



AICPA PEER REVIEW BOARD
ANNUAL REPORT ON OVERSIGHT

Issued
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Acronyms

Certain acronyms are used throughout this Report.

AICPA	American Institute of Certified Public Accountants
AICPA PRP	AICPA Peer Review Program
CPA	Certified Public Accountant
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
ERISA	Employee Retirement Income Security Act
FDICIA	Federal Deposit Insurance Corporation Improvement Act
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office (U.S.)
NASBA	National Association of State Boards of Accountancy
OTF	Oversight Task Force (AICPA Peer Review Board)
PCAOB	Public Company Accounting Oversight Board
PRB	Peer Review Board (AICPA)
RAB	Report Acceptance Body (Administering Entity Peer Review Committee)
SASs	Statements on Auditing Standards
SEC	Securities and Exchange Commission (U.S.)
SQCS	Statements on Quality Control Standards
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; past and current statistics and information; the results of the various oversight procedures performed on the AICPA Peer Review Program (AICPA PRP); and to conclude on whether the objectives of the AICPA Peer Review Board's 2006 oversight process were met.

Scope and Use of this Report

This Report contains data pertaining solely to the AICPA PRP. Information on the Center for Public Company Audit Firms Peer Review Program (CPCAF PRP) will be in a separate report expected to be issued in the near future.

This Report contains various information and exhibits and should be reviewed in its entirety and not taken out of context considering the size and breadth of the AICPA PRP and given that there are:

- Approximately 30,000 firms enrolled in the AICPA PRP.
- Approximately 10,000 peer reviews taking place each year.
- 41 administering entities covering 55 licensing jurisdictions.
- Over 600 volunteer Peer Review Committee members.

Years Presented in this Report

Statistical information presented in this Report for 2004, 2005, and 2006 is determined by the actual date of the peer review, that is, when the peer review is performed.

Oversight procedures are to be performed based on a calendar year.

Changes in Peer Review at the AICPA

In 1977, the AICPA Governing Council (Council) established the Division for CPA Firms to provide a system of self-regulation for its member firms. There were two voluntary membership sections within the Division for CPA Firms created: (1) the Securities and Exchange Commission Practice Section (SECPS) and (2) the Private Companies Practice Section (PCPS). Both sections required that once every three years firms had to have a peer review of their accounting and auditing practices to monitor adherence to professional standards and that the results of peer review information be made available in a public file.

Based upon the tangible results of the peer review process of the SECPS and PCPS, AICPA members voted and adopted mandatory peer review in 1988. Firms were given the choice between becoming a member of the Division for CPA Firms and undergoing an SECPS or PCPS peer review or enrolling in the newly created AICPA Quality Review Program to be administered in cooperation with state CPA societies.

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, the PCPS Peer Review Program and the AICPA Quality Review Program combined to become the AICPA PRP, governed by the AICPA Peer Review Board (PRB), which became effective in 1995.

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 structure as it relates to public company audits. As a result, effective January 1, 2004, the SECPS was restructured and became the CPCAF 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 as well as certain firms that perform audits of non-SEC issuers pursuant to PCAOB standards.

Since both the AICPA PRP and CPCAF PRP (Programs), were now only peer reviewing non-SEC issuer practices, it was determined that the Programs could be merged into one and have one set of peer review standards for all firms subject to peer review. The first step in this process occurred in May 2006 with the restructuring of the PRB to include representation from a cross-section of the entire population of AICPA firms subject to peer review. In April 2007, the PRB issued an exposure draft proposing many significant changes to the Standards for Performing and Reporting on Peer Reviews (*Standards*), including consideration of the merger of the Programs. The revised *Standards* are expected to be approved at the end of 2007 and be effective for peer reviews commencing on or after January 1, 2009. This would coincide with the official merger of the Programs at which time the CPCAF PRP would be discontinued, and the AICPA PRP would be the single program for all AICPA firms subject to peer 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 mission of the PRB is to establish and conduct a peer review program, including developing, communicating, and monitoring comprehensive performance and reporting of peer reviews performed under the *Standards*. The PRB's goal is to enhance quality in the performance of accounting and auditing engagements by AICPA members and their firms enrolled in the AICPA PRP. The PRB also reevaluates the validity and objectives of the AICPA PRP to ensure it continues to enhance the quality of accounting and auditing practices of public accounting firms and to explicitly recognize that protecting the public interest is an important objective of the AICPA PRP.

The PRB is comprised of 20 members consisting of public practitioners, state society executive directors, and regulators.

Various subcommittees and task forces are appointed to assist the PRB in carrying out its responsibilities. Their work is subject to review by the PRB. Currently, the PRB has task forces for planning, oversight, standards, and education and communication.

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.

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AICPA Peer Review Program

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 2006 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 are complying with the administrative procedures established by the PRB as set forth in the *State CPA Society AICPA Peer Review Program Administrative Manual*, (2) the reviews are being conducted and reported upon in accordance with the *Standards*, (3) the results of the reviews are being evaluated on a consistent basis by all administering entity peer review committees, and (4) the information provided via the Internet or other media by administering entities is accurate and timely. Our responsibility is to oversee the activities of state CPA societies or groups of state societies that elect and are approved to administer (administering entity) the AICPA PRP, including the establishment and results of each administering entity'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:

- Visits to the administering entities, on a rotation basis ordinarily every other year, by a member of the Oversight Task Force. The visits include testing the administrative and report acceptance procedures established by the PRB. See pages 11–12, *Oversight Visits of the Administering Entities*.
- Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the Oversight Task Force PRB members, which covered all parts of the peer review process from administrative functions, peer reviewer documents and checklists, technical reviewer procedures, and peer review committee actions. For 2006, 289 or approximately 3% of total reviews were selected for oversight by the AICPA PRP staff which also covered 228 different peer reviewers or 13% of all peer reviewers. See pages 12–13, *Peer Review Working Paper Oversight*.
- Monitoring the overall activities of the program. See page 13, *Review of AICPA PRP Statistics*.

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

- Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the Oversight Task Force. See page 14, *Administrative Oversight of the Administering Entity*.
- Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2006, approximately 4% of total reviews were selected for oversight by the administering entities. See pages 15–16, *Oversight of the Peer Reviews and Reviewers*

- Verification of reviewers' resumes. See pages 16-17, *Annual Verification of Reviewers' Resumes*.

Based on the results of the oversight procedures performed, the Oversight Task Force has concluded that in all material respects (1) the administering entities were complying with the administrative procedures established by the PRB, (2) the reviews were being conducted and reported upon in accordance with *Standards*, (3) the results of the reviews were being evaluated on a consistent basis by all administering entity peer review committees, and (4) the information provided (limited by local laws and regulations) via the Internet or other media by administering entities was accurate and timely. Based upon the Oversight Task Force's conclusions, we believe for the 2006 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Arthur L. Sparks, Jr., Chair
AICPA Peer Review Board
Oversight Task Force

October 3, 2007

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 not eligible to enroll, are themselves 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, there are currently 14 state CPA societies that have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, there are currently 42 state boards of accountancy that have made participation in a type of practice monitoring program mandatory for licensure with 4 more in the process of implementing this requirement. See Exhibit 1.

The AICPA PRP has approximately 30,000 enrolled firms within the United States and its territories. See Exhibit 2. There are approximately 10,000 peer reviews performed each year by a pool of approximately 1,700 peer reviewers.

Firms enrolled in the AICPA PRP are required to have a peer review of their accounting and auditing practices once every three years. An accounting and auditing practice, as defined by the *Standards*, is defined as "all engagements covered by SASs, SSARS, SSAEs, and GAGAS (the Yellow Book) issued by the GAO." The peer review is conducted by an independent evaluator (one or more individuals depending on size of the reviewed firm) and covers a current one-year period. A written report is prepared by the peer reviewer upon completion of the review.

The AICPA PRP has three different types of peer reviews: system, engagement, and report reviews.

System Reviews: System reviews are for firms that perform audits or examinations of prospective financial statements solely, or in addition to reviews, compilations, or agreed-upon procedures. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on auditing and accounting engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately. The peer review report may be unmodified (firm's system of quality control is adequately designed and firm has complied with its system of quality control); modified (firm has less than reasonable assurance of conforming with professional standards); or adverse (firm basically has no system of quality control or has a system but is not complying at all). A letter of comments may also be issued in addition to the peer review report, which includes matters not of such significance to affect the opinion but areas where the firm has more than a remote possibility of not conforming with professional standards in all material respects.

Engagement Reviews: Engagement reviews are for firms that do not perform audits or examinations of prospective financial statements and are not eligible to have a report review (see Report Reviews below) and focus on work performed and reports and financial statements issued on particular engagements (reviews, compilations, or agreed-upon procedures). The peer review

report may be unmodified (the financial statements or information and the accountant's reports and the documentation submitted for review did conform with the requirements of professional standards in all material respects; modified (the financial statements or information and the accountant's reports and the documentation submitted for review did conform with the requirements of professional standards in all material respects with the exception of a deficiency(s); or adverse (the engagements submitted for review by the firm did not conform with the requirements of professional standards in all material respects). A letter of comments may also be issued in addition to the peer review report, which includes departures from professional standards that are not deemed significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice.

Report Reviews: Report reviews focus on the reports and financial statements issued by firms that only perform compilation engagements without disclosures. On a report review, a reviewer may issue a peer review report without comments and recommendations or one with comments and recommendations, segregating any comments that may be identified as significant.

Administering Entities

All state CPA societies annually elect the level of involvement 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, 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 41 state CPA societies or group of state societies, hereafter referred to as "administering entities," to administer the AICPA PRP in 2007. See Exhibit 3. Each administering entity is required to establish a peer review committee that is responsible for administration, acceptance, and oversight of the AICPA PRP.

Administering entities may also elect to use the *Standards* in administering peer reviews of non-AICPA firms (and individuals). Non-AICPA firms (and individuals) are not enrolled in the AICPA PRP and peer reviews of such firms are not considered as being performed under the auspices of the AICPA PRP and are not oversighted by the AICPA PRB. This Report does not include information or oversight procedures performed by the administering entities on peer reviews of non-AICPA firms (and individuals).

Results of AICPA PRP

From 2004–2006, there were approximately 30,000 peer reviews performed in the AICPA PRP. Exhibit 4 shows a summary of the reviews performed in the AICPA PRP from 2004–2006 by type of peer review and report issued. For system and engagement reviews, approximately 92% of the reviews resulted in unmodified reports, 6% modified, and 2% adverse, respectively.

On system reviews, a firm will receive a modified report if the firm has less than reasonable assurance of conforming with professional standards and will receive an adverse report if the

firm basically has no system of quality control or has a system but is not complying at all. A report can have multiple reasons for modification. Exhibit 5 summarizes the reasons, by elements of quality control as defined by the Statements on Quality Control Standards (SQCS), for report modifications (that is, modified or adverse reports) and shows the number of firms that received modified reports from system reviews performed in the AICPA PRP from 2004–2006.

From 2004–2006 approximately 4% of the engagements reviewed were identified as substandard. The Standards state that an engagement is ordinarily considered substandard when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards. Exhibit 6 shows the total number of individual engagements reviewed along with those identified as substandard.

During the report acceptance process, the administering entities' peer review committee determines the need for and nature of any follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies; 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. Follow-up actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple follow-up actions required on an individual review. There were 6,659 follow-up actions required on 4,680 reviews from 2004–2006 and are summarized in Exhibit 7.

Oversight Process

Oversight of the AICPA PRP is the responsibility of the PRB. The PRB is responsible for the AICPA PRP on a national level as well as oversight of all administering entities. Each administering entity is responsible for oversight over peer reviews and peer reviewers in each state they administer the AICPA PRP. This responsibility includes having written oversight policies and procedures.

All State Boards of Accountancy (SBAs) accept the AICPA PRP as a program that satisfies its peer review licensing requirements. Some SBAs have entered into an agreement with State CPA Societies to perform oversight of their administration of the AICPA PRP. The SBA's oversight process is designed to assess their reliance on the AICPA PRP for re-licensure purposes. This report is not intended to describe or report on that process. Exhibit 8 shows whether the respective administering entity has entered into a peer review oversight relationship with the 42 SBAs that currently have made participation in a type of practice monitoring program mandatory for licensure as indicated in Exhibit 1.

Oversight Task Force of the PRB

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

- Administering entities are complying with the administrative procedures established by the PRB.
- Reviews are being conducted and reported upon in accordance with the *Standards*.
- Results of reviews are being evaluated on a consistent basis in all jurisdictions.
- Information provided to firms and reviewers (via the Internet or other media) by administering entities is accurate and timely.

The oversight program also establishes a communications link with administering entities and builds a relationship that enables the PRB to accomplish the following: obtain information about problems and concerns of administering entities' peer review committees, provide consultation on those matters to specific administering entities, and initiate the development of guidance on a national basis, where 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 administering entity is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year. No member of the OTF is permitted to visit the administering entity in the state that his or her main office is located or where he or she serves as a technical reviewer or may have a conflict of interest.

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

- Meet with the administering entity's peer review committee during its consideration of peer review documents.
- Evaluate a sample of peer review documents and applicable working papers on a postacceptance basis.
- Evaluate the various policies and procedures for administering the AICPA PRP.

As part of the visit, the OTF member will request that the administering entity 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 and then completes a comprehensive oversight work program which contains the various procedures performed during the oversight visit and 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 administering entity's peer review committee chair. The OTF member then issues an AICPA Oversight Visit Letter to the administering entity which discusses the purpose of the oversight visit and that the objectives of the oversight program were considered in performing those procedures. The letter also contains the OTF member's conclusion as to whether the administering entity has complied with the administrative procedures and *Standards* in all material respects as established by the PRB. In addition to the aforementioned letter, the OTF member issues the administering entity an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed and observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The administering entity is then required to respond to the chair of the OTF, in writing, to any findings reported in the letter of procedures and observations, or at a minimum, when there are no findings reported, an acknowledgement of the visit. The oversight letters, including the letter of procedures and observations, and the administering entity's response are presented to the OTF PRB members at the next PRB meeting for acceptance. The administering entity may be required to take corrective actions as a condition of acceptance. Upon acceptance, a letter of acknowledgement is sent to the administering entity. The administering entity may disseminate the oversight letters, its response, and the acceptance letter, so that the public can be made aware of whether the administering entity has complied with the *Standards* and guidance issued by the PRB.

Results

During 2005–2006, a member of the OTF performed at least one on-site oversight visit to each of the 41 administering entities. See Exhibit 9. See Exhibit 10 for a summary of observations from the on-site oversight visits performed during 2005–2006.

Peer Review Working Paper Oversight:

Description

Throughout each year, a sample of system, engagement, and report reviews are randomly selected (by AICPA PRP Staff and approved by the OTF) from each of the administering entities for submission to the AICPA PRP staff for a full working paper review. Documents from all parts of the peer review process (administrative, AS/400 computer system, peer review checklists, technical reviewer checklist, and peer review committee actions) 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*.
- Administrative procedures established by the PRB are being complied with.
- Information is being entered into the computer system correctly.
- Reviewers are following the guidance and use the most current materials contained in the *AICPA Peer Review Program Manual*.
- Results of reviews are being evaluated on a consistent basis within an administering entity and in all jurisdictions.

As the AICPA PRP staff completes the full working paper review, a summary report with staff comments is prepared for each administering entity and submitted to the OTF PRB members at the next PRB meeting for review and approval. Once approved, the summary report is submitted to the respective administering entities' peer review committee chairs requesting that they share the findings with their committees, technical reviewers, peer reviewers, and team captains, where 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 administering entities indicates that they are not asked to take any additional actions on the specific reviews. If significant pervasive deficiencies, problems, or inconsistencies are encountered during the review of the above materials, the OTF may choose to: (1) expand the review of peer review documents; or (2) visit the administering entity in which the deficiencies, problems, or inconsistencies were noted to assist them in determining the cause of these problems and prevent their recurrence, or both; or (3) request the administering entity to take appropriate corrective or monitoring actions.

Results

For the year 2006, 289 working paper reviews were performed covering 228 different peer reviewers. This represents approximately 3% of peer reviews conducted in 2006 and approximately 13% of peer reviewers. Exhibit 11 shows, by administering entity, the number and type of reviews selected. The most prevalent comments from the working paper oversight process are summarized in Exhibit 12.

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 administering entity 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 substandard engagements
- The number of extensions considered and granted
- The number of overdue peer reviews

Results

At the beginning of the 2006 oversight year, there were 534 incomplete reviews with an actual review or due date within 2003–2005. At the time of issuance of this Report, 160 of these reviews remained open in various stages of the review process. Approximately 80% of these open reviews were a result of outstanding follow-up actions or were submitted to the PRB for a termination hearing due to noncooperation. The remaining 20% were in the background or scheduling phases of the review. AICPA PRP staff has been working with the administering entities to determine whether due process procedures have been initiated to drop or terminate such firms, in compliance with the guidelines as contained in the *Standards*.

The status of 2006 reviews has been monitored on a weekly basis to determine reviews are being processed timely and to identify any reviews which are delinquent in the process. Firms that had not submitted background information or provided scheduling information were reviewed to determine that the appropriate overdue requests were mailed and notification sent to the AICPA to drop the firm from the program for failure to comply. For reviews that were scheduled but past their due date, inquiries were made to determine the proper extension procedures were followed.

Results of AICPA PRP are further summarized on pages 8–9 of this Report.

Oversight by the Administering Entities' Peer Review Committees

The administering entities' peer review committees are solely responsible for monitoring and evaluating peer reviews of those firms whose main offices are located in its state and other states it has agreed to administer. Committees may designate a task force to be responsible for the administration and monitoring of its oversight program.

Administering entities are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with the administering entity personnel, the peer review committee establishes oversight policies and procedures that at least meet the minimum requirements (discussed on pages 14–17, *Administering Entity Oversight Procedures*) established by the PRB to ensure:

- Reviews are administered in compliance with the administrative procedures established by the PRB.
- Reviews are being conducted and reported upon in accordance with the *Standards*.
- Results of reviews are being evaluated on a consistent basis.
- Information disseminated by the administering entity is accurate and timely.

Administering Entity Oversight Procedures

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

Administrative Oversight of the Administering Entity:

Description

At a minimum, a committee member or a subcommittee of the administering entity's peer review committee should perform the administrative oversight in those years when there is no on-site OTF oversight. 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 administering entity as part of the 2007 Plan of Administration. Comments or suggestions resulting from the administrative oversights are summarized in Exhibit 13. In addition, the OTF member reviewed the results of the administrative oversight during the on-site visit (described on pages 11–12, *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 administering entity 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 at the location of the administering entity 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 both firms being reviewed as well as reviewers performing reviews. There are also minimum requirements imposed by the PRB.

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

Reviewers – All peer reviewers are subject to oversight and they may be selected based on a number of factors, including random selection, frequent submission of unmodified reports without a letter of comments, 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 administering entity oversees a reviewer from another state, the results should be conveyed to the administering entity of that state.

Minimum Requirements – At a minimum, the administering entity is required to conduct oversight on 2% of all reviews performed in a twelve month period of time, and within the 2% selected, there must be at least two of each type of peer review evaluated (that is, system, engagement, and report reviews). The oversight involves doing a full working paper review and may be performed on-site in conjunction with the peer review or off-site at the administering entity after the review has been performed but prior to presenting the peer review documents to the peer review committee; however, 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.

Administering entities that administer less 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 administering entity's peer review committee or by its designee from a national list of qualified reviewers, on an annual basis. An engagement oversight (performed either off-site or on-site) is the review of all peer reviewer materials and the reviewed firm's financial statements and working papers on the engagement. The two engagement oversights must include audits of employee benefits plans under ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to FDICIA. 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 2006, the administering entities conducted oversight on 397 reviews, representing approximately 4% of all reviews performed in a twelve-month period of time. There were 157 system, 138 engagement, and 102 report reviews oversighted. In addition, 48 ERISA and 56 GAGAS engagements were oversighted. See Exhibit 14 for a summary of oversights by administering entity.

Annual Verification of Reviewers' Resumes:

Description

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in accounting or auditing functions. The firm that the member is associated with should have received an unmodified 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 8 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 administering entity 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 administering entity must verify information within a sample of reviewers' resumes on an annual basis. All reviewer resumes should be verified over a three-year period (at least one third per year). Verification must include the reviewers' qualifications and experience related to engagements performed under GAGAS,

audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to FDICIA. Verification procedures may include requesting copies of their license to practice as a certified public accountant; 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 8 hours in one year; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The administering entity 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 an unmodified report on its most recently completed peer review.

Results

Each administering entity submitted a copy of their oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified for 2006. See Exhibit 15.

Feedback and Enhancements

Feedback from the Administering Entities

In order to maintain effective oversight procedures, the PRB obtains information from the administering entities about matters to address, to provide consultation, and to provide additional guidance as needed on a national basis. The following are areas in which feedback has been received from the administering entities as part of the 2005–2006 OTF Oversight Visits and the year 2006 working paper oversights performed by AICPA Staff.

AICPA PRP Staffing: There have been concerns expressed over the staffing shortages.

There were many positions vacated within the AICPA PRP as a result of the relocation of the AICPA facilities from New Jersey to North Carolina. The AICPA has been working diligently to fill all of the open positions. The AICPA recognizes the importance of providing talented administrative and technical staff to support the administering entities and remains committed to recruiting the most qualified individuals.

AS/400 Computer System: Administering entities have expressed the need for a more responsive and flexible computer system to use in administering the peer reviews.

The AICPA is currently in the process of determining the requirements for a new system to replace the AS/400 and has solicited input from all key parties in creating the request for proposal.

Peer Review Pool: Numerous concerns have been expressed on the declining pool of peer reviewers and shortage of new peer review committee members.

The AICPA began a comprehensive peer reviewer recruitment campaign in 2007 to attract new, quality peer reviewers and educate firms on the benefits of having their owners and staff members involved in performing peer reviews. Components of the campaign include:

- Conference call to peer reviewers on increasing profitability in peer review and benefits of serving on a peer review committee.

- Tool Kit (Peer Review Flyer, Top State Society Strategies, Web Site Template Text, Recruitment Letter, Follow-up Letter, PowerPoint Presentation, Welcome Letter, and How-to Participant Tracking Tool) for state societies to help in efforts to recruit new peer reviewers and help peer reviewers become productive and profitable.

- A free AICPA PRP manual to qualifying individuals completing the “How-to” Course in 2007.

- The AICPA is also developing a Practitioners Tool Kit, which will allow reviewers to become more efficient.

Guidance, Manuals, and Checklists: Requests have been received to consider consolidation of the various manuals with more timely updates and consider revisions to the various checklists.

The PRB will be evaluating what revisions are necessary to the manuals and handbooks for the new *Standards*, which will be effective January 1, 2009 and will take suggestions under consideration.

Many of the checklists and practice aids for 2007 peer reviews were reformatted to promote efficiencies for reviewers. Also, the peer review documents were made available in a PDF format, which allows users to easily complete the checklists, eliminates formatting issues, allows users to save and print, and does not require the purchase of additional software.

Status of Hearings: Administering entities have requested a monthly status report which will show the progress of pending firm terminations from hearings.

The AICPA PRP staff is working on a method of communication with the administering entities that will provide information on the status of firms that have been sent to the PRB for termination. This information will list the firm name and other relevant information, the date in which certified mailing was sent to the firm, staff report of actions taken (that is, phone calls to the firm), and if the administering entity has removed the firm from the termination process.

Completion of Follow-up Actions: Administering entities have requested specific guidance to follow in determining the length of time to allow for the completion of follow-up actions.

The AICPA PRP staff will be reviewing consistency in the length of time firms are given to complete follow-up actions. As staff monitors reviews and performs working paper oversights, they will also monitor the time frame that firms are provided to complete any follow up or corrective actions, or both, necessary to complete the review. Guidelines will be developed by the PRB to promote consistency.

Promotion of Peer Review: There continues to be a need for more promotion of the peer review program and its benefits to AICPA members and to the business and regulatory communities.

The AICPA is currently working on a communications program to users of peer reviews.

Peer Reviewer Training: There are frequent requests for new peer reviewer courses.

All of the peer review courses are updated on an annual basis. There is a new 8-hour course that will be available in 2007.

Guidance on Monitoring: Requests have been received for improved guidance on how to perform and document monitoring, especially for small firms and sole practitioners.

The AICPA Auditing Standards Board Quality Control Task Force is currently working on a practice aid to go along with the new SQCS No. 7, which will provide additional guidance to small firms.

Additional Oversight Enhancements Under Consideration

The OTF and the AICPA PRP staff are working on several future oversight procedure enhancements.

- The AICPA PRP staff will begin periodically monitoring the administering entity peer review materials posted to their Web site to ensure all information is current. In the past, this was incorporated into the oversight visits by the OTF.
- A list of the names of the reviewers whose resume information was verified will be made available to the administering entities via the AICPA intranet.
- For the oversight year 2007, selections for the working paper oversights will be made using a more risk-based approach, considering such factors as number of peer reviews administered; results of previous working paper reviews; results of most recent on-site oversight visit by an OTF member; number and experience level of technical reviewer(s); and comparison of peer review results to results of peer review program taken as a whole.
- To assist committee chairs, the OTF or staff will send, via e-mail, a communication to the committee chair if something has come to their attention that needs to be remedied. Staff will assist committee chairs to remedy the situation.

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, Respectively**

<u>Licensing Jurisdiction</u>	<u>Required for State CPA Society Membership</u>	<u>Required for State Boards of Accountancy Licensure</u>
Alabama	No	Yes
Alaska	No	Yes
Arizona	No	Yes
Arkansas	No	Yes
California	No	Yes* timing pending
Colorado	Yes	No
Connecticut	Yes	Yes
Delaware	Yes	No
District of Columbia	No	No
Florida	No	No
Georgia	Yes	Yes
Guam	No	Yes
Hawaii	No	No
Idaho	No	Yes
Illinois	No	Yes* in 2012
Indiana	No	Yes
Iowa	No	Yes
Kansas	No	Yes
Kentucky	No	Yes
Louisiana	Yes	Yes
Maine	Yes	Yes
Maryland	No	Yes* in 2008
Massachusetts	No	Yes
Michigan	No	Yes* in 2008
Minnesota	Yes	Yes
Mississippi	Yes	Yes
Missouri	No	Yes

*Licensing jurisdiction has statutorily adopted peer review and is in the process of adopting rules

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, Respectively**

<u>Licensing Jurisdiction</u>	<u>Required for State CPA Society Membership</u>	<u>Required for State Boards of Accountancy Licensure</u>
Montana	No	Yes
Nebraska	No	Yes
Nevada	No	Yes
New Hampshire	No	Yes
New Jersey	No	Yes
New Mexico	No	Yes
New York	No	No
North Carolina	Yes	Yes
North Dakota	No	Yes
Northern Mariana Islands (MP)	N/A	No
Ohio	Yes	Yes
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	No
Washington	No	Yes
West Virginia	No	Yes
Wisconsin	Yes	Yes
Wyoming	No	Yes

Exhibit 2

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

Licensing Jurisdiction	Number of Professionals in Practice							Total
	Sole Practitioners	2-5	6-10	11-19	20-49	50-99	100+	
AK	44	33	8	6	-	1	-	92
AL	201	211	49	25	13	-	2	501
AR	102	97	30	10	4	-	-	243
AZ	250	182	51	9	8	2	-	502
CA	1,325	1,005	282	136	62	14	-	2,824
CO	297	316	46	22	8	1	-	690
CT	271	219	57	28	10	-	-	585
DC	10	13	4	4	3	3	-	37
DE	21	30	14	3	6	-	-	74
FL	611	695	158	59	28	4	1	1,556
GA	434	433	98	32	17	1	-	1,015
GU	6	1	2	1	1	1	-	12
HI	70	69	26	13	1	1	-	180
IA	88	113	43	14	12	-	-	270
ID	75	85	19	7	4	-	-	190
IL	350	395	128	58	27	7	2	967
IN	153	215	51	24	14	3	1	461
KS	110	139	37	19	9	3	1	318
KY	167	184	51	23	7	2	-	434
LA	343	242	68	14	11	1	-	679
MA	387	385	103	36	19	4	-	934
MD	185	245	65	26	32	4	-	557
ME	47	58	15	7	2	1	-	130
MI	337	388	126	47	17	2	-	917
MN	197	212	53	25	17	2	-	506
MO	127	219	61	25	8	2	-	442
MP	1	-	-	-	-	-	-	1
MS	132	114	29	11	5	1	-	292
MT	45	55	11	6	1	2	1	121
NC	425	455	99	37	20	1	-	1,037
ND	32	28	4	1	2	-	-	67
NE	52	80	24	15	7	2	-	180
NH	83	75	16	5	5	1	-	185
NJ	511	525	105	42	24	4	1	1,212
NM	131	90	24	3	1	3	-	252
NV	91	78	20	12	3	1	-	205
NY	483	734	244	97	48	9	3	1,618
OH	439	472	139	53	24	3	-	1,130
OK	177	175	38	11	2	-	-	403
OR	203	236	60	18	11	1	-	529
PA	403	540	159	59	34	6	2	1,203
PR	53	74	15	15	11	1	-	169
RI	60	74	16	7	4	2	-	163
SC	201	189	35	12	5	-	-	442
SD	20	28	15	5	1	1	-	70
TN	327	243	55	24	9	1	-	659
TX	1,361	1,086	192	77	29	6	-	2,751
UT	109	87	22	13	6	-	-	237
VA	324	278	51	29	13	3	1	699
VI	7	4	-	-	-	-	-	11
VT	40	32	9	6	3	-	-	90
WA	222	211	78	24	14	1	-	550
WI	114	131	48	20	9	2	2	326
WV	69	71	15	8	6	-	-	169
WY	32	40	12	2	2	-	-	88
Totals	12,355	12,389	3,180	1,285	639	110	17	29,975

Note: The above data reflects enrollment as of July 6, 2007.

Exhibit 3**Administering Entities Approved to Administer the 2007 AICPA PRP**

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

Exhibit 4**Results by Type of Peer Review and Report Issued**

The following shows the results of the AICPA PRP from 2004–2006 by type of peer review and report issued.

	2004	%	2005	%	2006	%	Total	%
System Reviews:								
Unmodified without comments	2,305	51%	2,243	50%	2,535	50%	7,083	50%
Unmodified with comments	1,871	41%	1,918	42%	2,183	43%	5,972	42%
Modified	272	6%	294	6%	256	5%	822	6%
Adverse	80	2%	71	2%	79	2%	230	2%
	<u>4,528</u>	100%	<u>4,526</u>	100%	<u>5,053</u>	100%	<u>14,107</u>	100%
Engagement Reviews:								
Unmodified without comments	1,783	51%	1,324	50%	1,333	47%	4,440	50%
Unmodified with comments	1,409	40%	1,118	42%	1,283	45%	3,810	42%
Modified	258	7%	197	7%	187	7%	642	7%
Adverse	53	2%	32	1%	28	1%	113	1%
	<u>3,503</u>	100%	<u>2,671</u>	100%	<u>2,831</u>	100%	<u>9,005</u>	100%
Report Reviews:								
No comments	1,370	64%	1,421	62%	1,409	64%	4,200	63%
With comments	781	36%	733	32%	601	27%	2,115	32%
With significant comments*	-	0%	140	6%	198	9%	338	5%
	<u>2,151</u>	100%	<u>2,294</u>	100%	<u>2,208</u>	100%	<u>6,653</u>	100%
Total reviews	<u><u>10,182</u></u>		<u><u>9,491</u></u>		<u><u>10,092</u></u>		<u><u>29,765</u></u>	

Note: The above data reflects peer review results as of July 6, 2007. Approximately 3% of 2006 reviews are in process and their results are not included in the totals above.

*Prior to 1/1/05 significant comments were not specifically identified in the computer database.

Exhibit 5

Number and Reasons for Report Modifications

The following lists the reasons, summarized by elements of quality control as defined by the SQCS, for report modifications (that is, modified or adverse reports) and shows the number of firms that received modified reports from system reviews performed in the AICPA PRP from 2004–2006. On a system review, the peer reviewer’s objective is to express an opinion on whether the system of quality control for the accounting and auditing practice of the reviewed firm had been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was being complied with during the year reviewed to provide the firm with reasonable assurance of conforming with professional standards. SQCS requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: independence, integrity, and objectivity; personnel management; acceptance and continuance of clients and engagements; engagement performance; and monitoring. A firm will receive a modified report on a system review if the firm has less than reasonable assurance of conforming with professional standards and will receive an adverse report if the firm basically has no system of quality control or has a system but is not complying at all. Since modified or adverse reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of modified or adverse system reviews in Exhibit 4.

Reasons for Report Modifications	<u>2004</u>	<u>2005</u>	<u>2006</u>
Independence, Integrity & Objectivity	7	28	17
Engagement Performance	241	250	222
Personnel Management	53	61	48
Acceptance & Continuance of Clients & Engagements	16	8	15
Monitoring	143	150	129
Totals	<u>460</u>	<u>497</u>	<u>431</u>

Note: The above data reflects peer review results as of July 6, 2007. Approximately 3% of 2006 reviews are in process and their results are not included in the totals above.

Exhibit 6

Number of Substandard Engagements

The following shows the total number of engagements reviewed and the number identified as “substandard” from peer reviews performed in the AICPA PRP from 2004–2006. The Standards state that an engagement is ordinarily considered substandard when deficiencies, individually or in 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.

Engagement Type	2004			2005			2006		
	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%
	Reviewed	Substandard		Reviewed	Substandard		Reviewed	Substandard	
Audits - Single Audit Act (A-133)	1,436	118	8%	1,542	96	6%	1,704	109	6%
Audits - Governmental - All Other	1,350	87	6%	1,434	100	7%	1,696	119	7%
Audits - ERISA	1,338	88	7%	1,631	101	6%	1,692	112	7%
Audits - FDICIA	-	-	0%	-	-	0%	8	3	38%
Audits - Other	4,349	250	6%	4,935	241	5%	4,989	249	5%
Reviews	5,698	184	3%	5,745	173	3%	6,003	175	3%
Compilations with Disclosures	4,304	101	2%	4,160	98	2%	4,384	82	2%
Compilations without Disclosures	13,001	483	4%	12,755	528	4%	13,457	516	4%
Financial Forecast & Projections	180	9	5%	182	5	3%	146	6	4%
Other SSAEs	648	31	5%	642	15	2%	755	21	3%
Totals	32,304	1,351	4%	33,026	1,357	4%	34,834	1,392	4%

Note: The above data reflects peer review results as of July 6, 2007. Approximately 3% of 2006 reviews are in process and their results are not included in the totals above.

Exhibit 7

Summary of Required Follow-Up Actions

The administering entities' 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 administering entity 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 comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may not recommend further follow-up actions. Follow-up 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 follow-up actions. For 2004–2006 reviews, committees required 6,659 follow-up actions on 4,680 reviews in the AICPA PRP. The following represents the type of follow-up actions required.

Type of Follow up Action	<u>2004</u>	<u>2005</u>	<u>2006</u>
Agree to take certain Continuing Prof. Education (CPE)	828	736	716
Agree to do comprehensive inspection	-	1	-
Agree to hire consultant for inspection	29	14	11
Agree to hire consultant for preissuance reviews	126	119	98
Agree to strengthen staff	2	1	-
Submit proof of CPE taken	113	88	92
Submit copy of inspection report	123	89	82
Submit inspection completion letter	2	4	-
Submit report on consultant	2	3	3
Submit quarterly progress reports	2	2	-
Submit to Team Captain (TC) revisit—general	97	94	77
Submit to TC review of sub engagements with working papers	92	83	93
Submit to committee member visit	-	1	1
Agree to have accelerated review	92	58	55
Oversight of Inspection - - Review	-	-	1
Oversight of Inspection - Visitation	2	2	1
Submit Inspection Report to TC	62	54	33
TC to review Quality Control Document	2	-	3
Review of formal CPE plan by outsider	3	2	2
Submit a CPE plan to the committee	5	10	6
Outside party to Review Inspection	-	3	5
Outside party to visit during inspection	8	3	2
Submit to TC review of subengagement without working papers	266	219	194
Submit inspection report to outside party	16	17	14
TC review correction of substandard engagement	36	31	44
Outside party review substandard correction	6	8	6
Does not perform any auditing engagements	4	11	5
Submit additional information regarding repeat findings	36	21	15
Submit monitoring report to Committee	136	88	95
Submit monitoring report to TC	68	77	73
Oversight of monitoring by TC	6	7	7
Submit proof of purchase of manuals	22	11	14
Submit evidence of proper firm licensure	72	18	25
Agree to hire consultant - preissuance reviews	15	17	15
Submit to TC review of subengagement with working papers	85	84	61
Receiving revised report	<u>172</u>	<u>151</u>	<u>153</u>
	<u>2,530</u>	<u>2,127</u>	<u>2,002</u>
Number of Reviews Assigned Follow Up			
Unmodified without comments	6	7	4
Unmodified with comments	1,137	847	810
Modified or Report Reviews with significant comments	473	536	545
Adverse	<u>122</u>	<u>92</u>	<u>101</u>
	<u>1,738</u>	<u>1,482</u>	<u>1,460</u>

Note: The above data reflects peer review results as of July 6, 2007. Approximately 3% of 2006 reviews are in process and their results are not included in the totals above.

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 administering entity has entered into a peer review oversight relationship with the 42 SBAs that currently have made participation in a type of practice monitoring program mandatory for licensure as indicated in Exhibit 1.

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between Administering Entity and State Board of Accountancy</u>
Alabama Society of CPAs	Alabama	No
California Society of CPAs	Alaska	No
California Society of CPAs	Arizona	No
Arkansas Society of CPAs	Arkansas	No
Connecticut Society of CPAs	Connecticut	No
Georgia Society of CPAs	Georgia	No
Oregon Society of CPAs	Guam	No
Idaho Society of CPAs	Idaho	Yes
Indiana CPA Society	Indiana	No
Iowa Society of CPAs	Iowa	No
Kansas Society of CPAs	Kansas	Yes
Kentucky Society of CPAs	Kentucky	Yes
Society of Louisiana CPAs	Louisiana	Yes
New England Peer Review, Inc.	Maine	No
Massachusetts Society of CPAs	Massachusetts	Yes
Minnesota Society of CPAs	Minnesota	Yes
Mississippi Society of CPAs	Mississippi	Yes
Missouri Society of CPAs	Missouri	Yes
Montana Society of CPAs	Montana	No
Nevada Society of CPAs	Nebraska	No
Nevada Society of CPAs	Nevada	No
New England Peer Review, Inc.	New Hampshire	No
New Jersey Society of CPAs	New Jersey	No
New Mexico Society of CPAs	New Mexico	No
North Carolina Association of CPAs	North Carolina	No
North Dakota Society of CPAs	North Dakota	No
The Ohio Society of CPAs	Ohio	Yes
Oklahoma Society of CPAs	Oklahoma	Yes
Oregon Society of CPAs	Oregon	Yes
Pennsylvania Institute of CPAs	Pennsylvania	No
New England Peer Review, Inc.	Rhode Island	No
South Carolina Association of CPAs	South Carolina	Yes
Oklahoma Society of CPAs	South Dakota	No
Tennessee Society of CPAs	Tennessee	Yes
Texas Society of CPAs	Texas	Yes
Nevada Society of CPAs	Utah	No
New England Peer Review, Inc.	Vermont	No
Virginia Society of CPAs	Virginia	No
Washington Society of CPAs	Washington	No
West Virginia Society of CPAs	West Virginia	No
Wisconsin Institute of CPAs	Wisconsin	No
Nevada Society of CPAs	Wyoming	No

Exhibit 9**On-Site Oversight of Administering Entities
Performed by AICPA Oversight Task Force**

During 2005–2006, a member of the OTF performed an on-site oversight visit to each of the 41 administering entities below. As part of the oversight procedures, each administering entity is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year.

<u>2005</u>	<u>2006</u>
Alabama	Arkansas
Connecticut	California
Georgia	Colorado
Hawaii	Florida
Idaho	Kansas
Illinois	Michigan
Indiana	Mississippi
Iowa	Missouri
Kentucky	Montana
Louisiana	Nevada
Maryland	New England
Massachusetts	New Jersey
Minnesota	New Mexico
North Carolina	New York
Oklahoma	North Dakota
South Carolina	Ohio
Texas	Oregon
Virginia	Pennsylvania
Washington	Puerto Rico
	South Carolina
	Tennessee
	West Virginia
	Wisconsin

Exhibit 10**Observations From On-Site Oversight of Administering Entities
Performed by AICPA Oversight Task Force**

As discussed in more detail on pages 11-12, *Oversight Visits of the Administering Entities*, each administering entity is visited by an OTF member at least every other year who performs various oversight procedures. At the conclusion of the visit the OTF member issues an AICPA Oversight Visit Letter as well as an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed and observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The administering entity is then required to respond to the chair of the OTF, in writing, to any findings reported in the letter of procedures and observations, or at a minimum, when there are no findings reported, an acknowledgement of the visit. The following represents a summary of common observations made by the AICPA Oversight Task Force resulting from the on-site oversight visits performed during 2005–2006. The observations listed below are not indicative of every administering entity and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- No back-up plan was in place to support the program administrator.
- Acceptance letters were not mailed timely after each Peer Review Committee meeting. Also, acceptance letters on those report reviews accepted by the technical reviewer were not mailed upon the technical reviewer's acceptance, but were held until the next committee meeting.
- A written request, including a valid reason, was not obtained from the reviewed firm prior to granting an extension for the firm's due date. A copy of the approval or denial of the extension request was not maintained in the reviewed firm's file.
- The appropriate letters for poor reviewer performance, delinquent peer reviews, and follow-up reminders were not generated according to the time requirements in the administrative manual.
- Files still open due to delinquent follow-up actions were not periodically reviewed with the Peer Review Committee to determine what additional action should be taken.
- Peer review committee members were not monitored to ensure they met the minimum requirements to serve on the committee.
- Reviewer feedback forms were not maintained in the appropriate reviewer file, but included in the reviewed firm's file.
- Scope and results of oversight procedures were not documented and communicated to the Peer Review Committee at least on an annual basis. The oversight plan did not include a formal evaluation of the technical reviewer(s).

Web site and Other Media Information

- The data maintained on the Web site as it relates to the peer review program was not reviewed and revised to reflect current information. A link to the AICPA Web site was not present.

Exhibit 10 (continued)**Observations From On-Site Oversight of Administering Entities
Performed by AICPA Oversight Task Force**

Working Paper Retention

- Working papers were not retained and then destroyed 90 days after acceptance by the Peer Review Committee in accordance with the working paper retention policy of the administrative manual.

Technical Review Procedures

- Guidance was not provided to peer reviewers concerning reporting on monitoring, independence issues, documentation deficiencies, risk assessments, and engagement selection.

Review Presentation

- The technical reviewer did not clear all open technical issues prior to the Report Acceptance Body (RAB) meeting in an attempt to resolve the issues. Procedures performed and basis for conclusions were not documented in the working papers and provided to the RAB for consideration in their acceptance process. The technical reviewer did not assist in identifying reviewer feedback.
- The technical reviewer(s) and the Peer Review Committee did not consult the AICPA materials (for example, the *Standards*, Interpretations, RAB Handbook, and Peer Reviewer's Alerts) throughout the review process to ensure that the *Standards* were adhered to and that proper and consistent decisions were reached on each review presented, particularly in regard to team captain feedback, report modifications, comments, significant deficiencies, and follow-up actions.
- The Peer Review Committee did not receive all of the peer review documents that are to be provided prior to the meeting in accordance with the administrative guidelines.

Committee Procedures

- Scheduling status reports were not reviewed at least quarterly to ensure firms and reviewers are responding to requests.
- RAB meetings were not scheduled with a frequency that ensured reports are presented timely in accordance with the 45/120 day provisions of the *Standards*.
- No agenda and minutes were developed to summarize the peer review committee's actions.
- A RAB chairperson was not appointed to be responsible for leading discussions and deliberations.
- Reviewer feedback was not issued when necessary.
- An administrative oversight was not performed in the year when there was no AICPA OTF oversight. The oversight was not documented with a formal letter signed by the person who performed the review and presented to the Peer Review Committee.

Exhibit 11**Number and Type of Working Paper Oversight
Performed by AICPA Staff**

The following shows the number and type of working paper oversights performed by AICPA PRP staff for the year 2006.

Administering Entity	Type of Review			Total Selections
	System	Engagement	Report	
Alabama	2	2	2	6
Arkansas	2	2	2	6
California	4	4	4	12
Colorado	3	3	2	8
Connecticut	3	3	2	8
Florida	3	3	2	8
Georgia	3	3	2	8
Hawaii	1	1	2	4
Idaho	1	1	2	4
Illinois	3	3	3	9
Indiana	2	2	2	6
Iowa	2	2	2	6
Kansas	2	2	2	6
Kentucky	2	2	2	6
Louisiana	3	3	2	8
Maryland	2	2	2	6
Massachusetts	3	3	4	10
Michigan	2	3	2	7
Minnesota	5	3	2	10
Mississippi	1	1	2	4
Missouri	2	2	2	6
Montana	2	2	2	6
Nevada	2	2	2	6
New England	2	3	3	8
New Jersey	3	2	3	8
New Mexico	2	2	2	6
New York	4	4	4	12
North Carolina	2	2	2	6
North Dakota	1	1	2	4
Ohio	3	3	3	9
Oklahoma	2	2	2	6
Oregon	2	2	2	6
Pennsylvania	2	2	3	7
Puerto Rico *	3	3	-	6
South Carolina	2	2	2	6
Tennessee	2	2	2	6
Texas	4	4	4	12
Virginia	4	2	2	8
Washington *	4	3	-	7
West Virginia	2	2	2	6
Wisconsin	2	2	2	6
Totals	101	97	91	289

*Administering Entity administers no report reviews

Exhibit 12

Comments From Working Paper Oversight Performed by AICPA PRP Staff

Throughout each year, a sample of reviews is selected (by AICPA PRP staff and approved by the OTF) from the administering entities for submission to the AICPA PRP staff for a full working paper review. Documents from all parts of the peer review process (administrative, AS/400 computer system, peer review checklists, technical reviewer checklist, and peer review committee actions) are reviewed to determine whether the reviews are being performed and reported on in accordance with the *Standards*. The following is a summary of the most prevalent comments that were generated as a result of the working paper oversights performed by AICPA PRP staff for year 2006. The comments are intended to provide the administering entities, their committees, RABs, peer reviewers, and technical reviewers with information and constructive recommendations that will help to 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.

- Reviewer Feedback

- Feedback was not issued to the peer reviewer when it would have been appropriate. Some examples include scope matters, references to a specific number of engagements rather than using general terms such as *few* or *some*, minor typographical errors, incomplete Matters for Further Consideration (MFC) forms (for example, not referencing professional standards).
- Feedback was issued when some other action would have been appropriate. For example, issuing feedback for a matter that warrants inclusion in the letter of comments.
- Reviewer feedback forms were signed by the technical reviewer instead of a member of the peer review committee.

- Follow-up Actions

Reviewed firms should have been considered for corrective or monitoring actions but were not. Example situations included an unmodified report with a repeat finding(s), an substandard engagement, and a modified report. In these situations, it would have been appropriate for the technical reviewer to recommend follow-up actions to be considered by the committee. Ultimately, it is the responsibility of the peer review committee to require follow-up actions and should have been discussed and considered in the above situations.

- Consideration of Report Type for System Reviews

The appropriate report was not issued on system reviews. For example, when a firm has a system or compliance deficiency that results in the pervasive issuance of engagements that are not in conformity with professional standards in all material respects, this would

Exhibit 12 (continued)**Comments From Working Paper Oversight
Performed by AICPA PRP Staff**

generally result in a modified or adverse report. Conversely, if a firm has a system in place, and there is an isolated example of a significant compliance deficiency, based on what the expansion of scope may determine, an unmodified report may still be appropriate with a letter of comments.

- Engagement Checklists

Peer reviewers did not use the correct or most current checklists when performing peer reviews.

- Engagement Selection

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

- Firm Engagement Profiles and Questionnaires

- The Engagement Summary Form, which lists the type of industry and engagements, did not indicate the twelve-month period ended to which the engagement listing applied and was not signed or dated by the firm partner.
- The firm's listing of engagements included engagements outside the firm's peer review period.
- The engagement summary provided by the firm was signed off prior to the peer review year end.
- The Engagement Summary Form was prepared by the peer reviewer and not signed or dated by the firm owner.
- The engagement summary form, was not obtained from the reviewed firm. The data was obtained from the firm's background information. The background information did not include the 12-month period under review, was completed before the review period end or was not signed and dated by the firm, or both.
- The information provided by the firm was incomplete in regards to the prior year's fees, which are needed to appropriately determine the firm's independence on the engagement.

- Risk Assessment

The risk assessment included in the Summary Review Memorandum (SRM) described only the number of partners, types and number of engagements, and general engagement selection. This is not a complete risk assessment, as it does not address the system of quality control, inherent, control, or detection risk.

Exhibit 12 (continued)**Comments From Working Paper Oversight
Performed by AICPA PRP Staff**

- Firm Representation Letter

- On engagement and report peer reviews, the firm's peer review representation letter was dated the same date as the peer review report. For engagement and report reviews, the representations should be the date the firm submits the list of engagements to the reviewer.
- Representation letters were missing elements of the standard letter, contained typographical errors, and were signed by an individual and not the reviewed firm.

- Repeat Findings

On engagement and report peer reviews, comments were not appropriately shown as being repeats. If a reviewer notes an engagement that had a financial statement presentation deficiency, a disclosure deficiency, or a reporting deficiency in a prior review, any deficiency noted in these same categories in the current review would qualify as a repeat finding.

- MFCs

- MFCs should have been prepared, but were not. For example, if the engagement checklists address several "no" answers relating to disclosure and documentation, they should be carried forward to an MFC.
- MFCs did not reflect the respective professional standards in order to lend support for the matter being addressed as a deficiency and did not include the engagement, checklist page, or question where the comment was derived.
- MFCs were not signed and dated by the reviewed firm's engagement partner (or designated as being discussed by telephone) prior to or on the date of the report.
- MFCs were not considered for inclusion in the letter of comments when circumstances warranted such inclusion.
- MFCs individually were considered isolated or insignificant, but collectively represented systemic deficiencies that should be included in the letter of comments.
- MFCs or letter of comments, or both, contained significant deficiencies that were not properly identified, and engagements were not deemed substandard.

- Report Dates

There were instances in which the date of the report and letter of comments were incorrect. The reports on a system review should ordinarily be dated as of the date of the exit conference, and reports on engagement and report reviews should ordinarily be dated as of the date of the completion of the peer review.

Exhibit 12 (continued)**Comments From Working Paper Oversight
Performed by AICPA PRP Staff**

- Change in Peer Review Year

The year end for the current peer review differed from the year end for the prior peer review, and there was no indication as to whether an extension of the peer review year was authorized.

- Peer Review Reports on Engagement Reviews

Reviewers did not include the correct reporting language in the last paragraph of the report on an engagement review when the engagements were submitted with or without documentation requirements.

- Peer Review Reports on Report Reviews

Peer review reports on report reviews contained comments and recommendations, and the authorized acknowledgement for the reviewed firm at the bottom of the report did not contain the following wording “and that there are no disagreements on the comments above and that the firm agrees to correct all comments by implementing the above recommendation(s).”

- Letter of Comments

The letter of comments was written using the word *Finding* instead of *Comment*.

- SRMs

The SRMs were not completed accurately or consistently. This led to instances where necessary comments were not included in the letter of comments; repeat findings and substandard engagements were not identified or properly addressed; and reports other than unmodified were not considered.

- Reviewer’s Checklist

All steps on the Reviewer’s Checklist were signed off on the date the review was completed. Several steps should take place before and after the review is completed.

- Staff Interview Questionnaires

No staff interview questionnaires were completed as part of the peer review process.

Exhibit 12 (continued)**Comments From Working Paper Oversight
Performed by AICPA PRP Staff**

- Review Completion Form

The Review Completion Form was not completed accurately, signed, or dated when the review was complete.

- Submission of Report to Firm

The reports were not submitted to the reviewed firm within 30 days of the completion of the review.

- Comparison of Background Information to List of Engagements Provided by Firm

The information in AS/400 computer system did not agree with the information in the documents submitted for oversight related to the types of engagements performed.

- Technical Reviewer's Checklist

The technical reviewer's checklist and the attachments were outdated, incomplete, completed inaccurately, or tailored and did not include all of the steps in the standard checklists.

- Engagement Statistics in the AS/400 Computer System

- Engagement statistics were not recorded in the computer or recorded incorrectly (that is, types of engagements reviewed and if an engagement was substandard).
- Extensions granted to the reviewed firms or changes in the peer review year end were not properly reflected in the computer system.
- The AS/400 computer system did not always reflect that a team member was approved on reviews.

- Working Paper Requests

- The administering entity did not contact the reviewing firm within the 90-day period instructing those firms to send the working papers to the administering entity. As a result, the working papers were no longer retained by the reviewing firm, and the AICPA PRP staff had to make alternative selections for working papers relating to other peer reviews.

Exhibit 12 (continued)**Comments From Working Paper Oversight
Performed by AICPA PRP Staff**

- All working papers were not submitted to the AICPA for oversight, or documents submitted did not include the updated reports, letter of comments, or letter of response when such documents required revisions. Some examples of missing working papers included the engagement questionnaires completed by the reviewed firm or the engagement checklists for engagement and report reviews; the administrative reviewer's checklist; the reviewed firm's list of accounting and auditing clients by industry; the firm's representation letter and the prior peer review acceptance letter, report, and the letter of comments and letter of response, if applicable.
- The financial statements were included with the documents submitted for oversight. The financial statements should be returned to the reviewed firm or shredded after the report has been accepted.

- Extensions

Extensions were granted without proper written requests from the reviewed firms.

- Administrative Checklists

The administrative review checklists were outdated, incomplete, completed inaccurately, or tailored and did not include all of the steps in the standard checklists.

Exhibit 13

Administrative Oversight Performed by Peer Review Committee of Administering Entity

The administering entity's peer review committee is required to establish administrative oversight procedures to ensure 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. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP. Each administering entity was requested to submit documentation indicating that an administrative oversight was performed with their 2007 Plan of Administration. Comments or suggestions contained in the reports are summarized below and are not indicative of every administering entity and vary in degree of significance. In addition, the OTF member reviewed the results of the administrative oversight during the on-site visit (described on pages 11–12, *Oversight Visits of the Administering Entities*) and compared the results of the administrative oversight to those noted during the OTF oversight visit to evaluate whether any matters still need improvement.

- There was an instance in which a peer review committee member was behind on CPE.
- Need procedures to deal with problem reviewers who also serve on the Peer Review Committee.
- Files contained documents that should have been destroyed.
- Web site materials were not current.
- Selections for peer review oversights were from the last six months of the year and did not include the entire population.
- No trained administrative back-up.
- Lack of qualified individuals willing to serve on the Peer Review Committee.
- Need to establish procedures for feedback on out-of-state reviewers.
- Notifications not sent to team captains advising them of the working paper retention policy after the report acceptance.
- Oversight procedures should be performed in a timelier manner.
- Delinquent letters on reviews were not being sent in a timely manner.
- Industry codes listed on reviewer resumes need to be compared against the industry codes noted on the reviewer firm's background information.
- Delinquent reviews need to be monitored on a monthly basis.

Exhibit 14

Summary of Oversight Performed by Administering Entities

Administering entities are required to conduct oversight on a minimum of 2% of all reviews performed in a twelve-month period of time, and within the 2 % selected, there must be at least two of each type of peer review evaluated. Also, at least two engagement oversights must be performed to include either audits of employee benefit plans under ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2006 oversight year.

Administering Entity	Type of Review Oversight				Type of Engagement Oversight			
	System	Engagement	Report	Total	ERISA	GAGAS	FDICIA***	Total
Alabama	-	2	2	4	-	-	-	-
Arkansas	2	2	2	6	1	2	-	3
California	6	42	3	51	3	6	-	9
Colorado	1	2	2	5	1	1	-	2
Connecticut	2	2	2	6	-	-	-	-
Florida	6	6	6	18	1	1	-	2
Georgia	8	2	3	13	1	2	-	3
Hawaii *	1	1	1	3	-	-	-	-
Idaho *	1	1	1	3	1	1	-	2
Illinois	12	2	2	16	1	3	-	4
Indiana	2	2	2	6	1	1	-	2
Iowa	3	2	2	7	1	1	-	2
Kansas	2	2	2	6	2	1	-	3
Kentucky	2	2	3	7	1	2	-	3
Louisiana	2	2	2	6	1	2	-	3
Maryland	2	2	2	6	1	1	-	2
Massachusetts	17	5	2	24	1	1	-	2
Michigan	6	2	3	11	1	2	-	3
Minnesota	2	4	4	10	1	1	-	2
Mississippi	2	2	2	6	1	1	-	2
Missouri	2	2	2	6	1	1	-	2
Montana	2	2	1	5	1	1	-	2
Nevada	1	1	-	2	-	1	-	1
New England	4	4	2	10	2	1	-	3
New Jersey	5	2	2	9	2	3	-	5
New Mexico	2	2	2	6	1	2	-	3
New York	4	2	2	8	2	2	-	4
North Carolina	8	3	3	14	1	1	-	2
North Dakota *	3	1	1	5	1	1	-	2
Ohio	5	6	6	17	1	1	-	2
Oklahoma	2	2	2	6	1	1	-	2
Oregon	4	2	2	8	2	1	-	3
Pennsylvania	9	6	2	17	2	1	-	3
Puerto Rico **	3	-	-	3	1	1	-	2
South Carolina	2	-	-	2	2	-	-	2
Tennessee	2	2	3	7	1	1	-	2
Texas	6	5	17	28	3	4	-	7
Virginia	4	3	3	10	1	1	-	2
Washington **	6	2	-	8	1	1	-	2
West Virginia	2	2	2	6	1	1	-	2
Wisconsin	2	2	2	6	1	1	-	2
	157	138	102	397	48	56	-	104

* Waiver approved in 2006 from minimum oversight requirement of 2% of all reviews performed in a twelve month period of time.

**Administering entities administer no report reviews.

***No FDICIA engagements selected for oversight.

Exhibit 15**Summary of Reviewer Resumes Verified by Administering Entities**

Administering entities are required to verify all reviewer resumes over a three-year period (at least 1/3 of reviewer resumes each year). The following shows the number of reviewer resumes verified by administering entities for the year 2006.

Administering Entity	Number of Resumes Verified	Percentage of Reviewers Verified
Alabama	14	33%
Arkansas	6	33%
California	40	33%
Colorado	16	33%
Connecticut	7	33%
Florida	29	33%
Georgia	42	100%
Hawaii	8	100%
Idaho	4	33%
Illinois	20	33%
Indiana	8	33%
Iowa	6	33%
Kansas	17	100%
Kentucky	11	33%
Louisiana	44	100%
Maryland	8	33%
Massachusetts	25	100%
Michigan	26	37%
Minnesota	7	33%
Mississippi	9	33%
Missouri	7	33%
Montana	11	33%
Nevada	-	0%
New England	10	33%
New Jersey	25	33%
New Mexico	22	100%
New York	35	33%
North Carolina	17	33%
North Dakota	2	33%
Ohio	104	100%
Oklahoma	11	33%
Oregon	9	33%
Pennsylvania	29	33%
Puerto Rico	14	33%
South Carolina	18	33%
Tennessee	16	33%
Texas	32	33%
Virginia	17	33%
Washington	10	33%
West Virginia	5	33%
Wisconsin	6	60%
Totals	747	

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 <i>Standards</i> , Interpretations to the <i>Standards</i> , and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the administering entity 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 administering entity peer review committees, report acceptance bodies, and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
AICPA Peer Review Program Reviewer’s Alert	A document issued on a periodic basis by the AICPA PRB to communicate current information and guidance to peer reviewers.
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 <i>Standards</i> 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.
AS/400 Computer System	An online system that is accessed to carry out the AICPA PRP and the CPCAF PRP administrative functions.
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.

Glossary (continued)

<u>Term</u>	<u>Definition</u>
ERISA	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 and are not eligible to have a report review and focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.
Firm	A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Follow-up Action	A corrective type action, remedial and educational in nature, which may be imposed on a reviewed firm by the administering entity peer review committee upon the acceptance of the firm's peer review in an attempt to strengthen the performance of the firm.
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 due process 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.

Glossary (continued)

<u>Term</u>	<u>Definition</u>
Letter of Comments	A letter which may be issued in addition to the peer review report, which on system reviews, includes matters not of such significance to affect the opinion, but areas where the firm has more than a remote possibility of not conforming with professional standards in all material respects. On engagement reviews, it includes departures from professional standards that are not deemed to be significant departures, but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice.
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 Form	A form used to document all significant matters identified by the peer reviewer that require additional information or explanation of the facts from the reviewed firm.
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 administering entity to oversee the peer reviews administered and performed in the states it has agreed to administer, to evaluate the results of the reviews and the need for corrective actions, and to determine the need for, and carry out, monitoring procedures with respect to the completion of those corrective actions.
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.
Professionals	Professionals are considered all personnel who perform professional services for which the firm is responsible, whether or not they are CPAs.
Program Administrator	Person responsible for administering the AICPA PRP for the administering entity.

Glossary (continued)

<u>Term</u>	<u>Definition</u>
Report Acceptance Body	A committee or committees appointed by an administering entity for the purpose of considering the results of peer reviews and ensuring that the requirements of the AICPA PRP are being complied with.
Report Review	A type of peer review for firms that only perform compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures. The focus of the peer review is on the report issued by the firm and the related financial statements
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 written document required to be updated annually by all active peer reviewers which is used by administering entities to determine if individuals meet the qualifications for service as a reviewer as set forth in the <i>Standards</i> .
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.
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.
State CPA Society AICPA Peer Review Program Administrative Manual	Publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.

Glossary (continued)

<u>Term</u>	<u>Definition</u>
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 letter of comments, if any, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.
System of Quality Control	A process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.
System Review	A type of peer review for firms that have an audit and accounting practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on auditing and accounting engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
Technical Reviewer	Individual(s) at the administering entity whose role is to provide technical assistance to the Report Acceptance Body (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 Northern Mariana Islands, Puerto Rico, or the Virgin Islands.