



Peer Review Program

National Peer Review Committee

2010 Annual Report on Oversight

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of the forty two Administering Entities (AEs) of the AICPA Peer Review Program (AICPA PRP). It administers the AICPA PRP for AICPA firms (and individuals) meeting certain criteria, specifically when the firm is required to be registered and inspected by the Public Company Accounting Oversight Board (PCAOB), and/or the firm performs audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB. Firms that are not required to have their review administered by the National PRC may choose to do so. The National PRC, unlike some other AEs of the AICPA PRP, does not administer any peer review programs other than the AICPA PRP. Therefore, the National PRC only administers peer reviews of AICPA firms (and individuals) in which at least one partner is a member of the AICPA.

This Report on Oversight is intended to provide statistics and information about the National PRC's 2010 and 2009 oversight years, which are more fully discussed in the following text, but also discusses the history, background, composition, and procedures of the National PRC as they differ substantially from those of the other forty one AEs.

Scope

Statistical information presented in this report is determined by the actual date of the peer review, that is, when the peer review was performed. Oversight procedures are to be performed and results reported on a calendar year. All statistical information is presented to provide an understanding of the National PRC individually and as a part of the AICPA PRP. The results of the peer reviews administered for the calendar years 2010 and 2009, the first years the National PRC operated under the AICPA PRP's standards and guidance, are presented to aid understanding.

This report presents information and data related to the firms administered by the National PRC only. Any other data provided, including that presented for the AICPA PRP as a whole, is for comparative purposes only.

For more information on the AICPA PRP as a whole, including the AICPA PRP's Annual Report on Oversight (Annual Report), go to www.aicpa.org/INTERESTAREAS/PEERREVIEW/RESOURCES/TRANSPARENCY/Pages/default.aspx. The Annual Report provides further background information on the AICPA PRP, including an overview of the AICPA PRP, definitions of terminology used in this report (such as *system* and *engagement review*; *pass*, *pass with deficiency*, and *fail reports*; and *engagements not being performed and/or reported in accordance with professional standards in all material respects*), and a further understanding of an AE's responsibilities to perform oversight on their procedures.

History of the National PRC

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

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

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

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

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

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

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program became the successor to the SECPS Peer Review Program, with the objective of administering a peer

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

Because both programs (AICPA Peer Review Program and the CPCAF Peer Review Program) 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. In October 2007, the PRB approved revised Standards for Performing and Reporting on Peer Reviews effective for peer reviews commencing on or after January 1, 2009. This coincided with the official merger of the programs at which time the CPCAF Peer Review Program was discontinued, and the AICPA PRP is now the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAF Peer Review Program, the activities of the former program were succeeded by the National PRC, a committee of the AICPA PRB.

The National PRC became one of the forty two administering entities of the AICPA PRP. The mission of the National PRC is achieved through supporting the PRB in meeting its mission, which is stated as follows:

The PRB is dedicated to enhancing the performance and quality of accounting, auditing and attestation engagements performed by AICPA members and their firms which are enrolled in the AICPA PRP. The PRB seeks to attain its mission through education and remedial corrective actions which serves the public interest and enhances the significance of AICPA membership.

The National PRC supports this mission by fulfilling its responsibilities as a task force of the PRB and an AE.

The National PRC has the responsibility to oversee all of the functions of an AE, including the entire peer review process for firms' peer reviews subject to its administration. The peer review process includes administration, acceptance of reviews, resolving reviewed firm/peer reviewer issues and oversight of the process. In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually, as well as submit a plan of administration (POA) and an annual request to administer AICPA PRP peer reviews. Oversight procedures performed by the AEs in accordance with the AICPA Peer Review Program Oversight Handbook include the following procedures:

- Oversight of various reviews, based upon reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. (See the "Oversight of the Peer Reviews and Reviewers" section that follows).
- Verification of reviewers' resumes. (See the "Annual Verification of Reviewers' Resumes" section that follows).

- Administrative oversight, which encompasses the National PRC's administrative functions and select technical functions. (See the "Administrative Oversight" section that follows).

Oversight of the peer review process is intended to provide reasonable assurance that peer reviews are being performed and reported on in accordance with the applicable peer review standards and to promote consistency among reviewers. It is this oversight of the peer review process that is the focus of this report.

Members of the National PRC

The National PRC is comprised of between fifteen to seventeen members who are public practitioners, two of whom represent state boards of accountancy recommended by the National Association of State Boards of Accountancy. Some of these members may also be members of the PRB, although it is not required. The largest four firms maintain seats on the National PRC, and the remaining seats represent a reasonable cross-section of those firms whose peer reviews are administered by the National PRC, which is a diverse constituency. The Chair of the National PRC is a member of the PRB's Planning Task Force and may also be a member of the PRB. See exhibit A for a roster of the National PRC's members.

Staff of the National PRC

The National PRC's staff consists of the Senior Vice President, Public Practice and Global Affairs; Vice President, Ethics and Practice Quality; Directors; and an appropriate number of qualified senior technical managers, technical managers, and administrative staff to support the activities of the National PRC and its task forces and subcommittees. The staff assists the members of the National PRC and its task forces and subcommittees in their responsibilities. The staff also assists in administration, presentation of reviews for acceptance, resolving reviewed firm/peer reviewer issues, and the oversight of processes. Additionally, the staff may be involved in other projects in cooperation with other teams at the AICPA, including the AICPA PRP. The National PRC is supported by all the AICPA peer review program staff.

Firms Administered by the National PRC

Firms whose peer reviews are administered by the National PRC range from sole practitioners to the largest CPA firms (see the following table). However, all the larger firms (over 300 personnel) in the AICPA PRP are administered by the National PRC. These larger firms typically have extensive audit and accounting practices that demand a greater internal investment of resources devoted to the quality control function. This positions these firms to develop more rigorous internal quality control systems. In addition, many of these firms are subject to additional regulatory oversight by the PCAOB, the Department of Labor, and others.

Number of Administered/Enrolled Firms by Number of Personnel¹ as of November 1, 2010

Firm Size (by # of personnel ¹)	Administered by National PRC		² Enrolled in AICPA Peer Review Program	
	# of Firms	% of Total	# of Firms	% of Total
Sole Practitioners	25	3.44%	9,704	33.17%
2 to 5	75	10.32%	11,921	40.75%
6 to 10	80	11.00%	4,159	14.22%
11 to 19	102	14.03%	1,852	6.33%
20 to 49	179	24.62%	1,105	3.78%
50 to 99	129	17.74%	333	1.14%
100 to 199	82	11.28%	116	.41%
200 to 299	17	2.34%	23	.08%
300 to 399	10	1.38%	10	.03%
400 to 999	11	1.51%	11	.04%
1,000 to 9,999	13	1.79%	13	.04%
10,000 +	4	.55%	4	.01%
Total Enrolled Firms	727	100.00%	29,251	100.00%

Due to the variety of firm sizes administered by the National PRC, some of the reviews occur over one day and others over a number of months. Some of the reviews are performed by only a team captain, whereas others may also involve office captains and as many as 50 or more team members. Firms whose reviews are administered by the National PRC cover 55 licensing jurisdictions, each of which may have different practice monitoring requirements. Further, some firms are multistate, which means that the review may be performed in several states at the same or different times. As a result of these and other related circumstances of the member firms that are administered, these peer reviews are diverse and complex, encounter different risks, and include firms subject to close scrutiny by various regulators.

National PRC Process Overview

In order to understand the National PRC's oversight procedures, it is first helpful to have an overview of the National PRC's processes.

As required by the *AICPA Standards for Performing and Reporting on Peer Reviews*, peer reviewers must timely complete and update a resume that accurately reflects their reviewer qualifications, including recent industry experience. The National PRC uses this information to determine whether peer review resources are appropriately matched to peer review firms needing them.

¹ *Personnel* is defined per Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control*, (AICPA, *Professional Standards*, QC sec. 10), as "all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs." This would include all personnel performing audits, reviews, compilations, or other attest engagements; those professionals who have partner or manager level responsibility for the overall supervision or review of such engagements; and leased and per diem employees who devote at least 25 percent of their time in performing such engagements.

² At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

Firms to be peer reviewed receive background and scheduling information forms that request information on the firm's management and structure, audit and attest engagements, peer reviewer information, as well as dates of planned commencement and exit conference. Once this information is received, it is entered into the peer review computer system and validations related to peer reviewer qualifications and other data are performed. Any issues identified through this process are addressed by staff with the firm or team, or both, or review captain until issues are resolved. A scheduling verification is sent to the firm and the team captain upon completion of the scheduling process. Staff evaluates background and scheduling information received to determine fit with oversight strategies, in general. Panel assignments (see the "Use of Panels" section that follows) for large firms, if necessary, are determined and participation requested. Peer reviews are then monitored for timely submission of peer review documents. The results of this monitoring are reported periodically to both the Oversight Task Force of the National PRC and the full National PRC.

Upon receipt of the peer review working papers from the team or review captain, they are assigned to a technical manager on a first in, first out order, adjusted by risk (reports having other than a pass rating or other circumstances). All peer reviews administered by the National PRC, including those selected for oversight, are subject to a full working paper review by AICPA technical staff. This includes review of a summary review memorandum describing the major aspects of the review, engagement checklists, quality control checklists (and documents, if available), focus group/staff interviews, and other working papers. This also includes review of A-133 engagement profiles and related engagement checklists. The technical manager completes a comprehensive technical review checklist tailored to the National PRC to document his or her procedures.

The technical manager's role is to anticipate questions from the Report Acceptance Body (RAB) of the National PRC, seek answers from the team or review captain or firm, or both; address issues or problems; and consult with staff, consultants, and others in advance of RAB presentation. The technical reviewer must advise the RAB of significant matters related to the review, provide certain working papers for the RAB's review, and recommend any corrective actions, implementation plans, or reviewer performance feedback, if any.

Peer reviews meeting certain criteria, such as current or immediately previous peer review report being issued with a rating of "pass with deficiency" or "fail" (or "modified" or "adverse" under the former standards), are subject to a concurring review. The concurring review is performed by technical staff independent of the technical review. The technical and concurring reviews cover a majority of the items reviewed during desk reviews generally conducted by the AICPA.

The National PRC as a whole serves as the RAB for the peer reviews of firms meeting certain criteria. However, the majority of peer reviews are presented via semimonthly conference calls to smaller RABs, typically comprising approximately five National PRC members (excluding the National PRC chair and the PRB chair if also on the National PRC, due to their other peer review responsibilities), including a RAB chair. The technical reviewer having completed the technical review is available during the RAB meeting to answer any questions the members might have. National PRC members are assigned to the calls to obtain a cross-section of firm sizes and industry experience. The role of the RAB is to consider peer reviews for acceptance on behalf of the National PRC. Approximately three to five days prior to a scheduled call, the National PRC members assigned to that call receive an agenda consisting of a committee spreadsheet summarizing the items being presented, the RAB member responsible for

presenting each peer review, and the relevant peer review documentation for each review being presented, which includes:

- A Form C-1 summarizing relevant information about the review, as well as staff findings, including open items that may delay acceptance, and recommendations
- The peer review report
- Finding for Further Consideration (FFC) forms, if applicable
- The letter of response, if applicable
- Matter for Further Consideration forms, if necessary
- Prior peer review report, letter of comment, or letter of response, if necessary

The RAB member responsible for presenting each peer review then has an opportunity to discuss the peer review with the technical reviewer and others prior to presentation to the RAB on the scheduled conference call.

Firm Peer Review Oversight Process and Procedures

The National PRC performs the oversight process through its Oversight Task Force (OTF). The OTF comprises a minimum of three members of the National PRC with additional members added as necessary. The OTF is responsible for establishing oversight policies and procedures at least as comprehensive as those necessary to comply with those established by the PRB as set forth in the *AICPA Peer Review Program Oversight Manual* and the *AICPA Peer Review Administrative Manual*. Along with the full National PRC, it determines that reviews are being conducted and reported upon in accordance with the *Standards for Performing and Reporting on Peer Reviews*, and that the results of reviews are being evaluated on a consistent basis. More specifically, the OTF

- oversees the development, implementation, and summarization of a risk-based, annual on-site oversight plan developed and performed by National PRC technical staff, who utilize a detailed work program.
- establishes the process that utilizes panels comprising National PRC members to oversee the review of firms that meet certain criteria and other reviews when deemed appropriate.
- discusses and reports on the results of the oversight process to the full National PRC and other interested parties.
- oversees reviewer qualification and performance issues related to National PRC reviews and maintains a report of all reviewers with restrictions that are performing National PRC reviews.
- oversees the preparation of an annual report on the oversight activities of the National PRC.
- oversees revisions to the National PRC Oversight Program and other materials used in oversight activities.
- coordinates and assists with the PRB's oversight of the National PRC's administrative functions.
- provides reports on its activities to the PRB.

On-Site Oversight

Annually, oversight is performed on a sample of peer reviews meeting one or more of a number of risk-based criteria. The risk-based criteria are developed and/or reevaluated annually by the OTF. Currently, approximately 25 risk-based criteria exist that firms and team/review captains are evaluated for to assess their potential for oversight. This evaluation is qualitative as well as quantitative, and some criteria are weighted more heavily than others. They include criteria that, if met, result in mandatory oversight of the peer review. Currently, mandatory review includes firms with over 400 accounting and auditing personnel¹ and those having received a report grade of fail (or adverse) in their last peer review.

The oversight schedule is reviewed and approved by the OTF and National PRC at regular intervals.

Oversight is predominately performed on-site during review fieldwork by the National PRC’s technical staff and outside consultants, if necessary. Procedures include, but are not limited to, the review of planning (risk assessment, scope, and engagement selection); selecting a sample of engagements reviewed and reperforming the steps on the peer review engagement checklist completed by the peer review team; interviews/discussions with team members to assess their qualifications and whether they understand their procedures; and review of testing of quality control attributes completed by peer review team and participation in select engagement, office, and firm closing meetings. A detailed Oversight Program is utilized to assist in documenting the procedures. A full technical review (see preceding discussion) of all peer review workpapers is also performed by the individual who performed the oversight. The oversight and technical review processes complement and support each other.

Oversight of the Peer Reviews and Reviewers

The PRB has mandated that, at a minimum, each AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time. That 2 percent must be comprised of at least 2 system and 2 engagement peer reviews. In addition, a minimum of 2 system reviews must be conducted on-site.

<u>National PRC Oversight Conducted</u>			
<u>Type</u>	<u>2010</u>	<u>2009</u>	
On-site by panel (see following section) or presented to full committee	10	3	
Other on-site	11	15	
Off-site	1	4	
Total	<u>22</u>	<u>22</u>	
% of peer reviews conducted during year	10%	8%	

These oversights afforded contact with peer review teams ranging from 1–50 peer reviewers and a number of accounting personnel with the firms themselves. Through the 44 oversights conducted in the past two years, National PRC staff and committee members interacted with 41 peer reviewers serving in the capacity of team captain. These 41 team captains served in that role in approximately 166 of the 430 reviews administered by the National PRC during 2009 and 2010. During this process, the oversight team provides ongoing formal and informal feedback as a part of the ongoing exchange between AICPA staff and peer reviewers. Although these interactions were generally positive, the opportunity is taken, when warranted, to issue formal feedback in an attempt to educate and remediate future peer review performance.

As previously described, and in the National PRC's POA submitted to and approved by the PRB, on-site oversight of engagement reviews was not deemed necessary due to the small proportion of engagement reviews performed and due to the full working paper reviews already performed on all reviews submitted.

Use of Panels

A panel of at least three members of the National PRC oversees the peer reviews of firms that meet certain criteria and other reviews when deemed appropriate. In addition, panels are assigned to other reviews by the National PRC, its chair, or a RAB when appropriate in other circumstances. When assigned, a determination may be made that the review is also required to be presented to the full National PRC for acceptance. Reviews that have oversight panels assigned to them may also undergo oversight by National PRC technical staff.

Panel members are appointed by the National PRC, its chair, the OTF, or a RAB, with assistance from staff. Panel members are selected based on various factors, including size of firm and industry experience of the panel member's firm and of the firm under review. Panel members must be independent of the reviewed firm and the review team members.

The panel is supported by National PRC staff that assists it in carrying out its duties. This responsibility includes coordination and facilitation of discussions between the reviewed firm, its reviewers, and the panel. It includes the performance of the full technical review of the working papers.

The panel participates in calls or meetings, or both, to understand and provide feedback on the planning, interim, and final phases of the peer review, including panel chair participation at the exit conference. The scope of the peer review is ordinarily approved by the panel prior to the review's commencement. The panel also considers the appropriateness of the review team's conclusions and may consult with the review team and/or the reviewed firm concerning matters resulting from the review. The panel orally reports to the National PRC at its meetings to provide updates on the status of the review. Once the review is complete, the panel chair presents the review and the panel's conclusions, including whether the panel recommends its acceptance, to the National PRC.

Annual Verification of Reviewers' Resumes

Determining that reviewers' resumes are updated annually and are accurate is a critical element in appropriately matching them to peer review firms needing them. Verification must include the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards, audits of employee benefit plans under the Employee Retirement Income Security Act (ERISA), and audits of insured depository institutions subject to the FDIC Improvement Act of 1991. Specifically, the verification procedures must include, but are not limited to (1) calling or writing peer reviewers and requesting them to provide specific information, such as the number of engagements they are specifically involved with and in what capacity, (2) determining from the peer review computer system whether the peer reviewer's firm actually performed those engagements during its last peer review, (3) verification of license to practice, and (4) verification of continuing professional education (CPE) attendance and credits. Ordinarily, an experienced technical reviewer or AE peer review committee member should perform the verification. Detailed procedures, along with practice aids such as forms, letters, and other materials are provided in the AICPA Peer Review Program Oversight Handbook.

AEs are required to verify this information within a sample of reviewers' resumes on an annual basis, such that all should be verified over a three-year period (at least one-third per year). During 2010 and 2009, the National PRC was required to verify the resumes of those peer reviewers performing exclusively National PRC reviews in the capacity of team captain, review captain, or team member.

<u>Disposition</u>	<u>2010</u>	<u>2009</u>
Suspended for noncooperation with verification process	6	1
Voluntarily removed/became inactive	14	1
Verified	46	58
Total	<u>66</u>	<u>60</u>
% of peer reviewers performing exclusively National PRC peer reviews	39%	35%

In both years, the process resulted in several minor modifications to reviewers' resumes but these modifications were relatively insignificant in impact. None of these modifications or actions affected peer reviews performed previously by the reviewers.

Peer Reviewer Performance

Staff utilizes the peer review computer system and various spreadsheets to monitor the status of reviews, enrolled firms, and peer reviewer performance. Difficulties encountered with reviews, enrolled firms, and peer reviewers are discussed during weekly staff meetings, as well as with the Director, Peer Review; RABs; the National PRC Chair; and the full PRC, as necessary. In considering peer review documents for acceptance, the National PRC evaluates the reviewer's performance on each peer review. In addition to the National PRC's evaluation, the PRB and AICPA staff also evaluate and track reviewers' performance on peer reviews.

On occasion, weaknesses will be noted in the performance of reviewers. In such circumstances, the National PRC or its RABs advise the reviewers of the weaknesses noted so that similar errors are not made on reviews performed in the future. As previously noted, performance matters are initially communicated to the reviewer through the use of a reviewer feedback form issued by the National PRC or RAB. The reviewer feedback form is designed to give reviewers positive and constructive feedback directly from the National PRC or RAB. Reviewer feedback forms document a reviewer's performance on individual reviews and provide the National PRC and the OTF with useful evidence to determine whether a pattern of weaknesses is evident in the reviewer's performance. Formal reviewer feedback forms were issued as a result of technical review which included, but were not limited to, issues noted related to documentation, underdeveloped risk assessments, low scope, failure to consult, and inappropriate disposition of findings.

If serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the PRB or National PRC, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer.

Results of Firm Peer Reviews

As provided for in the *Standards for Performing and Reporting on Peer Reviews*, firms can receive a rating of pass, pass with deficiency(ies), or fail. In a system review, this rating relates to whether or not the firm's system of quality control has been suitably designed and complied

with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In an engagement review, this rating relates to whether or not the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2010

	National PRC ^{3,4}		AICPA Peer Review Program ⁵	
	Number	% of Subtotal	Number	% of Subtotal
<u>System Reviews:</u>				
Pass	220	97.35%	3421	89.32%
Pass with deficiencies	6	2.65%	320	8.36%
Fail	0	- %	89	2.32%
Subtotal – System	226	100.00%	3830	100.00%
<u>Engagement Reviews:</u>				
Pass	2	100.00%	4704	91.30%
Pass with deficiencies	0	- %	397	7.71%
Fail	0	- %	51	0.99%
Subtotal – Engagement	2	100.00%	5152	100.00%

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2009

	National PRC ^{3,6}		AICPA Peer Review Program ⁵	
	Number	% of Subtotal	Number	% of Subtotal
<u>System Reviews:</u>				
Pass	189	94.03%	3989	88.33%
Pass with deficiencies	8	3.98%	438	9.70%
Fail	4	1.99%	90	1.97%
Subtotal – System	201	100.00%	4517	100.00%
<u>Engagement Reviews:</u>				
Pass	4	100.00%	4166	90.53%
Pass with deficiencies	0	- %	387	8.41%
Fail	0	- %	49	1.06%
Subtotal – Engagement	4	100.00%	4602	100.00%

The number of peer review reports issued for National PRC and AICPA PRP is significantly less than the number of firms “administered by the National PRC” and the number of firms “enrolled

³ Data as of June 10, 2011.

⁴ Includes 9 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 16 underway and 4 pending commencement and are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

⁵ Data as of September 8, 2011.

⁶ Includes 5 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 2 underway which are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

in the AICPA PRP” presented earlier in this report. Administered or enrolled firms represent the total number of firms that have peer reviews, but peer reviews are due only every three years. Therefore, the number of peer reviews performed during any annual period will be approximately one-third of the number of administered or enrolled firms, depending upon timing (some peer review years being “heavier” than others).

As discussed earlier in this report, National PRC firms generally are larger firms that typically have extensive audit and accounting practices. Therefore, engagement reviews represent a very small part of National PRC’s administered reviews. Further, as previously discussed, larger firms typically are more heavily regulated, necessitating more developed internal quality control systems and more resources devoted to this function. Therefore, the National PRC administers fewer peer reviews in which a report other than pass is issued by the nature of its firm population.

Number and Reasons for Deficiencies in the Year 2010

	National PRC ^{3,4}	AICPA Peer Review Program ⁵
Leadership responsibilities for quality within the firm	0	35
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	0	12
Engagement performance	5	318
Human resources	0	86
Acceptance and continuance of client relationships and specific engagements	0	23
Monitoring	1	169
Totals	6	643

Number and Reasons for Deficiencies in the Year 2009

	National PRC ^{6,7}	AICPA Peer Review Program ⁸
Leadership responsibilities for quality within the firm	0	28
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	0	13
Engagement performance	6	423
Human resources	2	98
Acceptance and continuance of client relationships and specific engagements	0	25
Monitoring	3	191
Totals	11	778

The number of deficiencies noted with reports is higher than the number of reports with deficiencies due to reports with multiple deficiencies.

Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards in the Year 2010

Engagement type	National PRC ^{3,4,7}			AICPA Peer Review Program ⁵		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	313	15	5%	1486	174	12%
Audits – Governmental	169	0	-%	1374	126	9%
Audits – ERISA	686	6	1%	1832	104	6%
Audits – FDICIA	42	0	-%	27	0	-%
Audits – Other	1,418	19	1%	4449	208	5%
Reviews	453	0	-%	5571	202	4%
Compilations with disclosures	263	0	-%	3892	92	2%
Compilations without disclosures	335	3	1%	11608	313	3%
Financial forecast and projections	13	0	-%	74	2	3%
Agreed upon procedures	158	0	-%	780	14	2%
Other SSAEs	54	2	4%	305	18	6%
Totals	3,904	45	1%	31398	1253	4%

⁷ Does not include engagements subject to internal inspections and relied upon by peer reviewers to reduce scope as permitted in the peer review standards.

Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards in the Year 2009

Engagement type	National PRC ^{6,7,9}			AICPA Peer Review Program ⁸		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	161	5	3%	1775	141	8%
Audits – Governmental	108	1	1%	1530	127	8%
Audits – ERISA	293	6	2%	1886	122	6%
Audits – FDICIA	21	0	-%	27	2	7%
Audits – Other	616	7	1%	4921	293	6%
Reviews	335	1	-%	5894	199	3%
Compilations with disclosures	187	0	-%	3966	93	2%
Compilations without disclosures	271	1	-%	11960	364	3%
Financial forecast and projections	9	0	-%	80	1	2%
Agreed upon procedures	98	0	-%	768	15	2%
Other SSAEs	25	0	-%	385	24	6%
Totals	2124	21	1%	33192	1381	4%

When a peer review report other than pass is issued, the firm should respond in writing to the deficiencies or significant deficiencies and related recommendations to indicate what appropriate actions it will take in response. Per the *Standards for Performing and Reporting on Peer Reviews*, the National PRC may require certain remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. During 2010 and 2009, the National PRC required 12 corrective actions in each year of a wide variety, such as agreement to take or submit proof of certain continuing professional education, agreement to preissuance reviews, agreement to hire a consultant for inspections, oversight of inspections via a review, and oversight of inspections via visitation.

The lower rate of report ratings other than pass (discussed previously) lends itself to a lower rate of corrective actions. As noted, a firm may be asked to complete more than one corrective action, so experience rate comparability may be somewhat skewed.

The National PRC strives to achieve the goal of being educational and remedial. To that end, firms are sometimes requested to complete an implementation plan to address findings noted in FFC forms issued as a result of their peer review. Implementation plans requested by the National PRC adhere to the actions allowable by guidance, such as submission of internal inspection reports, etc. At September 8, 2011, the National PRC had requested eight implementation plans on 2010 reviews and seven on 2009 reviews. Although this mechanism is available to all AICPA PRP AEs as indicated in the *Standards for Performing and Reporting on Peer Reviews*, no data was readily available showing how widely it was used by other AEs.

Peer Reviews of Quality Control Materials (QCM)/ CPE

The National PRC is also responsible for the administration of quality control material (QCM) and CPE peer reviews, including acceptance of the resultant peer review reports. QCM peer reviews embody a higher degree of risk from an AE perspective. Because of that heightened risk, QCM peer reviews receive a correlating level of scrutiny, like that given to the larger firm peer reviews. While there is much less risk associated with CPE programs, CPE program peer reviews receive a similar level of scrutiny because the system used to develop QCM and CPE programs are often related. The National PRC created the QCM & CPE Task Force for added involvement in the administration and acceptance process for QCM and CPE program reviews. The task force's involvement includes performing oversight reviews prior to acceptance, developing practice aids, and recommending enhancements to the guidance related to QCM and CPE peer reviews.

Oversight and Acceptance Process

Similar to peer reviews of firms, QCM and CPE peer reviews undergo full working paper technical reviews and concurring reviews. QCM and CPE peer reviews are potentially subject to three differing levels of oversight:

Task Force Oversight

Oversight is performed by a QCM & CPE Task Force member. At a minimum, all QCM and CPE peer reviews are subject to task force oversight. Oversight encompasses reviewing the Team Captain's Checklist, Summary Review Memorandum (SRM), and a sample of the QCM and/or CPE materials opined upon in the report. The task force can judgmentally elect to perform additional oversight procedures as deemed necessary.

Panel Oversight

In certain situations, it may be necessary to assign a panel to a QCM or CPE peer review. When any of the following risk criteria are met, the task force will consider the necessity of assigning a panel to the peer review:

- New publisher or provider
- Peer reviewer performing a QCM or CPE peer review for the first time
- Size of the provider client base
- Materials are for complex or high risk industries
- Judgmental referral (for example, by staff, the task force, or the National PRC) of the team captain or provider for oversight
- Concerns from users or other affected parties

Panels are typically composed of a chair and two other members; members of the QCM & CPE task force are expected to chair the panels. The other panel members can be solicited either from the task force, the National PRC, or the PRB on an as needed basis. The panel will perform the procedures ordinarily covered by a task force oversight, plus review the planning documentation for the peer review prior to the commencement of fieldwork (including the planning portions of the Team Captain's Checklist and SRM). In addition, the panel may elect to review a larger sample of QCM or CPE materials.

Staff On-Site Oversight

Staff will perform an on-site oversight visit during the peer review when deemed necessary by either the task force or a panel. The on-site visit will include observing and reviewing the peer reviewer's procedures to test the functional aspects of the provider's system to develop and maintain QCM and/or CPE programs. Staff on-site oversight is performed in addition to oversight by either the task force or a panel and does not take the place of either. The QCM & CPE task force determined that staff should perform on-site oversight of the functional testing of all QCM peer reviews under the new criteria. Due to the timing of when this criterion was established versus the peer review procedures for these reviews, staff was unable to perform on-site oversight on all 2009 peer reviews. However, that level of oversight will be performed on the next peer review cycle.

During 2010, three QCM/CPE peer reviews were subject to on-site oversight. During 2009, four QCM/CPE peer reviews were subject to oversight. One was conducted by a task force member, two of these were performed on-site by a panel, and one employed a panel and staff on-site.

Once technical, concurring, and oversight reviews are completed, QCM and CPE peer reviews are presented to the full National PRC for acceptance with the task force's recommendation.

Administrative Oversight

A review of the administrative functions of the National PRC was conducted in October 2010, the objective of which was to determine if the National PRC is following the administrative and report acceptance procedures established by the PRB for the AICPA PRP. The review encompassed the National PRC's tenure as an AE of the AICPA PRP by testing the most relevant data available, within applicable limits. The review was performed by a prior CPCAF peer review committee member, who is familiar with National PRC's policies and procedures and served in the past on the PRB as well as the PRB's OTF. The reviewer is currently neither a member of the National PRC nor the PRB.

The oversight procedures included the following:

- Evaluation of various policies and procedures for administering the AICPA PRP.
- Evaluation of a sample of peer review documents and applicable working papers assembled by technical staff on a post-acceptance basis. This evaluation was directed at evaluation of the accumulation of matters for RAB consideration.
- Performance of face-to-face interviews with the administrator and a sample of technical reviewers.

As part of the visit, the reviewer received an Information Sheet documenting policies and procedures in the areas of administration, technical review, and oversight processes employed by the National PRC in administering the AICPA PRP. The reviewer evaluated the Information Sheet, POA, and the National PRC's policies and procedures to develop a risk assessment. A comprehensive oversight work program was utilized by the reviewer in the conduct of the review.

The reviewer has issued a letter to the National Peer Review Committee discussing the purpose and scope of the oversight visit as well as providing observations and recommendations for enhancement. These observations and recommendations are summarized as follows:

- Formalization of documentation pertaining to certain matters, such as issuing formalized noncooperation letters to team captains in the event of a lack of response to questions arising during the technical review process and retention of confidentiality agreements for all National PRC members
- Implementation of a centralized filing system for FFC forms, separate from those documents subject to the 120-day document retention rules so as to allow for easier retention of only those documents required to be retained past 120 days
- Retention of record of letters sent to team captains regarding working paper retention.

The National PRC has evaluated these recommendations, identified policies to address them, and implemented them.

Exhibit A

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