



# Peer Review Program

**ANNUAL REPORT ON OVERSIGHT**

**Issued  
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## Acronyms

Certain acronyms are used throughout this Report.

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

## **Introduction**

### **Purpose of This Report**

The purpose of this Annual Report on Oversight (report) is to provide a general overview; statistics and information; the results of the AICPA Peer Review Program (AICPA PRP) oversight procedures; and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2015 oversight process were met.

### **Scope and Use of This Report**

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

- approximately 26,000<sup>1</sup> firms enrolled in the AICPA PRP have a peer review performed once every three years.
- approximately 8,500 peer reviews take place each year.
- 39<sup>2</sup> administering entities (AEs) cover 55 licensing jurisdictions.
- there are more than 640 volunteer Peer Review Committee members.

### **Years Presented in This Report**

Statistical information presented in this report pertains to peer reviews commenced and performed during the calendar years 2013–2015. Accordingly, oversight procedures included in this report are performed on a calendar year basis.

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1 Approximately 28,000 firms are enrolled in the AICPA PRP. Approximately 2,200 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

2 Number of Administering Entities as of the date of this report. The NPRC has issued a separate report for the calendar year and its results are not included within this Report.

## **History of Peer Review at the AICPA**

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

One of the most important membership requirements common to both sections was that once every three years, 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 the peer reviews.

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

From its inception, the peer review program has been designed to be educational and remedial in nature. Deficiencies identified within firms through this process are then corrected. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether the reviewed firm's system of quality control for its accounting and auditing practice has been 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 name AICPA PRP governed by the PRB, which became effective in 1995. Thereafter, as a result of this vote, the PCPS no longer had a peer review program.

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

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF

PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with, and inspected by, the PCAOB. Because many state boards of accountancy (SBAs) and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their state board of accountancy licensing and other state and federal governmental agency peer review requirements.

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

In the more than 25 years since peer review became mandatory for AICPA membership, 52 SBAs have adopted peer review requirements and many require their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with state board peer review document submission requirements, the AICPA created Facilitated State Board Access (FSBA). FSBA allows firms to give permission to the AICPA or to their AEs to provide access to the firms' documents (listed in the following paragraph) to state boards through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some state boards now require their licensees to participate in FSBA while others recognize it as an acceptable process to meet the peer review document submission requirements.

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

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

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

## **About the AICPA Peer Review Board**

The PRB is the senior technical committee governing the AICPA PRP and, as such, it is responsible for overseeing the entire peer review process. The PRB is dedicated to enhancing the performance and quality of accounting, auditing, and attestation engagements not subject to PCAOB permanent inspection performed by AICPA members and their firms that are enrolled in the program. The PRB seeks to attain its mission through education and remedial corrective actions which serves the public interest and enhances the significance of AICPA membership.

The mission of the PRB is achieved through establishing and overseeing the program. This includes developing, implementing, maintaining, and enhancing comprehensive peer review standards and related guidance for firms subject to peer review, those performing peer reviews and others involved in administering the program for the PRB. In addition, the PRB is responsible for overseeing the entire peer review process. By reevaluating the validity and objectives of the program, the PRB furthers the goal of continuous enhancement of the quality in the performance of accounting, auditing, and attestation engagements not subject to PCAOB permanent inspection by AICPA members and their firms enrolled in the program, and explicitly recognizes that protecting the public interest is an equally important objective of the program.

The PRB consists of 20 members representing public practitioners from various size firms, including a representative from each of the four largest firms, state society CEOs, and regulators.

Various subcommittees and task forces are appointed to assist the PRB in carrying out its responsibilities. Their work is subject to review by the PRB. Currently, the PRB has task forces or committees for planning, oversight, standards, education and communication, the National Peer Review Committee, associations, quality control materials, technical reviewers' advisory, and administrative advisory. Task forces are formed on an ad hoc basis to address various initiatives of the PRB.

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



**AICPA PEER REVIEW BOARD ROSTER**  
**OCTOBER 2015–OCTOBER 2016**

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Laurel Gron, Technical Manager

Karl Ruben, Technical Manager

## Letter to the AICPA Peer Review Board

To the Members of the AICPA Peer Review Board:

We have completed a comprehensive oversight program for the 2015 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state there should be reasonable assurance that (1) Administering Entities (AEs) are complying with the administrative procedures established by the Peer Review Board (PRB) as set forth in the *AICPA Peer Review Program Administrative Manual*, (2) the reviews are being conducted and reported upon in accordance with the standards, (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees, and (4) the information provided via the Internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of AEs that elect and are approved to administer the AICPA Peer Review Program (AICPA PRP), including the establishment and results of each AE's oversight processes.

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

- *Oversight Visits of Administering Entities.* Visits to the AEs, on a rotating basis ordinarily every other year, by a member of the Oversight Task Force (OTF). The visits included testing the administrative and report acceptance procedures established by the PRB. OTF members visited 18 AEs in 2015. See pages 13–14 “Oversight Visits of the Administering Entities.”
- *Review of AICPA PRP Statistics.* Monitoring the overall activities of the program. As of August 2016, there were 730 incomplete peer reviews. See pages 14–15, “Review of AICPA PRP Statistics.”
- *Report Acceptance Body (RAB) Observations.* RAB Observations are performed by OTF members and AICPA PRP staff. The RAB Observations began in July 2014 and include the review of materials provided to RAB members to ensure that RABs are performing all of their responsibilities. From August 1, 2015 – July 31, 2016, 494 reviews were selected for RAB Observations, or approximately 6.9 percent of the total reviews performed during this time period. See pages 15–16 for a detailed description of the RAB Observation process.
- *Engagement Level Oversight.* Oversight performed by subject matter experts (SMEs) on must-select engagements that include the review of the financial statements and working papers for the must-select engagements. The 2014 sample consisted of 90 engagements selected for oversight (74 random and 16 targeted selections). The random selections were chosen to obtain a 95 percent confidence rating for peer reviews with must-select engagements performed in 2014. The confidence rating indicates that there is a 95 percent likelihood that the sample is representative of the overall population. For the random sample, the SMEs identified 32 of the 74 (43 percent) engagements as not being performed or reported on in accordance with professional standards in all material respects (non-conforming). The peer reviewers identified 7 of the 74 (9 percent) engagements as non-conforming. The peer reviewers did not identify 25 of the 74 (34 percent) of the engagements as non-conforming. The 2015 sample of 190 has not been completed. The results of the 2015 sample will be included in the next oversight report. See pages 16–19 for a detailed description of the engagement level oversight process.
- *Peer Review Working Paper Oversight.* Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the OTF, including its PRB members, which covered all parts of the peer review process from administrative functions, peer

reviewer documents and checklists, technical reviewer procedures, and peer review committee actions. 2013 was the final year a full sample was selected for reviews of peer review working papers. The RAB Observations took the place of these reviews. After 2013, the reviews of peer review working papers are performed as needed. For 2014, 44 reviews were selected for oversight. The 44 reviews selected were replacement reviews that resulted from the Department of Labor (DOL) staff project that received a pass rating. See pages 19–20, “Peer Review Working Paper Oversight.”

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

- *Administrative Oversight of the AE.* Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the OTF. Twenty-two administrative oversights were performed in 2015. See page 20, “Administrative Oversight of the AE.”
- *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 2015, approximately 3.6 percent of total reviews were selected for oversight at the AE level. See pages 20–22, “Oversight of the Peer Reviews and Reviewers.”
- *Annual Verification of Reviewers’ Resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2015, resumes were verified for 771 reviewers. See page 22, “Annual Verification of Reviewers’ Resumes.”

Based on the results of the oversight procedures performed, the OTF has concluded, for the 2015 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

*Debra Seefeld*

Debra Seefeld, Chair  
Oversight Task Force  
AICPA Peer Review Board

September 27, 2016

# The AICPA Peer Review Program

## Overview

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards. In addition, 16 state CPA societies currently have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, of the 55 licensing jurisdictions, currently 52 SBAs have made participation in a type of practice-monitoring program mandatory for licensure. See exhibit 1.

The AICPA PRP has approximately 26,000 firms enrolled in the AICPA PRP within the United States and its territories who have a peer review performed once every three years, at the time this report was prepared. See exhibit 2. Approximately 28,000 firms are enrolled in the AICPA PRP, which includes 2,200 firms that have indicated they do not currently perform any engagements subject to peer review. Approximately 8,500 peer reviews are performed each year by a pool of approximately 2,700 qualified peer reviewers.

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

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

*System reviews:* System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations<sup>4</sup> under the SSAEs, or engagements under PCAOB standards. In addition, agreed-upon procedures, reviews, compilations, and preparation engagements are also included in the scope of the peer review. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including statement on quality control standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (AICPA,

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<sup>4</sup> Prior to March 1, 2013, for SSAE engagements, the scope of the system review only included examinations of prospective financial statements or examinations of service organization's controls likely to be relevant to user entities' internal control over financial reporting.

*Professional Standards*, QC sec. 10), 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 and reporting in conformity with applicable professional standards in all material respects).

*Engagement reviews:* Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects except for the deficiency(ies) that are described in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.<sup>5</sup>

## **Administering Entities**

Each state CPA society annually elects the level of involvement that it desires in the administration of the AICPA PRP. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the AICPA PRP for enrolled firms whose main offices are located in that state, or (3) ask the AICPA to request another state CPA society to administer the AICPA PRP for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB. The PRB approved 39 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the AICPA PRP in 2015. See exhibit 3. Each AE is required to establish a peer review committee that is responsible for administration, acceptance, and oversight of the AICPA PRP. In the last two years, some state CPA societies reevaluated their strategic priorities and, as a result, discontinued administering the program and have transitioned administration to another AE.

In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted with the annual Plan of Administration (POA). The annual POA is the AE's request to administer the peer review

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<sup>5</sup> Effective January 1, 2015, for engagement reviews, if a firm performs more than one engagement, and the same deficiency is identified on each engagement selected for review, the firm will receive a fail report. Prior to January 1, 2015, for firms that performed more than one engagement, if the same deficiency was identified on each engagement selected for review, the firm would have received a pass with deficiencies report.

program and is reviewed by the OTF. In addition, all AEs are required to issue and post to their website an annual report on their oversight of the previous calendar year.

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

## **Results of AICPA Peer Review Program**

### *Overall Results*

From 2013–2015, approximately 26,000 peer reviews were performed in the AICPA PRP. Exhibit 4 shows a summary of these reviews by type of peer review and report issued. For system reviews performed during that three-year period, approximately 83 percent of the reviews resulted in pass reports, 12 percent were pass with deficiency(ies), and 5 percent were fail. For engagement reviews performed during that three-year period, approximately 84 percent of the reviews resulted in pass reports, 12 percent were pass with deficiency(ies), and 4 percent were fail. A list of the most recent examples of matters noted in peer review can be found on the [AICPA's website](#). This list contains examples of noncompliance (both material and immaterial) with professional standards. Although this list is not all-inclusive and is not representative of all peer review results, it does contain more common examples of matters that were identified during the peer review process.

Exhibit 5 summarizes the number and type of reasons by quality control element as defined by the SQCS, for report modifications (that is, pass with deficiency[ies] or fail) on system reviews performed in the AICPA PRP from 2013–2015.

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” when deficiencies, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report or represents omission of a critical accounting, auditing or attestation procedure required by professional standards. In 2013, 2014, and 2015, approximately 9, 8, and 7 percent, respectively, of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects,” otherwise known as non-conforming engagements. Although the overall percentage of non-conforming engagements identified decreased in 2014 and 2015, the percentage of audits identified as non-conforming increased. In 2013, 2014, and 2015, approximately 9, 12, and 12 percent, respectively, of the audit engagements reviewed were identified as non-conforming. The decrease in the overall percentage of non-conforming engagements for 2014 and 2015 is due to the large decrease in non-conforming SSARS engagements identified. The decrease in non-conforming SSARS engagements can be attributed to the fact that 2011 was the first peer review year that included engagements performed under SSARS No. 19, which was effective for engagements with financial statement years ending on or after December 15, 2010. SSARS 19 included a change to the report language for SSARS engagements and required an engagement letter with specific elements. If the significant changes for SSARS 19 were not fully implemented, the engagement is considered non-conforming. A large number of firms did not properly implement SSARS 19, leading to the identification of a large number of non-conforming SSARS engagements. SSARS 19 has been effective for one full peer review cycle from 2011–2013 and,

as expected, the number of non-conforming SSARS engagements has decreased significantly in 2014 and 2015.

#### *Non-Conforming Must-Select Engagements Identified*

Exhibit 6 shows the total number of individual engagements reviewed (system reviews and engagement reviews) along with those identified as non-conforming engagements. There was a large increase in the number of non-conforming engagements in the ERISA category after 2013. This increase can be attributed to multiple factors. First, the clarified auditing standards were effective for financial statements with periods ending on or after December 15, 2012. Second, the peer review Employee Benefit Plan Audit Engagement Checklist was redesigned in January 2013 to focus the reviewer's attention on areas that lead to engagements being identified as non-conforming. Finally, a large number of non-conforming engagements were identified in the replacement reviews that resulted from the AICPA PRP Staff project focusing on ERISA engagements (detailed below).

In 2015, there was also a large increase in the number of non-conforming Single Audit Act (A-133) engagements. This increase is due to an emphasis on the Yellow Book independence documentation requirements. AICPA staff issued additional guidance and training communications about Yellow Book independence documentation violations to assist reviewers with determining whether an engagement should be considered non-conforming.

#### *Corrective Actions and Implementation Plans*

During the report acceptance process, the AEs' peer review committees determine the need for and type of any corrective actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies noted in the report. They also consider whether the recommendations of the review team appear to address the engagement deficiencies adequately and whether the reviewed firm's responses to the review team's recommendations are comprehensive, genuine, and feasible. Corrective actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple corrective actions required on an individual review. Although there were fluctuations in the overall number of corrective actions from 2013–2015, the number of corrective actions as a percentage of overall reviews performed has remained consistent. The number of corrective actions as a percentage of overall reviews performed was 22 percent in 2013, 24 percent in 2014, and 21 percent in 2015. The increase in corrective actions in 2014 was the result of the increase in non-pass system review reports. In 2015, both non-pass system and engagement review reports decreased, resulting in a decrease in the corrective actions as a percentage of overall reviews. The PRB continues to provide guidance and education in the effective use of both implementation plans and corrective actions. In total, 6,041 corrective actions were required from 2013–2015 that are summarized in exhibit 7.

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



implementation plan, the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated.

Because 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.

## **Peer Review Board Oversight Process**

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

All SBAs that require peer review accept the AICPA PRP as a program satisfying its peer review licensing requirements. Some SBAs have entered into an agreement with state CPA societies to perform oversight of their administration of the AICPA PRP. This report is not intended to describe or report on that process. Exhibit 8 shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice-monitoring program mandatory for licensure as indicated in exhibit 1.

### **Objectives of Peer Review Board Oversight Process**

The PRB has appointed 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 the

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

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

### **OTF Oversight Procedures**

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

#### ***Oversight Visits of the Administering Entities***

##### **Description**

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

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

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

- evaluate a sample of peer review documents and applicable working papers on a post acceptance basis.
- perform face to face interviews with the administrator, committee chair, and technical reviewers.
- evaluate the various policies and procedures for administering the AICPA PRP.

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

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

## **Results**

During 2014–2015, a member of the OTF performed at least one on-site oversight visit to 40 AEs (excludes NPRC). See exhibit 9 for a listing of the AEs and the year of oversight. See Exhibit 10 for a summary of observations from the on-site oversight visits performed during 2014–2015.

### ***Review of AICPA PRP Statistics***

#### **Description**

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

- The status of reviews in process

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

## **Results**

As of August 2016, there were 730 incomplete reviews (145 due through 2014 and 585 due in 2015). Of these, 730 were in various stages of the evaluation process and 12 were in the background or scheduling phases of the review. AICPA PRP staff has been working with the AEs on these open reviews to ensure an appropriate course of action is taken on a case by case basis for each of these.

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

Also in 2015, AICPA staff began an initiative to investigate reviews from prior years that had not been completed. As a result of the initiative, a significant number of the older reviews (due dates in 2014 and earlier) that were open in August 2015 are no longer open in August 2016 (833 at 8/11/2015 versus 145 at 8/01/2016).

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

## ***RAB Observations***

### **Description**

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

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

The objective of the RAB observations is to provide real-time feedback to the RABs to improve overall quality of the RAB process. Previously, RAB observations were only performed during the oversight visits of the AE once every other year. The process for the increased RAB observations is similar to the process used during the oversight visits. The RAB observer receives the materials that will be presented to the RAB prior to the RAB meeting. The observer selects a sample of AICPA member firm reviews from the package and reviews the materials that will be presented to the RAB. The observer notes any issues or items that are unclear for each review selected. During the RAB, the observer allows the RAB to deliberate

each review. If the RAB does not address the items noted by the observer, the observer will bring those items to the RAB's attention prior to the RAB voting on whether or not to accept the review. All items that were noted by the observer, but were not noted by the RAB, are included as comments in a RAB observation report. The OTF approves the report and the report is submitted to the AE peer review committee for its consideration. Each peer review committee has the opportunity to respond to the report.

## **Results**

From August 1, 2015 – July 31, 2016, each AE had at least one RAB observation. RAB observations were performed by OTF members as well as AICPA PRP staff. 494 reviews were selected for RAB observation covering 466 different peer reviewers; which represents approximately 6.9 percent of peer reviews conducted during this time period. Of the reviews selected, acceptance was delayed or deferred for 47 reviews based on comments by the observer. Additionally, 24 reviewer feedback forms and one monitoring letter were issued as a result of the observers' comments. Recurring comments generated by the RAB observations are summarized in exhibit 11.

### ***Engagement-Level Oversights***

#### **Description**

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

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

The engagement-level oversights focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers and examinations of service organizations). For *Government Auditing Standards* engagements with Single Audit Act/A-133 portions of the engagement, the oversight focused only on the Single Audit Act/A-133 portion of the audit. These oversights will neither replace nor reduce the number of oversights currently required by AEs.

The engagement-level oversight process consists of the review of the financial statements and working papers by the SME for the engagement selected. AICPA PRP staff notifies the peer reviewer and the firm that they have been selected for oversight once the peer review

working papers and peer review report have been submitted to the AE. This ensures that the peer reviewer is not aware of the fact that they have been selected for oversight until after the peer review has been completed. The SME completes the relevant peer review checklist and compares their results to the results of the peer reviewer. The SME issues a report detailing any differences between the items they noted and the items noted by the peer reviewer. The report is provided to the AE for consideration during the report acceptance process. AICPA staff monitors the effects of the oversights on the peer review results and what type of reviewer feedback (feedback form, performance monitoring letter, or performance deficiency letter), if any, is issued to the peer reviewers.

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

## Overall Results

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

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

Employee Benefit Plans	Single Audit/A-133	Government Auditing Standards	SOC 1 <sup>®</sup>	Total
48	32	9	1	90

Exhibit 12 provides a listing of items identified by the SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a non-conforming engagement. Exhibits 13 and 14 show the percentage of non-conforming engagements identified based on the number of must-select engagements performed by the firm in the category selected. Only one engagement was reviewed for each firm selected and the SME did not expand the scope of the oversight. For exhibit 14, the detail of the random sample is provided because the sample is representative of the overall population. Refer to the following section for further discussion of the sample selection.

## Random Sample

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

For the 25 (32 identified by the SME less the 7 identified by the reviewers) engagements that were not identified as non-conforming by the peer reviewer, the oversight resulted in a change in peer review rating on 11 of the 74 (15 percent) of the peer reviews selected for oversight.

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

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

As detailed in exhibit 14, 17 employee benefit plan engagements and 14 Single Audit/A-133 and *Government Auditing Standards* engagements were identified as non-conforming by the SMEs for the random sample.

### Targeted Sample

The targeted sample for 2014 consisted of reviewers who served as team captain on the largest number of system reviews between 2011 and 2013. If a team captain was selected during the random sample, they were not selected for the targeted sample. For the targeted sample, the SME identified 8 of the 16 (50 percent) engagements as non-conforming. The peer reviewers did not identify any of the engagements as non-conforming.

The 16 targeted must-select engagement oversights selected consisted of the following:

Employee Benefit Plans	Single Audit/A-133	Government Auditing Standards	SOC 1®	Total
11	5	0	0	16

### Feedback Issued

Overall, there were 33 engagements selected for oversight where the SME identified the engagement as non-conforming and it was not identified as non-conforming by the peer reviewer. Of those 33 oversights, 30 have completed the RAB process, including consideration of feedback.

For the 30 oversights referred to above where the non-conforming engagement was not identified by the peer reviewer, the following feedback was issued by the AE:

- 6 resulted in feedback
- 7 resulted in a monitoring letter
- 10 resulted in a deficiency letter
- 1 resulted in the removal of the pertinent industry from the reviewer's resume
- 6 resulted in no feedback.

The OTF monitors the types of feedback issued as a result of the oversights. The OTF considers if any further actions are necessary, including, whether to issue a feedback form, monitoring letter, or deficiency letter. The OTF has requested additional information from the

peer reviewers on six of the oversights. As of the publication of this report, the OTF has not determined whether further action is necessary on those oversights.

### ***Peer Review Working Paper Oversights***

#### **Description**

A selection of peer reviews are chosen as needed (by AICPA PRP staff and approved by the OTF) for submission to the AICPA PRP staff for a comprehensive review of all the documents prepared during a peer review. The selections are risk-based. Documents from all parts of the peer review process (administrative, peer review checklists, technical reviewer checklist, peer review committee actions, warning letters, extensions, and reviewer feedback) are submitted and then reviewed by the AICPA PRP staff to determine whether

- the reviews are being conducted and reported on in accordance with the standards.
- the AE is in compliance with the administrative procedures established by the PRB.
- information is being entered into PRISM correctly.
- reviewers are following the guidance and use the most current materials contained in the AICPA Peer Review Program Manual.
- results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

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

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

#### **Results**

For the year 2014, 44 working paper reviews were selected for oversight as needed. This selection was comprised of replacement reviews performed due to the DOL staff project that resulted in a pass rating. The oversight found that, in a majority of the review, the team captains and Report Acceptance Bodies (RABs) did not appropriately consider the recall of the peer review report in the replacement review. After AICPA staff issued additional guidance



on the consideration of a recalled prior peer review report, a limited number of replacement reviews received a pass rating.

### **Oversight by the Administering Entities' Peer Review Committees**

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

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with the AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements (discussed on pages 20–22, "AE Oversight Procedures") established by the PRB to provide reasonable assurance that

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

### **AE Oversight Procedures**

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

#### ***Administrative Oversight of the AE***

##### **Description**

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

##### **Results**

The administrative oversight reports were submitted to the AICPA by the AE as part of the 2015 POA. Comments or suggestions resulting from the administrative oversights are summarized in exhibit 15. In addition, the OTF member reviewed the results of the administrative oversight during his or her oversight visit (described on pages 13–14, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight to those noted during the OTF oversight visit.

#### ***Oversight of Peer Reviews and Reviewers***

##### **Description**

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

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

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

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

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

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

Also, at least two engagement oversights must be performed by the AE’s peer review committee or by its designee from a national list of qualified reviewers, on an annual basis. An *engagement oversight* (performed either off- or on-site) is the review of all peer reviewer materials and the reviewed firm’s financial statements and working papers on the engagement. The two engagement oversights must include audits of employee benefits plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), engagements performed under generally accepted government auditing standards (GAGAS), audits of insured depository institutions subject to the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of carrying broker-dealers, or examinations of SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements. Also, the two oversights selected should not be of the same types of audits. No waivers of oversight of these types of engagements are permitted.

## **Results**

For 2015, the AEs conducted oversight on 307 reviews, representing approximately 3.6 percent of all reviews performed in a 12-month period of time. There were 170 system and 137 engagement reviews oversighted. Approximately 56 percent of the system oversights were conducted on-site. In addition, 81 ERISA and 79 GAGAS engagements were oversighted. See exhibit 16 for a summary of oversights by AE.

### ***Annual Verification of Reviewers' Resumes***

#### **Description**

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in accounting or auditing functions. The firm(s) that the member is associated with should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every 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 has 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 GAGAS, audits of employee benefit plans subject to ERISA, audits of insured depository institutions subject to FDICIA, audits of carrying broker-dealers, or examinations of SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements. Verification procedures may include requesting copies of their license to practice as a CPA; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates to document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least eight hours in one year; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The AE should also verify whether the reviewer is a partner or manager in a firm enrolled in a practice-monitoring program and whether the reviewer's firm received a pass report on its most recently completed peer review.

#### **Results**

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2015. See exhibit 17.

**Exhibit 1**

**State CPA Societies and State Boards of Accountancy That Have Made  
Participation in an Approved Practice-Monitoring Program a  
Condition of Membership or Licensure  
As of August 2016**

<b>Licensing Jurisdiction</b>	<b>Required for State CPA Society Membership</b>	<b>Required for State Board of Accountancy Licensure</b>
Alabama	Yes	Yes
Alaska	No	Yes
Arizona	No	Yes
Arkansas	No	Yes
California	No	Yes
Colorado	Yes	Yes
Connecticut	Yes	Yes
Delaware	Yes	Statute passed. Enrollment by 7/1/17
District of Columbia	No	Yes
Florida	No	Yes
Georgia	Yes	Yes
Guam	Yes	Yes
Hawaii	No	Yes
Idaho	No	Yes
Illinois	No	Yes
Indiana	No	Yes
Iowa	No	Yes
Kansas	No	Yes
Kentucky	No	Yes
Louisiana	Yes	Yes
Maine	Yes	Yes
Maryland	No	Yes
Massachusetts	No	Yes
Michigan	No	Yes
Minnesota	Yes	Yes
Mississippi	Yes	Yes
Missouri	No	Yes
Montana	No	Yes
Nebraska	No	Yes
Nevada	No	Yes
New Hampshire	Yes	Yes
New Jersey	No	Yes
New Mexico	No	Yes
New York	No	Yes
North Carolina	Yes	Yes
North Dakota	No	Yes
Northern Mariana Islands (MP)	N/A	Statute passed. No effective date
Ohio	Yes	Yes

Exhibit 1, continued

State CPA Societies and State Boards of Accountancy That Have Made  
Participation in an Approved Practice-Monitoring Program a  
Condition of Membership or Licensure  
As of August 2016

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

**Exhibit 2**

**Number of Firms Enrolled in the AICPA Peer Review Program Who Have a Peer Review Performed Every Three Years by Licensing Jurisdiction**

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

<b>Licensing Jurisdiction</b>	<b>Sole</b>	<b>2 to 5</b>	<b>6 to 10</b>	<b>11 to 19</b>	<b>20 to 49</b>	<b>50 to 99</b>	<b>100+</b>	<b>Total</b>
AK	20	36	10	8	3	0	0	77
AL	105	219	70	33	17	6	3	453
AR	41	88	46	22	7	0	1	205
AZ	112	155	75	23	10	1	1	377
CA	667	1,210	498	227	130	33	18	2,783
CO	126	271	102	32	17	4	4	556
CT	128	176	80	37	13	1	1	436
DC	9	14	5	6	1	1	1	37
DE	6	21	15	5	8	0	0	55
FL	230	602	260	111	47	13	4	1,267
GA	196	392	157	66	21	10	6	848
GU	4	0	0	0	1	2	0	7
HI	32	69	33	17	5	2	0	158
IA	50	94	54	21	15	1	1	236
ID	25	73	45	10	7	1	0	161
IL	223	382	120	59	43	10	9	846
IN	85	173	85	29	19	3	6	400
KS	38	119	44	32	13	1	3	250
KY	66	154	66	32	14	3	2	337
LA	144	242	89	40	13	6	4	538
MA	223	353	139	47	31	8	2	803
MD	110	200	105	49	44	8	4	520
ME	22	39	20	7	9	1	2	100
MI	160	375	162	82	33	4	5	821
MN	106	165	75	37	25	5	4	417
MO	69	190	97	32	24	3	4	419
MS	59	123	47	22	8	3	2	264
MT	28	45	23	6	7	0	1	110
NC	224	395	146	66	26	4	2	863
ND	19	29	9	3	1	0	1	62
NE	12	55	38	21	11	3	1	141
NH	44	58	23	5	7	2	0	139
NJ	274	507	152	67	32	9	5	1,046
NM	60	97	35	16	4	1	1	214
NV	52	82	45	20	7	0	0	206
NY	251	474	290	133	74	29	24	1,275
OH	226	380	156	77	36	9	9	893

**Exhibit 2, continued**

**Number of Firms Enrolled in the AICPA Peer Review Program Who Have a Peer Review Performed Every Three Years by Licensing Jurisdiction**

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

<b>Licensing Jurisdiction</b>	<b>Sole</b>	<b>2 to 5</b>	<b>6 to 10</b>	<b>11 to 19</b>	<b>20 to 49</b>	<b>50 to 99</b>	<b>100+</b>	<b>Total</b>
OK	72	143	79	24	8	2	1	329
OR	104	180	65	35	16	3	2	405
PA	229	419	211	86	37	14	5	1,001
PR	32	72	21	7	11	1	1	145
RI	36	65	22	8	6	1	0	138
SC	101	175	68	28	15	0	2	389
SD	7	33	9	10	4	0	1	64
TN	146	250	88	46	19	6	5	560
TX	612	971	373	171	78	22	10	2,237
UT	43	101	39	23	7	5	0	218
VA	204	266	116	44	23	7	6	666
VI	3	5	0	0	0	0	0	8
VT	15	32	15	9	3	0	0	74
WA	119	206	86	43	19	2	3	478
WI	40	121	71	25	19	6	5	287
WV	29	78	33	10	5	0	2	157
WY	<u>13</u>	<u>32</u>	<u>17</u>	<u>10</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>77</u>
<b>Total</b>	<b><u>6,051</u></b>	<b><u>11,206</u></b>	<b><u>4,729</u></b>	<b><u>2,079</u></b>	<b><u>1,056</u></b>	<b><u>257</u></b>	<b><u>175</u></b>	<b><u>25,553</u></b>

### Exhibit 3

#### Administering Entities Approved to Administer the 2016 AICPA PRP

<b>Administering Entity</b>	<b>Licensing Jurisdiction(s)</b>
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado, New Mexico <sup>6</sup>
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois, Iowa, South Carolina <sup>6</sup>
Indiana CPA Society	Indiana
Kansas Society of CPAs	Kansas
Kentucky Society of CPAs	Kentucky
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts, New Hampshire <sup>7</sup>
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota
Mississippi Society of CPAs	Mississippi
Missouri Society of CPAs	Missouri
Montana Society of CPAs	Montana
National Peer Review Committee	N/A
Nevada Society of CPAs <sup>8</sup>	Nevada, Wyoming, Nebraska, Utah
New England Peer Review, Inc.	Maine, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas

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<sup>6</sup> Effective August 2016.

<sup>7</sup> Effective May 2016.

<sup>8</sup> Deferred.



**Exhibit 3**

**Administering Entities Approved to Administer the 2016 AICPA PRP**

Virginia Society of CPAs

Virginia, District of Columbia

Washington Society of CPAs

Washington

West Virginia Society of CPAs

West Virginia

Wisconsin Institute of CPAs

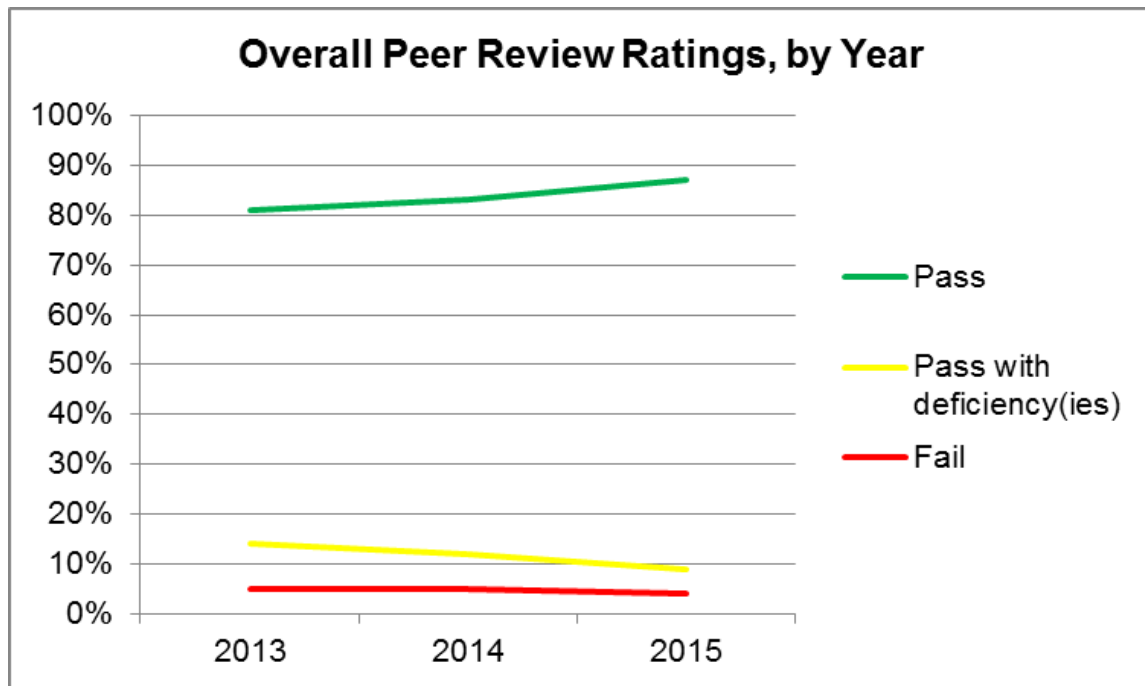
Wisconsin

## Exhibit 4

### Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2013–2015 by type of peer review and report issued.

	2013		2014		2015		Total	
	#	%	#	%	#	%	#	%
<u>System reviews</u>								
Pass	3,002	84	3,278	80	3,316	84	9,596	83
Pass with deficiency(ies)	429	12	557	14	435	11	1,421	12
Fail	130	4	265	6	188	5	583	5
Subtotal	<u>3,561</u>	<u>100</u>	<u>4,100</u>	<u>100</u>	<u>3,939</u>	<u>100</u>	<u>11,600</u>	<u>100</u>
<u>Engagement reviews</u>								
Pass	3,666	78	3,961	86	4,132	89	11,759	84
Pass with deficiency(ies)	761	16	479	10	334	7	1,574	12
Fail	262	6	151	3	166	4	579	4
Subtotal	<u>4,689</u>	<u>100</u>	<u>4,591</u>	<u>99</u>	<u>4,632</u>	<u>100</u>	<u>13,912</u>	<u>100</u>



Note: The preceding data reflects peer review results as of July 31, 2016. Approximately 3 percent of 2015 reviews are in process and their results are not included in the preceding totals.

## Exhibit 5

### Type and Number of Reasons for Report Modifications

The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews performed in the AICPA PRP from 2013–15 summarized by elements of quality control as defined by QC section 10. 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, 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. Because pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in exhibit 4, “*Results by Type of Peer Review and Report Issued.*”

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	52	127	85
Relevant ethical requirements	10	30	22
Acceptance and continuance of client relationships and specific engagements	51	91	40
Human resources	97	163	122
Engagement performance	483	690	490
Monitoring	<u>232</u>	<u>399</u>	<u>267</u>
<b>Totals</b>	<b><u>925</u></b>	<b><u>1,500</u></b>	<b><u>1,026</u></b>

## Exhibit 6

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

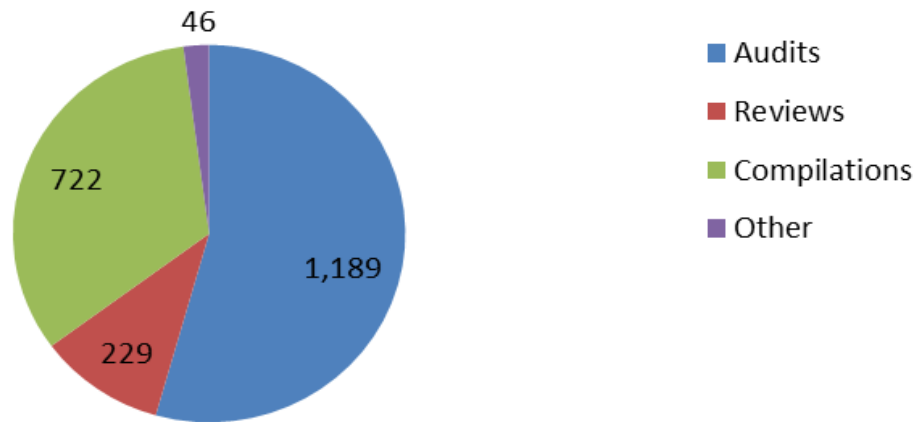
The following shows the total number of engagements reviewed (system reviews and engagement reviews) and the number identified as not performed in accordance with professional standards in all material respects from peer reviews performed in the AICPA PRP from 2013–15. The standards state that an engagement is ordinarily considered not performed or reported in accordance with applicable professional standards in all material respects when issues, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents the omission of a critical accounting, auditing, or attestation procedure required by professional standards.

Engagement Type	2013			2014			2015		
	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%
	Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards	
<b>Audits:</b>									
Single Audit Act (A-133)	1,325	155	12%	1,684	207	12%	1,548	278	18%
Governmental - All Other	1,219	107	9%	1,489	169	11%	1,626	190	12%
ERISA	1,886	171	9%	2,591	464	18%	2,182	353	16%
FDICIA	30	3	10%	19	-	0%	18	2	11%
Carrying Broker-Dealers	8	1	13%	5	2	40%	1	1	100%
Other	3,817	322	8%	4,688	367	8%	5,692	365	8%
Reviews	4,704	286	6%	5,484	245	4%	5,626	229	4%
<b>Compilations:</b>									
With Disclosures	3,105	231	7%	3,543	151	4%	3,804	162	4%
Omit Disclosures	9,497	1,173	12%	10,957	762	7%	12,241	560	5%
Forecasts & Projections	90	6	7%	115	5	4%	107	7	7%
SOC® Reports	56	1	2%	108	11	10%	94	7	7%
Agreed Upon Procedures	887	18	2%	1,316	25	2%	1,296	28	2%
Other SSAEs	139	3	2%	144	3	2%	133	4	3%
<b>Totals</b>	<b>26,763</b>	<b>2,477</b>	<b>9%</b>	<b>32,143</b>	<b>2,411</b>	<b>8%</b>	<b>33,368</b>	<b>2,186</b>	<b>7%</b>

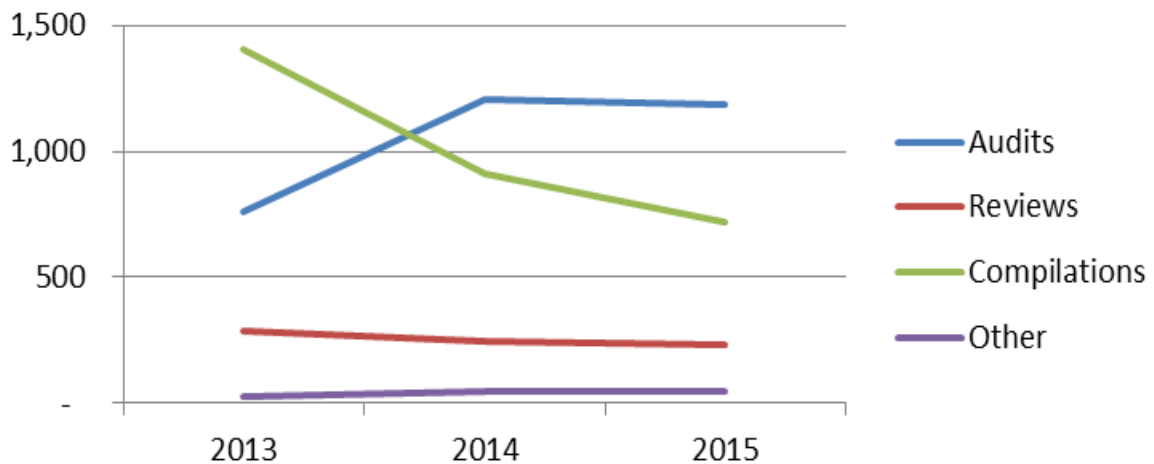
Exhibit 6, continued

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

2015 Not Performed in Compliance with  
Professional Standards, by Engagement  
Type



Not Performed in Compliance with  
Professional Standards, by  
Engagement Type and Year



## Exhibit 7

### Summary of Required Corrective Actions

The AEs' peer review committees are authorized by the standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the AE peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple corrective actions. For 2013–2015 reviews, committees required 6,041 corrective actions. The following represents the type of corrective actions required.

<b>Type of Corrective Action</b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
Agree to take/submit proof of certain (CPE)	1,011	1,005	825
Submit to review of correction of engagements that were not performed in accordance with professional standards	394	374	353
Agree to pre-issuance reviews	216	315	251
Submit monitoring report to Team Captain or Peer Review Committee	77	100	87
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	39	49	34
Submit to revisit (Team Captain or Peer Review Committee Member)	90	117	113
Elective to have accelerated review	11	11	5
Submit evidence of proper firm licensure	14	8	11
Firm has represented in writing they no longer perform any auditing engagements	29	75	45
Agree to hire consultant for inspection	8	17	10
Review of formal CPE plan	9	4	5
Team captain to review Quality Control Document	14	25	13
Submit inspection completion letter	2	5	-
Submit proof of purchase of manuals	30	24	22
Submit report of consultant	3	9	7
Oversight of Inspection – Review	12	17	5
Submit quarterly progress reports	1	8	3
Oversight of Inspection – Visitation	8	22	11
Agree to strengthen staff	1	1	3
<b>Total</b>	<b><u>2,059</u></b>	<b><u>2,178</u></b>	<b><u>1,804</u></b>

## Exhibit 8

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

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

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

**Exhibit 8, continued**

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

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



## Exhibit 9

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

During 2014–2015, a member of the OTF performed an on-site oversight visit to each of the following 40 AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year. The oversight results can be found on the [AICPA's website](#).

<u>2014</u>	<u>2015</u>
Alabama	Connecticut
Arkansas	Georgia
California	Hawaii
Colorado	Idaho
Florida	Illinois
Kansas	Indiana
Michigan	Kentucky
Mississippi	Louisiana
Missouri	Maryland
Montana	Massachusetts
Nevada	Minnesota
New England	New York
New Jersey	North Carolina
New Mexico	Oklahoma
New York	South Carolina
North Dakota	Texas
Ohio	Virginia
Oregon	Washington
Pennsylvania	
Puerto Rico	
Tennessee	
West Virginia	
Wisconsin	

## Exhibit 10

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

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

The following represents a summary of common observations made by the OTF resulting from the on-site oversight visits performed during 2014–2015. The following listed observations are not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

#### Administrative Procedures

- The appropriate letters for overdue information and documents, reviewer performance, and other reminders were not generated according to the time requirements in the administrative manual.
- Inadequate monitoring of open reviews, open corrective actions, and implementation plans by staff, and committee members.
- Annual POA not submitted timely.
- Acceptance letters were not sent timely.
- Documents were not uploaded timely to the FSBA website.
- Formal communications were not sent to reviewed firms and peer reviewers when the RAB has either delayed or deferred acceptance of the review.
- Confidentiality letters were not obtained from Technical Reviewers.
- All required materials were not provided to the RAB.

#### Website and Other Media Information

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

#### Working Paper Retention

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

#### Committee Procedures

- Reviewer feedback was not issued when necessary. Also, the reviewer feedback was not signed by a peer review committee member. Finally, reviewer feedback included a reference to the reviewed firm.

## Exhibit 10, continued

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

- Technical reviewers did not address all significant issues before reviews are presented to the RAB.
- The status of open reviews and follow-up status was not periodically monitored and discussed by the Committee and related documentation of such presentations and discussions recorded in the Committee minutes.
- RAB composition did not comply with requirements of the RAB Handbook.
- Technical reviewers were not evaluated annually.
- RAB members did not have the required team captain training.
- A quorum was not present for certain meetings which delayed the timeliness of acceptance of reviews.
- Committee meetings were not scheduled to ensure timely acceptance of reviews.
- Internal oversight of the administration of the Program was not performed timely.
- Required oversight not performed timely each year.
- Oversight were not monitored to ensure at least two required onsite oversight are selected and completed before the end of each year.

## Exhibit 11

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

Throughout each year, a sample of RABs is selected for observation. At least one RAB Observation is performed for each AE per year. The documents provided to the RAB are reviewed (by PRP Staff, OTF members, or both) to ensure that the RAB process is operating properly and to ensure the results of reviews are being evaluated on a consistent basis within an AE in all jurisdictions. The following is a summary of recurring comments generated as a result of the RAB Observations performed by the AICPA PRP staff and OTF members from August 1, 2015 – July 31, 2016. The comments are intended to provide the AEs, their committees, RABs, peer reviewers, and technical reviewers with information and constructive recommendations that will help ensure consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all of the respective parties.

- Potential issues regarding auditor compliance with independence requirements of *Government Auditing Standards* (Yellow Book).
- Reviewers' risk assessments were not comprehensive. Items not addressed include firm mergers, firm industry concentrations, staff CPE, and unique risks associated with employee benefit plan audits when the firm had multiple types.
- Findings for Further Consideration (FFC) form did not contain all of the required information to be provided in the reviewed firm's response.
- The systemic cause on the FFCs was not clear.
- Peer review reports did not identify all must-select engagements reviewed.
- Firm representation letters not consistent with the illustration in Appendix B of the Standards.
- No corrective actions were originally proposed on reviews that resulted in a *pass with deficiencies* ratings.
- Reviews are not consistently presented to the RAB free from open technical issues. This causes the RAB to spend extra time discussing reviews which may lead to deferred or delayed acceptance.
- Issues noted with the RAB composition; whereby no RAB members in attendance have current experience in must-select engagements and reviews must be deferred.
- Acceptance and deferral letters not sent timely.
- Post-scheduling statistics, including non-conforming engagements, not accurately reflected in PRISM.
- PRISM statistics related to the number of FFC forms were incorrect.
- No overdue letters sent when a reviewer is not responding timely to the technical reviewer's questions.

## Exhibit 12

### Material Departures from Professional Standards Identified by SMEs

In 2014, the PRB approved the addition of engagement level oversights performed by SMEs. As discussed in more detail in the “Engagement Level Oversights” section, the SMEs identified a large number of material departures from professional standards that were not identified by the peer reviewers. The following is a list of departures from professional standards identified by the SMEs that were not identified by the peer reviewer for the 2014 sample. 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*

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

## Exhibit 12, continued

### Material Departures From Professional Standards Identified by SMEs

- The risk assessment for all audit areas was low except for participant data and employee contributions, which was moderate with extended procedures. Extended procedures and the linkage to tests of controls were not documented in the working papers or the audit program in accordance with AU-C section 230, *Audit Documentation* (AICPA, *Professional Standards*).

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

- Compliance requirements were documented as applicable, but no testing was performed for the compliance requirement.
- Lack of testing of internal controls over direct and material compliance requirements.
- Lack of documentation of skills, knowledge, or experience.
- Lack of documentation or incomplete documentation of risk assessment of Type A or Type B programs.
- Lack of documentation supporting the assessment that compliance requirements were not applicable.
- No documentation of fraud risk regarding noncompliance for major programs.
- No documentation of internal control over preparation of SEFA.
- Schedule of Findings and Questioned costs did not contain all required elements.
- Auditor provided a clean opinion on an entity that met the definition of a government but prepared their financial statement using FASB standards (instead of GASB standards).
- No materiality calculation on opinion units.
- No documentation of risk of management override of controls.
- No documentation to support designation as a low risk auditee.
- Type A program designated as low risk when it did not meet all of the requirements.
- Auditor's report on internal control did not include all required elements.
- The report on compliance with requirements applicable to each major program and internal controls over compliance did not contain all required elements.
- Data Collection Form did not properly summarize auditor's results.
- Calculation of amounts tested as major programs was incorrect; amount of expenditures tested did not reach the required percentage for an entity that did not qualify as a low-risk auditee.
- Federal program was part of a cluster and was not included in testing of major programs.
- Improper surplus cash calculation performed that led to the improper identification of noncompliance findings for a HUD engagement.

#### *SOC 1<sup>®</sup> Engagement*

- The SOC 1<sup>®</sup> report was missing a critical element in that it did not include a description of the system of controls provided by the service organization. The requirement for management to include this description is fundamental to AT section 801, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*), as the assertion provided by management of the service organization and the opinion provided by the service auditor are attesting to and opining on the completeness and accuracy thereof; this component of the overall report is created to provide user auditors with an understanding of why the service auditor tested the specific controls that were tested.
- Acknowledgements and assurances that the standard requires the auditor to obtain from the service organization during client acceptance were not obtained or documented. AT

## **Exhibit 12, continued**

### **Material Departures From Professional Standards Identified by SMEs**

section 801.09 requires that the service auditor only accept the engagement when specific conditions exist, including several acknowledgements to be provided by management of the service organization.

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

### Exhibit 13

#### Overall Non-Conforming Engagements Identified During 2014 Enhanced Oversight by Firm Size

The 2014 enhanced oversight sample was divided into two samples: a random sample and a targeted sample. 90 must-select engagements were selected for oversight (74 random selections and 16 targeted selections). The following tables detail the number of non-conforming engagements identified in relation to the number of must-select engagements performed by the firm in that category for all 90 must-select engagements selected for oversight.

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

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

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

\*Column represents the number of must-select engagements performed by the firm in the must-select category selected for oversight

Note: 1 SOC<sup>®</sup> engagement was selected for oversight. The engagement was identified as non-conforming by the SME.



**Exhibit 14**

**Non-Conforming Engagements Identified  
During 2014 Enhanced Oversight Random Sample by Firm Size**

The 2014 enhanced oversight sample was divided into two samples: a random sample and a targeted sample. 90 must-select engagements were selected for oversight (74 random selections and 16 targeted selections). The following tables detail the number of non-conforming engagements identified in relation to the number of must-select engagements performed by the firm in that category for the 74 must-select engagements randomly selected for oversight.

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

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

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

\*Column represents the number of must-select engagements performed by the firm in the must-select category selected for oversight

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

## Exhibit 15

### Administrative Oversight Performed by Peer Review Committees of Administering Entities

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

- Delinquent letters on reviews were not being sent in a timely manner.
- Acceptance letters for reviews were not sent in a timely manner.
- Reviewer feedback and performance deficiency letters were not being issued when necessary.
- The committee chair and technical reviewer did not always resolve inconsistencies and disagreements before submitting reviews to the RABs.
- Ensure POA is accurate and timely filed.
- Review website for technical material and check for updates.
- Review committee member qualifications to ensure compliance with the RAB Handbook
- Oversight report was not posted to AE website.
- Monitor open reviews.
- Develop a written back-up and succession plan for technical reviewers.
- Reviewer resumes were not appropriately verified.
- Reviews accepted by the technical reviewer on behalf of the committee were not accepted in the appropriate timeframe.
- Firm representation letters were not maintained in the administrative files for reviews completed more than 120 days prior to the administrative oversight.
- Approval of feedback and deficiency letters should be included in the minutes.

## Exhibit 16

### Summary of Oversight Performed by Administering Entities

AEs are required to conduct oversight on a minimum of two percent of all reviews performed in a 12-month period of time. Within the two percent selected for oversight, the AE must evaluate at least two of each type of peer review. Also, at least two engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under GAGAS, audits of insured depository institutions subject to FDICIA, or examinations of service organizations (SOC 1® and 2® engagements). The following shows the number of oversights performed for the 2015 oversight year.

Administering Entity	Type of Review/Oversights			Type of Engagement Oversights					Total Oversights Performed at Firm
	System	Engagement	Total	ERISA	GAGAS	FDICIA	SOC®	Total	
Alabama	3	3	6	2	1	-	-	3	3
Arkansas	2	3	5	1	1	-	-	2	2
California	12	15	27	9	6	-	-	15	2
Colorado	2	3	5	1	1	-	-	2	2
Connecticut	3	2	5	1	2	-	-	3	2
Florida	8	5	13	4	2	-	-	6	4
Georgia	3	2	5	1	2	-	-	3	2
Hawaii	2	2	4	1	2	-	-	3	1
Idaho	3	1	4	1	2	-	-	3	1
Illinois	10	7	17	4	2	-	-	6	5
Indiana	3	2	5	1	1	-	-	2	2
Kansas	2	2	4	2	1	-	-	3	2
Kentucky	2	2	4	2	2	-	-	4	2
Louisiana	2	5	7	1	1	-	-	2	2
Maryland	3	3	6	1	1	-	-	2	2
Massachusetts	7	3	10	2	2	-	-	4	2
Michigan	3	3	6	2	2	-	-	4	3
Minnesota	2	4	6	1	1	-	-	2	2
Mississippi	2	2	4	1	1	-	-	2	2
Missouri	2	2	4	1	2	-	-	3	2
Montana	3	1	4	1	1	-	-	2	2
Nevada	2	5	7	1	1	-	-	2	1
New England	4	2	6	1	3	-	-	4	2
New Jersey	8	2	10	4	5	-	-	9	2
New Mexico	3	2	5	1	1	-	-	2	2
New York	11	2	13	6	4	-	-	10	2
North Carolina	7	4	11	1	1	-	-	2	5
North Dakota	1	1	2	1	1	-	-	2	1
Ohio	7	4	11	3	3	-	-	6	7
Oklahoma	2	2	4	1	1	-	-	2	2
Oregon	4	2	6	1	2	-	-	3	2
Pennsylvania	5	4	9	4	2	-	-	6	2
Puerto Rico	5	1	6	1	5	-	-	6	4
South Carolina	2	2	4	2	1	-	-	3	2
Tennessee	2	5	7	1	1	-	-	2	2
Texas	14	13	27	7	5	-	-	12	5
Virginia	2	6	8	1	2	-	-	3	2
Washington	8	4	12	2	2	-	-	4	3
West Virginia	2	2	4	2	2	-	-	4	2
Wisconsin	2	2	4	1	1	-	-	2	2
<b>TOTAL</b>	<b>170</b>	<b>137</b>	<b>307</b>	<b>81</b>	<b>79</b>	<b>-</b>	<b>-</b>	<b>160</b>	<b>97</b>

**Exhibit 17**

**Summary of Reviewer Resumes Verified by Administering Entities**

AEs are required to verify all reviewer resumes over a 3-year period as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. The following shows the number of reviewer resumes verified by AEs for the years 2013–2015.

<u>Administering Entity</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Alabama	36	36	16
Arkansas	7	6	7
California	59	74	77
Colorado	10	7	14
Connecticut	17	6	5
Florida	36	25	57
Georgia	49	15	17
Hawaii	5	2	3
Idaho	4	6	5
Illinois	27	41	39
Indiana	17	11	13
Iowa	8	8	n/a
Kansas	2	19	-
Kentucky	10	12	13
Louisiana	48	-	-
Maryland	17	14	12
Massachusetts	6	18	32
Michigan	34	23	30
Minnesota	9	10	28
Mississippi	16	17	20
Missouri	14	20	15
Montana	6	3	7
Nevada	70	44	-
New England	7	10	8
New Jersey	35	37	37
New Mexico	18	16	18
New York	48	39	45
North Carolina	30	32	26
North Dakota	1	1	1
Ohio	26	52	-
Oklahoma	15	9	14
Oregon	12	10	13
Pennsylvania	37	31	34
Puerto Rico	11	11	13
South Carolina	13	7	18
Tennessee	24	25	24
Texas	40	45	56
Virginia	19	8	17
Washington	14	16	17
West Virginia	7	7	6
Wisconsin	16	11	14
<b>Totals</b>	<b>880</b>	<b>784</b>	<b>771</b>

## Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the “senior technical committee” governing the AICPA PRP and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the revised <i>AICPA Standards for Performing and Reporting on Peer Reviews</i> , Interpretations to the revised <i>AICPA 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 AE oversight process for the AICPA PRP.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications and responsibilities of AE peer review committees, report acceptance bodies and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
AICPA PRP Administrative Manual	The publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.
Administering Entity	A state CPA society, group of state CPA societies or other entity annually approved by the PRB to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB.
Agreed Upon Procedures	Specific procedures agreed to by a CPA, a client and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
Attest Engagement	An engagement that requires independence as defined in the AICPA professional standards.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a CPA.
Compilation	Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements performed under SSARS.
Preparation Engagement	An engagement to prepare financial statements

## Glossary

<u>Term</u>	<u>Definition</u>
Employment Retirement Income Security Act of 1974	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) recapitalized the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), expanded the authority of banking regulators to seize undercapitalized banks and expanded consumer protections available to banking customers.
Engagement Review	A type of peer review for firms that do not perform audits or certain SSAE engagements that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Enhancing Audit Quality (EAQ) 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.
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles, a comprehensive basis of accounting other than generally accepted accounting principles, or a special purpose framework.
Finding for Further Consideration (FFC)	A finding is one or more matters that the reviewer concludes does not rise to the level of a deficiency or significant deficiency and is documented on a Finding for Further Consideration Form.
Firm	A form of organization permitted by law or regulation whose characteristics conforms to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA PRP should be terminated or whether some other action should be taken.
Implementation Plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to Findings For Further Consideration. A RAB may require an implementation plan when the responses to a firm's FFC(s) are not comprehensive, genuine, and feasible.

## Glossary

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

## Glossary

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