1,200 firms enrolled in the Program that indicated they do not currently perform any engagements subject to peer review. Approximately 8,000 peer reviews are performed each year by a pool of approximately 1,900 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 2018–2020, approximately 24,000 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 2 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	79%	79%
Pass with Deficiency(ies)	14%	11%
Fail	7%	10%

A list of the most 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 common examples of non-compliance with professional standards (both material and immaterial) that were identified during the peer review process.

Exhibit 3 summarizes the number and type of reasons by quality control element as defined by the Statement on Quality Control Standards (SQCS), for report modifications (that is, pass with deficiency[ies] or fail) on system reviews accepted from 2018–2020 in the Program.

Non-Conforming Engagements Identified

The *Standards* state that an engagement is ordinarily considered “not being performed and/or reported on in accordance with professional standards in all material respects” (hereinafter referred to as non-conforming) 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 4 shows the total number of individual engagements reviewed for both system and engagement reviews, along with those identified as non-conforming.

The percentage of non-conforming engagements identified each year from 2018–2020, as well as the percentage of non-conforming audit engagements each year were:

Year	% of Non-Conforming Engagements	% of Non-Conforming Audits
2018	11%	11%
2019	10%	15%
2020	16%	26%

The increase in non-conforming audit engagements in 2019 and 2020 was caused by an increased focus on compliance with risk assessment standards. The PRB issued guidance enhancing the evaluation of non-compliance with the risk assessment standards effective for peer reviews commencing on or after October 1, 2018. This led to an increase in the number of non-conforming audit engagements identified in 2019 and 2020.

Beginning April 1, 2019, Program staff began tracking the number of non-conforming audits due to non-compliance with the risk assessment standards. In 2019 and 2020 respectively, approximately 11% and 16% of audits reviewed were identified as non-conforming due to non-compliance with the risk assessment standards. Furthermore, those audits may have been non-conforming for additional reasons beyond non-compliance with the risk assessment standards.

In addition to the focus on compliance with the risk assessment standards, significant new accounting standards were issued, including financial reporting on not-for-profit engagements and revenue recognition, that may have contributed to the increased percentage of non-conforming audits in 2020.

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 and educational in nature and are imposed to strengthen the performance of the firm. The firm agrees in writing 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 agree in writing to 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 firm's enrollment in the Program being terminated.

Overall, there was a decrease in the total number of corrective actions and implementation plans issued in 2020, but this is due to the decreased number of reviews accepted in 2020. Based on

historic trends, 2020 would have had the fewest number of reviews accepted during the three-year period of 2018–2020; this number was further reduced as a result of the COVID-19 pandemic. In May 2020, as a response to the burden on firms due to the pandemic, the PRB approved automatic six-month extensions for all firms with reviews, corrective actions and implementation plans originally due from January 1 to September 30, 2020, which resulted in fewer reviews being accepted during 2020 than would have otherwise occurred.

The number of corrective actions and implementation plans as a percentage of overall reviews accepted, decreased slightly in 2020 compared to 2019 but was still higher than 2018. When non-conforming engagements are identified due to non-compliance with the risk assessment standards, RABs are instructed by the PRB risk assessment guidance to issue an implementation plan or corrective action to the firm. The most common implementation plan or corrective action for risk assessment issues was having the firm take prescribed CPE. This impacted the number of corrective actions and implementation plans issued within the category of “firms submitting proof of continuing professional education (CPE).” Corrective actions and/or implementation plans required from 2018–2020 are summarized in exhibit 5.

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 state(s) it administers. See exhibit 1 for a list. This responsibility includes having written oversight policies and procedures.

All state boards of accountancy (SBOAs) that require peer review accept the Program as satisfying their peer review licensing requirements. Some 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 results of reviews are evaluated and reported on in accordance with the *Standards* and on a consistent basis in all jurisdictions and
- Online information provided to firms and reviewers 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 information about problems and concerns of AEs’ peer review committees and staff,
- Provide consultation on those matters 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, or may have a conflict of interest (for example, performing the oversight of the AE that administers the OTF member'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, CPA on Staff (or individual managing the program when a waiver has been approved), committee chair and technical reviewer(s) 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 the 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 and issues identified as a result of the oversight with the AE's peer review committee. The OTF member then issues an AICPA Oversight Report (report) to the AE that discusses the purpose of the oversight and that the objectives of the oversight program were 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 to the chair of the OTF, in writing, to any findings included in the report and letter or, at a minimum, with an acknowledgement of the oversight if there are no findings reported. The oversight documents, including 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 take 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 the years 2019 and 2020, a member of the OTF performed an oversight of each AE. See exhibit 6 for a list of the 27 AE oversights performed for 2019 and 2020. See exhibit 7 for a summary of observations from the oversights performed during the two years.

RAB Observations

Description

The purpose of the RAB observation is 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, committee/RAB members and the CPA on Staff (or individual managing the program when a waiver has been approved) are complying with applicable benchmarks monitored through RAB observations.

RAB observations allow for real-time feedback to RABs, 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 RAB meeting, the 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 observer, but not the RAB, are included as comments in the RAB observation report. Program staff draft the report which is reviewed and approved by the OTF. The final report is sent to the AE's CPA on staff (or individual managing the program when a waiver has been approved) and peer review committee chair. Peer review committees may respond after the final report is issued by the OTF.

Results

All AEs had at least one RAB observation during 2020. RAB observations were performed by OTF members and 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 the year ended 2020 are as follows:

	2020
RAB meetings observed	70
Peer reviews selected during observations	263
Peer reviewers	196
Based on observers' comments:	
Acceptance delayed or deferred	21
Feedback forms issued	2

Enhanced Oversight

Description

In May 2014, the PRB approved the addition of enhanced oversight performed by subject matter experts (SMEs). SMEs consist of members of the applicable Audit Quality Center executive committee and expert panels, PRB members, 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 oversight are one element of the AICPA's [Enhancing Audit Quality](#) (EAQ) initiative.

The enhanced oversight increase confidence in the peer review process, identify areas that need improvement and provide meaningful data to inform other EAQ activities. As a result of these oversight, 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 focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of broker-dealers and examinations of service organizations). For *Government Auditing Standards* engagements with Single Audit Act/Uniform Guidance portions of the engagement, the oversight focus only on the Single Audit Act/Uniform Guidance portion of the audit. All must-select engagement types are included in the enhanced oversight program. Most oversight are performed on employee benefit plan, Single Audit/Uniform Guidance and *Government Auditing Standards* engagements as these are the most common.

Exhibit 9 provides a list of items identified by SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a non-conforming engagement. Only one engagement is reviewed for each firm selected, and the SME does not expand the scope of the oversight. Refer to the following section for further discussion of the sample selection.

Enhanced Oversight Samples

The objective of the enhanced oversight program is to increase the probability that peer reviewers are identifying all material issues on must-select engagements, including whether engagements are properly identified as non-conforming. This objective is achieved through the selection of two samples. The first sample is a random sample of all peer reviews that include at least one must-select engagement, and the second sample is a risk-based sample (targeted) based on certain risk criteria established by the OTF. Beginning in 2019, peer reviewers were limited to being selected in the random sample no more than two times per year. These oversight neither replace nor reduce the minimum number of oversight currently required by AEs.

The oversight samples are selected from peer reviews with must-select engagements performed during the calendar year. In 2020, due to the COVID-19 pandemic, the OTF decided to pause the enhanced oversight process. As a result, the only enhanced oversight performed were those from the 2019 sample completed early in 2020.

- *Random Sample* – Each year, a random sample is selected from all peer reviews that include at least one must-select engagement. Each peer review included in the random population has an equal chance at being selected for oversight.

- *Risk-Based Sample* – Each year, a risk-based (targeted) sample is selected based on certain risk criteria established by the OTF. If a peer reviewer is selected twice during the random sample or through a combination of the random and risk-based samples, he or she is not selected for the targeted sample to limit the number of times a peer reviewer is selected for enhanced oversight each year.

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 once the peer review working papers and report have been submitted to the AE. The peer reviewer is not aware that he or she has been selected for oversight until after the peer reviewer has completed work on the review. The SME reviews the same working papers and compares their results to those of the peer reviewer. The SME issues a report detailing any material items not identified by the peer reviewer that cause the engagement to be considered non-conforming. If there are any material items included in the report, the peer reviewer has an opportunity to complete a letter of response (LOR) detailing whether he or she agrees with the oversight report and lists any additional procedures that he or she will perform. The report and LOR (if applicable) are provided to the AE for consideration during the 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 Oversight Reports

The OTF reviews a selection of oversight reports issued in which the SME identifies material items not identified by the peer reviewer that cause the engagement to be considered non-conforming. 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 non-conforming engagement was not originally identified by the peer reviewer or for oversights where the peer reviewer identified the engagement as non-conforming 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, deficiency or deficiency letter to the peer reviewer.

- *Reviewer performance finding* – Issued when a peer reviewer fails to identify a non-conforming engagement but demonstrates sufficient knowledge and experience required to review the engagement.
- *Reviewer performance deficiency* – Issued when a peer reviewer fails to identify a non-conforming engagement and does not demonstrate sufficient knowledge and experience required to review the engagement.
- *Deficiency letter* – Issued when a peer reviewer has a pattern of reviewer performance findings or deficiencies.

Results

As previously discussed, in 2018, an increased focus was placed on evaluating non-compliance 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 non-conforming, whereas these engagements are now being deemed non-conforming.

The following table summarizes the annual results, including an adjusted non-conforming rate for 2018 and 2019, which removes those engagements that are non-conforming only due to risk assessment issues. Because the guidance was only effective for the last quarter of 2018, the risk assessment guidance 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 non-conforming in 2019, 17 were non-conforming only because of risk assessment issues. When excluding those engagements with only risk assessment issues, the adjusted non-conforming rate is 37%, which is an improvement from prior years.

Year	Sample Size	Total Non-Conforming Engagements Identified	%	Non-Conforming Engagements with Only Risk Assessment Issues	Adj %	Number of Non-Conforming Engagements Identified by Peer Reviewer	% of Non-Conforming 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	*	*	*	*	*	*	*

*As previously noted, the OTF decided to pause the enhanced oversight process in 2020 due to the COVID-19 pandemic, no oversights were performed for the 2020 oversight sample.

The oversights indicate considerable improvement in peer reviewer performance since the enhanced oversight program began in 2014. Each year, peer reviewers improved in their detection of non-conforming engagements. In the first year of oversights, peer reviewers only identified non-conforming engagements 18% of the time prior to the oversight. This increased to 80% in the most recent oversights performed in 2019. The PRB's focus on oversight and reviewer education led to significant improvements in peer reviewer performance; this improvement in reviewer performance will, ultimately, result in improved firm performance and higher audit quality.

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). 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 committee chair, committee or designated task force based on input from AE staff, technical reviewers and 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 committee to consider all the facts prior to 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 oversees firms being reviewed and reviewers performing reviews. The PRB also requires minimum oversight selection:

- *Firms* – The selection of firms to review is based on several factors, including 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 may be selected based on several factors, including but not limited to 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. When an AE performs oversight on a reviewer from another state, the results are conveyed to the AE of that state.

- *Minimum Requirements* – At a minimum, 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 COVID-19 pandemic, the minimum requirements were temporarily reduced. For 2020, 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, there must be at least one system and one engagement review. Additionally, for 2020, 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 2020. If the AE administers fewer than 25 engagement reviews annually, 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 2020, AEs conducted oversight on 146 reviews. There were 84 system and 62 engagement reviews oversighted. 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 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.

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 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 must include 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, audits of broker-dealers 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 certificate 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 COVID-19 pandemic, AEs were not required to perform resume verification in 2020 but could use the process at their discretion. The portion of resumes that would have been verified in 2020 was deferred to 2021, with no expectation that AEs will perform a catch-up. That is, AEs still only need to verify approximately one-third of reviewers' resumes in 2021. See exhibit 11 for a summary of resumes verified by AEs.

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 practitioner 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.

Peer review has grown and matured over the years in the marketplace, as well as in regulatory and technological environments. This evolution does not diminish the contributions of any state CPA society or AE. As the Program evolved over time, some state societies began to examine their role in peer review and opted to discontinue administering peer review by allowing other AEs to administer their programs.

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 with primary responsibility: administrators, technical reviewers, committee/RAB 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. AE benchmarks were derived from the final evolution paper released on August 31, 2017, the webcast presentation for AEs released on September 20, 2017 and stakeholder feedback.

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 the reporting period beginning January 1, 2020, AEs are subject to fair procedures when there is a pattern of consistent non-compliance with the benchmarks. The overall peer review process should not have significant changes, as many of the benchmarks have always been expected and implied. The OTF continues to evaluate the benchmark measurements to ensure they are appropriate and achievable 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 patterns of consistent non-compliance that required further actions. See exhibit 12 for a summary of results for 2020.

Exhibit 1
Administering Entities Approved to Administer the Program in 2020

Administering Entity	Licensing Jurisdiction(s)
Alabama Society of CPAs	Alabama, Arkansas, Mississippi
California Society of CPAs	California, Arizona, Alaska
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
Maryland Association of CPAs ²	Maryland
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
North Carolina Association of CPAs ²	North Carolina
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, Kansas ³ , South Dakota
Oregon Society of CPAs	Oregon, Guam, Hawaii, Northern Mariana Islands
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 Effective November 2020

Exhibit 2
Results by Type of Peer Review and Report Issued

The following shows the results of the Program from 2018–2020 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

	2018		2019		2020		Total	
	#	%	#	%	#	%	#	%
<i>Pass</i>	3,098	78	3,246	79	2,316	79	8,660	79
<i>Pass with deficiency(ies)</i>	587	15	579	14	394	14	1,560	14
<i>Fail</i>	276	7	263	7	219	7	758	7
Subtotal	3,961	100	4,088	100	2,929	100	10,978	100

Engagement Reviews

	2018		2019		2020		Total	
	#	%	#	%	#	%	#	%
<i>Pass</i>	3,591	76	3,867	79	2,814	84	10,272	79
<i>Pass with deficiency(ies)</i>	488	10	532	11	365	11	1,385	11
<i>Fail</i>	641	14	483	10	190	5	1,314	10
Subtotal	4,720	100	4,882	100	3,369	100	12,971	100

Exhibit 3
Type and Number of Reasons for Report Modifications

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 modifications (that is, pass with deficiency[ies] or fail reports) from system reviews in the Program accepted from 2018–2020 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 2, “*Results by Type of Peer Review and Report Issued.*”

REASON	2018	2019	2020
Leadership responsibilities for quality within the firm ("the tone at the top")	140	144	99
Relevant ethical requirements	72	76	67
Acceptance and continuance of client relationships and specific engagements	84	78	77
Human resources	192	266	207
Engagement performance	768	728	530
Monitoring	368	438	309
TOTALS	1,624	1,730	1,289

Exhibit 4
Number of Engagements Not Performed in Accordance
with 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 in accordance with professional standards in all material respects from peer reviews accepted from 2018–2020 in the Program.

On April 1, 2019, Program staff began tracking the number of non-conforming audits due to non-compliance with the risk assessment standards. In 2019 and 2020 respectively, approximately 11% and 16% of audits reviewed were identified as non-conforming due to non-compliance with the risk assessment standards. Furthermore, those audits may have been non-conforming for additional reasons beyond non-compliance with the risk assessment standards.

Engagement Type	2018			2019			2020		
	Total Engagements Reviewed (#)	Total Not Performed in Accordance with Professional Standards (#)	%	Total Engagements Reviewed (#)	Total Not Performed in Accordance with Professional Standards (#)	%	Total Engagements Reviewed (#)	Total Not Performed in Accordance with Professional Standards (#)	%
Audits:									
Single Audit (Uniform Guidance)	1,426	260	18%	1,353	304	22%	1,314	532	40%
Governmental - All Other	1,855	239	13%	1,955	292	15%	1,617	494	31%
ERISA	2,595	406	16%	2,527	400	16%	2,249	724	32%
FDICIA	46	5	11%	47	12	26%	71	24	34%
Broker-Dealers	160	32	20%	121	21	17%	144	61	42%
Other	5,433	318	6%	5,349	635	12%	6,434	1,261	20%
Reviews	5,943	480	8%	6,140	423	7%	4,435	450	10%
Compilations & Preparations:									
With Disclosures	3,766	283	8%	3,894	244	6%	2,725	149	5%
Omit Disclosures	10,707	1,457	14%	10,696	1,057	10%	7,330	639	9%
Forecasts & Projections	91	7	8%	21	3	14%	22	1	5%
SOC® Reports	209	21	10%	167	19	11%	199	22	11%
Agreed Upon Procedures	1,348	38	3%	1,223	91	7%	987	143	14%
Other SSAEs	141	3	2%	161	2	1%	165	11	7%
Totals	33,720	3,549	11%	33,654	3,503	10%	27,692	4,511	16%

Exhibit 5
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 2018–2020 reviews, the following represents the type of corrective actions and/or implementation plans required.

Type of Follow-Up Action	2018	2019	2020
Agree to take/submit proof of certain (CPE)	2,099	2,974	2,276
Submit to review of correction of engagements that were not performed in accordance with professional standards	173	272	235
Agree to pre-issuance reviews	702	641	364
Agree to post-issuance reviews	835	820	468
Agree to review of remedial actions	113	143	105
Submit monitoring or inspection report to Team Captain or Peer Review Committee	309	297	200
Submit to revisit (Team Captain or Peer Review Committee Member)	172	187	84
Elect to have accelerated review	6	11	1
Submit evidence of proper firm licensure	61	87	62
Firm has represented in writing they no longer perform any auditing engagements	68	63	62
Agree to hire outside party or consultant for inspection	61	70	46
Team captain to review Quality Control Document	54	37	26
Submit proof of purchase of manuals	50	23	13
Agree to join a Quality Center	55	56	20
Other	153	204	62
TOTALS	4,911	5,885	4,024

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

For the years 2019 and 2020, an OTF member performed an oversight of each of the following AEs. The oversight results are available on the [AICPA's website](#).

2019	2020
Colorado	Alabama
Connecticut	California
Louisiana	Florida
Maryland	Georgia
Massachusetts	Michigan
Minnesota	Missouri
North Carolina	Nevada
Oklahoma	New England Peer Review
Peer Review Alliance	New Jersey
Texas	National Peer Review Committee
Virginia	Ohio
Washington	Oregon
	Pennsylvania
	Puerto Rico
	Tennessee

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

The following represents a summary of observations made by the OTF during the 2019 and 2020 oversights. The observations are examples not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- All required materials not provided to the RAB
- Technical reviewers not evaluated annually
- Open reviews did not appear to have been identified by administrative procedures as open, so, these reviews were not being monitored for completion
- Peer review data maintained on the website is not current or not in accordance with Program guidance
- RAB member qualifications were not appropriately monitored to determine their eligibility to participate in RAB meetings
- Confidentiality agreements for contract technical reviewers utilized an incorrect template
- Confidentiality agreements for RAB members were not updated for revisions to the template available at the time the agreements were requested

Technical Reviewers

- Technical reviewers did not address issues before reviews were presented to the RAB
- Technical reviewers did not evaluate reviewer performance history and present it to the RAB
- Engagement reviews meeting certain criteria were not accepted within 60 days of receipt of working papers from the reviewer
- Reviews were not presented to the RAB within 120 days of receipt of working papers from the reviewer

Committee Procedures

- Reviewer performance feedback not issued when appropriate
- Required oversights not performed timely
- The RAB did not initially identify issues noted by the OTF member

Exhibit 8
Comments from RAB Observations
Performed by AICPA Peer Review Program Staff and OTF Members

The following is a summary of recurring comments generated from the RAB observations performed by the Program staff and OTF members for 2020. These comments provide the AEs, their committees, RABs, peer reviewers and technical reviewers 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.

- Technical reviewers did not evaluate reviewer performance history and present it to the RAB
- RAB agreed to a recommended implementation plan that is not in accordance with RAB Handbook guidance
- Single Audit profile identified a high-risk Type A program that was not audited as a major program
- Single Audit profile was unclear regarding the firm's safeguards in place to address non-attest services performed
- MFC forms included identifiable information in the firm's response
- Firm's response to an FFC form was not clear enough to suggest that the firm understood the requirements of SQCS 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 non-compliance 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 non-conforming engagement
- Peer review documentation was not clear enough to determine if an engagement was non-conforming
- Report language was not consistent with current *Standards*
- Engagement review report was not appropriately modified to reflect only one engagement being reviewed
- Firm representation letters not consistent with the illustration in appendix B of the *Standards*

Exhibit 9
Material Departures from Professional
Standards Identified by SMEs

As discussed in more detail in the “Enhanced Oversight” section, the SMEs identified material departures from professional standards that were not identified by the peer reviewers. The following is a list of example departures from professional standards identified by the SMEs in the 2018 and 2019 samples⁴. 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 non-conforming.

Employee Benefit Plan Engagements

- Failure to perform an appropriate risk assessment including not assessing risk at the assertion level, not properly identifying relevant assertions and not documenting specific audit responses to risk
- Lack of documentation of understanding of internal controls and internal control testing, including, plan controls, payroll, IT and complimentary user 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 an appropriate preliminary analytic
- Lack of documentation of testing of benefit/claim payments
- Lack of documentation of testing over census data provided to third party
- Failure to perform sufficient procedures of the plan’s investments in a full scope audit
- Failure to include sufficient documentation to meet the re-performance standards
- Failure to appropriately document sample size determination

Single Audit/Uniform Guidance and Government Auditing Standards Engagements

- Lack of documentation of independence considerations, including skills, knowledge and experience, threats to independence and safeguards
- Failure to appropriately document risk assessment including assessing risk at only the financial statement level, not appropriately linking audit procedures performed to the risk assessment and not documenting understanding of controls including IT controls
- No testing of internal control over compliance or lack of testing of internal control over all direct and material compliance requirements
- Lack of documentation of internal controls over compliance
- Failure to document internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA), document procedures performed over the SEFA or reconcile the SEFA to the financial statements.
- Failure to sufficiently test or document testing of all direct and material compliance requirements
- Insufficient documentation of auditor analysis and judgement of which applicable compliance requirements were determined not to be direct and material
- Lack of documentation of risk of material non-compliance of each of the major programs
- Failure to appropriately document sample size determination
- Failure to perform major program determination in accordance with Uniform Guidance

⁴ This information is being re-presented from last year’s report since the 2020 oversight sample was not performed due to COVID-19.

Exhibit 10
Summary of Oversight Performed by Administering Entities

The following shows the number of oversights performed by each AE for 2020.

Administering Entity	2020		
	Type of Review/Oversights		
	System	Engagement	Total
Alabama	4	2	6
California	8	6	14
Colorado	1	2	3
Connecticut	1	2	3
Florida	3	2	5
Georgia	2	1	3
Louisiana	1	2	3
Maryland	1	3	4
Massachusetts	1	1	2
Michigan	2	2	4
Minnesota	1	1	2
Missouri	1	1	2
National Peer Review Committee	19	1	20
Nevada	1	2	3
New England	1	1	2
New Jersey	4	1	5
North Carolina	1	3	4
Ohio	6	2	8
Oklahoma	1	1	2
Oregon	1	1	2
Peer Review Alliance	4	9	13
Pennsylvania	11	2	13
Puerto Rico	1	1	2
Tennessee	1	1	2
Texas	4	6	10
Virginia	1	3	4
Washington	2	3	5
Total	84	62	146

Exhibit 11
Summary of Reviewer Resumes Verified by Administering Entities

The following shows the number of reviewer resumes verified by AEs for the years 2018–2019. Due to the COVID-19 pandemic, AEs were not required to perform resume verification in 2020.

<i>Administering Entity</i>	<i>2018</i>	<i>2019</i>
Alabama	35	32
California	49	47
Colorado	28	20
Connecticut	7	4
Florida	60	35
Georgia	24	25
Louisiana	25	18
Maryland	18	24
Massachusetts	20	6
Michigan	21	21
Minnesota	37	10
Missouri	19	13
National Peer Review Committee	68	84
Nevada	73	19
New England	8	4
New Jersey	35	31
North Carolina	48	11
Ohio	70	35
Oklahoma	17	16
Oregon	16	11
Peer Review Alliance	78	74
Pennsylvania	63	82
Puerto Rico	5	13
Tennessee	26	21
Texas	46	52
Virginia	44	21
Washington	17	8
Total	957	737

Exhibit 12
Summary of Benchmark Results for 2020

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. The OTF did not identify any patterns of consistent non-compliance that required further actions.

Benchmark Reference	Benchmark	AEs not in compliance (#)
Administrators		
Admin 1	Perform tasks associated with cases and letters (e.g. Peer Review Information, 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
Admin 2	Provide RAB materials electronically to RAB members at least seven calendar days before RAB meetings.	4
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.	13
Technical Reviewers		
TR 1	Meet all qualifications established in the RAB Handbook, including training requirements.	0
TR 2	Perform the technical review in accordance with guidance.	4
TR 3	Maintain objectivity and skepticism to mitigate familiarity threat and implement appropriate safeguards while performing the technical review.	0
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
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
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
TR 7	Limit reviews with open items and missing relevant information from the RAB package unless RAB consultation is necessary.	1
TR 8	Evaluate reviewer performance history and present to RAB.	0
TR 9	Provide reviewer performance feedback recommendations to the committee or RAB on reviewer performance issues.	1

Exhibit 12, continued
Summary of Benchmark Results for 2020

Benchmark Reference	Benchmark	AEs not in compliance (#)
TR 10	Be available during RAB meetings in which his/her reviews are presented to answer questions to avoid deferrals or delays.	0
Committee/RAB		
Comm/RAB 1	Meet all qualifications established in the RAB Handbook, including training requirements.	0
Comm/RAB 2	Follow peer review standards, interpretations and related guidance in the evaluation and acceptance of peer reviews.	5
Comm/RAB 3	Maintain objectivity and skepticism to mitigate familiarity threat and implement appropriate safeguards while considering the results of peer reviews.	0
Comm/RAB 4	Issue reviewer performance feedback forms and performance deficiency letters when appropriate.	1
Comm/RAB 5	Waive or replace corrective actions and implementation plans in accordance with guidance except in hardship situations.	1
Comm/RAB 6	Assess firm referrals for noncooperation related to consecutive non-pass reports.	0
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
CPA on staff		
CPA 1	Submit current benchmark forms signed by CEO to OTF by due date.	4
CPA 2	Monitor committee and RAB members' qualifications established in the RAB Handbook.	0
CPA 3	RAB member composition includes members with current experience in must-select engagements.	0
CPA 4	A minimum of three RAB members evaluate every peer review for acceptance in accordance with the RAB Handbook.	0
CPA 5	Maintain documentation of committee/RAB's decision for firm referrals for noncooperation related to consecutive non-pass reports.	0
CPA 6	Decisions on due date extensions and year-end changes are approved in accordance with guidance and documented.	0
CPA 7	Scheduling error overrides are appropriate and approved in accordance with AE's policies and procedures.	2
CPA 8	Implement appropriate remediation such that RAB observation report comments are not consistently repeated in subsequent observations.	0

Exhibit 12, continued
Summary of Benchmark Results for 2020

Benchmark Reference	Benchmark	AEs not in compliance (#)
CPA 9	Respond to requests from OTF or AICPA staff by due date.	0
CPA 10	Submit complete Plan of Administration including all AE oversight requirements by April 1.	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
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
CPA 13	Submit complete Plan of Administration by November 1.	2
CPA 14	Meet all qualifications of the CPA on staff, including training requirements.	1
CPA 15	Oversight procedures are approved by the Committee and in place by the Plan of Administration due date.	0
CPA 16	Obtain confidentiality and administration agreements from all AE staff associated with peer review on an annual basis.	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 educational and remedial in nature. Deficiencies identified within firms through this process are then corrected. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether the reviewed firm's system of quality control for its accounting and auditing practice has been appropriately designed and whether the firm is complying with that system.

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

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

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

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.

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

The FSBA documents typically include the following:⁵

- 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)

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.

⁵ As of February 2015, a firm's current and prior peer review documents are available via facilitated state board access (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)⁶, 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

⁶ 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 28 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the Program in 2020. 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. Non-AICPA 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.
Financial statements	Presentation of financial data including balance sheets, income

Glossary, continued

<u>Term</u>	<u>Definition</u>
	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.
Matter for further consideration	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 System	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.