



Peer Review Program

National Peer Review Committee

2015 Annual Report on Oversight

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of the 40 Administering Entities (AEs) of the AICPA Peer Review Program (AICPA PRP). It administers the AICPA PRP for AICPA firms (and individuals) meeting any of the following criteria:

1. The firm is required to be registered with and subject to permanent inspection by the Public Company Accounting Oversight Board (PCAOB)
2. The firm performs engagements under PCAOB standards
3. The firm provides quality control materials (QCM)(or is affiliated with a provider of QCM) that are used by firms that it peer reviews.

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 2015, 2014 and 2013 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 39 AEs. Refer to Exhibit B for the history of the National PRC.

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 (commencement date). Oversight procedures are to be performed and results reported on a calendar year. All statistical information is presented solely to provide an understanding of the National PRC individually and as a part of the AICPA PRP.

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:

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 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.

Facilitated State Board Access

In the 25 years since peer review became mandatory for AICPA membership, 53 licensing jurisdictions have adopted mandatory peer review requirements. Many require that their licensees submit certain peer review documents as a condition of licensure. To assist firms in complying with state board peer review document submission requirements, the AICPA created a process called Facilitated State Board Access (FSBA). Through FSBA, firms may grant permission to their AE to allow access to certain peer review documents (listed below) to state boards through a state board access-only website. Permission is granted through various opt out and opt in procedures. Some state boards now require their licensees to participate in the FSBA process; other state boards recognize it as an acceptable process to meet the peer review document submission requirements.

These documents typically include one or more of the following:

- Peer Review Reports
- Letters of Response
- Acceptance Letters
- Letters signed by the reviewed firm accepting the peer review documents with the understanding that the firm agrees to take certain actions
- Letters notifying the reviewed firm that required actions have been completed

Members of the National PRC

The National PRC comprises between 15 to 17 members who are public practitioners. Two of the members represent the state boards of accountancy. These two members are former state board of accountancy members and are recommended by the National Association of State Boards of Accountancy. Some of the members of the National PRC may also be members of the Peer Review Board (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 (staff) consists of the AICPA Executive Vice President, Public Practice; Vice President, Ethics and Practice Quality; Directors; Associate Directors; and an appropriate number of qualified senior technical managers, technical managers, associate 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. The National PRC is supported by all the AICPA peer review program staff.

Firms Administered by the National PRC

Firms that have peer reviews administered by the National PRC range from sole practitioners to the largest CPA firms (see the following table). Since broker-dealers moved to PCAOB standards in June 2014, there has been an increase in firms administered by the National PRC, particularly in smaller firms between two and 10 personnel. Most of 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 investment in the quality control function leads these larger

firms to develop more rigorous internal quality control systems. In addition, many of these firms are subject to regulatory oversight by the PCAOB, the Department of Labor and others.

Number of Administered/Enrolled Firms by Number of Personnel¹ (Partners² and Staff³) as of July 31, 2016

Firm Size (by # of personnel ¹)	Administered by National PRC		⁴ Enrolled in AICPA Peer Review Program	
	# of Firms	% of Total	# of Firms	% of Total
Sole Practitioners	34	4.76%	6,051	23.68%
2 to 5	92	12.87%	11,206	43.85%
6 to 10	102	14.27%	4,729	18.51%
11 to 19	105	14.69%	2,079	8.14%
20 to 49	147	20.56%	1,056	4.13%
50 to 99	104	14.55%	257	1.01%
100 to 199	63	8.81%	99	0.39%
200 to 299	26	3.64%	32	0.13%
300 to 399	9	1.26%	10	0.04%
400 to 999	16	2.24%	17	0.07%
1,000 to 9,999	13	1.96%	13	0.05%
10,000 +	4	0.42%	4	0.01%
Total Enrolled Firms	715	100.00%	25,553	100.00%

Due to the variety of firm sizes administered by the National PRC, some reviews occur over one day and others over a number of months. Some 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 all of these factors, the peer reviews administered by the National PRC are diverse and complex. The reviews involve many 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 reviewed firms needing them.

¹ Personnel is defined per Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control*, (AICPA, *Professional Standards*, QC sec. 10), as "partners and staff."

² Partners are defined per SQCS as any individual with the authority to bind the firm with respect to the performance of a professional services engagement.

³ Staff are defined per SQCS as professionals, other than partners, including any specialists that the firm employs.

⁴ 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 the 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, until all issues are resolved. A scheduling verification is sent to the firm and the team or review captain upon completion of the scheduling process. Staff evaluates background and scheduling information received, in addition to information from other sources, to determine if the peer review will be selected for oversight. 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 that are noted during the working paper review; 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," are subject to a concurring review. The concurring review is performed by technical staff independent of the technical review.

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 biweekly 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). Each RAB includes a RAB chair. The technical reviewer that 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, such as, open items that may delay acceptance, and recommendations
- The peer review report
- The letter of response, if applicable
- Finding for Further Consideration (FFC) forms, if applicable
- Matter for Further Consideration (MFC) forms, if applicable
- Prior peer review report and letter of response, if necessary
- FFC forms from the previous peer review, if applicable
- Other supporting documents, if necessary

RAB members have 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's oversight function is managed 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*. All policies and procedures established by the OTF must be approved by the National PRC. Along with the full National PRC, the OTF evaluates whether 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. The process is approved by the National PRC.
- 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.
- coordinates and assists with the PRB's oversight of the National PRC's administrative functions.
- performs internal administrative oversight for the National PRC, in the years in which the PRB does not perform oversight procedures.
- 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.
- the chair of the National PRC 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 risk-based criteria. The risk-based criteria are developed or reevaluated annually by the OTF. Currently, approximately 25 risk-based criteria exist that firms and team/review captains are evaluated against 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 certain 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 rating of fail during their last peer review.

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

Oversight is generally 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 checklists completed by the peer review team; interviews/discussions with team members to assess their qualifications and whether they understand their responsibilities; 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. Occasionally, due to scheduling or travel constraints these oversight procedures may be performed off-site. A full technical review (see preceding discussion) of all peer review working papers is also performed by the individual who performed the oversight. The oversight and technical review processes complement and support each other.

Engagement Oversight

In addition to the on-site oversights discussed above, National PRC staff or RABs may choose to select additional reviews for off-site oversight prompted by issues or concerns identified during the technical review or acceptance process. These oversights focus on one or more selected engagements or procedures. Procedures include obtaining a full set of working papers for the selected engagements and reperforming the steps on the peer review engagement checklists completed by the peer review team.

Oversight of the Peer Reviews and Reviewers

The PRB has mandated that, at a minimum, each AE is required to conduct oversight on two percent of all reviews performed in a 12-month period. That two percent must comprise at least two system and two engagement peer reviews. In addition, a minimum of two system reviews must be conducted on-site. The National PRC's goal is to perform oversight of between 8% and 10% of all reviews performed in a calendar year. The National PRC requires oversight on all firms with 400 or more A&A professionals. All of these reviews are presented to the full committee with some of them requiring a panel (see following section) if the firm meets other established criteria. The number of reviews each year that fall into this category fluctuates based on the timing of the firms who meet the criteria.

Type	National	PRC	Oversights
	Conducted		
	2015	2014	2013
On-site requiring panel (see following section) or presentation to full committee	3	11	9
Other on-site	6	8	7
Off-site	2	5	4
Engagement	11	5	1
Total	22	29	21
% of peer reviews conducted during year	9.60%	15.20%	10.50%

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 72 oversights conducted in the past three years, National PRC staff and committee members interacted with 43 peer reviewers serving in the capacity of team captain. These 43 team captains served in that role in 233 of the 638 reviews administered by the National PRC during 2013, 2014 and 2015. During the oversight 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 plan of administration (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. See supporting schedules in the following tables.

Enhanced Oversight

In May 2014, the PRB approved the enhanced oversights (also known as engagement-level oversights) performed by Subject Matter Experts (SMEs). The objective of the enhanced oversights is to ensure that peer reviewers are identifying all issues in must-select engagements, including whether engagements are properly identified as non-conforming. Each review selected for an enhanced oversight focuses exclusively on one must-select engagement from that review. Reviews administered by the National PRC are included in the population of reviews subject to enhanced oversight. The sample of enhanced oversights completed each year include a random sample designed to achieve a 90 to 95 percent confidence level and a targeted sample based on risk criteria. For 2014, the risk criteria used for the targeted sample was peer reviewers that served as team captain on the largest number of system reviews. If a reviewer was already selected in the random sample, they were not selected again in the targeted sample. The National PRC takes the results from the enhanced oversight into consideration when considering the acceptance of the review. Enhanced oversights with poor results indicate a risk factor for the reviewer and are taken into account when considering oversight by the National PRC. For more information about enhanced oversights please refer to the AICPA’s PRP Annual Oversight Report which can be found here:

aicpa.org/INTERESTAREAS/PEERREVIEW/RESOURCES/TRANSPARENCY/Pages/default.aspx.

Use of Panels

A panel of at least one chair and two other members of the National PRC oversees the peer reviews of firms annually inspected by the PCAOB and with more than 1,000,000 non-SEC issuer accounting and auditing hours. In addition, panels are assigned to other reviews by the National PRC Oversight Task Force 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 generally 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 typically participates in calls or meetings, or both, to understand and provide feedback on the planning, interim and final phases of the peer review. The scope of the peer review is ordinarily approved by the panel prior to the review's commencement. The panel may also consider the appropriateness of the review team's conclusions and may consult with the review team or the reviewed firm concerning matters resulting from the review. Generally, the panel chair will participate in the peer review exit conference to inform the reviewed firm and review team of the panel's recommendation on acceptance. The panel verbally 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, if applicable.

Administrative Oversight

A review of the administrative functions of the National PRC was conducted in September 2016, 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 calendar year ending December 31, 2015. The review was performed by Richard Hill, a member of the Peer Review Board Oversight Task Force. The reviewer is currently neither a member of the National PRC nor the PRB. Further, Mr. Hill's firm does not have its peer review administered by the National PRC.

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 focused on the accumulation of matters for RAB consideration.
- Inquiries of certain technical reviewers and key staff involved with administration.

As part of the visit, the reviewer evaluated information about the policies and procedures in the areas of administration, technical review, monitoring and oversight processes employed by the National PRC in administering the AICPA PRP. The reviewer also evaluated the POA and the

National PRC's policies and procedures. A comprehensive oversight work program was utilized by the reviewer in the conduct of the review.

The observations and recommendations of the administrative review are summarized as follows:

- Reviews should be presented to a RAB within 120 days of receipt. Eight of the 76 reviews accepted within the last 120 days were not presented within 120 days of receipt.
- The procedures for record retention of reviews accepted more than 120 days prior should be reviewed to ensure only those documents required to be retained by the standards are kept and all other documents are appropriately destroyed. Four of the 10 reviews examined included work papers that should not have been retained.
- Technical reviewers and RABs should be reminded of the need to issue reviewer feedback when review documents are not complete. A few instances were noted where the Findings for Further Consideration forms were not complete and feedback was not issued to the reviewer.

The National PRC has evaluated these observations, and will continue to assess opportunities to improve its processes and procedures.

The oversight was a valuable process that revealed opportunities to enhance the effectiveness and efficiency of the administration of the program.

An internal review of the administrative functions of the National PRC was conducted in October 2015 by the National PRC Oversight Task Force, for the calendar year ending December 31, 2014. The objective of the procedures was to evaluate whether the National PRC's administrative functions were being conducted in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews and the National Peer Review Committee Operating Policies & Procedures Manual, which is approved by the AICPA Peer Review Board through inclusion in the National PRC's POA. The observations and recommendations as a result of the internal inspection are summarized as follows:

- The administering entity should focus on ensuring the confidentiality letters are properly maintained in one central place. Signed copies of two of the total seventeen letters could not be located.

The National PRC evaluated this observation, identified policies to address it, and implemented them.

All related letters and responses are available online at:

aicpa.org/INTERESTAREAS/PEERREVIEW/COMMUNITY/NATIONALPRC/Pages/NationalPeerReviewCommittee.aspx

Annual Verification of Reviewers' Resumes

A critical element in appropriately matching peer reviewers with reviewed firms is ensuring that reviewers' resumes are accurate and updated annually. 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), audits of insured depository institutions subject to the FDIC Improvement Act of 1991 (FDICIA), audits of carrying broker-dealers and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements]. 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) topics 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, Administrative Manual and other sources.

AEs are required to verify this information within a sample of reviewers' resumes on an annual basis, such that all resumes should be verified over a three-year period. At a minimum, one third of the active reviewer resumes must be reviewed in year one of the three year cycle, a total of two thirds by year two, and 100% by year three. The population of reviewers to be verified by the National PRC includes reviewers within firms having 400 or more professionals and reviewers performing exclusively National PRC peer reviews in the capacity of team captain, review captain or team member.

<u>Disposition</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Suspended for noncooperation with verification process	9	6	5
Voluntarily removed/became inactive	14	19	14
Verified	116	74	92
Total	<u>139</u>	<u>99</u>	<u>111</u>
% of National PRC reviewers selected for verification	40%	30%	38%

In all three years, the process resulted in several minor modifications to reviewers' resumes.

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 bi-weekly staff meetings, as well as with the Technical Director of 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. 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, inappropriate disposition of findings and insufficient identification of systemic cause and engagements not performed or reported in conformity with professional standards in all material respects.

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 send a performance monitoring letter or impose corrective actions on the service of the reviewer through the issuance of the performance deficiency letter.

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 2015

	National PRC^{5,6}		AICPA Peer Review Program⁷	
<u>System Reviews:</u>	Number	% of Subtotal	Number	% of Subtotal
Pass	182	86.26%	3,316	84.18%
Pass with deficiencies	16	7.58%	435	11.04%
Fail	13	6.16%	188	4.77%
Subtotal – System	211	100.00%	3,939	100.00%
<u>Engagement Reviews:</u>				
Pass	3	100.00%	4,132	89.21%
Pass with deficiencies	0	- %	334	7.21%
Fail	0	- %	166	3.58%
Subtotal – Engagement	3	100.00%	4,632	100.00%

⁵ Data as of July 31, 2016.

⁶ Includes 21 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 23 underway and 1 pending commencement and are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

⁷ Data as of July 31, 2016.

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2014

	National PRC ^{3,8}		AICPA Peer Review Program ⁵	
<u>System Reviews:</u>	Number	% of Subtotal	Number	% of Subtotal
Pass	206	93.64%	3,278	79.95%
Pass with deficiencies	10	4.55%	557	13.59%
Fail	4	1.82%	265	6.46%
Subtotal – System	220	100.00%	4,100	100.00%
<u>Engagement Reviews:</u>				
Pass	4	100.00%	3,961	86.28%
Pass with deficiencies	0	- - %	479	10.43%
Fail	0	- %	151	3.29%
Subtotal – Engagement	4	100.00%	4,591	100.00%

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2013

	National PRC ^{3,9}		AICPA Peer Review Program ⁵	
<u>System Reviews:</u>	Number	% of Subtotal	Number	% of Subtotal
Pass	184	92.93%	3,002	84.03%
Pass with deficiencies	10	5.05%	429	12.05%
Fail	4	2.02%	130	3.65%
Subtotal – System	198	100.00%	3,561	100.00%
<u>Engagement Reviews:</u>				
Pass	1	100.00%	3,666	78.18%
Pass with deficiencies	0	- - %	761	16.23%
Fail	0	- %	262	5.59%
Subtotal – Engagement	1	100.00%	4,689	100.00%

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, National PRC firms typically are more heavily regulated, necessitating more developed internal quality control systems and more resources devoted to this function. Therefore, the National PRC typically administers fewer peer reviews in which a report other than pass is issued by the nature of its firm population. There was an increase in non-pass reports noted in 2015 which brought the percentages of reports by type closer to those of the AICPA Peer Review Program as a whole. This increase in non-pass reports was primarily due to administration of reviews for firms that perform broker-dealer engagements. As of June 2014, broker-dealer engagements are required to be performed under PCAOB

⁸ Includes 3 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions.

⁹ Includes 1 National Peer Review Committee review which has been accepted but is not complete due to open corrective actions.

standards. The change in standards resulted in many reviews being administered by the National PRC for the first time as performance of engagements under PCAOB standards requires a firm's peer review to be administered by the National PRC. The change in standards also resulted in a number of broker-dealer engagements being identified as non-conforming contributing to the increase in non-pass report types issued. We expect this trend to continue as many firms that perform broker-dealer engagements have not yet undergone a peer review since the change in standards.

Number and Reasons for Deficiencies/Significant Deficiencies in the Year 2015

	National PRC ^{3,4}	AICPA Peer Review Program ⁵
Leadership responsibilities for quality within the firm	1	85
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	3	22
Engagement performance	24	490
Human resources	3	122
Acceptance and continuance of client relationships and specific engagements	2	40
Monitoring	9	267
Totals	42	1,026

Number and Reasons for Deficiencies/Significant Deficiencies in the Year 2014

	National PRC ^{6,7}	AICPA Peer Review Program ⁸
Leadership responsibilities for quality within the firm	2	127
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	1	30
Engagement performance	9	690
Human resources	2	163
Acceptance and continuance of client relationships and specific engagements	2	91
Monitoring	3	399
Totals	19	1,500

Number and Reasons for Deficiencies/Significant Deficiencies in the Year 2013

	National PRC ^{6,7}	AICPA Peer Review Program ⁸
Leadership responsibilities for quality within the firm	-	52
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	-	10
Engagement performance	9	483
Human resources	1	97
Acceptance and continuance of client relationships and specific engagements	2	51
Monitoring	3	232
Totals	15	925

The reasons noted in the tables above are only for system reviews as deficiencies and significant deficiencies noted in engagement reviews are not linked to an element of quality control. The number of reasons for deficiencies/significant deficiencies is higher than the number of system review reports with deficiencies/fail ratings due to reports with multiple deficiencies.

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. The National PRC required 80, 31 and 31 corrective actions for 2015, 2014 and 2013, respectively. The National PRC required wide variety of corrective actions, such as, agreement to take or submit proof of certain continuing professional education, agreement to pre-issuance reviews, agreement to hire a consultant for inspections, oversight of inspections via an acceptable third party and oversight of inspections via visitation.

The higher rate of report ratings other than pass (discussed previously) lends itself to a higher 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.

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. As of September 19, 2016, the National PRC had issued a total of 56 implementation plans, of which 48 are complete and eight are pending. Although this mechanism is available to all AICPA PRP AEs, no data was readily available showing how widely it was used by other AEs.

Number of Engagements Not Performed or Reported on in Conformity with Applicable Professional Standards in All Material Respects in the Year 2015

Engagement type	National PRC ^{3,4,10}			AICPA Peer Review Program ⁵		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	178	17	10%	1,548	278	18%
Engagements – Governmental	129	8	6%	1,626	190	12%
Audits – ERISA	401	24	6%	2,182	353	16%
Audits – FDICIA	20	-	-%	18	2	11%
Audits – Carrying Broker-Dealers	20	3	15%	1	1	100%
Audits – Other	769	47	6%	4,692	365	8%
Reviews	283	4	1%	5,626	229	4%
Compilations and preparations with disclosures	138	4	3%	3,804	162	4%
Compilations and preparations without disclosures	257	14	5%	12,241	560	5%
SOC 1, 2 & 3 Reports	67	2	3%	94	7	7%
Financial forecast and projections	5	-	-%	107	7	7%
Agreed upon procedures	130	4	3%	1,296	28	2%
Other SSAEs	69	1	1%	133	4	3%
Totals	2,466	128	5%	33,368	2,186	7%

Number of Engagements Not Performed or Reported on in Conformity with Applicable Professional Standards in All Material Respects in the Year 2014

Engagement type	National PRC ^{3,7,10}			AICPA Peer Review Program ⁵		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	297	18	6%	1,684	207	12%
Engagements– Governmental	186	10	5%	1,489	169	11%
Audits – ERISA	625	28	4%	2,591	464	18%
Audits – FDICIA	43	-	-%	19	-	-%

¹⁰ Does not include engagements subject to internal inspections and relied upon by peer reviewers to reduce scope as permitted in the Standards for Performing and Reporting on Peer Reviews.

Audits – Carrying Broker-Dealers	9	-	-%	5	2	40%
Audits – Other	1,159	20	2%	4,688	367	8%
Reviews	436	3	1%	5,484	245	4%
Compilations and preparations with disclosures	290	4	1%	3,543	151	4%
Compilations and preparations without disclosures	352	4	1%	10,957	762	7%
SOC 1, 2 & 3 Reports	88	1	1%	108	11	10%
Financial forecast and projections	12	1	8%	115	5	4%
Agreed upon procedures	181	2	1%	1,316	25	2%
Other SSAEs	48	1	2%	144	3	2%
Totals	3,726	92	2%	32,143	2,411	8%

Number of Engagements Not Performed or Reported on in Conformity with Applicable Professional Standards in All Material Respects in the Year 2013

Engagement type	National PRC ^{3,7,10}			AICPA Peer Review Program ⁵		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	257	15	6%	1,325	155	12%
Engagements– Governmental	166	9	5%	1,29	107	9%
Audits – ERISA	516	9	2%	1,886	171	9%
Audits – FDICIA	38	1	3%	30	3	10%
Audits – Carrying Broker-Dealers	9	-	-%	8	1	13%
Audits – Other	1,242	32	3%	3,817	322	8%
Reviews	375	7	2%	4,704	286	6%
Compilations with disclosures	208	2	1%	3,105	231	7%
Compilations without disclosures	271	8	3%	9,497	1,173	12%
SOC 1, 2 & 3 Reports	70	2	3%	56	1	2%
Financial forecast and projections	10	-	-%	90	6	7%
Agreed upon procedures	118	-	-%	887	18	2%
Other SSAEs	31	-	-%	139	3	2%
Totals	3,311	85	3%	26,763	2,477	9%

As previously discussed in this report, the number of large firms (400 or more A&A personnel) undergoing peer review in a given year fluctuates based on where those firms fall in the three-year cycle. As a result, the number of engagements reviewed in a given year is impacted by the timing of these reviews. As can be seen in the tables above, 2015 is the low year in the cycle as there are only three firms that meet the definition of a large firm.

Peer Reviews of Quality Control Materials (QCM)

The National PRC is responsible for the administration of QCM reviews, including acceptance of the resultant QCM review reports. QCM reviews have inherently higher risks due to firm use of and reliance on the QCM. In response to that higher risk and public interest in the process to evaluate QCM, the National PRC created the QCM Task Force for added involvement in the administration and acceptance process. The task force's involvement includes facilitating the performance of oversight reviews prior to acceptance, developing practice aids, and recommending enhancements to the standards, interpretations and other guidance related to QCM reviews.

Oversight and Acceptance Process

Similar to peer reviews of firms, QCM reviews undergo full working paper technical reviews and concurring reviews. In addition, all QCM reviews are subject to oversight. Oversight is intended to corroborate the review team's overall review results, in order to provide the National PRC (as the acceptance body) with comfort that the review team's overall procedures have detected any issues with the system to develop and maintain the materials or any issues the resultant materials. In order to provide this corroboration, oversight entails reviewing a sample of the QCM opined upon in the report, with the oversight focusing on the areas of the materials that were reviewed or tested by the review team.

There are two differing levels of oversight:

Task Force Oversight

Oversight is performed by a member of staff appointed by the QCM Task Force. All QCM reviews are subject to task force oversight. Task force oversight encompasses reviewing the Team Captain's Checklist, Summary Review Memorandum and other peer review documentation as deemed necessary, as well as performing a review of a sample of the QCM opined upon in the report. The National PRC can request the performance of additional oversight procedures as deemed necessary, such as observation of interviews of authors and key staff at the provider and reperforming functional testing.

Panel Oversight

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

- New publisher or provider
- Peer reviewer performing a QCM 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 to four other members; members of the QCM 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. At a minimum, the Panel will perform the procedures covered by QCM Task Force oversight, plus review and approve the review team's planned review procedures and scope prior to the commencement of fieldwork (including the risk assessment and planning portions of the Team Captain's Checklist and SRM). In addition, the Panel may elect to review a larger sample of QCM than is ordinarily covered by QCM Task Force oversight.

In addition to task force and panel oversight, staff will perform on-site oversight procedures on all QCM reviews. The on-site visit will include observing and reviewing the QCM reviewer's procedures for testing the functional aspects of the provider's system for developing and maintaining QCM. 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 task force or a panel may judgmentally determine that due to the higher risk nature of a QCM review, a task force member or a panel member should perform the on-site oversight procedures.

On-site oversight was performed on three QCM reviews in 2015, two QCM reviews in 2014 and three QCM reviews in 2013. All reviews were subject to panel oversight.

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

Exhibit A

2015/2016 NATIONAL PEER REVIEW COMMITTEE ROSTER

Michael Fawley, **Chair**
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Atlanta, GA

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Grant Thornton LLP
Charlotte, NC

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Eide Bailly LLP
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Laurel Gron, Technical Manager	Jennifer Gum, Technical Manager
Jaime Henderson, Technical Manager	Lisa Joseph, Technical Manager
Toni Lee-Andrews, Technical Manager	Justin Long, Technical Manager
Susan Rowley, Technical Manager	Karl Ruben, Technical Manager
Tracy Peterson, Technical Manager	Tricia VanVliet, Technical Manager
Andrew Volz, Technical Manager	

Exhibit B

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. The off-site peer reviews 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. The objective of the process is to identify and correct any deficiencies within the firms. For firms that perform audits and certain other engagements, the peer reviewer performs procedures that provide them with a reasonable basis for expressing an opinion on whether or not 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 and CPCAF PRPs) were only peer reviewing non-SEC issuer practices, the PRB determined that the two programs could be merged and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved revised *AICPA Standards for Performing and Reporting on Peer Reviews (standards)* effective for peer reviews commencing on or after January 1, 2009. This coincided with the official merger of the programs at which time the CPCAF Peer Review Program was discontinued, and the AICPA PRP became 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 42 administering entities of the AICPA PRP (now 40 administering entities). 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 as an AE.

The peer review process administered by the National PRC includes administration, acceptance of reviews, resolving reviewed firm/peer reviewer issues and oversight of the process. To receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually, as well as submit a 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 the reviewed firm or the 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.