



AICPA[®]

Peer Review
Program

ANNUAL REPORT ON OVERSIGHT

**Issued
October 4, 2018**

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New York, NY 10036-8775

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Introduction

Purpose of This Report

The purpose of this Annual Report on Oversight (report) is to provide a general overview, including statistics and information, of the results of the AICPA Peer Review Program (Program) oversight procedures and to conclude whether the objectives of the AICPA Peer Review Board's oversight processes performed in calendar year 2017 were compliant with the requirements of the Program.

Years Presented in This Report

As a result of the transition to the Peer Review Information Management Application system, the software program is currently unable to generate certain quantitative statistics that were included in previous oversight reports. Accordingly, this report includes results of Program oversight procedures performed in calendar year 2017. Overall Program statistics for reviews performed in 2017 are not included in the report.

Letter to the AICPA Peer Review Board

To the members of the AICPA Peer Review Board:

We have performed comprehensive oversight procedures during the 2017 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state that there should be reasonable assurance that (1) administering entities (AEs) are complying with the administrative procedures established by the Peer Review Board (PRB) as set forth in the *AICPA Peer Review Program Administrative Manual*; (2) the reviews are being conducted and reported upon in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)*; (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees; and (4) the information provided via the internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of AEs that elect and are approved to administer the AICPA Peer Review Program (Program), including the establishment and results of each AE's oversight processes.

As a result of the transition to the Peer Review Information Management Application, the software program is currently unable to generate complete program statistics for reviews performed in 2017. This report only includes the results of Program oversight procedures performed in the 2017 calendar year.

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

- *Oversight visits of administering entities.* Visits to the AEs, on a rotating basis, ordinarily every other year, by a member of the Oversight Task Force (OTF). The visits included testing the administrative and report acceptance procedures established by the PRB. OTF members visited 18 AEs in 2017. See pages 3–4, "Oversight Visits of the Administering Entities."
- *Report Acceptance Body (RAB) observations.* RAB observations are performed by OTF members and Program staff. The RAB observations increase the probability that the report acceptance process is being conducted in accordance with *Standards* and guidance. For 2017, 253 reviews were selected for RAB observations. See pages 4–5 for a detailed description of the RAB observation process.
- *Enhanced oversight.* Oversight performed by subject matter experts on must-select engagements that include the review of financial statements and working papers for the must-select engagements. See pages 5–10 for a detailed description of the enhanced oversight process.

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

- *Administrative oversight of the AE.* Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the OTF. Twenty-one administrative oversights were performed in 2017. See pages 10–11, "Administrative Oversight of the AE."
- *Oversight of peer reviews and reviewers.* Oversight of various reviews, selected based on reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2017, 227 reviews were selected for oversight at the AE level. See pages 11–12, "Oversight of the Peer Reviews and Reviewers."

- *Annual verification of reviewers' resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2017, resumes were verified for 577 reviewers. See page 12, "Annual Verification of Reviewers' Resumes."

Based on the results of the oversight procedures performed, the OTF has concluded, for the oversight initiatives performed in the 2017 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Brian Bluhm

Brian Bluhm, Chair
Oversight Task Force
AICPA Peer Review Board

PRB Oversight Process

The Peer Review Board (PRB) is responsible for overseeing all administering entities (AEs). In turn, each AE is responsible for overseeing peer reviews and peer reviewers for the states they administer. This responsibility includes having written oversight policies and procedures.

All state boards of accountancy (SBAs) that require peer review accept the AICPA Peer Review Program (Program) as a program satisfying their peer review licensing requirements. Some SBAs oversee AEs' administration of the Program. This report is not intended to describe or report on that process.

Objectives of PRB Oversight Process

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

- The AEs are complying with the administrative procedures established by the PRB,
- Reviews are being conducted and results of reviews are being evaluated and reported on in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)* and on a consistent basis in all jurisdictions and
- Information provided to firms and reviewers (via the internet or other media) by AEs is accurate and timely.

The oversight program also establishes a communications link with AEs and builds a relationship that enables the PRB to accomplish the following:

- Obtain information about problems and concerns of AEs' peer review committees,
- Provide consultation on those matters to specific AEs and
- Initiate the development of guidance on a national basis, when appropriate.

OTF Oversight Procedures

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

Oversight Visits of the Administering Entities

Description

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

Oversight Visit Procedures

During these visits, the member of the OTF will:

- Meet with the AE's peer review committee during its consideration of peer review documents,

- Evaluate a sample of peer review documents and applicable working papers on a post-acceptance basis, as needed,
- Perform face-to-face interviews with the administrator, committee chair, and technical reviewers and
- Evaluate the various policies and procedures for administering the Program.

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

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

www.aicpa.org/interestareas/peerreview/resources/transparency/oversight/oversightvisitsresults.html

Results

For the years 2016 and 2017, a member of the OTF performed at least one on-site oversight visit to each AE (excluding the National Peer Review Committee [NPRC]). See exhibit 2 for a listing of the 39 AE oversight visits performed for 2016 and 2017. See exhibit 3 for a summary of observations from the on-site oversight visits performed during the two years.

RAB Observations

Description

The purpose of the RAB observation is to determine whether:

- The RAB is performing its responsibilities;
- Technical reviewers are performing their responsibilities;
- Reviews are being conducted and reported on in accordance with the *Standards* and guidance;

- Administrative procedures established by the PRB are being complied with;
- Information is being entered into the computer system correctly and
- Results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

The objective of RAB observations is to provide real-time feedback to the RABs to improve overall quality and consistency of the RAB process. The process for the RAB observations is similar to the process used during the oversight visits. The RAB observer receives the materials that will be presented to the RAB prior to the RAB meeting. The observer selects a sample of reviews of firms enrolled in the Program from the package and reviews the materials that will be presented to the RAB. The observer notes any issues or items that are unclear for each review selected. During the RAB review, the observer allows the RAB to deliberate each review. If the RAB does not address the items noted by the observer, the observer will bring those items to the RAB’s attention prior to the RAB voting on whether to accept the review. All significant items that were noted by the observer, but not noted by the RAB, are included as comments in the RAB observation report. The OTF approves the report, and it is submitted to the AE peer review committee for its consideration. The OTF may request a response from the peer review committee based on the results of the RAB observations. Peer review committees may also choose to respond to the report, if not requested by the OTF.

Results

For 2017 and 2016, each AE had at least one RAB observation. RAB observations were performed by OTF members as well as Program staff. Recurring comments generated by RAB observations are summarized in exhibit 4. Results for the year ended 2017 and 2016 RAB observations are as follows:

	2017	2016
RAB meetings observed	63	104
AEs observed	34	40
Peer reviews observed	253	392
Peer Reviewers	195	287
Based on observers’ comments:		
Acceptance delayed or deferred	43	135
Feedback forms issued	17	24
Monitoring letter Issued	-	1
OTF requested AE response due to results of RAB observation	7	8

Fewer RAB observations were performed in 2017 due to the challenges transitioning to the newly implemented PRIMA system.

Enhanced Oversight

Description

In May 2014, the PRB approved the addition of enhanced oversights performed by subject matter experts (SMEs). For 2017, the SMEs consisted of members of the applicable Audit Quality Center

executive committees and expert panels, PRB members, former PRB members, individuals from firms that perform a large number of engagements in a must-select category, and individuals recommended by the Audit Quality Center executive committee and expert panel members. The enhanced oversights are one element of the AICPA's [Enhancing Audit Quality](#) (EAQ) initiative.

The oversights are intended to increase confidence in the peer review process, identify areas that need improvement, and provide meaningful data to inform other EAQ activities. As a result of the oversights, the PRB has approved multiple initiatives to improve reviewer performance on must-select engagements, including additional training requirements for reviewers and additional RAB observations with emphasis on must-select engagements. The results of the enhanced oversight findings are shared with other teams at the AICPA to further the goal of improving audit quality.

The results for the 2016 partial-year sample (August 1, 2016 to December 31, 2016) and the 2017 calendar-year sample are presented in this report. Both oversight samples have been completed since the issuance of the previous oversight report.

The objective of the enhanced oversight is to increase the probability that peer reviewers are identifying all material issues in must-select engagements, including whether engagements are properly identified as nonconforming. This objective is achieved through the selection of two samples. The first sample is a statistically valid random sample that will achieve a 90 percent to 95 percent confidence level. The second sample is a risk-based sample (targeted) based on certain risk criteria established by the OTF. For the two oversight years presented in this report, the random samples were not statistically valid (as discussed further below), and the results are presented as one sample.

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

Enhanced Oversight Process

The enhanced oversight process consists of the review of the financial statements and working papers by the SME for the engagement selected. Program staff notifies the peer reviewer and the firm that they have been selected for oversight once the peer review working papers and report have been submitted to the AE. The peer reviewer is not aware that he or she has been selected for oversight until after the peer reviewer has completed work on the review. The SME reviews the same working papers and compares the results to the results of the peer reviewer. The SME issues a report detailing any material items not identified by the peer reviewer. If the peer reviewer failed to identify a nonconforming engagement, the peer reviewer would complete a letter of response (LOR) detailing whether he or she agrees with the oversight report and lists any additional procedures that he or she will perform. The report and LOR (if applicable) are provided to the AE for consideration during the report acceptance process. If the peer reviewer disagrees with the results of the oversight, the AE will follow the disagreement guidance in the RAB Handbook. Program staff monitors the effects of the oversights on the peer review results (change from "pass" to "pass with deficiency" or "pass with deficiency" to "fail"), and the type of reviewer feedback (feedback form or performance deficiency letter), if any, is issued to the peer reviewer.

OTF Review of Oversight Reports

The OTF reviews a majority of the oversight reports in which the peer reviewer failed to identify a nonconforming engagement after the report is issued. The OTF reviews the reports for consistency and to verify that the items identified by the SME are material departures from professional standards. The OTF provides feedback to Program staff to improve future reports.

Enhanced Oversight Samples

The following are the two most recently completed oversight samples. The first sample was a partial-year sample. A partial-year sample was used to shift the oversight year from a fiscal year ending in July to a calendar year. The partial-year sample was selected from peer reviews with must-select engagements performed between August 1, 2016 and December 31, 2016. The sample was not statistically valid and will not be compared to the baseline sample that follows. For the partial-year sample, 108 reviews were selected for enhanced oversight (41 random and 67 targeted selections). Ninety-eight different team captains were selected for oversight through the random and targeted samples.

The second sample was selected from peer reviews performed in calendar year 2017 (January 1, 2017 to December 31, 2017) that included must-select engagements. This sample was not statistically valid and will not be compared to the following baseline sample due to the limitations of the PRIMA system. For the 2017 sample, 87 reviews were selected for enhanced oversight (54 random and 33 targeted selections). Seventy-five different team captains were selected for oversight through random and targeted samples.

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

Engagement Type	2017	2016 Partial Year
Employee Benefit Plans	41	56
Single Audit/Uniform Guidance	39	47
<i>Government Auditing Standards</i>	5	3
Carry Broker-Dealer	1	-
SOC	1	2
Total	87	108

Exhibit 5 provides a listing of items identified by SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a nonconforming engagement. Exhibits 6 and 7 show the percentage of nonconforming engagements identified based on the number of must-select engagements performed by the firm in the category selected. Only one engagement was reviewed for each firm selected, and the SME did not expand the scope of the oversight. Refer to the following section for further discussion of the sample selection.

The results of the subsequent samples will be presented in future oversight reports.

Random (Baseline) Sample

In previous oversight years, a statistically valid random sample was selected in order to achieve a 95 percent confidence rating for the population as a whole. This means that the sample has a 95 percent chance of representing the overall population. The results of this random sample of oversights were used as a benchmark to measure audit quality improvements over time.

For the 2016 partial-year sample and the calendar-year 2017 sample, the random samples were not statistically valid. Therefore, these random samples are not presented separately and are not compared to the prior baseline samples.

Risk-Based Sample

Each oversight year, a risk-based sample (targeted) is selected based on certain risk criteria established by the OTF to target peer reviews that are considered higher risk. If a team captain is selected twice during the random sample, he or she is not selected for the targeted sample to limit the number of times a team captain can be selected for oversight each oversight year.

2016 Partial-Year Sample

For the 2016 partial-year sample (August 1, 2016 to December 31, 2016), 108 reviews were selected for enhanced oversight (41 random and 67 targeted selections). The targeted selections consisted of a sample of firms and peer reviewers that perform 2 or fewer engagements in the must-select category chosen for oversight, individuals selected for oversight for the 2014 sample that missed a nonconforming engagement who were not oversighted in the 2015 sample, and reviewers who performed 10 or fewer reviews in the 3 previous calendar years.

2016 Partial-Year Sample Results:

Engagements Selected	Number of Nonconforming Engagements Identified by Peer Reviewer	%	Number of Nonconforming Engagements Not Identified by Peer Reviewer	%	Total Nonconforming Engagements	%
108	18	17%	20	18%	38	35%

Although the partial-year results are not statistically valid, they indicate that peer reviewer performance has improved from the first oversight year (calendar-year 2014). For the 2016 partial year, peer reviewers identified 18 of the 38 (47%) nonconforming engagements. In the pilot year of the oversights, for the overall sample, peer reviewers only identified 7 of the 40 (18%) nonconforming engagements. This is a significant improvement in peer reviewer performance.

2017 Sample

For the calendar-year 2017 sample, 87 reviews were selected for enhanced oversight (54 random and 33 targeted selections). The targeted selections consisted of a sample of firms and peer reviewers that perform 2 or fewer must-select engagements and a selection of firms that received non-pass peer review reports on their prior peer reviews that included must-select engagements.

If a team captain was selected twice during the random sample, he or she was not selected for the targeted sample.

2017 Sample Results:

Engagements Selected	Number of Nonconforming Engagements Identified by Peer Reviewer	%	Number of Nonconforming Engagements Not Identified by Peer Reviewer	%	Total Nonconforming Engagements	%
87	27	31%	16	18%	43	49%

Although the 2017 results are not statistically valid, the results indicate that peer reviewer performance has continued to improve from the first oversight year (calendar-year 2014). For the 2017 calendar year, peer reviewers identified 27 of the 43 (63%) nonconforming engagements. In the first oversight year (2014), for the overall sample, peer reviewers only identified 7 of the 40 (18%) nonconforming engagements. This is a significant improvement in peer reviewer performance.

Reviewer Performance Improvements

Based on an analysis of the 2017 sample, the oversights have resulted in considerable improvement in peer reviewer performance. Program staff reviewed the material departures from professional standards identified by the peer reviewers for the 2017 sample and compared the results to the first oversight sample from 2014. For single audit engagements selected for the 2017 sample, the material departure from professional standards most frequently identified by the peer reviewers was a lack of documentation and testing of internal controls over compliance. For ERISA engagements selected for the 2017 sample, the material departure from professional standards most frequently identified by peer reviewers was SOC engagement documentation or overreliance on the SOC to eliminate testing. These material departures were the departures most frequently missed by peer reviewers in the first enhanced oversight sample from 2014. The PRB’s focus on oversight and reviewer education appears to have led to significant improvements in peer reviewer performance.

Feedback Issued

The OTF monitors the types of feedback issued as a result of the oversights. If an AE does not issue a reviewer performance deficiency or a deficiency letter, the OTF considers if any further actions are necessary, including whether to issue a reviewer performance deficiency or deficiency letter to the peer reviewer. A *reviewer performance deficiency* is issued when a peer reviewer fails to identify a nonconforming engagement and does not demonstrate sufficient knowledge and experience required to review the engagement. A *deficiency letter* is issued when a peer reviewer has a pattern of reviewer performance findings. For the oversights in which a nonconforming engagement was not identified by the peer reviewer, the following feedback was issued by the AE:

Type of Feedback	2017	2016 Partial Year
Reviewer Performance Deficiency	5	8
Deficiency Letter	-	1
Feedback Form	4	1
No Feedback	5	6
RAB Process Not Completed	2	4
Total	16	20

Overall, for the 2016 partial-year sample and the 2017 sample, there were 20 and 16 engagements, respectively, selected for oversight that the SME deemed nonconforming that were not identified as nonconforming by the peer reviewer. Some of the reviews selected for oversight have not completed the RAB process as of the date of this report, including consideration of feedback. The delay in consideration of feedback is either due to the firm or peer reviewer not cooperating with the process, or the peer reviewer disagreed with the result of the oversight, which resulted in a delay in the acceptance of the peer review and consideration of feedback.

Oversight by the Administering Entities' Peer Review Committees

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

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements (discussed on pages 10–13, "AE Oversight Procedures") established by the PRB to provide reasonable assurance that:

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

AE Oversight Procedures

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

Administrative Oversight of the AE

Description

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

Results

The AE submitted administrative oversight reports to the AICPA as part of the 2017 plan of administration (POA). Comments or suggestions resulting from the administrative oversights are summarized in exhibit 8. In addition, the OTF member reviewed the results of the administrative oversight during his or her oversight visit (described on pages 3–4, “Oversight Visits of the Administering Entities”) and compared the results of the administrative oversight to those noted during the OTF oversight visit.

Oversight of Peer Reviews and Reviewers

Description

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

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

Firms – The selection of firms to be reviewed is based on several factors, including the types of peer review reports the firm has previously received, whether it is the firm’s first system review (after previously having an engagement review), and whether the firm conducts engagements in high-risk industries.

Reviewers – All peer reviewers are subject to oversight and may be selected based on several factors, including random selection, any unusually high percentage of pass reports as compared to non-pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, performance of the peer reviewer’s first peer review, or performing high volumes of reviews. Oversight of a reviewer can also occur due to previously noted performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, not considering significant matters, or failure to select an appropriate number of engagements. When an AE oversees a reviewer from another state, the results are conveyed to the AE of that state.

Minimum Requirements – At a minimum, the AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period, and within the 2 percent selected, there must be at least 2 system and 2 engagement reviews. The oversight selections are made throughout the year and can be on a random or targeted basis. Selections for oversight will be made by the committee chair, committee, or designated task force based on input from staff, the technical reviewer, and committee members. The oversight involves completing a full working paper review, and it may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended that the oversight be performed prior to presenting the peer review documents to the peer review committee. This allows the committee to consider all the facts prior to acceptance of the review. At a minimum, two system review oversights are required to be performed on-site. Oversights may be random or a combination of a targeted and random selection.

AEs that administer fewer than 25 system reviews annually are required to perform a minimum of 1 system review oversight on-site. If the administering entity administers fewer than 25 engagement reviews annually, a minimum of 1 must be selected for oversight. Waivers may be requested only in hardship situations, such as a natural disaster or other catastrophic event.

Results

For 2017, the AEs conducted oversight on 227 reviews. There were 118 system and 109 engagement reviews oversights. Approximately 51 percent of the system oversights were conducted on-site. See exhibit 9 for a summary of oversights by AEs.

Annual Verification of Reviewers' Resumes

Description

To qualify as a reviewer, an individual must be an AICPA member and have at least 5 years of recent experience in the practice of public accounting in accounting or auditing functions. The firm(s) with whom the member is associated should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every 3 years, with a minimum of 8 hours in any 1 year.

A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The AE has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review. The AE must verify information within a sample of reviewers' resumes on an annual basis. All reviewer resumes should be verified over a 3-year period, as long as, at a minimum, one-third are verified in year 1, a total of two-thirds have been verified by year 2, and 100 percent have been verified by year 3. Verification must include the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards (GAGAS), audits of employee benefit plans subject to ERISA, audits of insured depository institutions subject to the FDICIA, audits of carrying broker-dealers, and examinations of SOC 1[®] engagements and SOC 2[®] engagements, as applicable. Verification procedures may include requesting copies of their license to practice as a CPA; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates that document the required 48 CPE credits related to accounting and auditing to be obtained every 3 years with at least 8 hours in 1 year; and CPE certificates that document qualifications to perform audits under *Government Auditing Standards*, if applicable. The AE should also verify whether the reviewer is a partner or manager in a firm enrolled in the Program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2017. See exhibit 10.

Evolution of Peer Review

Introduction

The evolution of peer review administration is part of the AICPA's EAQ initiative, with the objective to ultimately improve audit performance by increasing the consistency, efficiency, and effectiveness of the Program administration.

Each of the state CPA societies and all peer review AEs have been integral to the success of the peer review function, which is enormous in both scope and size across the country. Their commitment to meeting the needs of practitioner members and regulators has been, and continues to be, tremendous. At the same time, the need for an evolution of peer review administration was overwhelmingly validated by stakeholder feedback.

Peer review has grown and matured over the past 35 years in the marketplace, regulatory environment, and technological environment, and its evolution does not diminish the contributions of any state CPA society or AE. As the program has evolved over time, some state societies have begun to examine their role in peer review, and 10 AEs opted to discontinue administering peer review over the past 3 years and have allowed other State AEs to administer their programs.

Benchmark Model

As part of evolution and the AICPA's EAQ initiative, the PRB approved AE benchmarks to enhance overall quality and effectiveness of Program administration. The benchmarks include qualitative, objective, and measurable criteria, which may be modified over time due to advances in technology and other factors. AE benchmarks were derived from the final evolution paper released August 31, 2017, the September 20, 2017 webcast presentation for AEs and stakeholder feedback.

The benchmark model will begin with a pilot period for monitoring and reporting on the benchmarks. During the pilot period, which began on July 2, 2018 and will end on June 30, 2019, AEs will not be subject to fair procedures. For the reporting period beginning July 1, 2019, AEs will be subject to fair procedures for non-compliance with the benchmarks. Although AE self-monitoring and reporting to the OTF are new concepts, the overall peer review process should not have significant changes as many of the benchmarks have always been expected and implied. Therefore, AEs are expected to follow peer review *Standards* and guidance and will be held accountable for non-compliance.

During the pilot, the OTF will monitor benchmarks and reporting requirements to determine if modifications are needed, including the frequency and timing of reporting. The OTF will also evaluate the benchmark measurements to make sure they are appropriate and achievable.

Exhibit 1

Administering Entities Approved to Administer the 2017 Program

Administering Entity	Licensing Jurisdiction(s)
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado, New Mexico
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois, Iowa, Kentucky, ¹ South Carolina, West Virginia, ² and Wisconsin ³
Indiana CPA Society	Indiana
Kansas Society of CPAs	Kansas
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts, New Hampshire
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota
Mississippi Society of CPAs	Mississippi
Missouri Society of CPAs	Missouri
Montana Society of CPAs	Montana
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Wyoming, Nebraska, Utah
New England Peer Review, Inc.	Maine, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington

¹ Effective September 2017.

² Effective March 2017.

³ Effective April 2017.

Exhibit 2

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

For the years 2016 and 2017, a member of the OTF performed an on-site oversight visit to each of the following AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year. The oversight results can be found on the [AICPA's website](#).

2016

Alabama
Arkansas
California
Colorado
Florida
Kansas
Michigan
Mississippi
Missouri
Montana
Nevada
New England
New Jersey
North Dakota
Ohio
Oregon
Pennsylvania
Puerto Rico
Tennessee
West Virginia
Wisconsin

2017

Colorado
Connecticut
Georgia
Hawaii
Idaho
Illinois
Indiana
Kentucky
Louisiana
Maryland
Massachusetts
Minnesota
Nevada
North Carolina
Oklahoma
Texas
Virginia
Washington

Exhibit 3

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

As discussed in more detail in the “Oversight Visits of the AEs” section, each AE is visited at least every other year by an OTF member who performs various oversight procedures. At the conclusion of the visit, the OTF member issues an AICPA oversight visit report as well as an AICPA Oversight Visit Letter of Procedures and Observations, which details the oversight procedures performed, observations noted by the OTF member, and includes recommendations that may enhance the entity’s administration of the Program. The AE is required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter or, at a minimum, when there are no findings reported, an acknowledgement of the visit. The two oversight documents and the AE’s response are presented by the AICPA OTF PRB members at the next AICPA PRB meeting for acceptance. A copy of the acceptance letter, the two oversight visit letters, and the response are posted to the following Program web page: www.aicpa.org/interestareas/peerreview/resources/transparency/oversight/oversightvisitresults.html. The following represents a summary of observations made by the OTF resulting from the on-site oversight visits performed during 2016–2017. The following observations are examples and not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- Annual POA not submitted timely
- Acceptance letters not sent timely
- Documents not uploaded timely to the FSBA website
- Formal communications not sent to reviewed firms and peer reviewers when the RAB has either delayed or deferred acceptance of the review
- Confidentiality letters not obtained from technical reviewers
- Confidentiality letters not obtained from committee members
- All required materials not provided to the RAB
- Materials not provided to the RAB timely
- Resume verification not completed timely and not performed by an appropriate individual
- Noncompliance with confidentiality requirements
- Ineligible reviewer not suspended
- Feedback forms not uploaded timely to central database
- Noncompliance with document retention guidance
- Reviews not presented to a RAB timely
- Inadequate training and resources provided to administrative personnel
- RAB minutes did not reflect all actions of the RAB, including issuance of reviewer feedback or reviewer deficiency letter, or both
- The appropriate letters for overdue information and documents, reviewer performance, and other reminders not generated according to the time requirements in the administrative manual

Website

- The data maintained on the website as it relates to peer review is not current.

Exhibit 3, continued

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

Working Paper Retention

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

Committee Procedures

- Reviewer feedback not issued when necessary. Also, reviewer feedback not signed by a peer review committee member
- Technical reviewers failed to address all significant issues before reviews presented to the RAB
- RAB composition failed to comply with requirements of the RAB Handbook.
- Technical reviewers not evaluated annually
- Internal oversight of the administration of the Program not performed timely.
- Required oversight not performed timely
- RABs scheduled infrequently leading to RAB meetings with a large number of reviews presented that did not allow the RAB members to prepare for the meeting
- RAB members not familiar with current guidance on material departures from professional standards

Exhibit 4

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

Throughout each year, a sample of RABs is selected for observation. At least one RAB observation is performed for each AE per year. The documents provided to the RAB are reviewed (by Program staff, OTF members, or both) to increase the probability that the RAB process is operating properly and to ensure the results of reviews are being evaluated on a consistent basis within an AE in all jurisdictions. The following is a summary of recurring comments generated from the RAB observations performed by the Program staff and OTF members for 2017. The comments are intended to provide the AEs, their committees, RABs, peer reviewers, and technical reviewers with information and constructive recommendations that will increase consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all the respective parties.

- Potential issue regarding auditor compliance with independence requirements of *Government Auditing Standards* (Yellow Book)
- Reviewers' risk assessments were not comprehensive. Items not addressed include unique risks associated with employee benefit plan audits when the firm had multiple types.
- Firms' response on the findings for further consideration (FFC) forms did not address all items listed
- Systemic cause missing or did not appropriately address the underlying cause of the finding on FFC forms
- Matters for further consideration forms included specific reviewer, firm, or client names
- Firm representation letters not consistent with the illustration in appendix B of the *Standards*
- Report language was not consistent with current standards
- Reviewer did not expand scope in accordance with standards and guidance
- Firm letter of response and FFC responses did not appropriately address nonconforming engagements
- Reviews included on the consent agenda or otherwise accepted without presentation and discussion did not comply with RAB Handbook guidance
- Reviewer performance feedback not initially recommended when
 - Reviewers did not appropriately aggregate and evaluate matters
 - Reviewers failed to identify nonconforming engagements
 - Oversight resulted in issues not previously detected by the reviewer
 - Reports and letters of response were not in compliance with standards
- Reviews were not consistently presented to the RAB free from open technical issues causing the RAB to spend extra time discussing, leading to deferred or delayed acceptance
- RAB members should have reviewed criteria for "delayed acceptance" and "deferral of a review" as set forth in the RAB Handbook.
- RAB members that performed or participated in a review did not recuse themselves from the meeting when their reviews were presented
- RAB members did not meet the training requirements as established in the RAB Handbook
- Technical reviewer, rather than committee member, signature on reviewer performance feedback form
- Deferral letters not sent timely or at all
- All required documents not included in the RAB package

Exhibit 5

Material Departures From Professional Standards Identified by SMEs

As discussed in more detail in the “Enhanced Oversight” section, the SMEs identified a large number of material departures from professional standards that were not identified by the peer reviewers. The following is a list of departures from professional standards identified in the 2016 partial-year sample and the 2017 sample. The SMEs identified these departures from professional standards, individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered nonconforming.

Employee Benefit Plan Engagements

- Lack of documentation of design and implementation of internal controls, including documentation of reliance on system and organization controls report
- Failure to obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements (including appropriate leveling) and disclosures in the financial statements are in conformity with generally accepted accounting principles (GAAP)
- No testing of participant data and participant elections
- No testing or inadequate testing of benefit payments or distributions, including inadequate sample sizes
- No testing of employee contributions. Contributions were not recalculated using approved deferral rates to determine if the proper contribution was being withheld from the employee’s paycheck
- No testing of employee eligibility
- References to all certifying companies not included in auditor’s report
- No testing of vesting and forfeitures for distributions
- No testing for contributions received or receivable
- No documentation of consideration of material passed adjustments
- Inadequate testing of timeliness of participant contributions
- No documentation of how sample sizes were determined or inadequate sample sizes
- No documentation of internal controls
- No documentation of parties-in-interest in planning documentation
- No documentation of consideration of IT controls
- No documentation of specialist’s qualifications for an actuary and no documentation to test adequacy of specialist’s work
- No documentation of testing of material investments or sales transactions in a full scope audit
- Lack of verification of market values to independent published prices in a full scope audit
- Reviewed firm identified errors during the audit, but the firm did not perform additional procedures to determine the extent of the error or the effects on the financial statements
- Inadequate testing of material contributions and contributions receivable
- No documentation of testing of employer contributions at the participant level
- No documentation or modification of the auditor’s report when contracting with an outside CPA to perform the audit
- Incorrect definition of *compensation* used by the plan
- Lack of disclosure of significant portions of the benefit plan

Exhibit 5, continued

Material Departures From Professional Standards Identified by SMEs

Single Audit/Uniform Guidance and Government Auditing Standards Engagements

- No testing of internal controls over direct and material compliance requirements, including testing internal controls over some, but not all, direct and material compliance requirements
- No documentation or limited documentation of internal controls over compliance
- No documentation of auditor analysis and judgment of which compliance requirements were determined not direct and material
- No documentation of specific procedures performed to test direct and material compliance requirements
- No documentation of how sample sizes were determined, including selecting a single sample for multiple grants
- No documentation of independence considerations, including skills, knowledge and experience (SKE), threats to independence, and safeguards
- No documentation of controls over the preparation of the schedule of expenditures of federal awards (SEFA)
- No documentation of procedures to determine whether the SEFA is fairly presented in all material respects
- No documentation of appropriateness and completeness of the SEFA
- No documentation of risk assessment for Type B programs
- Incorrectly identifying all programs as Type B when a Type A program was present
- Failure to cluster related programs
- Failure to use Part 3 of the *Compliance Supplement* to determine compliance requirements
- Incorrect Type B risk assessment resulting in testing of wrong Type B program
- Type B threshold calculated incorrectly
- Type B programs not assessed for risk

Carrying Broker-Dealer Engagements

- Lack of documentation of control testing performed over the preparation of the net capital or reserve computations
- Lack of documentation of why allowance for doubtful accounts was not necessary for customer receivables
- Lack of documentation of determination of completeness of revenue

Exhibit 6

**Nonconforming Engagements Identified During 2016
Partial-Year Enhanced Oversight by Firm Size**

In the 2016 partial-year enhanced oversight sample (reviews performed between August 1, 2016 and December 31, 2016), 108 reviews were selected for enhanced oversight (41 random and 67 targeted selections). The following tables detail the number of nonconforming engagements identified in relation to the number of must-select engagements performed by the firm in that category for all 108 must-select engagements selected for oversight. The random samples are not statistically valid and are not presented separately or compared to the prior baseline samples.

Overall Sample			
Number of Must-Select Engagements Performed by Each Firm Selected*	Number of Nonconforming Engagements	Must-Select Audit Engagements Reviewed	Percentage of Engagements Reviewed That Were Identified as Nonconforming
1-2	25	61	41%
3-5	7	16	44%
6-10	3	15	20%
11 or more	3	16	19%
Total	38	108	35%

Employee Benefit Plan Engagements			
Number of Must-Select Engagements Performed by Each Firm Selected*	Number of Nonconforming Engagements	Must-Select Audit Engagements Reviewed	Percentage of Engagements Reviewed That Were Identified as Nonconforming
1-2	19	39	49%
3-5	2	4	50%
6-10	1	5	20%
11 or more	2	8	20%
Total	24	56	43%

GAS/Uniform Guidance Engagements			
Number of Must-Select Engagements Performed by Each Firm Selected*	Number of Nonconforming Engagements	Must-Select Audit Engagements Reviewed	Percentage of Engagements Reviewed That Were Identified as Nonconforming
1-2	6	22	27%
3-5	5	11	45%
6-10	2	9	22%
11 or more	1	8	13%
Total	14	50	56%

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

Note: Two system and organization controls engagements and one FDICIA engagement was selected for oversight.

Exhibit 7

Nonconforming Engagements Identified During 2017 Enhanced Oversight by Firm Size

The 2017 enhanced oversight sample was divided into two samples: a random sample and a targeted sample. Eighty-seven must-select engagements were selected for oversight (54 random and 33 targeted selections). The following tables detail the number of nonconforming engagements identified in relation to the number of must-select engagements performed by the firm in that category for the 87 must-select engagements selected for oversight. The random samples are not statistically valid and are not presented separately or compared to the prior baseline samples.

Overall Sample			
Number of Must-Select Engagements Performed by Each Firm Selected*	Number of Nonconforming Engagements	Must-Select Audit Engagements Reviewed	Percentage of Engagements Reviewed That Were Identified as Nonconforming
1–2	26	46	57%
3–5	15	29	52%
6–10	1	4	25%
11 or more	1	8	13%
Total	43	87	49%

Employee Benefit Plan Engagements			
Number of Must-Select Engagements Performed by Each Firm Selected*	Number of Nonconforming Engagements	Must-Select Audit Engagements Reviewed	Percentage of Engagements Reviewed That Were Identified as Nonconforming
1–2	10	17	59%
3–5	8	16	50%
6–10	1	2	50%
11 or more	0	6	0%
Total	19	41	46%

GAS/Uniform Guidance Engagements			
Number of Must-Select Engagements Performed by Each Firm Selected*	Number of Nonconforming Engagements	Must-Select Audit Engagements Reviewed	Percentage of Engagements Reviewed That Were Identified as Nonconforming
1–2	15	28	54%
3–5	7	13	54%
6–10	0	2	0%
11 or more	1	1	100%
Total	23	44	52%

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

Note: One system and organization controls engagement and one carrying broker-dealer engagement was selected for oversight.

Exhibit 8

Administrative Oversight Performed by Peer Review Committees of Administering Entities

The AE's peer review committee is required to establish administrative oversight procedures to provide reasonable assurance that the Program is being administered in accordance with guidance as issued by the PRB. An administrative oversight should be performed in those years when there is no AICPA oversight visit. Procedures to be performed should cover the administrative requirements of administering the Program. Each AE was requested to submit documentation indicating that an administrative oversight was performed with its POA.

Comments or suggestions contained in the reports are summarized in the following list and are not indicative of every AE. They also vary in degree of significance. In addition, the OTF member reviewed the results of the administrative oversight during the oversight visit (described on pages 3–4, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight with those noted during the OTF oversight visit to evaluate whether any matters still need improvement.

- Review committee member qualifications to ensure compliance with the RAB qualifications guidance in the RAB Handbook
- Reviews not presented timely to a RAB
- Oversight requirements not completed timely
- Resume verification not completed timely
- Technical reviewers not evaluated annually
- Ensure feedback is issued when necessary
- Reviews not presented to the RAB free of open technical issues

Exhibit 9

Summary of Oversight Performed by Administering Entities

AEs are required to conduct oversight on a minimum of 2 percent of all reviews performed in a 12-month period of time. Within the 2 percent selected for oversight, the AE must evaluate at least 2 of each type of peer review. Also, at least 2 engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under GAGAS, audits of insured depository institutions subject to the FDICIA, or examinations of service organizations (SOC 1 engagements and SOC 2 engagements). The following shows the number of oversights performed for the 2017 oversight year.

Administering Entity	Type of Review/Oversights		
	System	Engagement	Total
Alabama	4	3	7
Arkansas	2	2	4
California	11	16	27
Colorado	2	3	5
Connecticut	1	1	2
Florida	6	2	8
Georgia	4	2	6
Idaho	1	1	2
Illinois	13	6	19
Indiana	2	2	4
Kansas	2	2	4
Louisiana	4	5	9
Maryland	2	3	5
Massachusetts	5	2	7
Michigan	3	3	6
Minnesota	2	2	4
Mississippi	2	2	4
Missouri	3	2	5
Montana	4	1	5
Nevada	2	4	6
New England	2	2	4
New Jersey	5	3	8
North Carolina	3	5	8
North Dakota	2	1	3
Ohio	4	2	6
Oklahoma	2	2	4
Oregon	2	2	4
Pennsylvania	4	5	9
Puerto Rico	-	-	2
Tennessee	2	3	5
Texas	11	11	22
Virginia	2	6	8
Washington	4	3	7
TOTAL	118	109	227

Exhibit 10

Summary of Reviewer Resumes Verified by Administering Entities

AEs are required to verify all reviewer resumes over a three-year period as long as, at a minimum; one-third are verified in year one; a total of two-thirds have been verified by year two; and 100 percent have been verified by year three. The following shows the number of reviewer resumes verified by AEs for the years 2015–2017.

<u>Administering Entity</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Alabama	16	17	14
Arkansas	7	5	7
California	77	62	36
Colorado	14	6	15
Connecticut	5	5	6
Florida	57	27	25
Georgia	17	14	10
Hawaii	3	2	2
Idaho	5	8	4
Illinois	72	63	90
Indiana	13	15	11
Kansas	-	7	5
Louisiana	-	22	25
Maryland	12	10	14
Massachusetts	32	6	11
Michigan	30	23	22
Minnesota	28	7	16
Mississippi	20	5	13
Missouri	15	13	19
Montana	7	3	1
Nevada	-	50	13
New England	8	6	10
New Jersey	37	30	33
New York	45	78	34
North Carolina	26	26	25
North Dakota	1	1	1
Ohio	-	24	-
Oklahoma	14	11	9
Oregon	13	10	8
Pennsylvania	34	43	18
Puerto Rico	13	8	-
Tennessee	24	24	19
Texas	56	43	32
Virginia	17	11	18
Washington	17	12	11
Totals	<u>735</u>	<u>697</u>	<u>577</u>

Appendix 1

History of Peer Review at the AICPA

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

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

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

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

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

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

Appendix 1, continued

History of Peer Review at the AICPA

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with and inspected by the PCAOB. Because many SBAs and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their SBA licensing and other state and federal governmental agency peer review requirements.

Because both programs (AICPA and CPCAF PRPs) were only peer reviewing non-SEC issuer practices, the PRB determined that the programs could be merged and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved the revised *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 PRP was discontinued, and the Program became the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAF PRP, the activities of the former program were succeeded by the NPRC, a committee of the AICPA PRB.

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

The FSBA documents typically include the following:⁴

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

⁴ As of February 2015, a firm's current and prior peer review documents are available via facilitated state board access (FSBA). The documents are available if the state participated in FSBA for both review periods, and the firm did not opt out of FSBA for either review.

Appendix 2

AICPA Peer Review Program Overview

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

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

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

System reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations under the SSAEs, or engagements under PCAOB standards. In addition, agreed-upon procedures, reviews, compilations, and preparation engagements are also included in the scope of the peer review. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (QC sec. 10)⁵, in all material respects. The peer review report rating may be *pass* (firm's system of quality control is adequately designed and firm has complied with its system of quality control); *pass with deficiency(ies)* (firm's system of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of deficiency[ies] described in the report); or *fail* (firm's system of quality control is not adequately designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects).

Engagement reviews: Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with

⁵ QC section 10 can be found in AICPA *Professional Standards*.

Appendix 2, continued

AICPA Peer Review Program Overview

applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that at least one, but not all, the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when the reviewer concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

Administering Entities

Each state CPA society annually elects the level of involvement that it desires in the administration of the Program. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the Program for enrolled firms whose main offices are located in that state; or (3) ask the AICPA to request another state CPA society to administer the Program for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the Program in compliance with the *Standards* and related guidance materials issued by the PRB. The PRB approved 39 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the Program in 2017. See exhibit 1. Each AE is required to establish a peer review committee that is responsible for administration, acceptance, and oversight of the Program.

In order to receive approval to administer the Program, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted as part of the annual POA. The annual POA is the AE's request to administer the Program and is reviewed and approved by the OTF.

AEs may also elect to use the *Standards* and administer a PRP for non-AICPA firms and individuals. Non-AICPA firms and individuals are enrolled in the state CPA society PRPs and these reviews, although very similar to reviews administered by the Program, are not considered as being performed under the auspices of the Program. The reviews are not oversighted by the AICPA PRB; therefore, this report does not include information or oversight procedures performed by the AEs on their PRPs of non-AICPA firms and individuals.

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the senior technical committee governing the Program and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the revised <i>AICPA Standards for Performing and Reporting on Peer Reviews (Standards)</i> and interpretations to the revised <i>Standards</i> and other guidance that is used in administering, performing, and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the AE oversight process for the Program.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications, and responsibilities of AE peer review committees, report acceptance bodies, and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
Program Administrative Manual	The publication that includes guidance used by the AICPA PRB, approved state CPA societies, or other entities in the administration of the Program.
Administering entity	A state CPA society, group of state CPA societies, or other entity annually approved by the PRB to administer the Program in compliance with the <i>Standards</i> and related guidance materials issued by the PRB.
Agreed upon procedures	Specific procedures agreed to by a CPA, a client, and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
Attest engagement	Provide users of information, generally third parties, with an opinion, conclusion, or findings regarding the reliability of subject matter or an assertion about the subject matter as measured against suitable and available criteria.
Audit	Provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
Compilation	Applying accounting and financial reporting expertise to assist management in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

Glossary, continued

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

Glossary, continued

<u>Term</u>	<u>Definition</u>
Licensing jurisdiction	For purposes of this report, licensing jurisdiction means any state or commonwealth of the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands.
Matter for further consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed or reported on, or both, in conformity with applicable professional standards in all material respects. Matters are typically one or more “No” answers to questions in peer review questionnaires(s). A matter is documented on a matter for further consideration (MFC) form.
Other comprehensive basis of reporting	Consistent accounting basis other than GAAP used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the Program and make recommendations regarding the PRB oversight procedures.
Peer Review Committee	An authoritative body established by an AE to oversee the administration, acceptance, and completion of the peer reviews administered and performed in the licensing jurisdiction(s) it has agreed to administer.
Plan of administration (POA)	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the Program.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
Preparation engagement	An engagement to prepare financial statements pursuant to a specified financial reporting framework.
PRIMA System	An online system that is accessed to carry out the Program administrative functions.
PRISM System	An online system that is accessed to carry out the Program administrative functions.
Report Acceptance Body	A committee or committees appointed by an AE for the purpose of considering the results of peer reviews and ensuring that the requirements of the Program are being complied with.
Review	Obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures.

Glossary, continued

Reviewer feedback form	A form used to document a peer reviewer's performance on individual reviews and give constructive feedback.
Reviewer resume	A document residing in PRIMA and required to be updated annually by all active peer reviewers, which is used by AEs to determine if individuals meet the qualifications for service as reviewers as set forth in the <i>Standards</i> .
Scheduling status report	A report that provides key information on peer reviews such as firm name, due date, review number, type, status, and the date that background information was received.
Special purpose framework	A financial reporting framework, other than GAAP, that is one of the following bases of accounting: cash basis, tax basis, regulatory basis, contractual basis, or another basis.
State board of accountancy	An independent state governmental agency that licenses and regulates CPAs.
State CPA society	Professional organization for CPAs providing a wide range of member benefits.
Summary review memorandum	A document used by peer reviewers to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in an FFC form.
System of quality control	A process to provide the firm with reasonable assurance that its personnel will comply with applicable professional standards and the firm's standards of quality.
System review	A type of peer review for firms that have an accounting and auditing practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on accounting and auditing engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
Technical reviewer	Individual(s) at the AE whose role is to provide technical assistance to the RAB and the Peer Review Committee in carrying out their responsibilities.
Territory	A territory of the United States is a specific area under the jurisdiction of the United States and, for purposes of this report, includes Guam, the District of Columbia, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands.