

California Board of Accountancy

Peer Review Oversight Committee (PROC) Meeting

January 29, 2016



11:00 a.m. – 1:00 p.m.

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815
Telephone: (916) 263-3680



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
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CBA MISSION: To protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

**PROC MEETING
NOTICE & AGENDA**

**January 29, 2016
11:00 a.m. – 1:00 p.m.**

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815
Telephone: (916) 263-3680

Important Notice to the Public

All times indicated, other than those identified as “time certain,” are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the PROC Chair. The meeting may be canceled without notice. For verification of the meeting, call (916) 561-4366 or access the CBA website at www.cba.ca.gov.

- I. Call to Order, Roll Call, Establishment of Quorum, and Opening Remarks (**Robert Lee, Chair**).
- II. Report of the Committee Chair (**Robert Lee**).
 - A. Approval of the December 9, 2015, 2015 PROC Meeting Minutes.
 - B. Report on the January 21-22, 2016 CBA Meetings (**Robert Lee, Chair**).
 - C. Discussion of Emerging Issues and/or National Standards that may have an Impact on Peer Review in California.
- III. Report on PROC Oversight Activities Conducted since December 9, 2015 (**Robert Lee, Chair**).
 - A. Report on the December 15, 2015 California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body (RAB) Meeting.
 - B. Report on the January 11, 2016 National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC) Meeting.
 - C. Report on the January 13, 2016 American Institute of Certified Public Accountants' (AICPA) Peer Review Board (PRB) Meeting.
 - D. Report on the January 26, 2016 and January 27, 2016 CalCPA RAB Meetings.
 - E. Report on the PROC Oversight of the AICPA Oversight of Out-of-State Administering Entities (New York).

- F. Assignment of Future PROC Oversight Roles, Responsibilities, Activities, and Assignments (**Siek Run, Enforcement Analyst**).
- IV. Report of the Enforcement Chief (**Dominic Franzella, Chief, Enforcement Division**).
 - A. Discussion on the Draft 2015 PROC Annual Report.
 - B. Discussion on the National Peer Review Committee (NPRC), AICPA Peer Review Program Annual Report on Oversight, Issued October 22, 2015.
 - C. Discussion on the Administrative Oversight of the National Peer Review Committee Result Letter, Issued October 22, 2015.
 - D. Discussion on the 2015 AICPA Peer Review Program Annual Report on Oversight, Issued September 18, 2015.
 - E. Discussion on the California Society of CPAs Peer Review Program Annual Report on Oversight for Calendar Year 2014, Issued October 22, 2015.
 - F. Discussion on the PROC Peer Review Oversight Checklist Updates, PROC Summary of Administrative Site Visit Checklist.
- V. Closing Business (**Robert Lee, Chair**).
 - A. Public Comments for Items Not on the Agenda.
 - B. Agenda Items for Future PROC Meetings.
- VII. Adjournment.

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the PROC are open to the public. Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the PROC prior to the PROC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the PROC, but the PROC Chair may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the PROC to discuss items not on the agenda; however, the PROC can neither discuss nor take official action on these items at the time of the same meeting. CBA members who are not members of the PROC may be attending the meeting. However, if a majority of members of the full board are present at the PROC meeting, members who are not members of the PROC may attend the meeting only as observers.

The meeting is accessible to individuals with physical disabilities. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting Siek Run at (916) 561-4366, or by email at Siek.Run@cba.ca.gov, or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

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An electronic copy of this agenda can be found at www.cba.ca.gov.



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PROC Item II.A.
 January 29, 2016

DRAFT

DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY (CBA)

MINUTES OF THE
December 9, 2015
PEER REVIEW OVERSIGHT COMMITTEE (PROC) MEETING

Hilton San Diego Airport/Harbor Island
 1960 Harbor Island Drive
 San Diego, CA 92101
 Telephone: (916) 263-3680

I. Roll Call and Call to Order.

Robert Lee, CPA, Chair, called the meeting of the PROC to order at 11:00 a.m. on Wednesday, December 9, 2015. The meeting adjourned at 1:00 p.m.

Mr. Lee introduced Ms. Renee Graves, the new committee member. Ms. Graves gave a brief introduction about herself.

Members

Robert Lee, CPA, Chair	11:00 a.m. – 1:00 p.m.
Sherry McCoy, CPA, Vice-Chair	11:00 a.m. – 1:00 p.m.
Katherine Allanson, CPA	11:00 a.m. – 1:00 p.m.
Nancy Corrigan, CPA	11:00 a.m. – 1:00 p.m.
Jeffrey De Lyser, CPA	11:00 a.m. – 1:00 p.m.
Kevin Harper, CPA	11:00 a.m. – 1:00 p.m.
Renee Graves, CPA	11:00 a.m. – 1:00 p.m.

CBA Staff

Dominic Franzella, Chief, Enforcement Division
 Malcolm Mitchell, Enforcement Manager
 Siek Run, Enforcement Analyst

Other Participants

Linda McCrone, CPA, California Society of Certified Public Accountants (CalCPA)

II. Report of the Committee Chair.

A. Approval of the August 21, 2015 PROC Meeting Minutes.

Mr. Lee requested members to review and provide feedback or edits to the August 21, 2015 PROC Meeting Minutes.

It was moved by Ms. Corrigan and seconded by Ms. Allanson to approve the meeting minutes with the suggested changes.

Yes: Mr. Lee, Ms. McCoy, Ms. Allanson, Ms. Corrigan, Mr. De Lyser, and Mr. Harper.

Abstain: Ms. Graves.

The motion passed.

B. Report on the September 17-18, 2015 and November 19, 2015 CBA Meetings.

Mr. Lee provided the PROC with information on the CBA September 17-18 and November 19, 2015 meetings and highlighted actions taken on a wide variety of issues facing the CBA. Mr. Lee reported that at these meetings the CBA discussed the impact the new Statements on Standards for Accounting and Review Services (or SSARS 21) will have on peer review and continuing education, the options for tracking sole proprietorships, and elected new CBA leadership.

C. Report on the October 25-28, 2015 National Association of State Boards of Accountancy's (NASBA) 108th Annual Meeting.

Mr. Lee attended this meeting. The topics covered were similar to those at the NASBA Western Regional Meeting, that took place in June 2015. He further noted that the meeting emphasized big changes coming to the Uniform CPA Examination in 2017.

D. Discussion of Emerging Issues and/or National Standards that may have an Impact on Peer Review in California.

There was no report on this agenda item.

III. Report on PROC Oversight Activities Conducted since August 21, 2015.

A. Report on the August 12, 2015 California Society of Certified Public Accountants' (CalCPA) Administrative Site Visit.

Mr. Harper and Mr. De Lyser reported on the Administrative Site Visit they conducted at the CalCPA's Office in San Mateo, California. They found that the

system continues to meet the PROC's expectations, and there were no negative findings or outstanding items.

Mr. Harper and Mr. De Lyser noted that the PROC Summary of Administrative Site Visit (Checklist) requires that providers have educational trainings available for peer reviewers and reviewed firms. They noted that the CalCPA will no longer be providing peer reviewer education trainings as the educational requirements have changed, and that effective May 1, 2016 these trainings will be offered by the AICPA Peer Review Board (PRB).

B. Report on the September 18, 2015 American Institute of Certified Public Accountants' (AICPA) Peer Review Board (PRB) Meeting.

Ms. McCoy participated in this conference call and presented her report. She noted that the call was short and informative. She explained that the call focused on new tools put in place and rolled out to practitioners. Ms. McCoy encouraged the PROC to review the meeting packet as it highlights trending statistics.

C. Report on the September 29, 2015 CalCPA Report Acceptance Body (RAB) Meeting.

Mr. De Lyser participated in this conference call and presented his report. He was impressed with the preparation by the RAB participants and their knowledge of all 55 reports discussed at the meeting. He felt they should be commended for the amount of work they perform outside of the meetings.

D. Report on the November 10, 2015 AICPA Peer Review Board (PRB) Open Session Meeting.

Mr. Harper participated in this conference call and presented his report. He highlighted that the meeting was 20 minutes, with over 100 attendees, and they reviewed the AICPA Exposure Draft (Exposure). He noted that minor comments were made regarding the Exposure, which ultimately resulted in the approval of its release.

E. Report on the November 19-20, 2015 CalCPA Peer Review Committee (PRC)/RAB Meeting.

Ms. Corrigan and Ms. Allanson attended the CalCPA PRC meeting in-person and presented their reports. They expressed gratitude and highlighted the diligent and transparent work performed by the CalCPA Peer Review Program.

Ms. Allanson and Ms. Corrigan highlighted changes on the horizon related to peer review. The PROC briefly discussed the potential decrease in the numbers of administering entities as they become more regional, changes to guidance and questionnaires, and more practice aids to help firms write their quality control documents as they become more narrative.

The PROC discussed various actions taken by CalCPA to improve peer review quality, including an increased focus on ERISA and A-133 audits, and more stringent educational requirements for peer reviewers as it relates to employee benefit plans.

Mr. Franzella encouraged members of the PROC to attend or watch online, the CBA's January 2016 meeting, as Ian Dingwall, CPA, Chief Accountant, Department of Labor, will be part of the panel presentation regarding and assessing the Quality of Employee Benefit Plan Audits.

F. Report on the PROC Oversight of the AICPA Oversight of Out-of-State Administering Entities (AEs) (Florida, Texas, Washington, and Arizona).

Mr. De Lyser reviewed and reported on the oversight activity of the AICPA for Washington. He explained that Washington received a clean report from AICPA with no recommendations or findings. Mr. De Lyser explained that he followed the review procedure AICPA performed on Washington State and concluded with a clean oversight report as well. A report was not given on Arizona as it was not considered an out-of-state AE.

Ms. Allanson reviewed and reported on the oversight activities performed by AICPA over Texas and Florida. She noted that both states received a clean report with no comments or feedback.

Mr. Harper inquired if bad reports existed. The PROC discussed how to approach future oversight of out-of-state AEs, its effectiveness, and opportunities for improvements. The conclusion was to maintain the existing protocol in regards to selecting out-of-state AEs.

G. Assignment of Future PROC Oversight Activities.

Mr. Lee noted that the new format for PROC assignments and activities are more user-friendly and Mr. Franzella noted that staff will combine agenda items III.G and IV in future PROC agendas.

Mr. Lee reviewed the PROC Assignment Sheet as members volunteered for future PROC activities for the following dates and time:

RAB

- January 26, 2016 – Mr. Harper at 2:00 p.m. call
- January 27, 2016 – Ms. Allanson at 9:00 a.m. call
- February 24, 2016 – Ms. Corrigan at 2:00 p.m. call
- February 25, 2016 – Ms. Graves at 9:00 a.m. call
- March 22, 2016 – Mr. Harper at 2:00 p.m. call

The PROC discussed the possibility of having Ms. Graves attend a RAB meeting in-person and asked staff to coordinate with both Ms. Graves and Ms. McCrone.

Ms. McCrone encouraged PROC members to attend the August AICPA Peer Review Conference, scheduled to take place from August 8-10, 2016, followed by the AICPA PRB Meeting on August 11, 2016. The PROC advised staff to communicate with Ms. McCrone to work out details on how to attend the conference.

Mr. Lee requested CBA staff to work with Ms. McCrone to research how PROC members can participate in future training presented by AICPA via webcast.

IV. Report on Status of PROC Assignments, Roles and Responsibilities Activity Tracking.

There were no changes, updates or comments for this agenda item.

V. Report of the Enforcement Chief.

A. Discussion on the Draft 2015 PROC Annual Report.

Mr. Franzella reported on this item. He requested feedback and edits from the PROC.

Mr. Lee recommended reviewing the report page by page. The PROC provided edits for the inclusion in the report.

Mr. Franzella informed the PROC that staff would make the requested edits and bring revisions in strike through and underline text at its next meeting.

B. Discussion on the California Society of Certified Public Accountants' (CalCPA) Peer Review Program Annual Report on Oversight for Calendar Year 2013.

Mr. Franzella introduced this report and requested members to review and provide staff feedback. The PROC received clarity from Ms. McCrone regarding the 2014 CalCPA Peer Review Program Annual Report, which was approved at the CalCPA November 2015 meeting. The PROC made the decision to include the 2014 report in the PROC January 2016 meeting.

C. Discussion on the November 19-21, 2014 AICPA Peer Review Committee Chair's Report on the Administrative Oversight Visit to CalCPA.

The PROC noted that the preparation of the report alternates biennially between the AICPA PRB and the CalCPA PRC. There was no feedback or further discussion regarding this agenda item.

D. Discussion Regarding the Impact of the Proposed Changes to the AICPA Exposure Draft on the Standards for Performing and Reporting on Peer Reviews, *Improving Transparency and Effectiveness of Peer Review*, November 10, 2015.

Mr. Franzella introduced this report to the PROC as an opportunity to discuss and provide comments for the Chair to report at the CBA January 2016 meeting. He further noted that staff is evaluating the draft from a regulation perspective to determine the impact of the changes.

The PROC discussed the Exposure Draft and agreed that the draft provided clarity on the following changes to come:

- Places increased responsibility on firms being peer reviewed
- Offers information, including reforming future complementary and clarifying changes to come
- Shifts peer review to a more remedial environment
- Supportive of the clarifying changes

VI. Closing Business.

A. Public Comments for Items Not on the Agenda.

No public comments were received for this agenda item.

B. Agenda Items for Future PROC Meetings.

Mr. Lee redirected members' attention to previously proposed agenda items and asked members to indicate if any of the items should be included in the upcoming meeting agenda. Mr. Lee proposed to have standing agenda items to discuss website monitoring for peer review updates and review of PROC oversight activity checklists.

VII. Adjournment.

There being no further business, Mr. Lee adjourned the meeting at 1:00 p.m. on Wednesday, December 9, 2015.

Robert Lee, CPA Chair

Siek Run, Enforcement Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-4343.



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PROC Item III.F.
January 29, 2016

Assignment of Future PROC Oversight Roles, Responsibilities, Activities, and Assignments

Presented by: Siek Run, Enforcement Analyst

Consumer Protection Objectives

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review and assign members to specific PROC oversight activities. By performing oversight activities of the California Board of Accountancy's (CBA) recognized peer review program providers, the PROC is able to provide recommendations to the CBA on the effectiveness of the peer review program, which furthers the CBA's mission of consumer protection.

Action(s) Needed

It is requested that all members bring their calendars to the January 29, 2016, PROC Meeting and be prepared to accept assignments.

Background

None.

Comments

The PROC 2016 Year-at-a-Glance calendar, Activity Assignments sheet, and the Roles and Responsibility Activity Tracking sheet (**Attachments 1, 2, and 3**) include meetings and activities that are currently scheduled for the following:

- CBA
- PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board
- California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body
- CalCPA Peer Review Committee
- National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Assignment of Future PROC Oversight Roles, Responsibilities, Activities, and Assignments

Page 2 of 2

Recommendation

It is recommended that members continue to use the three documents provided as resources when accepting assignments to participate in meetings and activities held by the AICPA, CalCPA, and NASBA.

Attachments

1. 2016 Year-at-a-Glance CBA PROC Calendar
2. 2016 Peer Review Oversight Committee (PROC) Activity Assignments
3. 2016 Peer Review Oversight Committee (PROC) Roles and Responsibilities Activity Tracking

Attachment 1

CALIFORNIA BOARD OF ACCOUNTANCY (CBA) PEER REVIEW OVERSIGHT COMMITTEE (PROC) 2016 Year-at-a-Glance Calendar (As of January 4, 2016)

JANUARY 2016

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MARCH 2016

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MAY 2016

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JUNE 2016

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JULY 2016

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AUGUST 2016

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SEPTEMBER 2016

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OCTOBER 2016

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NOVEMBER 2016

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DECEMBER 2016

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COMMITTEE/TASK FORCE

- CBA** - California Board of Accountancy
- PROC** - Peer Review Oversight Committee
- AICPA** - American Institute of Certified Public Accountants
- PRB** - Peer Review Board
- CalCPA** - California Society of Certified Public Accountants
- RAB** - Report Acceptance Body
- PRC** - Peer Review Committee
- NASBA** - National Assoc. of State Boards of Accountancy
- CAC** - Compliance Assurance Committee

GENERAL LOCATION

- NC**-NORTHERN CALIFORNIA
- SC**-SOUTHERN CALIFORNIA
- T**-TELECONFERENCE
- PR**-PUERTO RICO
- D**-DURHAM, NC
- NO**-NEW ORLEANS, LA

- ON SHADED DATES CBA OFFICE IS CLOSED**
- CBA MEETING**
- PROC MEETING**
- AICPA PRB MEETING**
- CalCPA RAB MEETING**
- CalCPA PRC MEETING**
- PEER REVIEWER TRAINING**
- ADMINISTRATIVE SITE VISIT**
- NASBA CAC MEETING**



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2016 Peer Review Oversight Committee (PROC) Activity Assignments

Attachment 2

Date	Activity	Member Assigned
January 11, 2016	NASBA CAC/PROC (conference call)	Kevin
January 13, 2016	AICPA Peer Review Board Meeting (FL)	Jeff
January 26, 2016	CalCPA RAB 2:00 p.m.	Kevin
January 27, 2016	CalCPA RAB 9:00 a.m.	Kathy
February 24, 2016	CalCPA RAB 2:00 p.m.	Nancy
February 25, 2016	CalCPA RAB 9:00 a.m.	Renee
March 22, 2016	CalCPA RAB 2:00 p.m.	Kevin
April 28, 2016	CalCPA RAB 9:00 a.m. & 2:00 p.m.	
May 3, 2016	AICPA Peer Review Board Meeting (Durham, NC)	
August 8-11, 2016	AICPA Peer Review Board Meeting (San Diego, CA)	
September 27, 2016	AICPA Peer Review Board Meeting (Conference Call)	

Updated January 4, 2016

Peer Review Oversight Committee (PROC) Roles and Responsibilities
Activity Tracking – 2016
As of January 4, 2015

Attachment 3

Activity*	Notes
PROC MEETINGS <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meetings Scheduled: 1/29, 5/6, 8/19, 12/9
ADMINISTRATIVE SITE VISITS <ul style="list-style-type: none"> Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	<ul style="list-style-type: none"> CalCPA Administrative Site: Not Scheduled.
PEER REVIEW COMMITTEE MEETINGS <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Board (PRB) and Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	<ul style="list-style-type: none"> Meetings Attended: American Institute of Certified Public Accountants (AICPA) PRB: Meetings Scheduled: 1/13 JD, 5/3, 8/8-8/11, 9/27
PEER REVIEW SUBCOMMITTEE MEETINGS <ul style="list-style-type: none"> Attend and review at least four of each peer review program provider's peer review Report Acceptance Body (RAB) subcommittee meetings to observe the acceptance of peer review reports. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Meetings Attended: CalCPA RAB: Meetings Scheduled: CalCPA RAB: 1/26 KH, 1/27 KA, 2/24 NC, 2/25 RG, 3/22 KH, 4/28
NATIONAL STATE BOARDS OF ACCOUNTANCY (NASBA) MEETINGS <ul style="list-style-type: none"> Attend and review the National State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) meetings Ensure effective oversight of compliance with professional standards by CPAs and their firms 	<ul style="list-style-type: none"> Meetings Attended: NASBA CAC/PROC: Meetings Scheduled: 1/11 KH
REVIEW OF OUT-OF-STATE ADMINISTERING ENTITIES <ul style="list-style-type: none"> Each year, review AICPA oversight visit reports for a selection of out-of-state administering entities 	<ul style="list-style-type: none"> Not yet scheduled
REVIEW SAMPLING OF PEER REVIEWS <ul style="list-style-type: none"> Perform sampling of peer review reports. 	<ul style="list-style-type: none"> See Administrative Site Visit
PEER REVIEWER TRAININGS <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Training Scheduled:
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	<ul style="list-style-type: none"> N/A
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA) <ul style="list-style-type: none"> Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program. 	<ul style="list-style-type: none"> Submitted to CBA:
CBA MEETINGS	<ul style="list-style-type: none"> Meetings Attended: Meetings Scheduled: 1/21-22, 3/17-18, 5/19-20, 7/21, 9/15-16, 11/17-18
ADDITIONAL ACTIVITIES	<ul style="list-style-type: none">

*Activities based on the December 9, 2015 PROC Agenda Item IV – Role of the PROC.



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PROC Item IV.A.
January 29, 2015

Discussion of the Draft 2015 PROC Annual Report

Presented by: Dominic Franzella, Chief, Enforcement Division

Consumer Protection Objectives

The purpose of this agenda item is to present the Peer Review Oversight Committee (PROC) with a draft of the 2015 PROC Annual Report (**Attachment 1**). Each year, the PROC presents its Annual Report to the California Board of Accountancy (CBA). The Annual Report includes information on various activities and accomplishments, information on the oversight functions it performs, and various statistical information.

The PROC Annual Report provides the CBA with an important initiative regarding the effectiveness and continued relevance of the California Peer Review Program, which is an important component to the CBA's consumer protection mandate.

Action(s) Needed

It is requested that the PROC review the updated draft 2015 PROC Annual Report and approve for presentation at the CBA's March 2016 meeting. If additional edits are necessary, staff recommend the PROC delegate authority to the PROC Chair to work with staff in making the necessary revisions.

Background

At the December 9, 2015 PROC meeting, members directed staff to make updates to the draft 2015 PROC Annual Report and provide a redline version (**Attachment 2**).

Comments

The 2015 PROC Annual Report will be presented to the CBA at its March 2016 meeting.

Fiscal/Economic Impact Considerations

There are no fiscal/economic impact considerations.

Recommendation

Staff recommend that the PROC review the updated draft 2015 PROC Annual Report and approve for presentation at the CBA's March 2016 meeting. If additional edits are necessary, staff recommend the PROC delegate authority to the PROC Chair to work with staff in making the necessary revisions.

Attachments

1. Draft 2015 PROC Annual Report to the CBA
2. Draft 2015 PROC Annual Report to the CBA (redline version)



CALIFORNIA BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT COMMITTEE
2015 Annual Report



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I. Message from the Committee Chair

I am pleased to present to the CBA the Peer Review Oversight Committee's (PROC) 2015 Annual Report. I would like to thank the CBA for its continued trust in my leadership and stewardship of the PROC by re-appointing me as Chair. I would also like to extend my sincerest appreciation to Ms. Sherry McCoy, CPA, who served a two-year term as Vice-Chair of the PROC. Ms. McCoy has served on the PROC since its inception and continues to serve the CBA and consumers of California forthrightly and conscientiously. Mr. Jeffrey De Lyser, CPA, will now transition to the role of Vice-Chair.

This year also represent the first time in almost two years that the PROC has had its full complement of members. With the appointments by the CBA of Mr. Kevin Harper, CPA, and Ms. Renee Graves, CPA, the PROC now has all seven members. I look forward to working with Mr. Harper and Ms. Graves and the other valuable members of the PROC to continue to improve the work of the PROC.

Even with the new appointments, an eye towards the future must be maintained. Four of the original PROC members are set to reach their maximum eight-year term in July and September 2017. With this in mind, I will be working with Patti Bowers, CBA Executive Officer, and her staff on a transition plan which will be designed to minimize the loss of institutional knowledge and services of the PROC.

The PROC's presence as an active oversight body continues to flourish and grow. In addition to performing its routine oversight functions, including its annual oversight of the California Society of CPAs administration of peer reviews conducted using the American Institute of CPAs (AICPA) Peer Review Program, I had the opportunity to personally attend and actively participate in two National Association of State Boards of Accountancy (NASBA) sponsored events.

In July 2015, Governor Brown approved an out-of-state travel request for my attendance and participation at the NASBA PROC Summit. I participated in a panel session, including an active question and answer session. This provided me the opportunity to share with other states and NASBA the activities and practices used in California and to hear how other oversight committees perform their respective roles. Additionally, I was able to attend NASBA's Western Regional and Annual Meetings. At both meetings, discussions on changes to peer review and audit quality were discussed.

Based on the information gathered during the PROC activities and my attendance at the two NASBA events, the PROC is expecting the landscape for peer reviews to change dramatically over the next several years. The beginning of these changes can be seen in the launching of the AICPA Enhancing Audit Quality initiative in 2014 and the release of the AICPA 6-Point Plan of implementation in 2015. These changes are certain to effect all CPAs performing attest functions.

On a final note, an area that the PROC would like to bring to the CBA's attention is

the limited pool of qualified peer reviewers. Over the course of the PROC's oversight activities the topic of the population of peer reviewers, including the recruitment of new peer reviewers, has been a consistent point of discussion. The PROC expects that the new changes being implemented by the AICPA to the peer review program have the potential to further constrict the ability to attract new qualified peer reviewers. While the PROC is responsible for ensuring that administering entities adequately train and monitor peer reviewers, recruitment falls outside of its present scope of activities.

Ensuring an adequate population of qualified peer reviewers is of paramount importance to ensuring the effectiveness, thoroughness, and timeliness of peer reviews. The PROC stands ready to assist in this area as the CBA may see fit.

I look forward to another successful year and the opportunity to serve the CBA together with the highly qualified members of the PROC and CBA staff.

Respectfully,

Robert Lee, CPA

II. Background

In 2009, the CBA sponsored Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010. AB 138 requires all California-licensed firms, including sole proprietorships, providing accounting and auditing services, to undergo a peer review once every three years as a condition of license renewal. Effective January 1, 2012, Senate Bill 543 (Chapter 448, Statutes of 2011) removed the sunset language included in the original enabling legislation, making mandatory peer review permanent in California. Peer review, as defined by Business and Professions Code (BPC) section 5076(b)(1), is a study, appraisal, or review conducted in accordance with professional standards of the professional work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the board in regulations. The peer review report shall be issued by an individual who has a valid and current license, certificate, or permit to practice public accountancy from this state or another state and is unaffiliated with the firm being reviewed.

III. PROC Responsibilities

The PROC derives its authority from BPC section 5076.1. The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The roles and responsibilities of the PROC, as defined by the CBA, are:

- Hold meetings as necessary in order to conduct business and report to the CBA

- regarding the effectiveness of mandatory peer review.
- Ensure that Board-recognized peer review program providers (Provider) administer peer reviews in accordance with the standards set forth in Title 16, California Code of Regulations (CCR) section 48:
 - Conduct an annual administrative site visit.
 - Attend peer review board meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Attend peer review committee meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Attend meetings conducted for the purposes of accepting peer review reports, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Conduct reviews of peer review reports on a sample basis.
 - Attend, on a regular basis, peer reviewer training courses.
- Evaluate any *Application to Become A Board-recognized Peer Review Provider* and recommend approval or denial to the CBA.
- Refer to the CBA any Provider that fails to respond to any request.
- Collect and analyze statistical monitoring and reporting data from each Provider on an annual basis.
- Prepare an Annual Report to the CBA regarding the results of its oversight.

IV. Committee Members

The PROC is comprised of seven members, all of whom must possess and maintain a valid and active license to practice public accountancy issued by the CBA. Members are appointed to two-year terms and may serve a maximum of four consecutive terms.

<u>Current members</u>	<u>Term Expiration Date</u>	<u>Maximum Term Date</u>
Robert Lee, CPA, Chair	September 30, 2017	September 30, 2017
Sherry McCoy, CPA, Vice-Chair	July 31, 2017	July 31, 2017
Katherine Allanson, CPA	July 31, 2017	July 31, 2017
Nancy J. Corrigan, CPA	July 31, 2017	July 31, 2017
Jeffrey De Lyser, CPA	March 31, 2017	March 31, 2021
Kevin Harper, CPA	March 31, 2017	March 31, 2023
Renee Graves, CPA	November 19, 2017	November 30, 2023

At its November 19, 2015 meeting the CBA re-appointed Robert Lee, CPA, as Chair and appointed Jeff De Lyser, CPA, as Vice-Chair of the PROC. Additionally, the CBA appointed two new members to the PROC, Kevin Harper, CPA, and Renee Graves, CPA. The PROC is now fully staffed.

V. Board-Recognized Peer Review Program Providers

American Institute of Certified Public Accountants (AICPA)

The AICPA Peer Review Program is currently the only CBA-recognized Peer

Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in Title 16, CCR section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA Peer Review Program provides for a triennial review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System Reviews are designed for firms that perform audits or other similar engagements. Engagement Reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

a. California Society of Certified Public Accountants (CalCPA)

CalCPA administers the AICPA Peer Review Program in California. As an administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's for Performing and Reporting on Peer Reviews (*Standards*). The CalCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews. CalCPA administers the largest portion of peer reviews to California-licensed firms.

b. National Peer Review Committee (NPRC)

The National Peer Review Committee (NPRC) administers the AICPA peer review program for firms that meet any of the following three 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.

The National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) provides oversight of the NPRC.

c. Other State Societies

California-licensed accountancy firms with their main office located in another state are required to have their peer review administered by AICPA's administering entity for that state. In most cases, the administering entity is the state CPA society in that state.

VI. Activities and Accomplishments

Following are the activities and accomplishments of the PROC during 2015.

a. Administrative Functions

i. Committee Meetings

The PROC holds meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.

The PROC held the following meetings:

- January 30, 2015 – Berkeley, CA
- May 1, 2015 – Los Angeles, CA
- August 21, 2015 – Sacramento, CA
- December 9, 2015 – San Diego, CA

A representative of the PROC attended five CBA meetings and reported on PROC activities.

ii. Oversight Checklists

The PROC has developed oversight checklists which serve to document the members' findings and conclusions after performing specific oversight activities. The present checklists, listed on the following page, are included in the PROC Procedures Manual and additional checklists will be developed as necessary. Members submit the completed checklists to the staff for future reference.

Present Checklists:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Peer Review Board Meeting Checklist
- Peer Review Program Provider Checklist
- Summary of Oversight of Out-of-State Peer Review Administering Entity
- Summary of Compliance Assurance Committee Meeting

iii. Approval of CBA-Recognized Peer Review Program Providers

At such time that the CBA receives an Application to Become a CBA-recognized Peer Review Program Provider, the PROC will review the application and documentation using the Peer Review Program Provider Checklist and determine if the program meets the requirements outlined in

Title 16, CCR section 48. Based on the review, the PROC will provide a recommendation to the CBA that the application be approved or denied.

iv. Withdrawal of Board Recognition of a Peer Review Program Provider

The PROC has not made any recommendations to the CBA concerning the withdrawal of CBA recognition of a peer review program provider.

b. Program Oversight

The PROC is charged with providing oversight of all CBA-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA. During 2015, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

i. AICPA

A. AICPA Peer Review Board (PRB)

The AICPA PRB is responsible for maintaining, furthering and governing the activities of the AICPA Peer Review Program, including the issuance of peer review standards, and peer review guidance, while being mindful of the profession's covenant to serve the public interest with integrity and objectivity.

During 2015, PROC members observed each AICPA PRB meeting as part of the PROC oversight activity.

B. AICPA Peer Review Program Annual Report on Oversight

The AICPA Annual Report on Oversight provides a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and concludes on whether the objectives of the oversight process were met.

The PROC reviewed the AICPA Annual Report on Oversight issued on September 30, 2014, for the calendar year 2013, at its January 2015 meeting. Based on the oversight procedures performed, the AICPA Oversight Task Force concluded that in all material respects (1) the administering entities were complying with the administrative procedures established by the AICPA, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all administering entities and peer review committees, and (4) the information provided via the Internet or other media by administering entities was accurate and timely.

C. AICPA Peer Review Board (PRB) Oversight Visit to CalCPA

Biennially, the AICPA PRB performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member from the AICPA PRB Oversight Task Force reviews files and interviews staff at the administrative office. In addition the member attends a peer review committee meeting and observes the report acceptance process of the committee members.

In the year where the AICPA PRB is not performing oversight, a member of the California Peer Review Committee (PRC) performs an administrative oversight. A report is issued and approved by the AICPA PRB.

The PROC reviewed an AICPA PRB approved report issued on May 4, 2015 of an oversight visit to the CalCPA conducted by a member of the PRC on November 19-21, 2014. The report had no findings or recommendations for the administration of the program. The next AICPA PRB oversight visit will be in 2016.

ii. CalCPA

A. CalCPA Peer Review Committee (PRC)

The CalCPA PRC is responsible for ensuring that the peer review program is performed in accordance with the standards and guidance issued by the AICPA's PRB. The CalCPA PRC meets in person twice a year. PROC members observe how the CalCPA PRC executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the State of California.

During 2015, PROC attended both CalCPA PRC meetings, which took place on May 22, 2015 in Laguna Beach, California and November 19-20, 2015 in Carmel, California.

B. CalCPA Report Acceptance Body (RAB)

The CalCPA holds multiple RAB meetings per year. The RAB meetings generally occur via conference call. RAB members review and present the peer review reports subject to discussion on a general call. PROC members observe how the RAB executes its duties in the meeting to determine whether the peer review process is operating effectively in the state of California.

During 2015, PROC members observed six RAB meetings.

C. CalCPA Peer Review Committee (PRC) Oversight Visit to CalCPA

In the year where the AICPA Peer Review Board is not performing oversight, a member of the California PRC performs an administrative oversight of CalCPA.

The PROC reviewed an AICPA PRB approved report issued on May 4, 2015 of an oversight visit to the CalCPA conducted by a member of the PRC on November 19-21, 2014. The report had no findings or recommendations for the administration of the program.

D. CalCPA Administrative Site Visit

The PROC is charged with conducting, at a minimum, an annual Administrative Site Visit of each Peer Review Program Provider to determine if the provider is administering peer reviews in accordance with the standards adopted by the CBA.

On August 12, 2015, the PROC reviewed CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA Standards, interpretations, and other guidance established by the CBA. The PROC's responsibility is to determine whether the peer review program complies with the minimum requirements for a Peer Review Program, pursuant to Title 16, CCR, section 48.

The following procedures were performed as part of the PROC's oversight responsibilities:

- Reviewed policies and procedures used by CalCPA to govern its peer review program process.
- Read correspondence and other available documentation from other oversight activities performed at CalCPA.
- Reviewed the RAB assignment binder.
- Reviewed a sample of peer review reports and associated files for review.
- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and selected a sample for inspection of resumes and other documentation.

E. CalCPA Sample Reviews

The PROC conducts reviews of peer reviews accepted by a provider on a sample basis. The review may include, but is not limited to, the peer review report; reviewers' working papers prepared or reviewed by the provider's peer review committee in association with the acceptance of

the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.

This oversight activity was completed on August 12, 2015, in conjunction with the Administrative Site Visit.

F. CalCPA Peer Reviewer Training

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews. The CalCPA Education Foundation offers two types of peer reviewer trainings. Each year, the CalCPA Education Foundation offers a two-day course for new peer reviewers and a one-day refresher course for existing peer reviewers.

During 2015, PROC members attended the one-day training course *AICPA Peer Review Program Advanced Course* on May 20, 2015.

G. CalCPA Annual Report on Oversight

The AICPA requires that each administering entity perform oversight of its peer review program every other year, alternating with the year that the AICPA conducts its oversight visit. CalCPA's Peer Review Administrative Committee (PRAC) monitors the oversight process. Each member of the PRAC has been approved by the Council of CalCPA and has current audit experience.

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2013, issued October 17, 2014. The oversight report summarizes the results of the mandated oversight of two percent of all reviews processed during the year and verification of the resumes and continuing professional education of one third of peer reviewers.

iii. NPRC

A. NASBA Compliance Assurance Committee (CAC)

The charge of the NASBA CAC is to promote effective oversight of compliance with professional standards by CPAs and their firms. As such, the focus of the NASBA CAC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to boards of accountancy – PROCs. The NASBA CAC provides oversight of the NPRC.

The PROC observed the NASBA CAC meeting held on May 13, 2015.

B. NASBA CAC Report on the AICPA NPRC

The PROC reviewed the NASBA CAC report on the AICPA NPRC dated June 15, 2015 at its August 2015 meeting. Based on the oral reports provided at each CAC meeting by the NASBA representatives serving as members on the AICPA NPRC, as well as reviewing the comprehensive oversight report prepared by the AICPA NPRC issued October 31, 2014 and the administrative oversight report issued by a third party on October 10, 2014, the NASBA CAC is satisfied and can report that the AICPA NPRC has operated appropriately for the period of November 1, 2013 to October 31, 2014.

iv. Other State Societies

A. Other State Societies

Most California-licensed accounting firms use CalCPA or AICPA NPRC to administer their peer reviews. There are some California-licensed firms that have their peer reviews administered by AICPA administering entities other than CalCPA and AICPA NPRC, meaning out-of-state CPA societies.

The PROC reviews, on a sample basis, the AICPA oversight visit reports as part of the oversight activity of out-of-state administrative entities each year. All AICPA oversight visit reports are reviewed and accepted by the AICPA PRB Oversight Task Force. For 2015, the PROC reviewed the AICPA's oversight reports for Washington, New York, Florida and Texas.

c. Other Activities

i. NASBA Western Regional Meeting

PROC Chair, Rober Lee, CPA, attended the June 17-19, 2015 NASBA Western Regional Meeting in Coronado, California. The meeting primarily focused on consumer protection and provided a forum to receive and share information regarding various topics, including peer review compliancy, the Uniform Accountancy Act, Uniform CPA Examination, the Accountancy License Database, education, and continuing professional education standards.

ii. NASBA 108th Annual Meeting

PROC Chair, Robert Lee, CPA, attended the NASBA October 25-28, 2015 108th Annual Meeting in Dana Point, California. Panelists discussed key elements of the exposure draft for the next version of the Uniform CPA Examination; how schools and accreditors are recognizing changes in

education; state boards' enforcement efforts and their response to the Department of Labor's findings; what state boards can do now to get the most out of the peer review program; ways to bring diversity into the profession; and updates on NASBA's activities.

iii. NASBA PROC Summit

The NASBA PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all boards of accountancy. The conference is intended to assist boards of accountancy in learning how to establish a new PROC and also share experiences among existing PROCs to help each board of accountancy be more effective with peer review oversight. Sessions and content are formed based on the most requested information by accountancy board members and PROC members considering the goals and objectives of the NASBA CAC.

PROC Chair, Robert Lee, CPA, received authorization to travel out-of-state to attend the NASBA PROC Summit held on July 10, 2015 in Nashville, Tennessee. He participated in a panel session and answered questions related to peer review. There were informational updates on the AICPA, release of a six-point plan to improve audit quality, the results of 90 surprise reviews, and a discussion about a May 1, 2016 reset of the educational material.

iv. U.S. Department of Labor (DOL)

The PROC reviewed, the Office of the Chief Accountant (OCA), Employee Benefit Security Administration (EBSA), U.S. DOL report titled, "Assessing the Quality of Employee Benefit Plan Audits," released on May 2015. The report assessed the level and quality of audits performed by CPAs of the Employee Retirement Income Security Act (ERISA) covered employee benefit plans.

VII. AICPA Exposure Draft on Standards for Performing and Reporting on Peer Reviews, *Improving Transparency and Effectiveness of Peer Review*.

On November 10, 2015, the AICPA released an exposure draft titled, "*Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review*" (AICPA Exposure Draft).

The proposed changes to the AICPA Standards issued by the PRB are as follows:

- Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer and Report Acceptance Body (RAB) responsibilities for nonconforming engagements.
- Enhance the peer review of the firm's system of quality control to better assist

the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and systemic weaknesses.

- Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation.
- Clarify the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies.
- Clarify the peer review report model and provide greater transparency on the results of the review.
- Clarify the required firm representations for System and Engagement Reviews.
- Clarify information the AICPA and administering entities may provide about a review to third parties.

At its December 9, 2015 meeting, the PROC discussed the AICPA Exposure Draft and made the following observations for presentation and consideration by the CBA at its January 2016 meeting:

- Places increased responsibility on firms being peer reviewed
- Offers information, including reforming future complementary and clarifying changes to come
- Shifts peer review to a more remedial environment
- Supportive of the clarifying changes

VIII. Statistics

The data in the following table reflects the number of peer review reports performed by the AICPA and CalCPA from 2011 through 2014 and provides perspective on the size of the peer review program in California. The table provides statistics based off the most recent approved CalCPA Peer Review Annual Report as of October 22, 2015 reporting data from 2014. The table does not include statistics for peer reviews accepted by the NPRC or out-of-state administering entities.

Results of Peer Reviews Performed During 2011-2014*					
Type of Review	2011	2012	2013	2014	Total
System	612	595	507	582	2,296
Engagement	1,118	1,265	1,102	1,077	4,562
Total	1,730	1,860	1,609	1,659	6,858

*Data received from CalCPA as of October 22, 2015 for 2011-2014.

IX. Observations

Based on PROC members' attendance at the various peer review bodies' meetings cited in this report, the PROC offers the following findings to the CBA.

AICPA

The PROC found the AICPA PRB to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and AICPA PRB members to execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

CalCPA

Through participation in PRC and RAB meetings, the PROC found the CalCPA to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and the CalCPA to execute their duties in a knowledgeable and professional manner under the importance of the peer review program to the accounting professions and the public that it serves.

NPRC

The PROC found the NPRC to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and the NPRC to execute their duties in a knowledgeable and professional manner under the importance of the peer review program to the accounting professions and the public that it serves.

X. Conclusions

Based on its oversight activities, the PROC concluded that the AICPA Peer Review Program, including its administering entities, CalCPA and NPRC, function effectively. The PROC recommends that the CBA continue to recognize the AICPA Peer Review Program as a Board-recognized Peer Review Program Provider.



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I. Message from the Committee Chair

I am pleased to present to the CBA the Peer Review Oversight Committee's (PROC) 2015 Annual Report. I would like to thank the CBA for its continued trust in my leadership and stewardship of the PROC by re-appointing me as Chair. I would also like to extend my sincerest appreciation to Ms. Sherry McCoy, CPA, who served a two-year term as Vice-Chair of the PROC. Ms. McCoy has served on the PROC since its inception and continues to serve the CBA and consumers of California forthrightly and conscientiously. Mr. Jeffrey De Lyser, CPA, will now transition to the role of Vice-Chair.

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Even with the new appointments, an eye towards the future must be maintained. Four of the original PROC members are set to reach their maximum eight-year term in July and September 2017. With this in mind, I will be working with Patti Bowers, CBA Executive Officer, and her staff on a transition plan which will be designed to minimize the loss of institutional knowledge and services of the PROC.

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The PROC's presence as an active oversight body continues to flourish and grow. In addition to performing its routine oversight functions, including its annual oversight of the California Society of CPAs administration of peer reviews conducted using the American Institute of CPAs (AICPA) Peer Review Program, I had the opportunity to personally attend and actively participate in two National Association of State Boards of Accountancy (NASBA) sponsored events.

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In July 2015, Governor Brown approved an out-of-state travel request for my attendance and participation at the NASBA PROC Summit. I participated in a panel session, including an active question and answer session. This provided me the opportunity to share with other states and NASBA the activities and practices used in California and to hear how other oversight committees perform their respective roles. Additionally, I was able to attend NASBA's Western Regional and Annual Meetings. At both meetings, discussions on changes to peer review and audit quality were discussed.

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Based on the information gathered during the PROC activities and my attendance at the two NASBA events, the PROC is expecting the landscape for peer reviews to change dramatically over the next several years. The beginning of these changes can be seen in the launching of the AICPA Enhancing Audit Quality initiative in 2014 and the release of the AICPA 6-Point Plan of implementation in 2015. These changes are certain to effect all CPAs performing attest functions.

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On a final note, an area that the PROC would like to bring to the CBA's attention is

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the limited pool of qualified peer reviewers. Over the course of the PROC's oversight activities the topic of the population of peer reviewers, including the recruitment of new peer reviewers, has been a consistent point of discussion. The PROC expects that the new changes being implemented by the AICPA to the peer review program have the potential to further constrict the ability to attract new qualified peer reviewers. While the PROC is responsible for ensuring that administering entities adequately train and monitor peer reviewers, recruitment falls outside of its present scope of activities.

Ensuring an adequate population of qualified peer reviewers is of paramount importance to ensuring the effectiveness, thoroughness, and timeliness of peer reviews. The PROC stands ready to assist in this area as the CBA may see fit.

I look forward to another successful year and the opportunity to serve the CBA together with the highly qualified members of the PROC and CBA staff.

Respectfully,

Robert Lee, CPA
Currently being updated.

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II. Background

In 2009, the CBA sponsored Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010. AB 138 requires all California-licensed firms, including sole proprietorships, providing accounting and auditing services, to undergo a peer review once every three years as a condition of license renewal. Effective January 1, 2012, Senate Bill 543 (Chapter 448, Statutes of 2011) removed the sunset language included in the original enabling legislation, making mandatory peer review permanent in California. Peer review, as defined by Business and Professions Code (BPC) section 5076(b)(1), is a study, appraisal, or review conducted in accordance with professional standards of the professional work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the board in regulations. The peer review report shall be issued by an individual who has a valid and current license, certificate, or permit to practice public accountancy from this state or another state and is unaffiliated with the firm being reviewed.

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III. PROC Responsibilities

The PROC derives its authority from BPC section 5076.1. The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The roles and responsibilities of the PROC, as defined by the CBA, are:

- Hold meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.
- Ensure that Board-recognized peer review program providers (Provider) administer peer reviews in accordance with the standards set forth in Title 16, California Code of Regulations (CCR) section 48:
 - Conduct an annual administrative site visit.
 - Attend peer review board meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Attend peer review committee meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Attend meetings conducted for the purposes of accepting peer review reports, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Conduct reviews of peer review reports on a sample basis.
 - Attend, on a regular basis, peer reviewer training courses.
- Evaluate any *Application to Become A Board-recognized Peer Review Provider* and recommend approval or denial to the CBA.
- Refer to the CBA any Provider that fails to respond to any request.
- Collect and analyze statistical monitoring and reporting data from each Provider on an annual basis.
- Prepare an Annual Report to the CBA regarding the results of its oversight.

IV. Committee Members

The PROC is comprised of seven members, all of whom must possess and maintain a valid and active license to practice public accountancy issued by the CBA. Members are appointed to two-year terms and may serve a maximum of four consecutive terms.

<u>Current members</u>	<u>Term Expiration Date</u>	<u>Maximum Term Date</u>
Robert Lee, CPA, Chair	September 30, 2017	September 30, 2017
Sherry McCoy, CPA, Vice-Chair	July 31, 2017	July 31, 2017
Katherine Allanson, CPA	July 31, 2017	July 31, 2017
Nancy J. Corrigan, CPA	July 31, 2017	July 31, 2017
Jeffrey De Lyser, CPA	March 31, 2017	March 31, 2021
Kevin Harper, CPA	March 31, 2017	March 31, 2023
Renee Graves, CPA	November 19, 2017	November 30, 2023

At its November 19, 2015 meeting the CBA re-appointed Robert Lee, CPA, as Chair and appointed Jeff De Lyser, CPA, as Vice-Chair of the PROC. Additionally, the CBA appointed two new members to the PROC, Kevin Harper, CPA, and Renee Graves, CPA. The PROC is now fully staffed.

V. Board-Recognized Peer Review Program Providers

American Institute of Certified Public Accountants (AICPA)

The AICPA Peer Review Program is currently the only CBA-recognized Peer Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in Title 16, CCR section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA Peer Review Program provides for a triennial review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System Reviews are designed for firms that perform audits or other similar engagements. Engagement Reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

a. California Society of Certified Public Accountants (CalCPA)

CalCPA administers the AICPA Peer Review Program in California. As an administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's for Performing and Reporting on Peer Reviews (*Standards*). The CalCPA Peer Review Committee (PRC) monitors the

administration, acceptance, and completion of peer reviews. CalCPA administers the largest portion of peer reviews to California-licensed firms.

b. National Peer Review Committee (NPRC)

The National Peer Review Committee (NPRC) administers the AICPA peer review program for firms that meet any of the following three 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.

The National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) provides oversight of the NPRC.

c. Other State Societies

California-licensed accountancy firms with their main office located in another state are required to have their peer review administered by AICPA's administering entity for that state. In most cases, the administering entity is the state CPA society in that state.

VI. Activities and Accomplishments

Following are the activities and accomplishments of the PROC during 2015.

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a. Administrative Functions

i. Committee Meetings

The PROC holds meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.

The PROC held the following meetings:

- January 30, 2015 – Berkeley, CA
- May 1, 2015 – Los Angeles, CA
- August 21, 2015 – Sacramento, CA
- December 9, 2015 – San Diego, CA

A representative of the PROC attended ~~each of the~~ five CBA meetings and ~~to report~~ed on PROC activities.

ii. Oversight Checklists

The PROC has developed oversight checklists which serve to document the members' findings and conclusions after performing specific oversight activities. The present checklists, listed on the following page, are included in the PROC Procedures Manual and additional checklists will be developed as necessary. Members submit the completed checklists to the staff for future reference.

Present Checklists:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Peer Review Board Meeting Checklist
- Peer Review Program Provider Checklist
- Summary of Oversight of Out-of-State Peer Review Administering Entity
- Summary of Compliance Assurance Committee Meeting

iii. Approval of CBA-Recognized Peer Review Program Providers

At such time that the CBA receives an Application to Become a CBA-recognized Peer Review Program Provider, the PROC will review the application and documentation using the Peer Review Program Provider Checklist and determine if the program meets the requirements outlined in Title 16, CCR section 48. Based on the review, the PROC will provide a recommendation to the CBA that the application be approved or denied.

iv. Withdrawal of Board Recognition of a Peer Review Program Provider

The PROC has not made any recommendations to the CBA concerning the withdrawal of CBA recognition of a peer review program provider.

b. Program Oversight

The PROC is charged with providing oversight of all CBA-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA. During 2015, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

i. AICPA

A. AICPA Peer Review Board (PRB)

The AICPA PRB is responsible for maintaining, furthering and governing the activities of the AICPA Peer Review Program, including the issuance

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of peer review standards, and peer review guidance, while being mindful of the profession's covenant to serve the public interest with integrity and objectivity.

During 2015, PROC members observed ~~each five~~ AICPA PRB meetings as part of the PROC oversight activity.

B. AICPA Peer Review Program Annual Report on Oversight

The AICPA Annual Report on Oversight provides a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and concludes on whether the objectives of the oversight process were met.

The PROC reviewed the AICPA Annual Report on Oversight issued on September 30, 2014, for the calendar year 2013, at its January 2015 meeting. Based on the oversight procedures performed, the AICPA Oversight Task Force concluded that in all material respects (1) the administering entities were complying with the administrative procedures established by the AICPA, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all administering entities and peer review committees, and (4) the information provided via the Internet or other media by administering entities was accurate and timely.

C. AICPA Peer Review Board (PRB) Oversight Visit to CalCPA

Biennially, the AICPA PRB performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member from the AICPA PRB Oversight Task Force reviews files and interviews staff at the administrative office. In addition the member attends a peer review committee meeting and observes the report acceptance process of the committee members.

In the year where the AICPA PRB is not performing oversight, a member of the California Peer Review Committee (PRC) performs an administrative oversight. A report is issued and approved by the AICPA PRB.

The PROC reviewed an AICPA PRB approved report issued on May 4, 2015 of an oversight visit to the CalCPA conducted by a member of the PRC on November 19-21, 2014. The report had no findings or recommendations for the administration of the program. The next AICPA PRB oversight visit will be in 2016.

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ii. CalCPA

A. CalCPA Peer Review Committee (PRC)

The CalCPA PRC is responsible for ensuring that the peer review program is performed in accordance with the standards and guidance issued by the AICPA's PRB. The CalCPA PRC meets in person twice a year. PROC members observe how the CalCPA PRC executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the State of California.

During 2015, PROC members attended ~~both~~ two CalCPA PRC meetings, ~~which. The two meetings~~ took place on May 22, 2015 in Laguna Beach, California and November 19-20, 2015 in Carmel, California.

B. CalCPA Report Acceptance Body (RAB)

The CalCPA holds multiple RAB meetings per year. The RAB meetings generally occur via conference call. RAB members review and present the peer review reports subject to discussion on a general call. PROC members observe how the RAB executes its duties in the meeting to determine whether the peer review process is operating effectively in the state of California.

During 2015, PROC members observed six RAB meetings, ~~four via teleconference and two in-person.~~

C. CalCPA Peer Review Committee (PRC) Oversight Visit to CalCPA

In the year where the AICPA Peer Review Board is not performing oversight, a member of the California PRC performs an administrative oversight of CalCPA.

The PROC reviewed an AICPA PRB approved report issued on May 4, 2015 of an oversight visit to the CalCPA conducted by a member of the PRC on November 19-21, 2014. The report had no findings or recommendations for the administration of the program.

D. CalCPA Administrative Site Visit

The PROC is charged with conducting, at a minimum, an annual Administrative Site Visit of each Peer Review Program Provider to determine if the provider is administering peer reviews in accordance with the standards adopted by the CBA.

On August 12, 2015, the PROC reviewed CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA

Standards, interpretations, and other guidance established by the CBA. The PROC's responsibility is to determine whether the peer review program complies with the minimum requirements for a Peer Review Program, pursuant to Title 16, CCR, section 48.

The following procedures were performed as part of the PROC's oversight responsibilities:

- Reviewed policies and procedures used by CalCPA to govern its peer review program process.
- Read correspondence and other available documentation from other oversight activities performed at CalCPA.
- Reviewed the RAB assignment binder.
- ~~Reviewed~~**Selected** a sample of peer review reports and associated files for review.
- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and selected a sample for inspection of resumes and other documentation.

DD. CalCPA Sample Reviews

The PROC conducts reviews of peer reviews accepted by a provider on a sample basis. The review may include, but is not limited to, the peer review report; reviewers' working papers prepared or reviewed by the provider's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.

This oversight activity was completed on August 12, 2015, in conjunction with the Administrative Site Visit.

EE. CalCPA Peer Reviewer Training

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews. The CalCPA Education Foundation offers two types of peer reviewer trainings. Each year, the CalCPA Education Foundation offers a two-day course for new peer reviewers and a one-day refresher course for existing peer reviewers.

During 2015, PROC members attended the one-day training course *AICPA Peer Review Program Advanced Course* on May 20, 2015.

FG. CalCPA Annual Report on Oversight

The AICPA requires that each administering entity perform oversight of its peer review program every other year, alternating with the year that the AICPA conducts its oversight visit. CalCPA's Peer Review Administrative Committee (PRAC) monitors the oversight process. Each member of the PRAC has been approved by the Council of CalCPA and has current audit experience.

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2013, issued October 17, 2014. The oversight report summarizes the results of the mandated oversight of two percent of all reviews processed during the year and verification of the resumes and continuing professional education of one third of peer reviewers.

~~G. Oversight Visit Report of CalCPA~~

~~In years when the AICPA Peer Review Board does not perform oversight of the CalCPA, a member of the CalCPA PRC performs an Administrative Oversight Visit.~~

~~The PROC reviewed the report of the Administrative Oversight Visit to the CalCPA conducted by PRC Chair David E. Vaughn, CPA on November 19-21, 2014. The report had no findings or recommendations for the administration of the program.~~

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iii. NPRC

A. NASBA Compliance Assurance Committee (CAC)

The charge of the NASBA CAC is to promote effective oversight of compliance with professional standards by CPAs and their firms. As such, the focus of the NASBA CAC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to boards of accountancy – PROCs. The NASBA CAC provides oversight of the NPRC.

The PROC observed the NASBA CAC meeting held on May 13, 2015, ~~via teleconference.~~

B. NASBA CAC Report on the AICPA NPRC

The PROC reviewed the NASBA CAC report on the AICPA NPRC dated June 15, 2015 at its August 2015 meeting. ~~During the period November 1, 2013 through October 31, 2014 two former state board members sat as members on the AICPA NPRC. These members~~

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~~participated in 13 of the 25 RAB meetings held during this time period which represented 52 percent of the total RABs.~~

Based on the oral reports provided at each CAC meeting by the NASBA representatives serving as members on the AICPA NPRC, as well as reviewing the comprehensive oversight report prepared by the AICPA NPRC issued October 31, 2014 and the administrative oversight report issued by a third party on October 10, 2014, the NASBA CAC is satisfied and can report that the AICPA NPRC has operated appropriately for the period of November 1, 2013 to October 31, 2014.

iv. Other State Societies

A. Other State Societies

Most California-licensed accounting firms use CalCPA or AICPA NPRC to administer their peer reviews. There are some California-licensed firms that have their peer reviews administered by AICPA administering entities other than CalCPA and AICPA NPRC, meaning out-of-state CPA societies.

The PROC reviews on a sample basis the AICPA oversight visit reports as part of the oversight activity of out-of-state administrative entities each year. All AICPA oversight visit reports are reviewed and accepted by the AICPA PRB Oversight Task Force. For 2015, the PROC reviewed the AICPA's oversight reports for Washington, ~~Arizona~~New York, Florida and Texas.

c. Other Activities

i. NASBA Western Regional Meeting

PROC Chair, Rober Lee, CPA, attended the June 17-19, 2015 NASBA Western Regional Meeting in Coronado, California. The meeting primarily focused on consumer protection and provided a forum to receive and share information regarding various topics, including peer review compliancy, the Uniform Accountancy Act, Uniform CPA Examination, the Accountancy License Database, education, and continuing professional education standards.

ii. NASBA 108th Annual Meeting

PROC Chair, Robert Lee, CPA, attended the NASBA October 25-28, 2015 108th Annual Meeting in Dana Point, California. Panelists discussed key elements of the exposure draft for the next version of the Uniform CPA Examination; how schools and accreditors are recognizing changes in education; state boards' enforcement efforts and their response to the Department of Labor's findings; what state boards can do now to get the

most out of the peer review program; ways to bring diversity into the profession; and updates on NASBA's activities.

iii. NASBA PROC Summit

The NASBA PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all boards of accountancy. The conference is intended to assist boards of accountancy in learning how to establish a new PROC and also share experiences among existing PROCs to help each board of accountancy be more effective with peer review oversight. Sessions and content are formed based on the most requested information by accountancy board members and PROC members considering the goals and objectives of the NASBA CAC.

PROC Chair, Robert Lee, CPA, received authorization to travel out-of-state to attend the NASBA PROC Summit held on July 10, 2015 in Nashville, Tennessee. He participated in a panel session and answered questions related to peer review. There were informational updates on the AICPA, release of a six-point plan to improve audit quality, the results of 90 surprise reviews, and a discussion about a May 1, 2016 reset of the educational material.

iv. U.S. Department of Labor (DOL)

The PROC reviewed, the Office of the Chief Accountant (OCA), Employee Benefit Security Administration (EBSA), U.S. DOL report titled, "Assessing the Quality of Employee Benefit Plan Audits," released on May 2015. The report assessed the level and quality of audits performed by CPAs of the Employee Retirement Income Security Act (ERISA) covered employee benefit plans.

~~The report made the following findings, conclusion, and recommendations:~~

~~—~~

~~Findings: The accounting professions peer review and practice monitoring efforts have not resulted in improved audit quality or improved identification of deficient audit engagements. In four of the six audit strata, a substantial number of CPA firms received an acceptable peer review report, yet had deficiencies in the audit work that the EBSA reviewed.~~

~~Conclusion: The Practice Monitoring Peer Review process established by the AICPA and administered by sponsoring state CPA societies does not appear to be an effective tool in identifying deficient plan audit work and ensuring compliance with professional standards. While selecting an employee benefit plan audit is a required part of the~~

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~~peer review process (where applicable), CPAs who performed deficient audits often received acceptable peer review reports.~~

~~Recommendations: Work with the AICPA's Peer Review staff:~~

- ~~• to streamline the peer review process and make it more responsive in helping to improve employee benefit plan audit quality.~~
- ~~• to ensure that CPAs who are required to undergo a peer review have in fact had an acceptable peer review.~~
- ~~• to identify those CPAs who have not received an acceptable peer review and refer those practitioners to the applicable state licensing boards of accountancy.~~

~~The AICPA conducted a matching program and determined that some firms may not have appropriately identified the performance of ERISA pension plan audits prior to the completion of the firm's peer review. As such, these types of engagements may not have been reviewed during the peer review.~~

~~The AICPA was found to be responsive to the DOL's concerns. The AICPA-PRB approved new guidance requiring that an administrative entity "recall its acceptance letter when notified by staff that the peer review report is not correct in all material respects. The peer review information and peer review documents must be removed from view on Facilitated State Board Access, and the administering entity must notify the applicable state board(s) of accountancy of information allowed by the guidance."~~

VII. AICPA Exposure Draft on Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review.

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~~On November 10, 2015, the AICPA released an exposure draft titled, "Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review" (AICPA Exposure Draft).~~

~~The proposed changes to the AICPA Standards issued by the PRB as follows:~~

- ~~• Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer and Report Acceptance Body (RAB) responsibilities for nonconforming engagements.~~
- ~~• Enhance the peer review of the firm's system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and systemic weaknesses.~~
- ~~• Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation.~~
- ~~• Clarify the guidance for drafting descriptions of findings, deficiencies, and~~

significant deficiencies.

- Clarify the peer review report model and provide greater transparency on the results of the review.
- Clarify the required firm representations for System and Engagement Reviews.
- Clarify information the AICPA and administering entities may provide about a review to third parties.

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The CBA will consider the exposure draft at its January 2016 meeting. For that meeting staff will prepare a review of the statements adjust the CBA's existing rules and regulations. Additionally, staff will include any input from the PROC as a result of its discussion at the December 9, 2015 meeting (In direction received from PROC members regarding the exposure draft will be included for members' review at the January 2016 meeting).

At its December 9, 2015 meeting, the PROC discussed the AICPA Exposure Draft and made the following observations for presentation and consideration by the CBA at its January 2016 meeting:

- Places increased responsibility on firms being peer reviewed
- Offers information, including reforming future complementary and clarifying changes to come
- Shifts peer review to a more remedial environment
- Supportive of the clarifying changes

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VIII. Statistics

The data in the following table reflects the number of peer review reports accepted-performed by the AICPA and CalCPA from 201~~12~~ through 201~~45~~ and provides perspective on the size of the peer review program in California. The table provides statistics based off the most recent approved CalCPA Peer Review Annual Report as of October 22, 2015 reporting data from 2014. The table does not include statistics for peer reviews accepted by the NPRC or out-of-state administering entities.

Peer Review Reports Accepted by the CalCPA*					
Type of Review	201 12	201 23	201 34	201 45	Total
System	648 612	595 517	507	582	2,254 296
Engagement	1,118 253	1,265 484	1,102	1,077	4,616 562
Total	1,730 904	1,860 704	1,609	1,659	6,870 858

*Data received from CalCPA as of October 22, 2015

VIII. AICPA Exposure Draft on Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review.

~~On November 10, 2015, the AICPA released an exposure draft titled, "Proposed~~

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~~Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review.”~~

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~~The proposed changes to the AICPA Standards issued by the PRB as follows:-~~

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- ~~• Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer and Report Acceptance Body (RAB) responsibilities for nonconforming engagements.~~
- ~~• Enhance the peer review of the firm’s system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and systemic weaknesses.~~
- ~~• Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation.~~
- ~~• Clarify the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies.~~
- ~~• Clarify the peer review report model and provide greater transparency on the results of the review.~~
- ~~• Clarify the required firm representations for System and Engagement Reviews.~~
- ~~• Clarify information the AICPA and administering entities may provide about a review to third parties.~~

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~~The CBA will consider the exposure draft at its January 2016 meeting. For that meeting staff will prepare a review of the statements adjust the CBA’s existing rules and~~

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~~regulations. Additionally, staff will include any input from the PROC as a result of its discussion at the December 9, 2015 meeting (In direction received from PROC members regarding the exposure draft will be included for members' review at the January 2016 meeting).~~

IX. Observations Findings

Based on PROC members' attendance at the various peer review bodies' meetings cited in this report, the PROC offers the following findings to the CBA.

AICPA

The PROC found the AICPA PRB to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and AICPA PRB members to execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

CalCPA

~~Through participation in PRC and RAB meetings, the PROC found the CalCPA to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and the CalCPA to execute their duties in a knowledgeable and professional manner under the importance of the peer review program to the accounting professions and the public that it serves.~~

~~The PROC found the CalCPA PRC met expectations concerning knowledge of peer review acceptance procedures and corrective/monitoring actions. Through participation in six RAB meetings, the PROC found RAB members met expectations concerning knowledge of technical and procedural matters.~~

NPRC

~~The PROC found the NPRC to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and the NPRC to execute their duties in a knowledgeable and professional manner under the importance of the peer review program to the accounting professions and the public~~

that it serves.

~~In 2014, the PROC began participating in NASBA CAC meetings and reviewing summaries of CAC meetings not open to PROC members.~~

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X. Conclusions

Based on its oversight activities, the PROC concluded that the AICPA Peer Review Program, including its administering entities, CalCPA and NPRC, function effectively. The PROC recommends that the CBA continue to recognize the AICPA Peer Review Program as a Board-recognized Peer Review Program Provider.



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PROC Item IV.B.
January 29, 2016

Discussion on the AICPA Peer Review Program National Peer Review Committee 2014 Annual Report on Oversight

Presented by: Dominic Franzella, Chief Enforcement Division

Consumer Protection Objectives

The purpose of the agenda item is to provide Peer Review Oversight Committee (PROC) with the American Institute of CPAs (AICPA) National Peer Review Committee (NPRC) 2014 Annual Report on Oversight (Report), issued October 22, 2015 (**Attachment**). The Report provides the PROC with important statistics and information pertaining to the AICPA peer review program providers. Ensuring the effectiveness of the AICPA peer review program is important to ensuring the effectiveness of California's peer review requirement and directly relates to the CBA's mission of consumer protection

Action(s) Needed

This specific article is required on the agenda item.

Background

In October 2015, the NPRC issued its most recent Annual Report on Oversight. The report is intended to provide statistics and information about the NPRC's 2012-2014 oversight years.

Comments

The statistical information presented in the Report pertains to peer reviews that commenced and were performed during the calendar years 2012-2014.

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

It is recommended that members review the Report prior to the January 29, 2016 PROC meeting and be prepared to discuss.

Attachment

AICPA Peer Review Program National Peer Review Committee 2014 Annual Report on Oversight, issued October 22, 2015



Peer Review Program

National Peer Review Committee

2014 Annual Report on Oversight

Issued October 22, 2015

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of the forty-one 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 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 2014, 2013 and 2012 oversight years, which are more fully discussed in the following text, but also discusses the history, background, composition, and procedures of the National PRC as they differ substantially from those of the other forty one AEs. 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 www.aicpa.org/INTERESTAREAS/PEERREVIEW/RESOURCES/TRANSPARENCY/Pages/default.aspx. The Annual Report provides further background information on the AICPA PRP, including an overview of the AICPA PRP, definitions of terminology used in this report (such as *system* and *engagement review*; *pass*, *pass with deficiency*, and *fail reports*; and *engagements not being performed 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, 52 licensing jurisdictions have adopted mandatory peer review requirements. Many require that their licensees submit certain peer review documents as a condition of licensure. In order to assist firms in complying with state board peer review document submission requirements, the AICPA created a process called Facilitated State Board Access (FSBA). Through FSBA firms may grant permission to their administering entity to allow access to certain peer review documents (listed below) to state boards through a state-board-only access website. Permission is granted through various opt out and opt in procedures. Some state boards now require their licensees to participate in 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 is comprised of between fifteen to seventeen members who are public practitioners. Two of the members of the National PRC 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 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 Senior Vice President, Public Practice and Global Alliances; Vice President, Ethics and Practice Quality; Directors; and an appropriate number of qualified senior technical managers, technical managers, and administrative staff to support the activities of the National PRC and its task forces and subcommittees. The staff assists the members of the National PRC and its task forces and subcommittees in their responsibilities. The staff also assists in administration, presentation of reviews for acceptance, resolving reviewed firm/peer reviewer issues, and the oversight of processes. Additionally, the staff may be involved in other projects in cooperation with other teams at the AICPA. The National PRC is supported by all the AICPA peer review program staff.

Firms Administered by the National PRC

Firms whose peer reviews are administered by the National PRC range from sole practitioners to the largest CPA firms (see the following table). 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 30, 2015

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	30	4.52%	6,786	25.23%
2 to 5	78	11.76%	11,872	44.14%
6 to 10	87	13.12%	4,755	17.68%
11 to 19	99	14.93%	2,028	7.54%
20 to 49	141	21.27%	1,036	3.85%
50 to 99	102	15.38%	260	.97%
100 to 199	58	8.75%	82	.30%
200 to 299	24	3.62%	31	.12%
300 to 399	11	1.66%	12	.04%
400 to 999	17	2.56%	18	.07%
1,000 to 9,999	12	1.78%	12	.04%
10,000 +	4	.59%	4	.01%
Total Enrolled Firms	663	100.00%	26,896	100.00%

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

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

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.

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 technical and concurring reviews cover a majority of the items reviewed during desk reviews generally conducted by the AICPA.

The National PRC as a whole serves as the RAB for the peer reviews of firms meeting certain criteria. However, the majority of peer reviews are presented via semimonthly conference calls to smaller RABs, typically comprising approximately five National PRC members (excluding the National PRC chair and the PRB chair if also on the National PRC, due to their other peer review responsibilities). 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 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 predominately performed on-site during review fieldwork by the National PRC's technical staff and outside consultants, if necessary. Procedures include, but are not limited to, the review of

planning (risk assessment, scope, and engagement selection); selecting a sample of engagements reviewed and reperforming the steps on the peer review engagement 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. 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.

Oversight of the Peer Reviews and Reviewers

The PRB has mandated that, at a minimum, each AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time. That 2 percent must be comprised of at least 2 system and 2 engagement peer reviews. In addition, a minimum of 2 system reviews must be conducted on-site. The National PRC's goal is to perform oversight of between 8% and 10% of all reviews performed in a calendar year. In addition, National PRC staff or RABs may choose to select additional reviews for off-site oversight prompted by issues identified during the technical review or acceptance process. These may be partial oversights (selected engagement or procedures) or full working paper oversights.

<u>Type</u>	<u>National PRC Oversight Conducted</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
On-site by panel (see following section) or presented to full committee	11	9	3
Other on-site	11	10	11
Off-site	5	2	5
Total	<u>27</u>	<u>21</u>	<u>19</u>
% of peer reviews conducted during year	14.13%	10.50%	10.20%

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 67 oversights conducted in the past three years, National PRC staff and committee members interacted with 50 peer reviewers serving in the capacity of team captain. These 50 team captains served in that role in 302 of the 735 reviews administered by the National PRC during 2012, 2013 and 2014. 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.

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 orally reports to the National PRC at its meetings to provide updates on the status of the review. Once the review is complete, the panel chair presents the review and the panel's conclusions, including whether the panel recommends its acceptance, to the National PRC, if applicable.

Administrative Oversight

A review of the administrative functions of the National PRC was conducted in October 2015, 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 internal review encompassed the calendar year ending December 31, 2014. The review was performed by two members of the National PRC Oversight Task Force. Biannually the review is conducted by an independent external party who is familiar with the National PRC's Policies and Procedures Manual.

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 National PRC Oversight Task Force has issued a letter to the National PRC discussing the purpose and scope of the oversight visit. The letter indicated the following finding that required a written response.

- 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 has evaluated this finding and responded as follows:

- The Operations Manager will retrain administrative staff on the importance for maintaining the confidentiality letters for all NPRC members and the process by which this should be accomplished.

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

In 2013 the review was performed by Jerry Hensley. The observation resulting from the external inspection is summarized as follows:

There was a time lag between dates of receipt of working papers from team captains to the date reviews were assigned to technical reviewers. Eight reviews were 30 days or greater, however all reviews were timely considered by the RABs.

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

All related letters and responses are available online at:

<http://www.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, 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>2014</u>	<u>2013</u>	<u>2012</u>
Suspended for noncooperation with verification process	6	5	5
Voluntarily removed/became inactive	19	14	13
Verified	74	92	38
Total	<u>99</u>	<u>111</u>	<u>56</u>
% of National PRC reviewers selected for verification	30%	38%	25%

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 2014

	National PRC^{5,6}		AICPA Peer Review Program⁷	
	Number	% of Subtotal	Number	% of Subtotal
<u>System Reviews:</u>				
Pass	195	95.59%	3,249	81.45%
Pass with deficiencies	6	2.94%	508	12.74%
Fail	3	1.47%	232	5.82%
Subtotal – System	204	100.00%	3,989	100.00%
<u>Engagement Reviews:</u>				
Pass	9	75.00%	3,968	86.51%
Pass with deficiencies	1	8.33%	468	10.20%
Fail	2	16.67%	151	3.29%
Subtotal – Engagement	12	100.00%	4,587	100.00%

⁵ Data as of July 23, 2015.

⁶ Includes 8 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 6 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 23, 2015.

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

	National PRC ^{3,8}		AICPA Peer Review Program ⁵	
	Number	% of Subtotal	Number	% of Subtotal
<u>System Reviews:</u>				
Pass	183	93.37%	3,023	84.16%
Pass with deficiencies	9	4.59%	435	12.11%
Fail	4	2.04%	134	3.73%
Subtotal – System	196	100.00%	3,592	100.00%
<u>Engagement Reviews:</u>				
Pass	4	100.00%	3,673	78.10%
Pass with deficiencies	0	- %	765	16.27%
Fail	0	- %	265	5.63%
Subtotal – Engagement	4	100.00%	4,703	100.00%

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2012

	National PRC ^{3,9}		AICPA Peer Review Program ⁵	
	Number	% of Subtotal	Number	% of Subtotal
<u>System Reviews:</u>				
Pass	175	93.58%	3,970	87.93%
Pass with deficiencies	9	4.81%	420	9.30%
Fail	3	1.61%	125	2.77%
Subtotal – System	187	100.00%	4,515	100.00%
<u>Engagement Reviews:</u>				
Pass	4	80.00%	3,752	74.49%
Pass with deficiencies	0	- %	943	18.72%
Fail	1	20.00%	342	6.79%
Subtotal – Engagement	5	100.00%	5,037	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 administers fewer peer reviews in which a report other than pass is issued by the nature of its firm population.

⁸ Includes 5 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.

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

	National PRC^{3,4}	AICPA Peer Review Program⁵
Leadership responsibilities for quality within the firm	1	109
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	-	27
Engagement performance	7	572
Human resources	2	136
Acceptance and continuance of client relationships and specific engagements	2	78
Monitoring	5	331
Totals	17	1,253

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

	National PRC^{6,7}	AICPA Peer Review Program⁸
Leadership responsibilities for quality within the firm	-	51
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	-	10
Engagement performance	7	483
Human resources	1	94
Acceptance and continuance of client relationships and specific engagements	1	53
Monitoring	3	232
Totals	12	923

Number and Reasons for Deficiencies/Significant Deficiencies in the Year 2012

	National PRC^{6,7}	AICPA Peer Review Program⁸
Leadership responsibilities for quality within the firm	-	60
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	-	12
Engagement performance	10	462
Human resources	2	93
Acceptance and continuance of client relationships and specific engagements	1	41
Monitoring	3	231
Totals	16	899

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 39, 28, and 29 corrective actions for 2014, 2013 and 2012, respectively. The National PRC required a wide variety of corrective actions, such as, agreement to take or submit proof of certain continuing professional education, agreement to preissuance reviews, agreement to hire a consultant for inspections, oversight of inspections via an acceptable third party, and oversight of inspections via visitation.

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

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 20, 2014, the National PRC had issued a total of 40 implementation plans, of which 39 are complete and 1 is 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 2014

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)	295	17	6%	1,714	196	11%
Engagements – Governmental	186	10	5%	1,538	177	12%
Audits – ERISA	611	21	3%	2,671	457	17%
Audits – FDICIA	43	-	-%	19	-	-%
Audits – Carrying Broker-Dealers	9	-	-%	5	2	40%
Audits – Other	1,149	18	2%	4,917	384	8%
Reviews	426	2	-%	5,663	260	5%
Compilations with disclosures	283	4	1%	3,651	158	4%
Compilations without disclosures	354	4	1%	11,683	825	7%
SOC 1 & 2 Reports	85	3	4%	111	11	10%
Financial forecast and projections	13	1	8%	115	5	4%
Agreed upon procedures	180	2	1%	1,359	24	2%
Other SSAEs	50	1	2%	146	5	3%
Totals	3,684	83	2%	33,592	2,504	7%

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.

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)	254	15	6%	1,387	171	12%
Engagements– Governmental	167	11	7%	1,296	122	9%
Audits – ERISA	528	10	2%	1,977	182	9%
Audits – FDICIA	40	1	3%	30	3	10%
Audits – Carrying Broker-Dealers	9	-	-%	8	1	13%
Audits – Other	1,287	28	2%	4,049	361	9%
Reviews	382	7	2%	5,006	320	6%
Compilations with disclosures	209	2	1%	3,297	256	8%
Compilations without disclosures	300	8	3%	10,434	1,365	13%
SOC 1 & 2 Reports	71	4	6%	63	5	2%
Financial forecast and projections	9	-	-%	86	1	6%
Agreed upon procedures	128	2	2%	930	19	2%
Other SSAEs	31	-	-%	150	4	3%
Totals	3,415	88	3%	28,713	2,810	10%

Number of Engagements Not Performed or Reported on in Conformity with Applicable Professional Standards in All Material Respects in the Year 2012

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)	183	13	7%	1,780	209	12%
Engagements– Governmental	108	2	2%	1,519	112	7%
Audits – ERISA	306	13	4%	2,569	141	5%
Audits – FDICIA	24	1	4%	10	-	-%
Audits – Carrying Broker-Dealers	8	1	13%	7	-	-%
Audits – Other	666	14	2%	5,040	254	5%
Reviews	266	10	4%	6,051	471	8%
Compilations with disclosures	142	3	2%	3,979	337	8%
Compilations without disclosures	237	15	6%	12,266	1,706	14%
SOC 1 & 2 Reports	22	-	-%	60	1	2%

Financial forecast and projections	12	-	-%	148	8	5%
Agreed upon procedures	101	-	1%	1,036	17	2%
Other SSAEs	37	1	3%	225	6	3%
Totals	2,112	73	3%	34,690	3,262	9%

Department of Labor (DOL) Staff Project

As discussed in the AICPA PRP Annual Report on Oversight, the AICPA began a project in 2013 focusing on ERISA engagements. The DOL provided a listing to the AICPA of all firms who were listed as the auditor on the form 5500 for 2011 to determine if the firms were enrolled in the peer review program. AICPA PRP staff compared the list, which excluded member firms of the Employee Benefit Audit Quality Center (EBPAQC), to internal information to determine if the firms properly included an employee benefit plan audit in their most recent peer review. The comparison indicated many firms were not in compliance with peer review requirements and, as a result of this project, numerous peer review acceptance letters and peer review reports were recalled. The impact of this project resulted in only one peer review acceptance letter and peer review report being recalled. The replacement review performed for this peer review resulted in a pass with deficiencies.

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 firms 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 2 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 2 - 4 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 two QCM reviews in 2014, three QCM reviews in 2013, and four QCM reviews in 2012. 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

2014/2015 NATIONAL PEER REVIEW COMMITTEE ROSTER

Lawrence S Gray, **Chair**
EisnerAmper LLP
Iselin, NJ

Keith Malinowski
Grant Thornton LLP
Charlotte, NC

John M. Edwardson
McGladrey & Pullen LLP
Bloomington, MN

Robert (Bob) Rohweder
Ernst & Young LLP
Cleveland, OH

Michael A. Fawley
BDO USA, LLP
Atlanta, GA

Keith Rowden
PricewaterhouseCoopers, LLP
Houston, TX

Erica Forhan
Moss Adams LLP
Seattle, WA

Catherine M. Schweigel
CliftonLarsonAllen LLP
Milwaukee, WI

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Weaver and Tidwell LLP
Three Forrest Plaza
Dallas, TX

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Alexander Thompson Arnold PLLC
Union City, TN

Jeffrey J Gendreau
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Deloitte & Touche LLP
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James W. Brackens, Jr., Vice President
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Gary Freundlich, Technical Director

Beth Thoresen, Director of Operations

Frances McClintock, Associate Director

Susan Lieberum, Associate Director

Rachelle Drummond, Senior Technical
Manager

Tim Kindem, Senior Technical Manager

LaVonne Montague, Senior Technical Manager

Jennifer Capoccia, Technical Manager

Lisa Joseph, Technical Manager

Tracy Peterson, Technical Manager

Susan Rowley, Technical Manager

Karl Ruben, 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 forty-two administering entities of the AICPA PRP (now forty-one 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. In order 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.



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PROC Item IV.C.
January 29, 2016

Discussion on the Administrative Oversight of the National Peer Review Committee Result Letter, Issued October 22, 2015

Presented by: Dominic Franzella, Chief, Enforcement Division

Consumer Protection Objectives

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) an opportunity to discuss the American Institute of Certified Public Accountants' (AICPA) Peer Review Board letter issued on October 22, 2015, a result of the Administrative Oversight of the National Peer Review Committee (NPRC) (**Attachment**). As the NPRC administers the AICPA peer review program for firms that meet criteria that requires oversight by the Public Company Accounting Oversight Board in California, it is important for the CBA be current and aware of feedback from the AICPA and how they affect the peer review policies, procedures and consumers.

Action(s) Needed

PROC members should review the letter and continue to evaluate the effectiveness of the NPRC as it administers the AICPA's Peer Review Program.

Background

Oversight procedures were conducted with respect to the administrative functions of the NPRC in place for the calendar year 2014. The objective of the procedures was to evaluate whether the NPRC's administrative functions were being conducted in accordance with:

- the AICPA Standards for Performing and Reporting on Peer Reviews
- the NPRC Operating Policies & Procedures Manual

Comments

The oversight activities included oversight of:

- Administrative procedures
- Continuing Professional Education
- Website and other media information
- Working paper retention
- Technical review procedures
- Summary

**Discussion on the Administrative Oversight of the National Peer Review
Committee Result Letter, Issued October 22, 2015**

Page 2 of 2

The letter noted that 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.

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendations

Staff do not have recommendation on this agenda item.

Attachment

Administrative Oversight of the National Peer Review Committee Result Letter, Issued
October 22, 2015

October 22, 2015

National Peer Review Committee
220 Leigh Farm Road
Durham, NC 27707

Re: Administrative Oversight of the National Peer Review Committee

Dear Committee Members:

Oversight procedures were conducted with respect to the administrative functions of the National Peer Review Committee (National PRC) in place for the calendar year 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
- the National Peer Review Committee Operating Policies & Procedures Manual. This manual is approved by the AICPA Peer Review Board (PRB) through inclusion in the National PRC's Plan of Administration.

In conjunction with the administrative oversight visit of the National PRC, an administering entity for the AICPA Peer Review Program (program), the following observations are being communicated.

Administrative Procedures

Processes

Through our on-going interactions with the Associate Director, Operations Manager, and other staff of the National PRC, we believe the administrative processes were being handled in a manner consistent with peer review standards.

We randomly selected three peer reviews performed during the calendar year 2014 and conducted a thorough review of these files, including:

- Timeliness of the processes of scheduling, technical review, scheduling for RAB consideration, and the preparation of acceptance and corrective action letters (if any).
- Timeliness of letters including, but not limited to, background information requests, scheduling approvals, and late letters (if any).
- Open corrective actions (if any), including monitoring and timeliness of communications and letters.
- Appropriateness of extensions, with particular emphasis on whether these adhered to the policies and procedures for the granting thereof.

In addition to testing propriety of reviewer feedback forms issued within the above sample, we randomly selected an additional ten forms for testing with regard to appropriate signature and timeliness.

We also reviewed the back-up plan to support the associate director, operations manager, and technical reviewers if they become unable to serve in those capacities.

Finally, we reviewed the confidentiality letters for all NPRC members to ensure they have been retained and were properly signed.

Continuing Professional Education

We randomly reviewed the continuing professional education hours obtained by some of the technical managers to ensure amounts and levels were adequate to maintain proficiency.

Web Site and Other Media Information

The administering entity's website contains a limited amount of very general information and links directly to the AICPA Peer Review Program website. We noted that the website and materials provided were current. In addition, the administering entity has an individual who is responsible for maintaining the site and monitors it periodically to ensure peer review information is accurate and timely.

Working Paper Retention

The National PRC has very formalized processes and periodic internal monitoring of those processes:

- Review-specific documentation – the Operations Manager performs a formal review of FFC form file maintenance and ensures adherence to document retention policies on a quarterly basis.
- Reviewer-specific documentation – electronic copies are maintained of all reviewer feedback forms and deficiency letters. National PRC has been an administering entity under the AICPA peer review program for fewer years than the retention period; therefore, no destruction is anticipated within the next year. The electronic data is subject to the AICPA IT system controls and, as such, is backed up regularly.

We found no exceptions to the document retention policies in our testing of the above-described files.

Technical Review Procedures

The National PRC Technical Managers are thoroughly trained in the contents of guidance upon hire. The National PRC staff and the AICPA peer review staff are cross-trained. Therefore, the Technical Managers assist the PRB in the development of guidance and oversight of the peer review program.

In addition, the National PRC has very formalized review processes in place. In order to ensure the appropriate matters, including open issues, are identified and communicated to RABs, the National PRC requires a concurring review on peer reviews meeting certain pre-established criteria.

Further, a pre-issuance review of key documents on all peer reviews is performed by the Senior Technical Manager prior to RAB presentation.

For large firm reviews, the full National PRC receives detailed review information, including Summary Review Memorandums (SRM), planning memos, and other detailed materials. Panels consisting of members of the National PRC are utilized on certain large firm reviews meeting predetermined criteria.

Summary

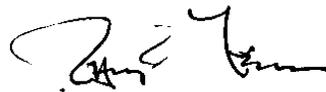
Our observations to enhance the administration of the program are summarized as follows:

- 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.

Sincerely,



Lawrence Gray
Chair- National Peer Review Committee
Member- Oversight Task Force-NPRC



Jeffrey Gendreau
Member- Oversight Task Force-NPRC



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PROC Item IV.D.
January 29, 2016

Discussion on the 2015 AICPA Peer Review Program Annual Report on Oversight, Issued September 18, 2015

Presented by: Dominic Franzella, Chief, Enforcement Division

Consumer Protection Objectives

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with the American Institute of Certified Public Accountants' (AICPA) Peer Review Program Annual Report on Oversight (Report), issued September 18, 2015 (**Attachment**). As the AICPA Peer Review Program is currently the only CBA recognized Peer Review Provider, it is important for the CBA to be current and aware of statistical and procedural findings identified by AICPA and how they affect the peer review policies, procedures and consumers.

Action(s) Needed

PROC members should review the Report and continue to evaluate the effectiveness of the National Peer Review Committee as they administer the AICPA's Peer Review Program.

Background

The purpose of the Report is to provide a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and to conclude on whether the objectives of the AICPA Peer Review Board's 2014 oversight processes were met.

Comments

The statistical information presented in the Report pertains to peer reviews that commenced and were performed during the calendar years 2012-2014. According to the Report, approximately 27,000 accounting firms are enrolled in the AICPA Peer Review Program and approximately 9,000 peer reviews take place each year. The AICPA has 42 administering entities covering 55 jurisdictions.

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendations

Staff do not have recommendation on this agenda item.

Attachment

AICPA Peer Review Program Annual Report on Oversight, Issued September 18, 2015



Peer Review Program

ANNUAL REPORT ON OVERSIGHT

**Issued
September 18, 2015**

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Acronyms

Certain acronyms are used throughout this Report.

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

Introduction

Purpose of This Report

The purpose of this Annual Report on Oversight (report) is to provide a general overview; statistics and information; the results of the various oversight procedures performed on the AICPA Peer Review Program (AICPA PRP); and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2014 oversight process were met.

Scope and Use of This Report

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

- approximately 27,000¹ firms enrolled in the AICPA PRP have a peer review performed once every 3 years.
- approximately 9,000 peer reviews take place each year.
- 42² administering entities (AEs) cover 55 licensing jurisdictions.
- there are more than 670 volunteer Peer Review Committee members.

Years Presented in This Report

Statistical information presented in this report pertains to peer reviews commenced and performed during the calendar years 2012–2014. Accordingly, oversight procedures included in this report are performed on a calendar year basis.

1 Approximately 30,000 firms are enrolled in the AICPA PRP. Approximately 2,900 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

2 The National PRC has issued a separate report for the calendar year and its results are not included within this Report.

History of Peer Review at the AICPA

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

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

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

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

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

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

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

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

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

The FSBA documents typically include the following:³

- 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)

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

About the AICPA Peer Review Board

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

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

The PRB composition has been developed to comprise of 20 members representing public practitioners from various size firms, including an individual from each of the four largest firms, state society CEOs and regulators.

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

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

AICPA PEER REVIEW BOARD ROSTER
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(October 2014–October 2015)

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Susan Rowley, Technical Manager

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Letter to the AICPA Peer Review Board

To the Members of the AICPA Peer Review Board:

We have completed a comprehensive oversight program for the 2014 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state there should be reasonable assurance that (1) Administering Entities (AEs) are complying with the administrative procedures established by the Peer Review Board (PRB) as set forth in the *AICPA Peer Review Program Administrative Manual*, (2) the reviews are being conducted and reported upon in accordance with the standards, (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees and (4) the information provided via the Internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of state CPA societies or groups of state societies (AEs) that elect and are approved to administer the AICPA Peer Review Program (AICPA PRP), including the establishment and results of each AE's oversight processes.

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

- *Oversight Visits of Administering Entities.* Visits to the AEs, on a rotating basis ordinarily every other year, by a member of the Oversight Task Force (OTF). The visits included testing the administrative and report acceptance procedures established by the PRB. OTF members visited 23 AEs in 2014. See pages 13–14, “Oversight Visits of the Administering Entities.”
- *Review of AICPA PRP Statistics.* Monitoring the overall activities of the program. As of August 2015, there were 895 incomplete peer reviews. See pages 14–15, “Review of AICPA PRP Statistics.”
- *Report Acceptance Body (RAB) Observations.* RAB Observations are performed by OTF members and AICPA PRP staff. The RAB Observations began in July 2014 and include the review of materials provided to RAB members to ensure that RABs are performing all of their responsibilities. In 2014, 500 reviews were selected for RAB Observations, or approximately 5.6 percent of the total reviews performed in 2014. See pages 15–16 for a detailed description of the RAB Observation process.
- *Engagement Level Oversight.* Oversight performed by subject matter experts (SMEs) on must-select engagements that include the review of the financial statements and working papers for the must-select engagements. The 2014 sample consisted of 90 engagements selected for oversight (74 random and 16 targeted selections). The random selections were chosen to obtain a 95 percent confidence rating for peer reviews with must-select engagements performed in 2014. The confidence rating indicates that there is a 95 percent likelihood that the sample is representative of the overall population. For the random sample, the SMEs identified 32 of the 74 (43 percent) engagements as not being performed or reported on in accordance with professional standards in all material respects (non-conforming). The peer reviewers identified 7 of the 74 (9 percent) engagements as non-conforming. The peer reviewers did not identify 25 of the 74 (34 percent) of the engagements as non-conforming. See pages 16–18 for a detailed description of the enhanced oversight process.
- *Peer Review Working Paper Oversight.* Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the OTF, including its PRB members, which covered all parts of the peer review process from administrative functions, peer reviewer documents and checklists, technical reviewer procedures and peer review

committee actions. 2013 was the final year a full sample was selected for reviews of peer review working papers. These reviews were replaced by the RAB Observations. After 2013, the reviews of peer review working papers are performed as needed. For 2014, 26 reviews were selected for oversight. The 26 reviews selected were replacement reviews that resulted from the Department of Labor (DOL) staff project that received a pass rating. See pages 18–19, “Peer Review Working Paper Oversights.”

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. 18 administrative oversights were performed in 2014. See page 19, “Administrative Oversight of the AE.”
- *Oversight of Peer Reviews and Reviewers.* Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2014, approximately 3.5 percent of total reviews were selected for oversight at the AE level. See pages 20–21, “Oversight of the Peer Reviews and Reviewers.”
- *Annual Verification of Reviewers’ Resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2014, resumes were verified for 806 reviewers. See pages 21–22, “Annual Verification of Reviewers’ Resumes.”

Based on the results of the oversight procedures performed, the OTF has concluded, for the 2014 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Richard W. Hill

Richard W. Hill, Chair
Oversight Task Force
AICPA Peer Review Board

September 18, 2015

The AICPA Peer Review Program

Overview

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards. In addition, 15 state CPA societies currently have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, of the 55 licensing jurisdictions, currently 52 SBAs have made participation in a type of practice-monitoring program mandatory for licensure. See exhibit 1.

The AICPA PRP has approximately 27,000 enrolled firms within the United States and its territories at the time this report was prepared. See exhibit 2. Approximately 9,000 peer reviews are performed each year by a pool of approximately 2,500 qualified peer reviewers.

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

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

System reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations⁴ under the SSAEs, or engagements under PCAOB standards. In addition, agreed-upon procedures, reviews, compilations and preparation engagements are also included in the scope of the peer review. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including statement on quality control standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10), in all material respects. The peer review report rating may be *pass* (firm's system of quality control is adequately designed and firm has complied with its system of quality control); *pass with deficiency(ies)* (firm's system of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing

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

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*, examinations⁵ under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects except for the deficiency(ies) that are described in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.⁵

Administering Entities

Each state CPA society annually elects the level of involvement that it desires in the administration of the AICPA PRP. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the AICPA PRP for enrolled firms whose main offices are located in that state or (3) ask the AICPA to request another state CPA society to administer the AICPA PRP for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB. The PRB approved 42 state CPA societies, groups of state societies or specific-purpose committees, known as AEs, to administer the AICPA PRP in 2014. See exhibit 3. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the AICPA PRP.

In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted with the annual Plan of Administration (POA). The annual POA is the AE's request to administer the peer review program and is reviewed by the OTF. In addition, all AEs are required to issue and post to their website an annual report on their oversight of the previous calendar year.

AEs may also elect to use the standards and administer a peer review program for non-AICPA firms (and individuals). Non-AICPA firms (and individuals) are enrolled in the State CPA Society

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

AE peer review programs and these, although very similar to the AICPA PRP, are not considered as being performed under the auspices of the AICPA PRP. They are not oversights by the AICPA PRB; therefore, this Report does not include information or oversight procedures performed by the AEs on their peer review programs of non-AICPA firms (and individuals).

Results of AICPA PRP

Overall Results

From 2012–2014, approximately 26,000 peer reviews were performed in the AICPA PRP. Exhibit 4 shows a summary of these reviews by type of peer review and report issued. For system reviews performed during that three-year period, approximately 85 percent of the reviews resulted in pass reports, 11 percent were pass with deficiency(ies) and 4 percent were fail. For engagement reviews performed during that three-year period, approximately 79 percent of the reviews resulted in pass reports, 16 percent were pass with deficiency(ies) and 5 percent were fail. Exhibit 5 is a list of items noted as matters in engagements with year-ends between March 31, 2014 and June 30, 2015. This list contains examples of noncompliance (both material and immaterial) with professional standards. Although this list is not all-inclusive and is not representative of all peer review results, it does contain more common examples of matters that were identified during the peer review process.

Exhibit 6 summarizes the number and type of reasons by quality control element as defined by the SQCS, for report modifications (that is, pass with deficiency[ies] or fail) on system reviews performed in the AICPA PRP from 2012–2014.

The standards state that an engagement is ordinarily considered “not being performed and/or reported in accordance with professional standards in all material respects” when deficiencies, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report or represents omission of a critical accounting, auditing or attestation procedure required by professional standards. In 2012, 2013 and 2014, approximately 9, 10 and 7 percent, respectively, of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects,” otherwise known as non-conforming engagements. Although the overall percentage of non-conforming engagements identified decreased in 2014, the percentage of audits identified as non-conforming increased over the three-year period. In 2012, 2013 and 2014, approximately 6, 10 and 11 percent, respectively, of the audit engagements reviewed were identified as non-conforming. The decrease in the overall percentage of non-conforming engagements for 2014 is due to the large decrease in non-conforming SSARS engagements identified in 2014. The decrease in non-conforming SSARS engagements can be attributed to the fact that SSARS No. 19 was effective for SSARS engagements with financial statement years ending on or after December 15, 2010. 2011 was the first peer review year that included engagements performed under SSARS 19. SSARS 19 included a change to the report language for SSARS engagements and required an engagement letter with specific elements. If the significant changes for SSARS 19 were not fully implemented, the engagement is considered non-conforming. A large number of firms did not properly implement SSARS 19, leading to the identification of a large number of non-conforming SSARS engagements. SSARS 19 has been effective for one full peer review cycle from 2011–2013 and, as expected, the number of non-conforming SSARS engagements has decreased significantly in 2014.

Non-Conforming Engagements Identified

Exhibit 7 shows the total number of individual engagements reviewed along with those identified as non-conforming engagements. There was a large increase in the number of non-conforming engagements in the Other Audit categories in 2013. This increase can be attributed to the clarified auditing standards, which were effective for financial statements with periods ending on or after December 15, 2012. 2013 was the first peer review year that included these engagements. There was also a large increase in the number of non-conforming engagements in the ERISA category in 2013 and 2014. This increase can be attributed to multiple factors. First, the clarified auditing standards were effective for financial statements with periods ending on or after December 15, 2012. Second, the peer review Employee Benefit Plan Audit Engagement Checklist was redesigned in January 2013 to focus the reviewer's attention on areas that lead to engagements being identified as non-conforming. Finally, a large number of non-conforming engagements were identified in the replacement reviews that resulted from the AICPA PRP Staff project focusing on ERISA engagements (detailed in the following paragraph).

Department of Labor (DOL) Staff Project

In 2013, the AICPA began a project focusing on ERISA engagements. The DOL provided a listing to the AICPA of all of the firms that were listed as the auditor on the form 5500 for 2011 to determine if the firms were enrolled in the peer review program. The DOL removed members of the Employee Benefit Plan Audit Quality Center (EBPAQC) from the list as EBPAQC members must make their peer review reports public as a condition of membership in the quality center. The list included 4,918 firms. AICPA PRP staff compared the list to internal information in order to determine if the firms were in compliance with peer review requirements. The results of the comparison are as follows:

Firms determined to be in compliance with peer review requirements	3,892
Firms referred to AICPA Ethics Division for not having a peer review	493
Firms required to provide updated scheduling information	97
Firms required to have an accelerated review	161
Firms whose peer review acceptance letter was recalled and were required to have a replacement review	275
Total	4,918

When the peer review acceptance letter is recalled, the related peer review is no longer valid and the reviewed firm must have a replacement review within 90 days of the notice of recall. Many of the peer reviews that were recalled were from 2011 and 2012. The recalled peer reviews are no longer included in the statistics for those years. The project led to the identification of a large number of non-conforming ERISA engagements and peer review reports with a rating of other than pass. As of August 10, 2015, 229 of the 275 replacement reviews have been accepted. Of those 229 replacement reviews, 22 percent have received a pass rating, 43 percent have received a pass with deficiencies and 35 percent have received a fail.

Corrective Actions and Implementation Plans

During the report acceptance process, the AEs' peer review committees determine the need for and nature of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the recommendations of the review team appear to address the engagement deficiencies adequately and whether the reviewed firm's responses to the review team's recommendations are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple corrective actions required on an individual review. Although there were fluctuations in the overall number of corrective actions from 2012–2014, the number of corrective actions as a percentage of overall reviews performed has remained consistent. The number of corrective actions as a percentage of overall reviews performed was 25 percent in 2012, 25 percent in 2013 and 23 percent in 2014. There was an increase in 2014 in the number of corrective actions that included pre-issuance reviews (218 in 2013 and 271 in 2014) and corrective actions where the firm indicated that they no longer perform any auditing engagements (28 in 2013 and 56 in 2014). There was also a decrease in 2014 in the number of corrective actions that included CPE (1,102 in 2013 to 950 in 2014). These changes in corrective actions were the result of the increase in non-pass system review reports and the decrease in non-pass engagement review reports. The OTF continues to provide guidance and education in the effective use of both implementation plans and corrective actions. In total, 6,446 corrective actions were required from 2012–2014 that are summarized in exhibit 8.

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

Because it is possible for a firm to receive a pass with deficiency or fail report, as well as FFCs that had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

Oversight Process

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

All SBAs that require peer review accept the AICPA PRP as a program satisfying its peer review licensing requirements. Some SBAs have entered into an agreement with state CPA societies to perform oversight of their administration of the AICPA PRP. The SBA's oversight process is designed to assess its reliance on the AICPA PRP for re-licensure purposes. This report is not

intended to describe or report on that process. Exhibit 9 shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice-monitoring program mandatory for licensure as indicated in exhibit 1.

Objectives of Peer Review Board Oversight Process

The PRB has appointed OTF to oversee the administration of the AICPA PRP and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that the

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

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

OTF Oversight Procedures

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

Oversight Visits of the Administering Entities

Description

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

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

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

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

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

Results

During 2013–2014, a member of the OTF performed at least one on-site oversight visit to 41 AEs (excludes NPRC). See exhibit 10 for a listing of the AEs and the year of oversight. See exhibit 11 for a summary of observations from the on-site oversight visits performed during 2013–2014.

Review of AICPA PRP Statistics

Description

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

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

Results

As of August 2015, there were 895 incomplete reviews (164 due through 2013 and 591 due in 2013). Of these, 857 were in various stages of the evaluation process and 38 were in the background or scheduling phases of the review. AICPA PRP staff has been working with the AEs on these open reviews to ensure an appropriate course of action is taken on a case by case basis for each of these.

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

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

RAB Observations

Description

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

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

The objective of the RAB observations is to provide real-time feedback to the RABs to improve overall quality of the RAB process. Previously, RAB observations were only performed during the oversight visits of the AE once every other year. The process for the increased RAB observations is similar to the process used during the oversight visits. The RAB observer receives the materials that will be presented to the RAB prior to the RAB meeting. The observer selects a sample of AICPA member firm reviews from the package and reviews the materials that will be presented to the RAB. The observer notes any issues or items that are unclear for each review selected. During the RAB, the observer allows the RAB to deliberate each review. If the RAB does not address the items noted by the observer, the observer will bring those items to the RAB's attention prior to the RAB voting on whether or not to accept the review. All items that were noted by the observer, but were not noted by the RAB, are included as comments in a RAB observation report. The OTF approves the report and the report is submitted to the AE peer review committee for its consideration. Each peer review committee has the opportunity to respond to the report.

Results

For 2014, each AE had at least one RAB observation. The RAB observations were performed by OTF members as well as AICPA PRP staff. 500 reviews were selected for RAB observation in 2014; this represents approximately 5.6 percent of peer reviews conducted in 2014. The comments generated by the RAB observations are summarized in exhibit 15.

Engagement-Level Oversight

Description

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

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

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

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

Overall Results

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

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

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

Exhibit 16 provides a listing of items identified by the SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a non-conforming engagement. Exhibits 17 and 18 shows the percentage of non-conforming engagements identified based on the number of must-select engagements performed by the firm in the category selected. Only one engagement was reviewed for each firm selected and the SME did not expand the scope of the oversight.

For the oversights in which the SME identified material departures from professional standards that were not identified by the peer reviewer, a limited number of these reviews have been accepted by RABs. AICPA staff will continue to monitor the effects of the oversights on the peer review results and what type of reviewer feedback (feedback form, performance monitoring letter or performance deficiency letter) is provided to the peer reviewers and the results will be included in next year's report.

Random Sample

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

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

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

As detailed in exhibit 18, 17 employee benefit plan engagements and 14 Single Audit/A-133 and *Government Auditing Standards* engagements were identified as non-conforming by the SMEs for the random sample.

Targeted Sample

The targeted sample for 2014 consisted of reviewers who served as team captain on the largest number of system reviews between 2011 and 2013. If a team captain was selected during the random sample, they were not selected for the targeted sample. For the targeted sample, the SME identified 8 of the 16 (50 percent) engagements as non-conforming. The peer reviewers did not identify any of the engagements as non-conforming. The 16 must-select engagements selected for oversight consisted of 11 employee benefit plan engagements and 5 Single Audit/A-133 engagements.

Peer Review Working Paper Oversight

Description

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

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

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

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

Results

For the year 2014, working paper reviews were selected as needed. For 2014, 26 reviews were selected for oversight. The 26 reviews selected were replacement reviews that resulted from the DOL staff project that received a pass rating. The oversight of the 26 reviews has not been fully completed and the results will be included in next year's oversight report.

Oversight by the Administering Entities' Peer Review Committees

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

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with the AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements (discussed on pages 17–20, "AE Oversight Procedures") established by the PRB to provide reasonable assurance that

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

AE Oversight Procedures

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

Administrative Oversight of the AE

Description

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

Results

The administrative oversight reports were submitted to the AICPA by the AE as part of the 2014 POA. Comments or suggestions resulting from the administrative oversights are summarized in exhibit 12. In addition, the OTF member reviewed the results of the administrative oversight during his or her oversight visit (described on pages 13–14, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight to those noted during the OTF oversight visit.

Oversight of Peer Reviews and Reviewers

Description

Throughout the year, the AE selects various peer reviews for oversight. The selections can be on a random or targeted basis. The oversight may consist of doing a full working paper review after the review has been performed, but prior to presenting the peer review documents

to the peer review committee. The oversight may also consist of having a peer review committee member or designee actually visit the firm, either while the peer review team is performing the review, or after the review, but prior to final committee acceptance.

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

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

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

Minimum Requirements – At a minimum, the AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time, and within the 2 percent selected, there must be at least two of each type of peer review evaluated (that is, system and engagement reviews). The oversight involves doing a full working paper review and may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended the oversight be performed prior to presenting the peer review documents to the peer review committee. This allows the committee to consider all the facts prior to acceptance of the review. At a minimum, two system review oversights are required to be performed on-site. Oversights could be random or could be a combination of a targeted and random selection.

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

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

Results

For 2014, the AEs conducted oversight on 310 reviews, representing approximately 3.5 percent of all reviews performed in a twelve-month period of time. There were 176 system and 134 engagement reviews oversighted. Approximately 35 percent of the system oversights were conducted on-site. In addition, 82 ERISA, 83 GAGAS, 1 SOC[®] and 1 FDICIA engagement were oversighted. See exhibit 13 for a summary of oversights by AE.

Annual Verification of Reviewers' Resumes

Description

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in accounting or auditing functions. The firm that the member is associated with should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every 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 has 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 GAGAS, audits of employee benefit plans subject to ERISA, audits of insured depository institutions subject to FDICIA, audits of carrying broker-dealers or examinations of SOC 1[®] and SOC 2[®] engagements. Verification procedures may include requesting copies of their license to practice as a CPA; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates to document the required 48 CPE credits related to accounting and auditing to be obtained every 3 years with at least 8 hours in 1 year; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The AE should also verify whether the reviewer is a partner or manager in a firm enrolled in a practice-monitoring program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2014. See exhibit 14.

Enhancing Audit Quality Initiative

The engagement-level oversights performed by SMEs revealed that peer reviewers are not properly identifying material departures from professional standards on must-select engagements. The 2014 sample of oversights will be used as a benchmark to measure audit quality improvements going forward. For 2015, the engagement-level oversights will be expanded to at least 150 oversights. The enhanced oversights are one element of the AICPA's Enhancing Audit Quality (EAQ) initiative.

The AICPA's EAQ initiative, launched in May 2014, addresses quality challenges on a holistic, ongoing basis with the goal of improving audit performance, particularly in specialized industries such as employee benefit plans and governmental entities. The components of the EAQ's [Six-Point-Plan to Improve Audits](#), released in May 2015, include enhancements to pre-licensure, standards and ethics, CPA learning and support, peer review, practice monitoring of the future and enforcement.

The EAQ initiatives related to peer review are as follows:

1. Actions to Enhance Reviewer Quality
2. Actions to Improve Review Process
3. Actions to Strengthen Firm Quality

The reviewer quality enhancements include enhanced oversight (as previously referenced), increased initial and ongoing training requirements, changes to reviewer performance guidance and accelerated reviewer remediation. The review process enhancements include a new issue resolution process, an expedited disagreement process and an improved focus on emerging industries and areas of focus. The firm quality enhancements include verifying a complete population of engagements, expansion of no A&A letter language in which the firm acknowledges a misrepresentation may result in the firm being dropped from the Program and referred to the Ethics Division, an accelerated remediation process, validation of firm and individual licenses and an elimination of a previous exception on engagement reviews; firms will now receive a fail report if the firm had the same deficiency on every engagement.

For details on any of the EAQ initiatives related to peer review, please see related articles in the [Peer Review News and Publications](#) area of aicpa.org. The anticipated outcome of all of the AICPA's EAQ initiatives will be the continued strong reputation of the CPA profession for competence, integrity and objectivity, coupled with a heightened understanding of the audit's value.

Exhibit 1

**State CPA Societies and State Boards of Accountancy That Have Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of August 2015**

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

Exhibit 1, continued

State CPA Societies and State Boards of Accountancy That Have Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of August 2015

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

Exhibit 2

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

Enrolled Firms by Number of Professionals in Practice

Licensing Jurisdiction	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	Total
AK	20	40	9	9	2	0	0	80
AL	126	208	78	29	19	5	3	468
AR	38	87	53	17	6	2	0	203
AZ	131	186	76	20	8	4	0	425
CA	833	1,277	486	233	125	29	18	3,001
CO	158	277	102	32	15	5	2	591
CT	139	193	76	32	14	2	1	457
DC	10	13	5	4	1	2	1	36
DE	6	20	17	6	8	0	0	57
FL	245	648	243	109	49	9	5	1,308
GA	223	425	160	65	16	10	6	905
GU	4	0	0	0	1	2	0	7
HI	32	67	31	18	3	3	0	154
IA	50	94	55	21	18	3	1	242
ID	32	78	41	12	6	0	0	169
IL	242	398	125	59	41	10	9	884
IN	100	178	92	29	19	4	3	425
KS	42	121	52	30	14	2	2	263
KY	83	153	81	29	12	4	2	364
LA	159	265	82	38	16	6	3	569
MA	235	357	139	51	31	7	1	821
MD	115	218	105	50	41	8	5	542
ME	26	37	21	11	6	1	2	104
MI	188	395	149	84	23	5	5	849
MN	100	190	74	33	22	6	4	429
MO	74	201	93	29	27	5	3	432
MS	74	127	44	18	12	2	2	279
MT	27	49	20	7	7	0	1	111
NC	234	426	157	57	25	3	1	903
ND	24	28	12	1	1	1	2	69
NE	16	57	41	16	13	2	1	146
NH	45	68	23	4	7	2	0	149
NJ	315	517	154	63	36	10	4	1,099
NM	64	108	36	16	3	1	1	229
NV	63	89	41	20	6	1	0	220
NY	264	543	293	133	75	26	24	1,358
OH	246	407	159	81	32	9	9	943

Exhibit 2, continued

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

Enrolled Firms by Number of Professionals in Practice

Licensing Jurisdiction	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	Total
OK	77	158	72	22	8	1	1	339
OR	105	181	75	34	12	4	2	413
PA	237	436	210	86	44	14	3	1,030
PR	34	77	19	11	9	2	0	152
RI	37	71	24	6	6	2	0	146
SC	110	194	57	28	11	0	2	402
SD	10	31	12	8	4	1	0	66
TN	166	268	100	36	20	6	5	601
TX	741	1,034	377	161	81	21	10	2,425
UT	56	102	43	20	13	4	0	238
VA	188	282	112	47	26	5	7	667
VI	6	1	0	0	0	0	0	7
VT	21	33	14	10	2	0	0	80
WA	117	222	95	45	17	1	3	500
WI	49	122	69	27	16	7	3	293
WV	34	77	32	11	4	0	2	160
WY	<u>15</u>	<u>38</u>	<u>19</u>	<u>10</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>86</u>
Total	<u>6,786</u>	<u>11,872</u>	<u>4,755</u>	<u>2,028</u>	<u>1,036</u>	<u>260</u>	<u>159</u>	<u>26,896</u>

Exhibit 3

Administering Entities Approved to Administer the 2015 AICPA PRP

Administering Entity	Licensing Jurisdiction
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois, Iowa
Indiana CPA Society	Indiana
Kansas Society of CPAs	Kansas
Kentucky Society of CPAs	Kentucky
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts
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, New Hampshire, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New Mexico Society of CPAs	New Mexico
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
South Carolina Association of CPAs	South Carolina
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington
West Virginia Society of CPAs	West Virginia
Wisconsin Institute of CPAs	Wisconsin

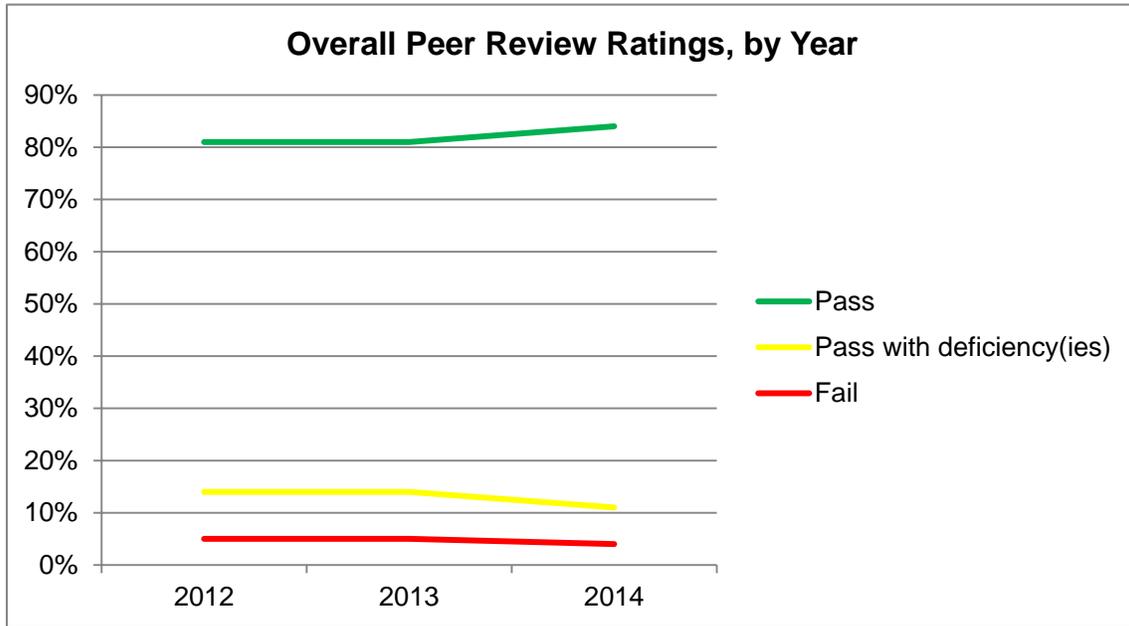
Exhibit 4

Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2012–2014 by type of peer review and report issued.

	2012		2013		2014		Total	
	#	%	#	%	#	%	#	%
<u>System reviews</u>								
Pass	3,957	88	3,023	84	3,249	81	10,229	85
Pass with deficiency(ies)	416	9	435	12	508	13	1,359	11
Fail	127	3	134	4	232	6	493	4
Subtotal	<u>4,500</u>	<u>100</u>	<u>3,592</u>	<u>100</u>	<u>3,989</u>	<u>100</u>	<u>12,081</u>	<u>100</u>

	2012		2013		2014		Total	
	#	%	#	%	#	%	#	%
<u>Engagement reviews</u>								
Pass	3,771	74	3,673	78	3,968	87	11,412	79
Pass with deficiency(ies)	949	19	765	16	468	10	2,182	16
Fail	345	7	265	6	151	3	761	5
Subtotal	<u>5,065</u>	<u>100</u>	<u>4,703</u>	<u>100</u>	<u>4,587</u>	<u>100</u>	<u>14,355</u>	<u>100</u>



Note: The preceding data reflects peer review results as of July 20, 2015. Approximately 3 percent of 2014 reviews are in process and their results are not included in the preceding totals.

Exhibit 6

Type and Number of Reasons for Report Modifications

The following is a list of items noted as matters in engagements with year-ends between March 31, 2014 and June 30, 2015. This list contains examples of noncompliance (both material and immaterial) with professional standards. Although this list is not all-inclusive and is not representative of all peer reviews, it does note some examples of matters that were identified during the peer review process. The most recent examples of matters noted in peer review can be found on the [AICPA's website](#).

Professional Standards

Clarified Auditing Standards

Matters included failure to do the following:

- Conform the auditor's report to the clarified auditing standards requirements
- Date the auditor's report appropriately, such as dating the report significantly earlier than the date of the review of the working papers and the release date
- Appropriately document planning procedures, including the following:
 - Risk assessment (and linkage of risks to procedures performed)
 - Planning analytics
 - Understanding of IT environment
 - Internal control testing
- Appropriately address fraud considerations
- Obtain appropriate management representation letters and include failures to do the following:
 - Update the letter in conformity with the clarified auditing standards requirements
 - Date the letter appropriately
 - Include appropriate financial statement periods
 - Include required representations
- Communicate or document required communications with those charged with governance
- Include audit documentation that contains sufficient competent evidence to support the firm's opinion on the financial statements
- Address the reason(s) accounts receivable were not confirmed
- Adequately document sampling methodology
- Document consideration of the group audit standard when a component unit was audited by another auditor
- Appropriately report on supplemental information, such as follows:
 - Not identifying all supplemental information presented
 - Use of outdated language

Accounting and Review Services

Compilations

Matters included failure to do the following:

- Prepare reports in accordance with professional standards. The following matters were noted:
 - Not updated for SSARS 19
 - No headings on the report
 - Inappropriate titles or lack of a title

Exhibit 6

Type and Number of Reasons for Report Modifications

- No explanation of the degree of responsibility the accountant is taking with respect to supplementary information
- Failure to mention that substantially all disclosures are omitted
- Failure to include a reference to the accountant's report on each page of the financials
- Obtain an engagement letter or failure to contain all elements (for example, objectives of the engagements) required by SSARSs.
 - Other miscellaneous matters were noted relative to the engagement letter, including failure to note the lack of independence or the letter referred to GAAP on an engagement performed in accordance with a special purpose framework.
- Appropriately label select disclosures as "Selected Information—Substantially All Disclosures Required by [Applicable Financial Reporting Framework] Are Not Included"

Reviews

Matters included failure to do the following:

- Obtain appropriate management representation letters. Matters included failure to
 - include all representations required by the applicable professional standards.
 - date the letter appropriately.
 - include appropriate financial statement periods.
- Update reports in conformity with the applicable professional standards or to include inappropriate titles.
- Obtain an engagement letter or failure to have all the required elements within the engagement letter.
- Report the degree of responsibility taken with respect to supplementary information presented in the financial statements.
- Document expectations or the comparison of expectations to recorded amounts for analytical procedures.

General SSARS

Matters included a failure to cover all of the periods or the correct periods presented in the financial statements in the accountant's report.

Attestation Standards

Matters included failure to do the following:

(*Note:* Most Matter for Further Consideration (MFC) forms in this area are related to Agreed-Upon Procedures (AUPs) or SOCs. SOC-related MFCs are included in the following practice area section.)

- Include the following in an AUP report:
 - A title
 - The word "Independent" in the title
 - Reference of the AICPA attestation standards
 - A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
 - Identification of the subject matter or the engagement or written assertion, or the character of the engagement

Exhibit 6

Type and Number of Reasons for Report Modifications

- Include all elements required by attestation standards in the engagement letter
- Provide sufficient documentation to understand the nature, timing, extent, and results of the attest procedures performed, as well as who performed and reviewed the work

Code of Professional Conduct

Matters included failure to do the following:

- Establish and document in writing the understanding with the client with regard to non-attest services provided
- Address management's responsibilities to oversee and evaluate the results of the services performed
- Collect fees for professional services provided more than one year prior to the date of the current report

Statements on Quality Control

- Leadership Responsibilities for Quality Within the Firm (failure to)
 - Have a written quality control document in accordance with QC section 10
 - Communicate quality control policies and procedures with staff
 - Devote sufficient resources for the support of its quality control policies and procedures
- Relevant Ethical Requirements
 - Failure to obtain written confirmation on independence for all personnel
- Acceptance and Continuance (failure to)
 - Obtain a license in all states in which engagements were accepted
 - Evaluate the risk of performing an engagement in a specialized industry or to obtain the necessary knowledge of current standards in specialized areas prior to performance of the audit
- Human Resources (failure to)
 - Design policies that ensure partners and staff obtain appropriate CPE to meet state board requirements, membership requirements, and so on
 - Design policies to require relevant CPE for levels of service and industries of engagements performed
 - Maintain current licenses within all jurisdictions the firm practices
- Engagement Performance (failure to)
 - Establish appropriate criteria for Engagement Quality Control Review (EQCR)
 - Perform EQCR on engagements that meet the firm's criteria
 - Maintain current quality control materials for the performance of engagements
 - Establish a policy for the retention of engagement documentation
- Monitoring (failure to)
 - Design appropriate policies and procedures for the completion of monitoring
 - Include all elements of quality control in monitoring procedures
 - Document the results of monitoring and inspections

FASB Accounting Standards Codification

Matters included failure to do the following:

- Disclose the date through which subsequent events were evaluated

Exhibit 6

Type and Number of Reasons for Report Modifications

- Correctly classify cash flows, present gross amounts instead of net and identify non-cash transactions on the cash flow statements
- Appropriately disclose related-party transactions, debt maturation schedules and significant estimates
- Appropriately disclose fair value hierarchy of investments, description of the levels, description of the assumption methods used and tabular presentation of amounts
- Perform sufficient procedures or sufficiently document the procedures to obtain assurance of the fair value measurements

Practice Areas

Issues previously noted related to professional standards and FASB Accounting Standards. Codification were prevalent in each of these practice areas. Matters included in this section are those trends identified for each specific practice area.

Governmental, A-133, and HUD

Reporting, failure to do the following:

- Include all of the required elements of professional standards in the Independent Auditor's Report, including the following omissions: reference to the engagement being performed in accordance with *Government Auditing Standards*, identification of the governmental entity's major funds and opinion units presented and addressing supplemental information and required supplemental information, reference to prior year financial statements when comparative years are presented, reference to the Yellow Book Internal Control report
- Include all of the required elements of professional standards in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, including the following: omitted "Independent" from report title, omitted or incorrect reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs, indication that there were no significant deficiencies identified, omitted a clause stating that the entity's responses were not audited and that the auditor expresses no opinion on those responses and omitted purpose alert
- Follow the Uniform Reporting Standards and current reporting format for HUD financial statements in accordance with the HUD Consolidated Audit Guide
- Prepare an engagement letter or issue an agreed upon procedures report related to REAC submissions
- Properly and consistently report the results of the single audit between the auditor's reports, the Schedule of Findings and Questioned Costs, and the Data Collection Form, including major program determination and threshold, low-risk auditee status, and evaluation of findings

Disclosure and Presentation, failure to do the following:

- Present the financial statements in accordance with professional standards, including Fund Balance and Net Position presentation and reconciliations, presentation of funds, missing significant policy footnotes, missing disclosures related to fair value, debt, impairment of fixed assets and improper financial statement titles
- Properly implement GASB 65, properly present deferred inflows and outflows or modify accountant's report for failure to write off unamortized bond issuance cost
- Use proper terminology required by GASB standards, including net position, classifications of fund balance and deferred inflows and outflows

Exhibit 6

Type and Number of Reasons for Report Modifications

- Include the REAC financial data templates as supplemental information as required by HUD

Documentation and Performance, failure to do the following:

- Properly document independence considerations required by Yellow Book, including the evaluation of management's skills, knowledge and experience to effectively oversee non-audit services performed by the auditor, evaluation of significant threats and safeguards applied to reduce threats to an acceptable level
- Meet the Yellow Book CPE requirements, including 80 hours of A&A and 24 hours of CPE that directly relates to government auditing, the government environment or the specific or unique environment in which the auditee operates
- Document required communications with those charged with governance, including proper communication of internal control findings
- Ensure that the written representations from the audited entity contained all applicable elements, including the following: representations tailored to the entity and governmental audit regarding federal awards and representations covering both years when comparative financial statements are presented; also consider improper consideration of the date of the representations in relation to the audit report
- For a single audit, note the following:
 - Failure to identify and test sufficient and appropriate major programs; these errors were the result of using preliminary expenditures when the final expenditures resulted in a high-risk Type A program, failure to cluster, failure to properly perform Type A and Type B program risk assessments, failure to group programs with the same CFDA number and incorrect determination of the auditee as low-risk resulting in insufficient coverage
 - Failure to properly conclude and document that an applicable compliance requirement does not apply to the particular auditee, or that noncompliance with the requirements could not have a direct and material effect on a major program
 - Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support a low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each applicable compliance requirement and major program
 - Failure to document the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk
 - Failure to document the testing of controls and compliance for the relevant assertions related to each applicable compliance requirement with a direct and material effect for the major program, including insufficient documentation and usage of dual-purpose testing
 - Failure to document internal controls over the preparation of the Schedule of Federal Awards (SEFA)

ERISA

Matters include failure to do the following:

- Sufficiently perform participant testing related to demographic data and payroll
- Sufficiently perform and document reliance on SOC 1[®] reports
- Sufficiently perform procedures related to benefit and claims payment testing, including evaluating participant's eligibility, examining approvals, and recalculation of benefit or claims amounts

Exhibit 6

Type and Number of Reasons for Report Modifications

- Report significant plan information, such as related party (party in interest) transactions and prohibited transactions between a plan and a party in interest
- Obtain an understanding of the actuary's objectives, scope of work, methods and assumptions, and consistency of application on defined benefit plans
- Present a complete Schedule of Assets (Held at End of Year)

Broker-Dealers

Matters include failure to do the following:

- Comply with SEC Independence Rules (violations include assisting with client financial statements)
- Perform sufficient revenue testing by placing too much reliance on a SOC 1[®] report
- Make or document the required communications with the audit committee (or board)
- Obtain a concurring review as required by PCAOB Standards

Service Organization Control (SOC) Reports[®]

Matters include failure to do the following:

- Obtain the experience and training required under SSAE No. 16, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*, AT sec. 801), to properly complete a SOC[®] Report
- Include required elements in the report, such as the following:
 - Management assertions
 - Complementary user entity controls
 - Carve outs
 - Criteria for the principles being opined on
 - Management responsibilities
 - Inclusion of all controls in control activity section
- Have sufficient working paper support for information included in the report, such as lack of or poor documentation of the following:
 - Procedures to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
 - Procedures to test carve outs
 - Procedures to support the Other Information included in the report
 - Procedures to assess the suitability criteria to evaluate whether management's description of the service organization's system is fairly presented
- Sufficient test controls, including failure to do the following:
 - Address the elements of the control, all IT general controls, and change management controls
 - Document which controls at the service organization were necessary to achieve the control objectives stated in management's description of the service organization's system and assess whether those controls were suitably designed to achieve the control objectives
- Update engagement letter for changes in the audit guide
- Document how sample sizes were selected
- Coordinate the use of inquiry with other procedures
- Ensure that the assertions provided by management were sufficient in detail

Exhibit 6

Type and Number of Reasons for Report Modifications

Banking, including FDICIA

Matters include failure to do the following:

- Include all elements required by professional standards in the accountant's report on internal controls
- Understand and comply with the independence rules applicable to these engagements (that is, SEC independence rules do not allow the auditor to also prepare the client's financial statements)
- Properly disclose the following:
 - Loans by type, delinquencies by type and other segmentation information of the loan portfolio
 - The policy for recognizing interest income on impaired loans, including how cash receipts are recorded
 - Valuation allowances, changes in allowances, related segmentation information and the allowance account methodology
 - Credit quality disclosures related to loans receivable
 - Consolidated capital ratios and requirements
 - That the entity was subject to expanded regulatory supervision and why
 - OREO's and goodwill in the fair value footnote as a non-recurring measurement item
 - Loan servicing fees, including the amount of contractual fees and assumptions used to estimate the fair value of the fees
- Perform sufficient audit testing of real estate lending, including inadequate quantitative information such as aging, past due status or historical charge-offs; similarly, insufficient audit testing of foreclosed property data, including inadequate testing of current year additions and analysis of fair value or carrying value
- Perform sufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias
- Obtain a management representation letter with representations specific to financial institutions
- Adequately document testing of member shares and loans receivable, including confirmations and compliance with FASB ASC 310-20

PCAOB

Matters include a failure to also perform and report under U.S. GAAS when an audit is performed under PCAOB standards for a non-SEC issuer not under the PCAOB's jurisdiction.

Not-for-profit

Matters include failure to do the following:

- Properly classify net assets as unrestricted, temporarily restricted, and permanently restricted
- Adequately disclose the nature, amounts, and types of net asset restrictions
- Disclose policies regarding donated goods and services
- Refer to the Statement of Functional Expenses in the report
- Properly expense classifications on the Statement of Functional Expenses

The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews performed in the AICPA PRP from 2012–14 summarized by

Exhibit 6

Type and Number of Reasons for Report Modifications

elements of quality control as defined by QC section 10. A system review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including QC section 10, in all material respects. QC section 10 states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm ("the tone at the top"); relevant ethical requirements; acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. Because pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in exhibit 4, "Results by Type of Peer Review and Report Issued."

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	60	51	109
Relevant ethical requirements	12	10	27
Acceptance and continuance of client relationships and specific engagements	41	53	78
Human resources	93	94	136
Engagement performance	459	483	572
Monitoring	<u>230</u>	<u>232</u>	<u>331</u>
Totals	<u>895</u>	<u>923</u>	<u>1,253</u>

Exhibit 7

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

The following shows the total number of engagements reviewed and the number identified as not performed in accordance with professional standards in all material respects from peer reviews performed in the AICPA PRP from 2012–14. The standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards in all material respects when issues, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents the omission of a critical accounting, auditing or attestation procedure required by professional standards.

Engagement Type	2012			2013			2014		
	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%
	Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards	
Audits:									
Single Audit Act (A-133)	1,743	190	11%	1,387	171	12%	1,714	196	11%
Governmental - All Other	1,500	110	7%	1,296	122	9%	1,538	177	12%
ERISA	2,519	138	5%	1,977	182	9%	2,671	457	17%
FDICIA	10	-	0%	30	3	10%	19	-	0%
Carrying Broker-Dealers	6	-	0%	8	1	13%	5	2	40%
Other	4,896	246	5%	4,049	361	9%	4,917	384	8%
Reviews	5,867	449	8%	5,006	320	6%	5,663	260	5%
Compilations:									
With Disclosures	3,858	320	8%	3,297	256	8%	3,651	158	4%
Omit Disclosures	11,773	1,603	14%	10,434	1,365	13%	11,683	825	7%
Forecasts & Projections	144	9	6%	86	5	6%	115	5	4%
SOC® Reports	53	1	2%	63	1	2%	111	11	10%
Agreed Upon Procedures	1,010	16	2%	930	19	2%	1,359	24	2%
Other SSAEs	223	6	3%	150	4	3%	146	5	3%
Totals	33,602	3,088	9%	28,713	2,810	10%	33,592	2,504	7%

Exhibit 7, continued

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

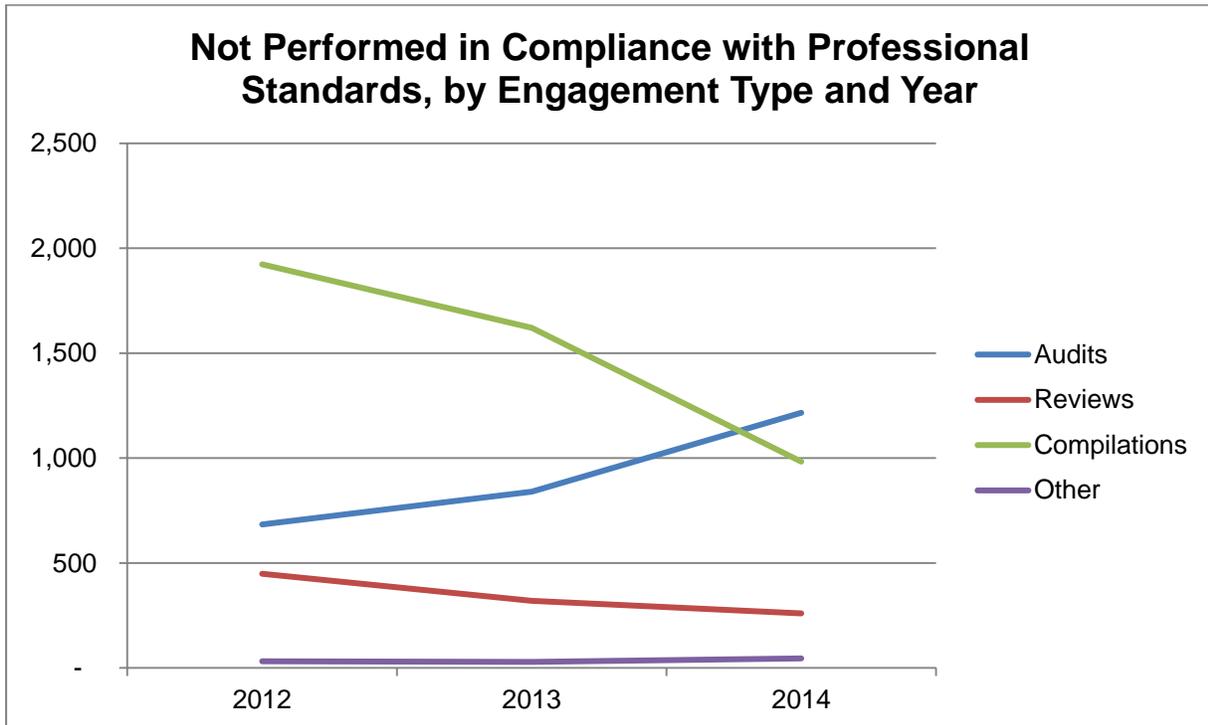
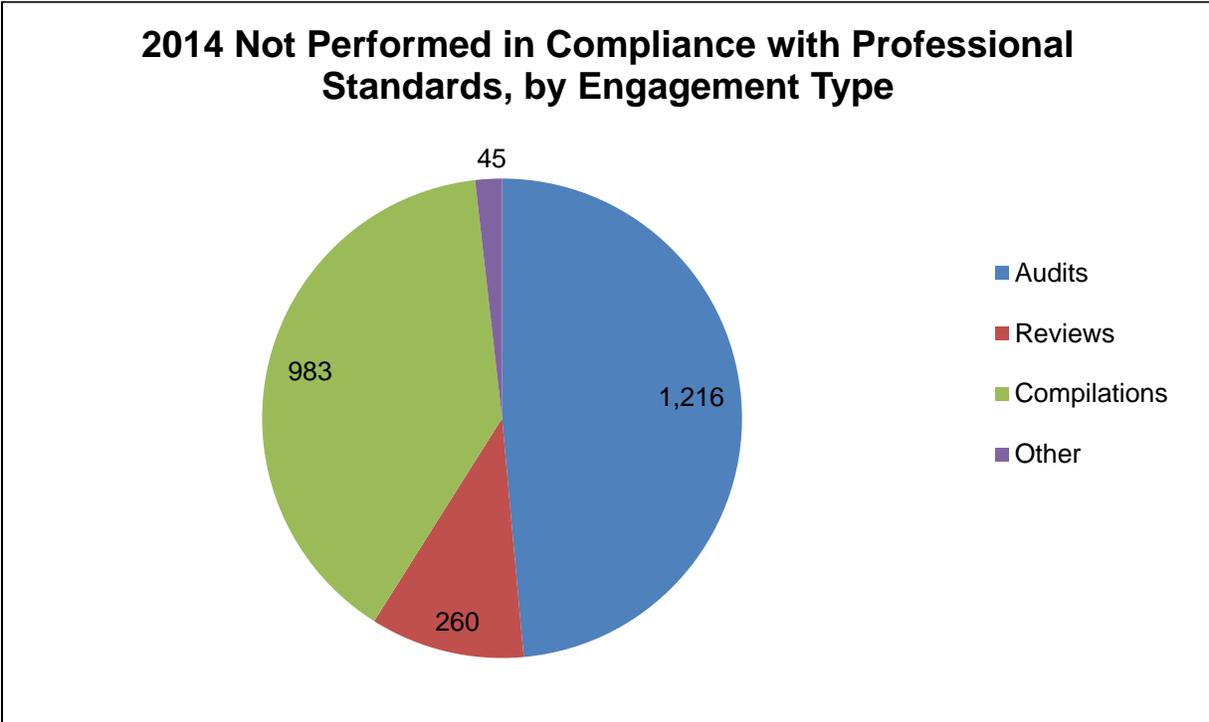


Exhibit 8

Summary of Required Corrective Actions

The AEs' peer review committees are authorized by the standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the AE peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple corrective actions. For 2012–14 reviews, committees required 6,290 corrective actions. The following represents the type of corrective actions required.

Type of Corrective Action	<u>2012</u>	<u>2013</u>	<u>2014</u>
Agree to take/submit proof of certain (CPE)	1,370	1,102	950
Submit to review of correction of engagements that were not performed in accordance with professional standards	479	403	338
Agree to pre-issuance reviews	178	218	271
Submit monitoring report to Team Captain or Peer Review Committee	82	78	89
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	45	39	40
Submit to revisit (Team Captain or Peer Review Committee Member)	88	91	103
Elective to have accelerated review	25	11	6
Submit evidence of proper firm licensure	9	14	7
Firm has represented in writing they no longer perform any auditing engagements	26	28	56
Agree to hire consultant for inspection	11	8	14
Review of formal CPE plan	5	9	4
Team captain to review Quality Control Document	20	13	20
Submit inspection completion letter	2	2	4
Submit proof of purchase of manuals	33	29	23
Submit report of consultant	11	3	7
Oversight of Inspection – Review	7	13	14
Submit quarterly progress reports	5	1	6
Oversight of Inspection – Visitation	13	8	13
Agree to strengthen staff	-	1	1
Total	<u>2,409</u>	<u>2,071</u>	<u>1,966</u>

Exhibit 9

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

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

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

Exhibit 9, continued

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

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

Exhibit 10

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

During 2013–2014, a member of the OTF performed an on-site oversight visit to each of the following 41 AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year. The oversight results can be found on the [AICPA's website](#).

<u>2013</u>	<u>2014</u>
Connecticut	Alabama
Georgia	Arkansas
Hawaii	California
Idaho	Colorado
Illinois	Florida
Indiana	Kansas
Iowa	Michigan
Kentucky	Mississippi
Louisiana	Missouri
Maryland	Montana
Massachusetts	Nevada
Minnesota	New England
North Carolina	New Jersey
Oklahoma	New Mexico
South Carolina	New York
Texas	North Dakota
Virginia	Ohio
Washington	Oregon
	Pennsylvania
	Puerto Rico
	Tennessee
	West Virginia
	Wisconsin

Exhibit 11

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

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

The following represents a summary of common observations made by the OTF resulting from the on-site oversight visits performed during 2012–2014. The following listed observations are not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- The appropriate letters for overdue information and documents, reviewer performance and other reminders were not generated according to the time requirements in the administrative manual.
- Inadequate monitoring of open corrective actions, implementation plans and reviews by staff and committee members.
- Annual plan of administration not submitted timely.
- Extensions were not granted in accordance with the guidelines.
- Acceptance letters were not sent timely.
- Documents were not uploaded timely to the Facilitated State Board Access (FSBA) website.

Reviewer Resume Verification

- Procedures not performed timely.
- Procedures performed on reviewer resume information obtained did not include all those required by the standards and related guidance.
- Reviewer resume population was not monitored to ensure that every active reviewer's resume were verified every three years.
- Peer reviewers were not notified of education shortfalls discovered during resume verification and their inability to perform peer reviews due to the shortfall.

Website and Other Media Information

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

Working Paper Retention

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

Exhibit 11, continued

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

Committee Procedures

- Reviewer feedback was not issued when necessary. Also, the reviewer feedback was not signed by a peer review committee member.
- Technical reviewers did not address all significant issues before reviews are presented to the RAB.
- The status of open reviews and follow-up status was not periodically monitored and discussed by the Committee and related documentation of such presentations and discussions recorded in the Committee minutes.
- Accurate and contemporaneous minutes were not prepared to document Committee meetings.
- Technical reviewers were not evaluated annually.
- RAB members did not have the required team captain training.
- A quorum was not present for certain meetings which delayed the timeliness of acceptance of reviews.
- Committee meetings were not scheduled to ensure timely acceptance of reviews.
- Internal oversight of the administration of the Program was not performed timely.
- Required oversights not performed timely each year.

Exhibit 12

Administrative Oversight Performed By Peer Review Committees of Administering Entities

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

- Files contained documents that should have been destroyed.
- Delinquent letters on reviews were not being sent in a timely manner.
- Acceptance letters for reviews were not sent in a timely manner.
- Reviewer feedback and performance deficiency letters were not being issued when necessary.
- Reviews were not always presented to the peer review committee in accordance with the timelines specified by the standards.
- The committee chair and technical reviewer did not always resolve inconsistencies and disagreements before submitting reviews to the RABs.
- Ensure Plan of Administration is accurate and timely filed.
- In order to reduce misplaced or incomplete files, the Society should explore the possibility of computerized record keeping solutions.
- Review website for technical material and check for updates.
- RAB members must maintain qualifications required by the scope of their duties.
- Review committee member qualifications to ensure they are in compliance with CPE requirements.
- Establish method to utilize reviewer feedback and deficiency letters to target reviewers for oversight.
- Oversight report was not posted to AE website.
- Implement report system to monitor follow-up actions and provide updates to the committee.
- Ensure appropriate documentation of approval.
- Develop a written back-up and succession plan for technical reviewers.
- Reviewer resumes were not appropriately verified.
- Ensure timely assignment of reviews to technical managers.

Exhibit 13

Summary of Oversights 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 two 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, or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2014 oversight year.

Administering Entity	Type of Review/Oversights			Type of Engagement Oversights					Total Oversights Performed at Firm
	System	Engagement	Total	ERISA	GAGAS	FDICIA	SOC®	Total	
Alabama	4	2	6	3	3	-	-	6	4
Arkansas	3	2	5	3	2	-	-	5	2
California	12	15	27	3	7	-	-	10	2
Colorado	2	5	7	2	1	-	-	3	2
Connecticut	2	2	4	2	1	-	-	3	2
Florida	7	5	12	3	1	-	-	4	3
Georgia	5	2	7	2	3	-	-	5	3
Hawaii	2	2	4	1	1	-	-	2	2
Idaho	2	1	3	1	1	-	-	2	2
Illinois	11	2	13	2	3	-	-	5	4
Indiana	2	2	4	1	1	-	-	2	2
Iowa	7	2	9	1	2	-	-	3	4
Kansas	3	2	5	1	2	-	-	3	3
Kentucky	2	5	7	1	2	-	-	3	3
Louisiana	5	6	11	2	2	-	-	4	2
Maryland	2	3	5	1	1	-	-	2	2
Massachusetts	7	3	10	5	4	-	-	9	2
Michigan	4	4	8	3	3	-	-	6	3
Minnesota	2	4	6	1	1	-	-	2	2
Mississippi	2	2	4	1	2	-	-	3	2
Missouri	3	2	5	2	3	-	-	5	3
Montana	7	1	8	1	1	-	-	2	4
Nevada	2	6	8	1	1	-	-	2	2
New England	2	2	4	1	2	-	-	3	2
New Jersey	7	2	9	3	4	-	-	7	2
New Mexico	1	2	3	1	1	-	-	2	1
New York	15	2	17	8	4	-	-	12	5
North Carolina	9	5	14	2	1	1	-	4	5
North Dakota	1	1	2	-	1	-	-	1	1
Ohio	5	5	10	2	1	-	-	3	5
Oklahoma	2	2	4	1	1	-	-	2	2
Oregon	4	2	6	2	2	-	-	4	3
Pennsylvania	5	4	9	4	4	-	-	8	4
Puerto Rico	4	1	5	-	2	-	-	2	4
South Carolina	2	-	2	2	2	-	-	4	2
Tennessee	3	3	6	3	2	-	-	5	2
Texas	9	10	19	6	4	-	1	11	4
Virginia	2	6	8	1	1	-	-	2	2
Washington	3	3	6	1	1	-	-	2	2
West Virginia	2	2	4	1	1	-	-	2	2
Wisconsin	2	2	4	1	1	-	-	2	2
TOTAL	176	134	310	82	83	1	1	167	110

Exhibit 14

Summary of Reviewer Resumes Verified by Administering Entity

AEs are required to verify all reviewer resumes over a 3-year period as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. The following shows the number of reviewer resumes verified by AEs for the years 2012–2014.

<u>Administering Entity</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Alabama	4	36	36
Arkansas	8	7	6
California	59	59	74
Colorado	17	10	7
Connecticut	6	17	6
Florida	43	36	25
Georgia	-	49	15
Hawaii	4	5	2
Idaho	6	4	6
Illinois	42	27	41
Indiana	11	17	11
Iowa	9	8	8
Kansas	-	2	19
Kentucky	14	10	12
Louisiana	-	48	48
Maryland	18	17	14
Massachusetts	38	6	18
Michigan	19	34	23
Minnesota	17	9	10
Mississippi	13	16	17
Missouri	24	14	20
Montana	8	6	3
Nevada	76	70	44
New England	14	7	10
New Jersey	28	35	37
New Mexico	19	18	16
New York	28	48	39
North Carolina	33	30	32
North Dakota	1	1	1
Ohio	36	26	26
Oklahoma	17	15	9
Oregon	15	1	10
Pennsylvania	47	37	31
Puerto Rico	12	11	11
South Carolina	15	13	7
Tennessee	20	24	25
Texas	44	40	45
Virginia	23	19	8
Washington	25	14	16
West Virginia	7	7	7
Wisconsin	7	16	11
Totals	<u>827</u>	<u>869</u>	<u>806</u>

Exhibit 15

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

Throughout each year, a sample of RABs are selected for observation. At least one RAB Observation is performed for each AE per year. The documents provided to the RAB are reviewed (by PRP Staff, OTF members, or both) to ensure that the RAB process is operating properly and to ensure the results of reviews are being evaluated on a consistent basis within an AE in all jurisdictions. The following is a summary of the most prevalent comments that were generated as a result of the RAB Observations performed by the AICPA PRP staff and OTF members during the year 2014. The comments are intended to provide the AEs, their committees, RABs, peer reviewers and technical reviewers with information and constructive recommendations that will help ensure consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all of the respective parties.

- Findings for Further Consideration (FFC) form did not contain all of the required information to be provided in the reviewed firm's response.
- Overdue notices were not sent in accordance with the manual.
- The systemic cause on the FFCs was not clear.
- In the engagement selection documentation, it was not clear why a certain level of service was not selected by the team captain (including different types of ERISA engagements).
- Representation letters were not prepared in conformity with the recent guidance or were prepared using the outdated version.
- FFC was worded similar to the listing of items from PRP §6200 that would generally lead to a deficiency, and it was not clear if a deficiency was warranted.
- Representation letters were signed in the firm's name.
- Lack of consideration of supplemental guidance on deficient Yellow Book CPE.
- Unclear whether MFCs should have been elevated to FFCs.
- A-133 supplemental checklists, prior report, corrective actions and prior FFCs were not provided to the RAB in advance of the meeting.
- RAB did not discuss or recommend a corrective action included in the recommended corrective actions section of the RAB Handbook.
- Extension was requested and granted for the reviewed firm when the request did not indicate the reason for the extension request.
- FFC was created but it was unclear whether it was a departure from professional standards or an advisory comment.
- No consideration given to issuing a fail report when multiple non-conforming engagements were identified by the team captain.
- The major program determination was not included in the RAB package for the A-133 engagement reviewed.
- The review captain did not appropriately identify a non-conforming engagements on the review captain summary.
- Team captain reviewed an employee benefit plan engagement that had not been issued by the firm.
- An employee benefit plan engagement was deemed non-conforming by the team captain, but the team captain did not indicate whether he or she expanded scope to look at the other employee benefit plan engagement performed.
- On a system review, the team captain performed the review well in advance of the due date, which likely led to the selection of an employee benefit plan engagement that was

Exhibit 15

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

outside of the peer review year. The working papers did not indicate why the peer review was performed so far in advance of the due date.

- Team captain did not document their consideration of the firm's response to a non-conforming engagement.
- Representation letter included the reviewing firm's name in the body of the letter, instead of the reviewed firm's name.
- Representation letter was not dated as of the exit conference date as required on a System Review.
- Review captain used an outdated Engagement Summary Form and the form was unsigned.
- Team captain referenced an engagement with a year-end outside of the peer review's scope and it was unclear if the engagement had been included in scope.
- Team captain indicated that the firm had a HUD concentration in the Summary Review Memorandum (SRM) (and it was on the Background Form), but the team captain indicated that there were "no HUD or Yellow Book audits in this period."
- Reviews were presented more than 120 days after the receipt of the documents by the administering entity.
- Reviews were accepted by the RAB without a formal vote of the members.
- FFC was not signed.
- FFC did not include a reviewer recommendation.
- Implementation plan was not required in accordance with PRP 3100 when an FFC indicated that the firm's license had lapsed.
- The materials were not provided to the RAB members far enough in advance of the meeting to allow enough time to thoroughly review the materials prior to the teleconference.
- A large number of reviews were included on the consent agenda that required further discussion.
- A majority of the RAB did not possess the qualifications of a system review team captain.
- Informal reviewer feedback had been issued where formal feedback should have been issued.
- RAB did not include a member with current experience in a must-select category due to the recusal of one of the RAB members.
- Lack of consideration of guidance related to the Clarified Auditing Standards.
- MFCs appeared to indicate a nonconforming engagements but they were not identified as such by the team captain.
- A nonconforming employee benefit plan audit was noted, but the team captain did not consider issuing a report rating of pass with deficiencies.
- Reviewed firm's response with regard to actions the firm planned to take to remediate a nonconforming engagement was not adequate.
- On a system review presented, the report rating was a pass with deficiencies; however, the SRM indicated that the deficiencies were significant deficiencies.
- A compilation engagement was not identified in the SRM engagement statistics as a non-conforming engagement.
- Two separate issues were included on one FFC that should have been separated on two FFCs.
- Team captain incorrectly identified the issues as a compliance finding on the FFC.

Exhibit 15

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

- Use of outdated SRM by team captain.
- Peer review report was not addressed to the peer review committee.
- System Review report did not include a sentence regarding consideration of regulatory reports.
- Inconsistencies between the MFC, FFC and DMFC forms as to which matters related to the finding.
- SRM indicated that the firm only performed monitoring over functional areas and it was not clear whether the item should have been included in an MFC and should have been elevated to an FFC or a deficiency.

Exhibit 16

Material Departures From Professional Standards Identified by SMEs

In 2014, the PRB approved the addition of engagement level oversights performed by SMEs. As discussed in more detail in the “Engagement Level Oversights” section, the SMEs identified a large number of material departures from professional standards that were not identified by the peer reviewers. The following is a list of departures from professional standards identified by the SMEs that were not identified by the peer reviewer. The SMEs identified these departures from professional standards, individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered non-conforming.

Employee Benefit Plan Engagements

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

Exhibit 16, continued

Material Departures From Professional Standards Identified by SMEs

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

Single Audit/A-133 and Government Auditing Standards Engagements

- Compliance requirements were documented as applicable, but no testing was performed for the compliance requirement
- Lack of testing of internal controls over direct and material compliance requirements
- Lack of documentation of skills, knowledge or experience
- Lack of documentation or incomplete documentation of risk assessment of Type A or Type B programs
- Lack of documentation supporting the assessment that compliance requirements were not applicable
- No documentation of fraud risk regarding noncompliance for major programs
- No documentation of internal control over preparation of SEFA
- Schedule of Findings and Questioned costs did not contain all required elements
- Financial statements presented under GAAP instead of *Government Accounting Standards*
- No materiality calculation on opinion units
- No documentation of risk of management override of controls
- No documentation to support designation as a low risk auditee
- Type A program designated as low risk when it did not meet all of the requirements
- Auditor's report on internal control did not include all required elements
- The report on compliance with requirements applicable to each major program and internal controls over compliance did not contain all required elements
- Data Collection Form did not properly summarize auditor's results
- Calculation of amounts tested as major programs was incorrect; amount of expenditures tested did not reach 50 percent for an entity that did not qualify as a low-risk auditee
- Federal program was part of a cluster and was not included in testing of major programs
- Improper surplus cash calculation performed that led to the improper identification of noncompliance findings for a HUD engagement

SOC 1[®] Engagement

- The SOC 1[®] report was missing a critical element: it did not include a description of the system of controls provided by the service organization. The requirement for management to include a system description is fundamental to AT section 801, *Reporting on Controls at a Service Organization (AICPA, Professional Standards)*, as the assertion provided by management of the service organization and the opinion provided by the service auditor are attesting to and opining on the completeness and accuracy thereof; this component of the overall report is created to provide user auditors with an understanding of why the service auditor tested the specific controls that were tested.
- Acknowledgements and assurances that the standard requires the auditor to obtain from the service organization during client acceptance were not obtained or documented. AT section 801.09 requires that the service auditor only accept the engagement when specific

Exhibit 16, continued

Material Departures From Professional Standards Identified by SMEs

conditions exist, including several acknowledgements to be provided by management of the service organization.

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

Exhibit 17

**Overall Non-Conforming Engagements Identified
During Enhanced Oversight By Firm Size**

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

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

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

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

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

Exhibit 18

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

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

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

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

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

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

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the “senior technical committee” governing the AICPA PRP and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the revised <i>AICPA Standards for Performing and Reporting on Peer Reviews</i> , Interpretations to the revised <i>AICPA Standards for Performing and Reporting on Peer Reviews</i> and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the AE oversight process for the AICPA PRP.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications and responsibilities of AE peer review committees, report acceptance bodies and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
AICPA PRP Administrative Manual	The publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.
Administering Entity	A state CPA society, group of state CPA societies or other entity annually approved by the PRB to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB.
Agreed Upon Procedures	Specific procedures agreed to by a CPA, a client and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
Attest Engagement	An engagement that requires independence as defined in the AICPA professional standards.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a CPA.
Compilation	Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements performed under SSARS.
Preparation Engagement	An engagement to prepare financial statements
Employment Retirement Income Security Act of 1974	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.

Glossary

<u>Term</u>	<u>Definition</u>
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).
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles, a comprehensive basis of accounting other than generally accepted accounting principles, or a special purpose framework.
Finding for Further Consideration (FFC)	A finding is one or more matters that the reviewer concludes does not rise to the level of a deficiency or significant deficiency and is documented on a Finding for Further Consideration Form.
Firm	A form of organization permitted by law or regulation whose characteristics conforms to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA PRP should be terminated or whether some other action should be taken.
Implementation Plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to Findings For Further Consideration. A RAB may require an implementation plan when the responses to a firm's FFC(s) are not comprehensive, genuine and feasible.
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.

Glossary

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

Glossary

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



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PROC Item IV.E.
January 29, 2016

**Discussion on the California Society of CPAs (CalCPA) Peer Review Program
Annual Report on Oversight for Calendar Year 2014, Issued October 22, 2015**

Presented by: Dominic Franzella, Chief, Enforcement Division

Consumer Protection Objectives

The purpose of this agenda item is to present the Peer Review Oversight Committee (PROC) with the California Society of Certified Public Accountants' (CalCPA) Peer Review Program Annual Report on Oversight for calendar year 2014, issued October 22, 2015 (Report) (**Attachment**). The Report provides the PROC the statistical information to oversight CalCPA's effectiveness as an administering entity and to ensure consumer protection.

Action(s) Needed

PROC members are requested to review the Report.

Background

The Report provides a general overview, statistics and information, and the results of the various oversight procedures performed on the CalCPA Peer Review Program for the calendar year 2014.

Comments

None.

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendations

Staff do not have a recommendation on this agenda item.

Attachment

California Society of CPAs Peer Review Program Annual Report on Oversight for Calendar Year 2014, Date Issued – October 22, 2015

**California Society of CPAs Peer Review Program
Annual Report on Oversight for Calendar Year 2014
Date Issued – October 22, 2015**

I. Summary of Peer Review Program

The California Society of CPAs (CalCPA) serves as the administering entity for the AICPA Peer Review Program for the states of California, Arizona and Alaska. CalCPA also administers the Peer Review Program for firms in those states that are not enrolled in the AICPA Peer Review Program. These programs operate the same; however there is a distinction between the two programs in that at least one owner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program. AICPA bylaws require that members in a firm engaging in the practice of public accounting and issuing accounting and auditing reports have their firm enrolled in peer review.

The AICPA administers a peer review program through the National Peer Review Committee (NPRC) for firms required to be registered with the Public Company Accounting Oversight Board (PCAOB). The NPRC prepares a separate annual oversight report therefore their statistics are not included in this report. Also, the AICPA Peer Review Board prepares an annual report on the oversight of all administering entities on a national basis. These reports are available in the peer review section of their web site.

California, Arizona, and Alaska Boards of Accountancy require firms who issue accounting and auditing reports to be peer reviewed. The AICPA Peer Review Program is a recognized peer review program provider. The California Board of Accountancy requires peer review of firms that issue reports. The Arizona Board of Accountancy requires peer review with an exception for firms that issue only compilations without disclosures reports. The Alaska Board of Accountancy requires peer review with an exception for firms that issue only compilation reports.

Peer review is a triennial systematic review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System reviews are designed for firms that perform audits or other similar engagements. Engagement reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail usually must perform follow up actions. Further explanation of peer review is available at <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/Pages/PeerReviewHome.aspx>.

II. CalCPA Administering Entity Oversight Process and Procedures

The Peer Review Administrative Committee (PRAC) of the California Peer Review Committee monitors the oversight process. Each PRAC member has been approved by the Council of CalCPA and has current audit experience.

Using criteria outlined in the *AICPA Peer Review Program Oversight Handbook*, peer reviewers and/or firms are chosen for oversight. A minimum of 2% of reviews processed during the year are subjected to the oversight process. A peer review committee member or former peer review committee member performs the oversights. For system oversights, this committee member must have current audit experience. AICPA Peer Review Program Oversight Checklists are utilized on all oversights and oversight reports are prepared. The oversight reports are included in the report acceptance body process and all oversight reports are reviewed by the PRAC.

For engagement review oversights and limited system review oversights, the peer reviewer is notified after the peer review has been submitted to the administering entity of the engagements that have been selected for review. The peer reviewers then submit their work papers for review and the individual performing the oversight reviews the financial statements and any applicable firm work papers for the selected engagements.

Oversights of onsite system reviews are conducted at the reviewed firm's office while the peer reviewer is performing the peer review. The individual performing the oversight examines the peer reviewer's work papers, reviews a sample of engagements selected by the peer reviewer for review, and attends the exit conference.

Every year, one third of reviewer resumes and CPE are verified. All reviewers are verified over a three year period. Reviewers provide information about the number of engagements they are specifically involved with and in what capacity. The California Peer Review Program compares this information to the reviewer resume in the AICPA database and to the reviewer firm's most recent background information and most recent peer review.

Biennially, the AICPA Peer Review Board performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member from the AICPA Peer Review Board Oversight Task Force reviews files and interviews staff at the administrative office. In addition the member attends a peer review committee meeting and observes the report acceptance process of the committee members. A report is issued and approved by the AICPA Peer Review Board. This report is posted to the peer review section of the web site of CalCPA. In the year where the AICPA Peer Review Board is not performing oversight, a member of the California Peer Review Committee performs an administrative oversight.

NOTE: The data in the following tables (sections III through VII) reflects peer review results as of October 22, 2015. The following percentages of 2014 reviews are in process, and their results are not included in the totals below.

CA – .3%

AZ – .7%

AK – There are no 2014 reviews in process

^ At least one owner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

III. Number of Enrolled Firms by Number of Professionals*

Per State as of October 22, 2015

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	780	726
2-5 Professionals	1271	869
6-10 Professionals	476	149
11-19 Professionals	226	25
20-49 Professionals	112	6
50+ Professionals	30	0
Totals	2895	1775

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	126	47
2-5 Professionals	179	44
6-10 Professionals	72	8
11-19 Professionals	23	3
20-49 Professionals	10	0
50+ Professionals	2	0
Totals	412	102

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	22	3
2-5 Professionals	39	5
6-10 Professionals	8	0
11-19 Professionals	9	0
20-49 Professionals	2	0
50+ Professionals	0	0
Totals	80	8

**IV. Results of Peer Reviews Performed During the Year 2014
Results by Type of Peer Review and Report Issued**

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	285	94
Pass with Deficiencies	85	47
Fail	32	39
Subtotal – System	402	180
Engagement Reviews:		
Pass	447	423
Pass with Deficiencies	62	80
Fail	33	32
Subtotal – Engagement	542	535
Totals	944	715

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	34	4
Pass with Deficiencies	8	1
Fail	8	2
Subtotal – System	50	7
Engagement Reviews:		
Pass	66	16
Pass with Deficiencies	9	2
Fail	1	2
Subtotal – Engagement	76	20
Totals	126	27

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	10	0
Pass with Deficiencies	0	0
Fail	0	0
Subtotal – System	10	0
Engagement Reviews:		
Pass	15	1
Pass with Deficiencies	3	0
Fail	0	0
Subtotal – Engagement	18	1
Totals	28	1

V. Number and Reasons for Report Modifications

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards, for report modifications (when a pass with deficiency or fail report is issued) from system reviews performed for 2014. A system review can have more than one reason for modification.

Reasons for Report Modifications California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	35	31
Relevant Ethical Requirements	3	1
Engagement Performance	100	68
Human Resources	14	7
Acceptance & Continuance of Clients & Engagements	6	6
Monitoring	58	51
Totals	216	164

Reasons for Report Modifications Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	3	1
Relevant Ethical Requirements	0	0
Engagement Performance	14	3
Human Resources	1	2
Acceptance & Continuance of Clients & Engagements	2	1
Monitoring	8	2
Totals	28	9

Reasons for Report Modifications Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	0	0
Relevant Ethical Requirements	0	0
Engagement Performance	0	0
Human Resources	0	0
Acceptance & Continuance of Clients & Engagements	0	0
Monitoring	0	0
Totals	0	0

VI. Number of Engagements Not Performed In Accordance with Professional Standards

The following shows the total number of engagements reviewed and the number identified as “not performed in accordance with Professional Standards” from peer reviews performed during 2014. The Standards state that an engagement is ordinarily considered not performed in accordance with Professional Standards when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

California Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	144	25	22	9
Audits – GAS– All Others	139	25	26	10
Audits – ERISA	285	51	52	30
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	7	0	0	0
Audits – Other	443	53	174	53
Reviews	545	35	288	44
Compilations with Disclosures	374	21	167	22
Compilations without Disclosures	1067	126	786	113
Preparation Engagements	1	0	0	0
Fin Forecast and Proj- examination	2	0	0	0
Fin Forecast and Proj- other	12	2	2	0
Examinations of Written Assertions	12	0	1	0
Reviews of Written Assertions	0	0	0	0
Agreed Upon Procedures	98	2	18	1
SSAEs - SOC Engagements	7	0	0	0
SSAEs - Other	2	0	2	0
Totals	3138	340	1538	282
% Substandard		11%		18%

Arizona Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	10	1	2	1
Audits – GAS – All Others	16	4	1	0
Audits – ERISA	26	10	2	1
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	2	1	0	0
Audits – Other	50	6	6	0
Reviews	81	2	16	1
Compilations with Disclosures	48	4	8	0
Compilations without Disclosures	134	8	21	6
Preparation Engagements	0	0	0	0
Fin Forecast and Proj- examination	0	0	0	0
Fin Forecast and Proj- other	1	0	0	0
Examinations of Written Assertions	2	0	1	0
Reviews of Written Assertions	0	0	1	0
Agreed Upon Procedures	13	0	4	0
SSAEs - SOC Engagements	0	0	0	0
SSAEs - Other	0	0	1	0
Totals	383	36	63	9
% Substandard		9%		14%

Alaska Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	7	0	0	0
Audits – GAS – All Others	3	0	0	0
Audits – ERISA	4	0	0	0
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	0	0	0	0
Audits – Other	15	0	0	0
Reviews	25	2	1	0
Compilations with Disclosures	15	0	1	0
Compilations without Disclosures	23	3	0	0
Preparation Engagements	0	0	0	0
Fin Forecast and Proj- examination	0	0	0	0
Fin Forecast and Proj- other	0	0	0	0
Examinations of Written Assertions	0	0	0	0
Reviews of Written Assertions	0	0	0	0
Agreed Upon Procedures	4	0	0	0
SSAEs - SOC Engagements	0	0	0	0
SSAEs - Other	0	0	0	0
Totals	96	5	2	0
% Substandard		5%		0%

VII. Summary of Required Follow-up Actions

The Peer Review Committee is authorized by the Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The peer review committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions. For 2014, the following represents the type of follow-up actions required.

(TC = Team Captain)

California Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	110	130
Submit copy of monitoring report	18	14
Submit to TC revisit-general	15	12
Submit to TC review of sub engagements w/ workpapers	45	25
Does not perform any audit engagements	20	28
Totals		

Arizona Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	13	4
Submit copy of monitoring report	2	0
Submit to TC revisit -- general	2	0
Submit to TC review of sub engagements w/ workpapers	7	2
Does not perform any audit engagements	6	1
Totals	30	7

Alaska Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	3	0
Totals	3	0

VII. Oversight Process

**Oversight Results
Peer reviews**

California Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 6	9	System	GAGAS - 3	5
	ERISA - 3			ERISA - 2	
Engagement		11	Engagement		13

Arizona Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 0	1	System	GAGAS-0	1
	ERISA - 1			ERISA-1	
Engagement		2	Engagement		0

Alaska Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 1	1	System	GAGAS-0	0
	ERISA - 0			ERISA-0	
Engagement		2	Engagement		0

Verification of reviewer's resumes

State	Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
California	163	67	41%
Arizona	16	6	37%
Alaska	1	1	100%
Total	180	74	41%

Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	December 3, 2013
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	November 19-21, 2014



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PROC Item IV.F.
January 29, 2016

PROC Peer Review Oversight Checklist Updates, PROC Summary of Administrative Site Visit Checklist

Presented by: Robert Lee, CPA, Peer Review Oversight Committee Chair

Consumer Protection Objectives

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review and provide feedback as to how to improve the PROC Summary of Administrative Site Visit Checklist (**Attachment**) for future California Society of Certified Public Accountants' (CalCPA) site visits. As an administering entity, CalCPA is responsible for administering the American Institute of Certified Public Accountants' (AICPA) Peer Review Program in compliance with the AICPA Standards, interpretations, and other guidance established by the California Board of Accountancy (CBA) to protect consumers. By performing the annual Administrative Site Visit to CalCPA, the PROC can determine if the provider is administering peer reviews in accordance with the standards adopted by the CBA.

Action(s) Needed

No specific action is required on this agenda item unless the PROC wishes to make changes.

Background

During its December 9, 2015 Meeting, the PROC requested to agendaize the Summary of Administrative Site Visit Checklist to provide an opportunity to review and make possible adjustments.

Comments

None.

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

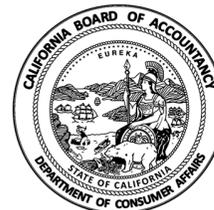
Staff do not have a recommendation on this agenda item.

Attachment

Peer Review Oversight Committee, Summary of Administrative Site Visit



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Attachment

Peer Review Oversight Committee

Summary of Administrative Site Visit

Purpose: As part of its oversight activities, the Peer Review Oversight Committee (PROC) is charged with conducting, at a minimum, an annual administrative site visit of all Board-recognized peer review program providers. The visit will be to determine if the provider is administering peer reviews in accordance with the standards adopted by the California Board of Accountancy (CBA). The visit is then summarized and reported to the CBA as part of the PROC reporting.

Date of Visit: _____

Name of Peer Review Program Provider: _____

PROC Members Performing Visit:

1. List program staff interviewed as part of the oversight visits:			
Name:	Title:		
PEER REVIEW TYPES	YES	NO	N/A
1. Does the Provider have a review designed to test a firm's system of quality control for firms performing engagements under SASs, SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB?			
2. Does the Provider have a review designed to test a cross-section of a firm's engagements to assess whether they were performed in conformity with applicable professional standards for firms performing engagements under SSARS or SSAEs not encompassed in #1 above?			
Comments:			

PEER REVIEW REPORT ISSUANCE	YES	NO	N/A
1. For each type of review above, does the Provider issue the following type of peer review reports:			
a. Pass? System of quality control was suitably designed, or engagements were performed in conformity with applicable professional standards.			
b. Pass with Deficiencies? System of quality control was suitably designed with the exception of a certain deficiency, or engagements were performed in conformity with applicable professional standards with the exception of a certain deficiency.			
c. Substandard? System of control is not suitably designed, or engagements were not performed in conformity with applicable professional standards.			
Comments:			
PEER REVIEWER QUALIFICATIONS	YES	NO	N/A
1. Has the Provider established minimum qualifications for an individual to qualify as a peer reviewer, to include:			
a. Having a valid and active license in good standing to practice public accounting by this state or another state?			
b. Being actively involved in practicing at a supervisory level in a firm's accounting and auditing practice?			
c. Maintaining a currency of knowledge of the professional standards related to accounting and auditing, including those expressly related to the type or kind of practice to be reviewed?			
d. Furnishing his/her qualifications to be a reviewer, including recent industry experience?			
e. Association with a firm that has received a peer review report with a rating of pass or pass with deficiencies as part of the firm's last peer review?			
Comments:			

PLAN OF ADMINISTRATION AND ACCEPTING PEER REVIEWS (cont)	YES	NO	N/A
e. Ensuring adequate peer reviewers to perform peer reviews?			
f. Ensuring the pool of peer reviewers have a breadth of knowledge related to industry experience.			
g. Ensuring the qualifications of peer reviewers?			
h. Evaluating a peer reviewer's performance on peer reviews?			
3. Has the Provider established a training program(s) designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews?			
4. Does the Provider ensure that a firm requiring a peer review selects a peer reviewer with similar practice experience and industry knowledge, and the peer reviewer is performing a peer review for a firm with which the reviewer has similar practice experience and industry knowledge?			
5. Does the Provider require the maintenance of records of peer reviews conducted under the Program, including at minimum, written records of all firms enrolled in the peer review program and documents required for submission under Section 46, with these documents to be retained until the completion of a firm's subsequent peer review?			
Comments:			
COMPOSITION OF THE PEER REVIEW COMMITTEE (PRC)	YES	NO	N/A
1. Do the PRC members meet the peer reviewer qualification requirements as outlined in the Peer Reviewer Qualifications section above?			
2. In determining the size of the PRC, did the Provider consider the requirement for a broad industry experience and the likelihood that some members will need to recuse themselves from some reviews as a result of the member's close association to the firm or having performed the review?			
3. Is any PRC member currently serving as a member of the CBA?			
4. Do PRC members comply with all confidentiality requirements by annually signing a statement acknowledging their appointments and the responsibilities and obligations of their appointments?			
Comments:			

REPORTING RESPONSIBILITIES	YES	NO	N/A
1. Has the Provider made available, at a minimum, the following:			
a. Standards, procedures, guidelines, training materials, and similar documents prepared for the use of reviewers and reviewed firms?			
b. Information concerning the extent to which the Program has reviewed the quality of the reviewers' working papers in connection with the acceptance of reviews?			
c. Statistical data maintained by the Program related to its role in the administration of peer reviews?			
d. Information concerning the extent to which the Program has reviewed the qualifications of its reviewers?			
e. Sufficient documents to conduct sample reviews of peer reviews accepted by the Program? These may include, at minimum, the report; reviewer working papers prepared or reviewed by the Program's PRC in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.			
2. Has the Provider made available, in writing or electronically, the name of any California-licensed firm expelled from the peer review program and provided the reason for expulsion?			
a. If so, was the CBA notified within 30 days of notification of the firm's expulsion?			
Comments:			
SUMMARY			
1. Based upon a walkthrough, rate the administrative staff's knowledge of the Provider's program: <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations			

SUMMARY (cont)

2. Were any specific issues identified and discussed?

3. Has the Provider demonstrated improvement from any prior oversight visit?

4. Does the Provider administer peer reviews in accordance with the standards adopted by the CBA?

Meets Expectations Does Not Meet Expectations*

Comments:

The above checklist was prepared by:

Print Name

Signature

*A rating of "No" or "Does Not Meet Expectations" requires a comment.