



AICPA[®]

Peer Review
Program

ANNUAL REPORT ON OVERSIGHT

**Issued
May 8, 2020**

Copyright © 2020 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please email copyright-permission@aicpa-cima.com with your request. Otherwise, requests should be written and mailed to the Permissions Department, 220 Leigh Farm Road, Durham, NC 27707-8110.

Table of Contents

Introduction	i
Letter to the Peer Review Board	1
Peer Review Program	3
Exhibit 1 Administering Entities Approved to Administer the Program in 2018 and 2019	15
Exhibit 2 Results by Type of Peer Review and Report Issued	16
Exhibit 3 Type and Number of Reasons for Report Modifications	17
Exhibit 4 Number of Engagements Not Performed in Accordance with Professional Standards in All Material Respects	18
Exhibit 5 Summary of Required Follow-Up Actions	19
Exhibit 6 On-Site Oversight of Administering Entities Performed by the AICPA Oversight Task Force	20
Exhibit 7 Observations from On-Site Oversight of Administering Entities Performed by the AICPA Oversight Task Force.....	21
Exhibit 8 Comments from Report Acceptance Body Observations Performed by Program Staff and Oversight Task Force	22
Exhibit 9 Material Departures from Professional Standards Identified by Subject Matter Experts	23
Exhibit 10 Summary of Oversight Performed by Administering Entities.....	24
Exhibit 11 Summary of Reviewer Resumes Verified by Administering Entities	25
Appendix 1 History of Peer Review at the AICPA	26
Appendix 2 AICPA Peer Review Program Overview	28
Glossary	30

Introduction

Purpose of This Report

The purpose of this Annual Report on Oversight (report) is to provide a general overview, including statistics and information, of the results of the AICPA Peer Review Program (Program) oversight procedures and to conclude whether the objectives of the AICPA Peer Review Board's (PRB) oversight processes performed in 2018 and 2019 were compliant with the requirements of the Program.

Scope and Use of This Report

This report contains data pertaining to the Program and should be reviewed in its entirety to understand the full context. Statistical information presented in this report pertains to peer reviews accepted during calendar years 2017-19, which covers a full three-year peer review cycle. Oversight procedures included in this report are performed on a calendar year basis.

Letter to the AICPA Peer Review Board

To the members of the AICPA Peer Review Board:

This report includes oversight procedures performed in 2018 and 2019. Statistical information presented in this report pertains to peer reviews accepted during the calendar years 2017-19 which covers a full three-year peer review cycle. In planning and performing our procedures, we considered the objectives of the oversight program, which state that there should be reasonable assurance that (1) administering entities (AEs) are complying with the administrative procedures established by the Peer Review Board (PRB) as set forth in the *AICPA Peer Review Program Administrative Manual*; (2) the reviews are being conducted and reported upon in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)*; (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees; and (4) the information provided via the AEs' websites is accurate and timely. Our responsibility is to oversee the activities of AEs that elect and are approved to administer the AICPA Peer Review Program (Program), including the establishment and results of each AE's oversight processes.

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

- *Oversight of peer reviews and reviewers.* Oversight of various reviews, selected based on reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2018 and 2019, 261 and 264 reviews, respectively, were selected for oversight at the AE level. See pages 11–12, "Oversight of the Peer Reviews and Reviewers."
- *Annual verification of reviewers' resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2018 and 2019, resumes were verified for 957 and 737 reviewers, respectively. See pages 12–13, "Annual Verification of Reviewers' Resumes."
- *Benchmarks.* In 2018, AEs started monitoring and periodically reporting compliance with AE benchmarks which are qualitative, objective, and measurable criteria to enhance overall quality and effectiveness of Program administration. See pages 13–14, "Benchmark Model."

The Oversight Task Force (OTF) utilizes focus groups of OTF members to monitor and perform procedures in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook*.

AE Oversight Focus Group

The AE oversight focus group oversees the AE oversight visit process. Visits to the AEs occur on a rotating basis, ordinarily every other year, by a member of the OTF. The visits include testing the administrative and report acceptance procedures established by the PRB. OTF members visited 17 AEs in 2018 and 12 AEs in 2019. See pages 5-6 "Oversight Visits of the Administering Entities" for further information.

Report Acceptance Body (RAB) Observation Focus Group

The RAB observation focus group reviews and approves RAB observation reports, including any responses received from the AEs. Periodically, the focus group will review the process including applicable checklists. RAB observations are performed by OTF members and Program staff. The RAB observations focus on whether the report acceptance process is being conducted in accordance with *Standards* and guidance. For 2018 and 2019, 298 and 178 reviews, respectively,

were selected for RAB observations. See pages 6-7 for a detailed description of the RAB observation process.

Enhanced Oversight Focus Group

Enhanced oversights are performed by subject matter experts on must-select engagements and include the review of financial statements and working papers for such engagements. The enhanced oversight focus group evaluates the results of enhanced oversights. The focus group reviews the oversight reports with comments and provides input and feedback to Program staff. The focus group also evaluates the reviewer performance feedback issued as a result of these oversights and will recommend that the reviewer performance focus group consider issuing feedback when necessary. See pages 7-11 for a detailed description of the enhanced oversight process.

Evolution Focus Group

The evolution focus group developed the AE benchmark criteria approved by the PRB. The focus group reviews the results of the benchmark reports submitted by the AEs and monitors to determine whether modifications are needed.

Plan of Administration (POA) Focus Group

The POA focus group reviews and approves the plans submitted annually by the AEs agreeing to administer the Program in compliance with *Standards* and guidance.

Reviewer Performance Focus Group

The reviewer performance focus group reviews the reviewer performance monitoring report prepared by Program staff. This report summarizes Program staff's procedures to evaluate and monitor peer reviewers and AEs for satisfactory performance and compliance with Standards. The focus group evaluates the report to determine if further action should be taken.

Based on the results of the oversight procedures performed, the OTF has concluded, for the oversight initiatives performed in 2018 and 2019, that the objectives of the PRB oversight program were met.

Respectfully submitted,

Brian Bluhm

Brian Bluhm, Chair
Oversight Task Force
AICPA Peer Review Board

AICPA Peer Review Program

There are approximately 23,500 firms currently enrolled in the Program within the United States and its territories, that have a peer review performed once every three years, at the time this report was prepared. In recent years, the AICPA has noted a decrease in the number of firms enrolled in the Program. This is attributed to firm mergers and firms no longer performing accounting and auditing engagements that would subject them to a peer review. See exhibit 2. There are also approximately 1,000 firms enrolled in the Program that indicated they do not currently perform any engagements subject to peer review. Approximately 8,200 peer reviews are performed each year by a pool of approximately 2,100 qualified peer reviewers. Refer to appendix 2 for an additional overview of the Program and information about the AEs.

Results of AICPA Peer Review Program

Overall Results

From 2017-19, approximately 24,000 peer reviews were performed in the Program. Exhibit 2 shows a summary of these reviews by type of peer review and report issued. The overall results of the reviews performed during the three-year period by report type were:

	System Reviews	Engagement Reviews
Pass	79%	77%
Pass with Deficiency(ies)	14%	11%
Fail	7%	12%

A list of the most recent examples of matters noted in peer review is available on the [AICPA's website](#). 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 3 summarizes the number and type of reasons by quality control element as defined by the Statement on Quality Control Standards (SQCS), for report modifications (that is, pass with deficiency(ies) or fail) on system reviews accepted from 2017-19 in the Program.

Non-Conforming Engagements Identified

The *Standards* state that an engagement is ordinarily considered “not being performed and/or reported on in accordance with professional standards in all material respects” (hereinafter referred to as non-conforming) 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. Exhibit 4 shows the total number of individual engagements reviewed (system reviews and engagement reviews) along with those identified as non-conforming.

The percentage of non-conforming engagements identified each year from 2017-19, as well as the percentage of non-conforming audit engagements each year were:

Year	% of Non-Conforming Engagements	% of Non-Conforming Audits
2017	11%	12%
2018	11%	11%
2019	10%	15%

The increase in 2019 is due to the increased focus on compliance with risk assessment standards. The PRB issued guidance related to evaluation of non-compliance with the risk assessment standards effective for peer reviews commencing on or after October 1, 2018. This led to an increase in the number of non-conforming audit engagements identified in 2019 because the statistics in this report are based on the acceptance date of the review.

Corrective Actions and Implementation Plans

During the report acceptance process, the AEs' peer review committees determine the need for and type of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the reviewed firm's responses are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and imposed to strengthen the performance of the firm. There can be multiple corrective actions or implementation plans required on an individual review. Corrective actions and/or implementation plans required from 2017-19 are summarized in exhibit 5.

There were increases in the overall number of corrective actions and implementation plans each year from 2017-19. The number of corrective actions and implementation plans as a percentage of overall reviews accepted was consistent between 2017 and 2018. There was an increase in the number of corrective actions and implementation plans as a percentage of overall reviews in 2019. This increase was mainly in the category of firms submitting proof of continuing professional education (CPE). This increase is due to the previously discussed guidance on risk assessment issued by the PRB. As part of this guidance, if non-conforming engagements are identified due to non-compliance with the risk assessment standards, RABs are instructed to issue an implementation plan or corrective action to the firm. The most common implementation plan or corrective action to address issues with risk assessment was having the firm take prescribed CPE.

In addition to corrective actions, there may be instances in which an implementation plan is to be completed by the firm as a result of Findings for Further Consideration (FFCs). For implementation plans, the firm will be required to agree 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.

Since a firm can receive a pass with deficiency(ies) or fail report in addition to FFCs, it is possible for a corrective action plan to be imposed upon the firm for the deficiency(ies) or significant deficiency(ies) in the peer review report, as well as an implementation plan for the FFCs.

Oversight Process

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

All state boards of accountancy (SBOAs) that require peer review accept the Program as a program satisfying their peer review licensing requirements. Some SBOAs oversight AEs' administration of the Program. This report does not describe or report on that process.

Objectives of PRB Oversight Process

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

- 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 and
- Information provided to firms and reviewers (via the internet) 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:

- Obtain information about problems and concerns of AEs' peer review committees and staff
- 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 Program oversight procedures were performed:

Oversight Visits of the Administering Entities

Description

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

Oversight Visit Procedures

During these visits, the OTF member will:

- Meet with the AE's peer review committee during its consideration of peer review documents
- Evaluate a sample of peer review documents and applicable working papers on a post-acceptance basis, as needed

- Perform interviews with the administrator, CPA on Staff (or individual managing the program when a waiver has been approved), committee chair and technical reviewers and
- Evaluate the various policies and procedures for administering the Program.

As part of the visit, the OTF member requests that the AE complete an information sheet that documents policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the Program. The OTF member evaluates the information sheet, results of the prior oversight visit and comments from the 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 end 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 about whether the AE has complied with the Program's administrative procedures and *Standards* in all material respects.

In addition to the report, the OTF member issues 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 to enhance the quality of the AE's administration of the Program. The AE is then required to respond to the chair of the OTF, in writing, to any findings included in the report and letter or, at a minimum, with an acknowledgement of the visit if there are no findings reported. The oversight documents, including the report, the letter of procedures and observations and the AE's response, are presented to the OTF members for acceptance. The AE may be required to take corrective actions as a condition of acceptance. The acceptance letter would reflect corrective actions, if any. A copy of the acceptance letter, the report, letter of procedures and observations and the AE's response is available on the [AICPA's website](#).

Results

For the years 2018 and 2019, a member of the OTF performed at least one on-site oversight visit of each AE. See exhibit 6 for a list of the 29 AE oversight visits performed for 2018 and 2019. See exhibit 7 for a summary of observations from the on-site oversight visits performed during the two years.

RAB Observations

Description

The purpose of the RAB observation is to determine whether:

- Reviews are conducted and reported on in accordance with the *Standards*
- Results of reviews are evaluated on a consistent basis within an AE and in all jurisdictions
- Administrative procedures established by the PRB are being followed and
- Administrators, technical reviews, committee/RAB members and CPA on Staff (or individual managing the program when a waiver has been approved) are complying with applicable benchmarks monitored through RAB observations.

RAB observations allow for real-time feedback to the RABs which helps improve overall quality and consistency of the RAB process. The process for the RAB observations is similar to the process used during the oversight visits which includes a focus on familiarity threats. The RAB

observer receives the materials that will be presented to the RAB prior to the meeting, selects a sample of reviews of firms enrolled in the Program and reviews the materials. During the RAB meeting, the observer offers comments at the close of discussions based on issues or items noted during their review of the materials. All significant items that were noted by the observer, but not the RAB, are included as comments in the RAB observation report. Program staff draft the report which is reviewed and approved by the OTF. The final report is sent to the AE's peer review committee. Peer review committees may also choose to respond after the final report is issued by the OTF.

Results

For 2018, all AEs had at least one RAB observation, and in 2019, 22 AEs had at least one RAB observation. RAB observations were performed by OTF members and Program staff. Recurring comments generated by RAB observations are summarized in exhibit 8. Peer reviews selected for observation incorporate an element of risk and are not reflective of the entire population. Results for the year ended 2018 and 2019 RAB observations are as follows:

	2018	2019
RAB meetings observed	69	30
AEs observed	34	22
Peer reviews observed	298	178
Peer reviewers	218	126
Based on observers' comments:		
Acceptance delayed or deferred	58	17
Feedback forms issued	13	6

Fewer RAB observations were performed by Program staff in 2019 due to personnel changes. The number of reviews delayed or deferred as a result of the RAB observers' comments decreased from 19.5% in 2018 to 9.6% in 2019. The number of feedback forms issued as a result of RAB observers' comments also decreased from 4.4% in 2018 to 3.4% in 2019.

Enhanced Oversight

Description

In May 2014, the PRB approved the addition of enhanced oversights performed by subject matter experts (SMEs). For 2018 and 2019, the SMEs consisted of members of the applicable Audit Quality Center executive committees and expert panels, PRB members, former PRB members, individuals from firms that perform a large number of engagements in a must-select category, individuals recommended by the Audit Quality Center executive committee and expert panel members and other individuals approved by the OTF. Enhanced oversights are one element of the AICPA's [Enhancing Audit Quality](#) (EAQ) initiative.

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

The objective of the enhanced oversight program is to increase the probability that peer reviewers are identifying all material issues on must-select engagements, including whether engagements are properly identified as nonconforming. This objective is achieved through the selection of two samples. The first sample is a random sample of all peer reviews that include at least one must-select engagement, and the second sample is a risk-based sample (targeted) based on certain risk criteria established by the OTF. Beginning in 2019, peer reviewers were limited to being selected in the random sample no more than two times per year. These oversights neither replace nor reduce the minimum number of oversights currently required by AEs.

The enhanced oversights focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of broker-dealers and examinations of service organizations). For *Government Auditing Standards* engagements with Single Audit Act/Uniform Guidance portions of the engagement, the oversight focused only on the Single Audit Act/Uniform Guidance portion of the audit.

Enhanced Oversight Process

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

OTF Review of Oversight Reports

The OTF reviews a selection of oversight reports issued in which the SME identifies material items not identified by the peer reviewer that cause the engagement to be considered non-conforming. The OTF reviews the reports for consistency and to verify that the items identified by the SME are material departures from professional standards.

Enhanced Oversight Samples

The 2018 and 2019 samples were selected from peer reviews with must-select engagements performed in calendar year 2018 and 2019, respectively. In the 2018 sample, 145 different peer reviewers were selected for oversight, and 75 different peer reviewers were selected for oversight in the 2019 sample.

All must-select engagement types are included in the enhanced oversight program. Most oversights are performed on Employee Benefit Plan, Single Audit/Uniform Guidance, and *Government Auditing Standards* engagements as these are the most common. The must-select engagements selected for oversight in 2018 and 2019 consisted of the following:

Engagement Type	2018	2019
Employee Benefit Plans	87	42
Single Audit/Uniform Guidance	62	22
<i>Government Auditing Standards</i>	32	14
FDICIA	2	-
Broker-dealers	-	-
SOC [®]	2	1
Total	185	79

Exhibit 9 provides a list of items identified by SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a nonconforming engagement. Only one engagement is reviewed for each firm selected, and the SME does not expand the scope of the oversight. Refer to the following section for further discussion of the sample selection.

Random Sample

Each year, a random sample is selected from all peer reviews that include at least one must-select engagement. Each peer review included in the random population has an equal chance at being selected for oversight.

Risk-Based Sample

Each oversight year, a risk-based sample (targeted) is selected based on certain risk criteria established by the OTF. If a peer reviewer is selected twice during the random sample or through a combination of the random and risk-based samples, he or she is not selected for the targeted sample to limit the number of times a peer reviewer can be selected for enhanced oversight each oversight year.

Results

In 2018, an increased focus was placed on evaluating non-compliance with the risk assessment standards, and the PRB issued guidance effective for peer reviews commencing on or after October 1, 2018. This increased focus impacted the Program, as neither peer reviewers nor SMEs were raising risk assessment issues to the level of non-conforming, whereas these engagements are now being deemed non-conforming. To compare the results of the 2018 and 2019 oversight years with the prior years, the table below shows an adjusted non-conforming rate for each year. Engagements from peer reviews commencing on or after October 1, 2018 with only risk assessment issues identified are excluded from the number of non-conforming engagements. This risk assessment guidance had a limited impact on the results of the 2018 oversight sample; however, there has been a significant impact on the results in 2019. Of the 46 engagements identified as non-conforming in 2019, 16 only had risk assessment issues causing the engagement to be non-conforming. The adjusted non-conforming rate when excluding engagements with only risk assessment issues is 38% which is an improvement from prior years.

Year	Sample Size	Total Non-Conforming Engagements Identified	%	Non-Conforming Engagements with Only Risk Assessment Issues	Adj %	Number of Non-Conforming Engagements Identified by Peer Reviewer	% of Non-Conforming Engagements Identified by Peer Reviewer
2014	90	40	44%	N/A	44%	7	18%
2015	190	104	55%	N/A	55%	42	40%
2016	108	38	35%	N/A	35%	18	47%
2017	87	43	49%	N/A	49%	27	63%
2018	185	108	58%	11	52%	68	63%
2019	79	46	58%	16	38%	37	80%

Based on an analysis of the 2018 and 2019 samples, the oversights indicated considerable improvement in peer reviewer performance. Each year, peer reviewers improved in their detection of non-conforming engagements. In the first year of oversights, peer reviewers only identified a non-conforming engagement 18% of the time prior to the oversight. This increased to 80% in the most recent oversights performed in 2019. The PRB's focus on oversight and reviewer education led to significant improvements in peer reviewer performance.

Feedback Issued from Enhanced Oversight Process

For the oversights where a non-conforming engagement was not identified by the peer reviewer or for oversights where the peer reviewer identified the engagement as non-conforming but failed to identify significant additional items, the following feedback was issued by the AE:

Type of Feedback	2018	2019
Deficiency Letter	-	-
Feedback Form – Reviewer Performance Deficiency	15	1
Feedback Form – Reviewer Performance Finding	16	3
No Feedback	11	2
RAB Process Not Completed	3	2
Total	45	8

Some reviews selected for oversight have not completed the RAB process as of the date of this report, including consideration of feedback. The delay in consideration of feedback is either due to the firm or peer reviewer not cooperating with the process, or the peer reviewer disagreed with the result of the oversight, which resulted in a delay in the acceptance of the peer review and consideration of feedback.

The OTF monitors the types of feedback issued as a result of the oversights, and if an AE does not issue feedback, the OTF considers if any further actions are necessary, including whether to issue a reviewer performance finding, deficiency or deficiency letter to the peer reviewer.

A *reviewer performance finding* is issued when a peer reviewer fails to identify a non-conforming engagement but demonstrates sufficient knowledge and experience required to review the

engagement. A *reviewer performance deficiency* is issued when a peer reviewer fails to identify a non-conforming engagement and does not demonstrate sufficient knowledge and experience required to review the engagement. A *deficiency letter* is issued when a peer reviewer has a pattern of reviewer performance findings or deficiencies.

Oversight by the AEs' Peer Review Committees

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

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements established by the PRB to provide reasonable assurance that:

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

AE Oversight Procedures

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

Oversight of Peer Reviews and Reviewers

Description

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

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

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

Reviewers – All peer reviewers are subject to oversight and may be selected based on several factors, including random selection, any unusually high percentage of pass reports as compared to non-pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, performance of the peer reviewer's first peer review or performing high volumes of

reviews. Oversight of a reviewer can also occur due to previously noted performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, not considering significant matters or failure to select an appropriate number of engagements. When an AE oversees a reviewer from another state, the results are conveyed to the AE of that state.

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

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

Results

For 2018, the AEs conducted oversight on 261 reviews. There were 151 system and 110 engagement reviews oversighted. Approximately 53 percent of the system oversights were conducted on-site. For 2019, the AEs conducted oversight on 264 reviews. There were 158 system and 106 engagement reviews oversighted. Approximately 51 percent of the system oversights were conducted on-site. See exhibit 12 for a summary of oversights by AEs.

Annual Verification of Reviewers' Resumes

Description

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

A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards, but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The 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 three-year period, as long as, at a minimum, one-third are verified in year one, a total of two-thirds have been verified by year two, and 100 percent have been verified by year three. Verification must include the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards (GAGAS), audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), audits of insured depository institutions subject to the FDICIA, audits of broker-dealers and examinations of SOC 1[®] engagements and SOC 2[®] engagements, as applicable. Verification procedures may include requesting copies of their license to practice as a CPA, CPE certificate from a qualified reviewer training course, CPE certificates that document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least eight hours in one year and CPE certificates that document qualifications to perform audits under *Government Auditing Standards*, if applicable. The AE also verifies whether the reviewer is a partner or manager in a firm enrolled in the Program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2018 and 2019. See exhibit 13.

Evolution of Peer Review Administration

Introduction

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

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

Peer review has grown and matured over the years in the marketplace, as well as the regulatory and technological environments. This evolution does not diminish the contributions of any state CPA society or AE. As the Program evolved over time, some state societies began to examine their role in peer review, and 11 AEs opted to discontinue administering peer review over the past three years and have allowed other state AEs to administer their programs.

Benchmark Model

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

The benchmark model started with a pilot period for monitoring and reporting on the benchmarks. During the pilot period, which began on July 2, 2018 and ended on December 31, 2019, AEs were not subject to fair procedures. For the reporting period beginning January 1, 2020, AEs will be

subject to fair procedures when there is a pattern of consistent non-compliance with the benchmarks. Although AE self-monitoring and reporting to the OTF are new concepts, the overall peer review process should not have significant changes, as many of the benchmarks have always been expected and implied. So, AEs are expected to follow peer review *Standards* and guidance and will be held accountable for non-compliance.

During the pilot, the OTF monitored benchmarks and reporting requirements to determine if modifications were needed, including the frequency and timing of reporting. Revisions to the benchmarks were made during this process. The OTF will continue to evaluate the benchmark measurements to make sure they are appropriate and achievable and will make modifications as needed.

Exhibit 1
Administering Entities Approved to Administer the Program in 2018 and 2019

Administering Entity	Licensing Jurisdiction(s)
Alabama Society of CPAs	Alabama, Arkansas ¹ , Mississippi ²
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado, New Mexico
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Kansas Society of CPAs	Kansas
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts, New Hampshire
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota, North Dakota ³
Missouri Society of CPAs	Missouri
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Idaho ² , Montana ⁴ , Nebraska, Utah, Wyoming
New England Peer Review, Inc.	Maine, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
North Carolina Association of CPAs	North Carolina
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Hawaii ⁵ , Northern Mariana Islands
Peer Review Alliance	Illinois, Indiana ⁶ , Iowa, Kentucky, South Carolina, West Virginia, Wisconsin
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, New York ⁵ , Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington

¹ Effective April 2019.

² Effective July 2019.

³ Effective July 2018.

⁴ Effective May 2018.

⁵ Effective March 2018.

⁶ Effective September 2018.

Exhibit 2
Results by Type of Peer Review and Report Issued

The following shows the results of the Program from 2017-19 by type of peer review and report issued. This data reflects the results based on the report acceptance date of the peer review.

	2017		2018		2019		Total	
<u>System reviews</u>	#	%	#	%	#	%	#	%
Pass	2,489	80	3,098	78	3,246	79	8,833	79
Pass with deficiency(ies)	416	13	587	15	579	14	1,582	14
Fail	207	7	276	7	263	7	746	7
Subtotal	<u>3,112</u>	<u>100</u>	<u>3,961</u>	<u>100</u>	<u>4,088</u>	<u>100</u>	<u>11,161</u>	<u>100</u>

	2017		2018		2019		Total	
<u>Engagement reviews</u>	#	%	#	%	#	%	#	%
Pass	2,763	77	3,591	76	3,867	79	10,221	77
Pass with deficiency(ies)	390	11	488	10	532	11	1,410	11
Fail	421	12	641	14	483	10	1,545	12
Subtotal	<u>3,574</u>	<u>100</u>	<u>4,720</u>	<u>100</u>	<u>4,882</u>	<u>100</u>	<u>13,176</u>	<u>100</u>

Exhibit 3

Type and Number of Reasons for Report Modifications

The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews in the Program accepted from 2017-19 summarized by 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. Since 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 2, *"Results by Type of Peer Review and Report Issued."*

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	97	140	144
Relevant ethical requirements	39	72	76
Acceptance and continuance of client relationships and specific engagements	30	84	78
Human resources	117	192	266
Engagement performance	544	768	728
Monitoring	243	368	438
Totals	<u>1,070</u>	<u>1,624</u>	<u>1,730</u>

Exhibit 4
Number of Engagements Not Performed in Accordance
with Professional Standards in All Material Respects

The following shows the total number of engagements reviewed (system reviews and engagement reviews) and the number identified as not performed in accordance with professional standards in all material respects from peer reviews accepted from 2017-19 in the Program.

Engagement Type	2017			2018			2019		
	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 (Uniform Guidance)	1,365	299	22%	1,426	260	18%	1,353	304	22%
Governmental - All Other	1,374	193	14%	1,855	239	13%	1,955	292	15%
ERISA	2,368	356	15%	2,595	406	16%	2,527	400	16%
FDICIA	58	4	7%	46	5	11%	47	12	26%
Broker-Dealers	162	35	22%	160	32	20%	121	21	17%
Other	4,268	271	6%	5,433	318	6%	5,349	635	12%
Reviews	4,624	377	8%	5,943	480	8%	6,140	423	7%
Compilations & Preparations:									
With Disclosures	2,837	219	8%	3,766	283	8%	3,894	244	6%
Omit Disclosures	8,247	1,020	12%	10,707	1,457	14%	10,696	1,057	10%
Forecasts & Projections	57	2	4%	91	7	8%	21	3	14%
SOC® Reports	188	27	14%	209	21	10%	167	19	11%
Agreed Upon Procedures	1,104	29	3%	1,348	38	3%	1,223	91	7%
Other SSAEs	208	24	12%	141	3	2%	161	2	1%
Totals	26,860	2,852	11%	33,720	3,549	11%	33,654	3,503	10%

Exhibit 5

Summary of Required Follow-Up 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. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions and implementation plans are remedial and educational in nature and imposed to strengthen the performance of the firm. A review can have multiple corrective actions and/or implementation plans. For 2017-19 reviews, the following represents the type of corrective actions and/or implementation plans required.

Type of Follow-Up Action	<u>2017</u>	<u>2018</u>	<u>2019</u>
Agree to take/submit proof of certain (CPE)	1,311	2,099	2,974
Submit to review of correction of engagements that were not performed in accordance with professional standards	112	173	272
Agree to pre-issuance reviews	442	702	641
Agree to post-issuance reviews	503	835	820
Agree to review of remedial actions	33	113	143
Submit monitoring or inspection report to Team Captain or Peer Review Committee	174	309	297
Submit to revisit (Team Captain or Peer Review Committee Member)	163	172	187
Elect to have accelerated review	6	6	11
Submit evidence of proper firm licensure	26	61	87
Firm has represented in writing they no longer perform any auditing engagements	51	68	63
Agree to hire outside party or consultant for inspection	36	61	70
Team captain to review Quality Control Document	20	54	37
Submit proof of purchase of manuals	31	50	23
Agree to join a Quality Center	38	55	56
Other	103	153	204
Total	<u>3,049</u>	<u>4,911</u>	<u>5,885</u>

Exhibit 6
On-Site Oversights of Administering Entities
Performed by the AICPA Oversight Task Force

For the years 2018 and 2019, a member of the OTF performed an on-site oversight visit to each of the following AEs. The oversight results are available on the [AICPA's website](#).

<u>2018</u>	<u>2019</u>
Alabama	Colorado
Arkansas	Connecticut
California	Louisiana
Florida	Maryland
Georgia	Massachusetts
Idaho	Minnesota
Kansas	North Carolina
Michigan	Oklahoma
Mississippi	Peer Review Alliance
Missouri	Texas
Nevada	Virginia
New England	Washington
New Jersey	
Ohio	
Oregon	
Pennsylvania	
Tennessee	

Exhibit 7
Observations from On-Site Oversight of Administering Entities
Performed by the AICPA Oversight Task Force

The following represents a summary of observations made by the OTF resulting from the on-site oversight visits performed during 2018-19. The observations are examples not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- Committee decision letters not sent timely
- All required materials not provided to the RAB
- Resume verification not completed timely and documentation not retained in accordance with program guidance
- Technical reviewers not evaluated annually
- Open reviews did not appear to have been identified by administrative procedures as open, so, these reviews were not being monitored for completion Peer review data maintained on the website is not current or not in accordance with Program guidance
- RAB member qualifications were not appropriately monitored to determine their eligibility to participate in RAB meetings

Technical Reviewers

- Technical reviewers did not meet the applicable training requirements on a timely basis
- Technical reviewers did not address issues before reviews were presented to the RAB
- Technical reviewers did not evaluate reviewer performance history and present to the RAB
- Technical reviewers recommended implementation plans not in accordance with guidance
- Engagement reviews with certain criteria were not accepted within 60 days of receipt of working papers from the reviewer
- Reviews were not presented to the RAB within 120 days of receipt of working papers from the reviewer

Committee Procedures

- Reviewer performance feedback not issued when appropriate
- Required oversights not performed timely
- RAB not was not identifying issues during the deliberation process of review acceptance until noted by the observer

Exhibit 8
Comments from RAB Observations
Performed by AICPA Peer Review Program Staff and OTF Members

The following is a summary of recurring comments generated from the RAB observations performed by the Program staff and OTF members for 2018 and 2019. The comments provide the AEs, their committees, RABs, peer reviewers and technical reviewers with information that will increase consistency and improve the peer review process. The comments vary in degree of significance and are not applicable to all the respective parties.

- Potential issue regarding auditor compliance with independence requirements of *Government Auditing Standards* (Yellow Book)
- Firms' response on the FFC forms did not address all items listed
- Systemic cause missing or did not appropriately address the underlying cause of the finding on FFC forms
- Firm representation letters not consistent with the illustration in appendix B of the *Standards*
- Report language was not consistent with current *Standards*
- Reviewer did not expand scope in accordance with *Standards* and guidance
- Firm letter of response and FFC responses did not appropriately address nonconforming engagements
- Reviewer performance feedback not initially recommended when:
 - Reviewers did not appropriately aggregate and evaluate matters
 - Reviewers did not identify nonconforming engagements
 - Oversight identified issues not previously detected by the reviewer
 - Reports and letters of response were not in compliance with *Standards*
- Reviews were not consistently presented to the RAB free from open technical issues causing the RAB to spend extra time discussing, leading to deferred or delayed acceptance
- RAB members that performed or participated in a review did not recuse themselves from the meeting when their reviews were presented
- Corrective actions and implementation plans recommended were not in accordance with RAB Handbook guidance
- The referral database included a referral from the Department of Labor or ethics; however, this was not referenced in the technical reviewer's checklist
- Technical reviewers did not evaluate reviewer performance history and present to the RAB
- Technical reviewers were not available to address questions raised by RAB members during the presentation of reviews
- Committee decision letters not sent timely
- All required materials not provided to the RAB

Exhibit 9
Material Departures from Professional
Standards Identified by SMEs

As discussed in more detail in the “Enhanced Oversight” section, the SMEs identified material departures from professional standards that were not identified by the peer reviewers. The following is a list of the most common departures from professional standards identified by the SMEs in the 2018 and 2019 samples. The SMEs identified these departures from professional standards, individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered nonconforming.

Employee Benefit Plan Engagements

- Failure to perform an appropriate risk assessment including: not assessing risk at the assertion level, not properly identifying relevant assertions and not documenting specific audit responses to risk
- Lack of documentation of understanding of internal controls and internal control testing, including, plan controls, payroll, IT and complimentary user controls
- Lack of documentation over tests of operating effectiveness on key complementary user controls for a SOC® report upon which reliance was placed
- Control risk assessed at less than high without obtaining a SOC® report or performing other control testing
- Failure to perform an appropriate preliminary analytic
- Lack of documentation of testing of benefit/claim payments
- Lack of documentation of testing over census data provided to third party
- Failure to perform sufficient procedures of the plan’s investments in a full scope audit
- Failure to include sufficient documentation to meet the re-performance standards
- Failure to appropriately document size determination

Single Audit/Uniform Guidance and Government Auditing Standards Engagements

- Lack of documentation of independence considerations, including skills, knowledge, and experience, threats to independence and safeguards
- Failure to appropriately document risk assessment including: assessing risk at only the financial statement level, not appropriately linking audit procedures performed to the risk assessment and not documenting understanding of controls including IT controls
- No testing of internal control over compliance or lack of testing of internal control over all direct and material compliance requirements
- Lack of documentation of internal controls over compliance
- Failure to document internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA), document procedures performed over the SEFA or reconcile the SEFA to the financial statements.
- Failure to sufficiently test or document testing of all direct and material compliance requirements
- Insufficient documentation of auditor analysis and judgement of which applicable compliance requirements were determined not to be direct and material
- Lack of documentation of risk of material non-compliance of each of the major programs
- Failure to appropriately document sample size determination
- Failure to perform major program determination in accordance with Uniform Guidance

Exhibit 10
Summary of Oversight Performed by Administering Entities

The following shows the number of oversights performed by each AE for 2018 and 2019.

Administering Entity	2018			2019		
	Type of Review/Oversights			Type of Review/Oversights		
	System	Engagement	Total	System	Engagement	Total
Alabama	7	6	13	4	2	6
California	16	18	34	10	19	29
Colorado	2	3	5	3	2	5
Connecticut	2	2	4	2	2	4
Florida	8	4	12	5	5	10
Georgia	3	4	7	3	2	5
Kansas	2	2	4	2	2	4
Louisiana	3	2	5	5	4	9
Maryland	2	3	5	4	2	6
Massachusetts	4	2	6	4	3	7
Michigan	4	4	8	4	4	8
Minnesota	2	2	4	3	2	5
Missouri	2	2	4	2	2	4
National Peer Review Committee	24	-	24	28	-	28
Nevada	3	5	8	2	4	6
New England	4	2	6	3	2	5
New Jersey	8	2	10	5	2	7
North Carolina	4	3	7	5	4	9
Ohio	4	4	8	4	4	8
Oklahoma	2	2	4	2	2	4
Oregon	2	2	4	5	2	7
Peer Review Alliance	14	6	18	9	11	20
Pennsylvania	7	9	16	14	2	16
Puerto Rico	2	-	2	5	1	6
Tennessee	2	3	5	3	2	5
Texas	8	8	16	17	12	29
Virginia	2	6	8	2	4	6
Washington	8	4	12	3	3	6
Total	151	110	261	158	106	264

Exhibit 11
Summary of Reviewer Resumes Verified by Administering Entities

The following shows the number of reviewer resumes verified by AEs for the years 2017-19.

<u>Administering Entity</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Alabama	34	35	32
California	36	49	47
Colorado	15	28	20
Connecticut	6	7	4
Florida	25	60	35
Georgia	10	24	25
Kansas	5	7	4
Louisiana	25	25	18
Maryland	14	18	24
Massachusetts	11	20	6
Michigan	22	21	21
Minnesota	17	37	10
Missouri	19	19	13
National Peer Review Committee	124	68	84
Nevada	18	73	19
New England	10	8	4
New Jersey	33	35	31
North Carolina	25	48	11
Ohio	-	70	35
Oklahoma	9	10	12
Oregon	10	16	11
Peer Review Alliance	101	78	74
Pennsylvania	52	63	82
Puerto Rico	-	5	13
Tennessee	19	26	21
Texas	32	46	52
Virginia	18	44	21
Washington	11	17	8
Total	701	957	737

Appendix 1

History of Peer Review at the AICPA

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

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

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

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

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

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

Appendix 1, continued

History of Peer Review at the AICPA

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with and inspected by the PCAOB. Because many SBOAs 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 SBOA licensing and other state and federal governmental agency peer review requirements.

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

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

The FSBA documents typically include the following:⁷

- 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)

Beginning in January 2020, FSBA was enhanced to also provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when the firm has given permission.

⁷ As of February 2015, a firm's current and prior peer review documents are available via facilitated state board access (FSBA). The documents are available if the state participated in FSBA for both review periods, and the firm did not opt out of FSBA for either review.

Appendix 2

AICPA Peer Review Program Overview

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

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

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

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

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

⁸ QC section 10 can be found in AICPA *Professional Standards*.

Appendix 2, continued

AICPA Peer Review Program Overview

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

AEs

Each state CPA society elects the level of involvement that it desires in the administration of the Program. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the Program for enrolled firms whose main offices are located in that state; or (3) ask the AICPA to request another state CPA society to administer the Program for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the Program in compliance with the *Standards* and related guidance materials issued by the PRB. The PRB approved 28 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the Program in 2019. See exhibit 1. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the Program.

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

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

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the senior technical committee governing the Program and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the revised <i>AICPA Standards for Performing and Reporting on Peer Reviews (Standards)</i> and interpretations to the revised <i>Standards</i> and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the AE oversight process for the Program.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications, and responsibilities of AE peer review committees, report acceptance bodies and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
Program Administrative Manual	The publication that includes guidance used by the AICPA PRB, approved state CPA societies or other entities in the administration of the Program.
Administering entity	A state CPA society, group of state CPA societies or other entity annually approved by the PRB to administer the Program in compliance with the <i>Standards</i> and related guidance materials issued by the PRB.
Agreed upon procedures	An attestation engagement in which a practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or conclusion.
Attest engagement	An examination, review, or agreed-upon procedures engagement performed under the attestation standards related to subject matter or an assertion that is the responsibility of another party.
Audit	An engagement which provides financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
Compilation	An engagement where the accountant applies accounting and financial reporting expertise to help management in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework.
Corrective Action	A corrective action is a course of action that a reviewed firm has agreed to take in response to deficiencies.

<u>Term</u>	<u>Definition</u>
CPA on Staff	Individual at the AE responsible for managing the Program.
Employee Retirement Income Security Act of 1974	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) recapitalized the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), expanded the authority of banking regulators to seize undercapitalized banks and expanded consumer protections available to banking customers.
Engagement review	A type of peer review for firms that do not perform audits or certain SSAE engagements that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Enhancing Audit Quality initiative	The Enhancing Audit Quality (EAQ) initiative is the AICPA's commitment to providing the resources and tools, as well as standards, monitoring, and enforcement, necessary to move the profession further on its journey toward greater audit quality.
Facilitated State Board Access (FSBA)	<p>Developed by the AICPA to assist firms in complying with state peer review document submission requirements. Firms give permission to provide the results of their peer reviews to SBOAs via the secure FSBA website. Several SBOAs allow firms to voluntarily meet their state peer review document submission requirements using FSBA and many SBOAs require firms to use FSBA.</p> <p>FSBA was enhanced in January 2020 to provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when a firm gives permission.</p>
Financial statements	A presentation of financial data, including accompanying notes, if any, to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with GAAP, a comprehensive basis of accounting other than generally accepted accounting principles, or a special purpose framework.
Finding for further consideration (FFC)	A finding is one or more matters that the reviewer concludes does not rise to the level of a deficiency or significant deficiency and is documented on a finding for further consideration (FFC) form.
Firm	A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.

<u>Term</u>	<u>Definition</u>
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the Program should be terminated or whether some other action should be taken.
Implementation plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to findings for further consideration. A RAB may require an implementation plan when the responses to a firm's FFC(s) are not comprehensive, genuine and feasible.
Licensing jurisdiction	For purposes of this report, licensing jurisdiction means any state or commonwealth of the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico or the Virgin Islands.
Matter for further consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed or reported on, or both, in conformity with applicable professional standards in all material respects. Matters are typically one or more "No" answers to questions in peer review questionnaires(s). A matter is documented on a matter for further consideration (MFC) form.
Other comprehensive basis of reporting	Consistent accounting basis other than GAAP used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the Program and make recommendations regarding the PRB oversight procedures.
Peer Review Committee	An authoritative body established by an AE to oversee the administration, acceptance, and completion of the peer reviews administered and performed in the licensing jurisdiction(s) it has agreed to administer.
Plan of administration (POA)	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the Program.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
Preparation engagement	An engagement to prepare financial statements pursuant to a specified financial reporting framework.
PRIMA System	An online system that is accessed to carry out the Program administrative functions.
Report Acceptance Body	A committee or committees appointed by an AE for the purpose of considering the results of peer reviews and ensuring that the requirements of the Program are being complied with.

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