Texas Society of CPAs

Annual Report on Oversight

Date Issued – December 4, 2015

Administering Entity Oversight Process and Procedures

Introduction

Purpose of this Report

The purpose of this Annual Report on Oversight (Report) is to provide a general overview of the Peer Review Programs as administered by the Texas Society of CPAs (Society), past and current statistics and the results of various oversight procedures performed by the TSCPA Peer Review Committee.

Years Presented in this Report

Information presented in this Report is reported on a calendar year basis for peer review and oversight procedures actually performed in 2012, 2013 and 2014. Some procedures performed in those years may not have been completed until the subsequent calendar year.

Overview of TSCPA Peer Review

The Texas Society of CPAs (TSCPA) serves as the administering entity for the AICPA Peer Review Program in the State of Texas which began in 1989, and has administered the Texas Society of CPAs Peer Review Program since 1991. Both programs have adopted the AICPA "*Standards for Performing and Reporting on Peer Reviews*" as its minimum standards for review and operates similarly.

The Texas State Board of Accountancy (BOA) requires all firms in the state who provide attestation or compilation services as part of their public accounting process to be enrolled in a practice monitoring program. The BOA has designated TSCPA as an approved sponsoring organization to approve peer review reports issued for firms enrolled in peer review programs administered by TSCPA. See Exhibit A for a summary of enrolled firms by number of professionals.

AICPA bylaws require that members engaged in the practice of public accounting be associated with a firm that is enrolled in an approved practice-monitoring program if the services performed by such firm are within the scope of the AICPA's practice monitoring standards, and the firm prepares reports in accordance with AICPA professional standards. For purposes of peer review under the AICPA program, an accounting and auditing practice is "all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARSs); 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 pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB). Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection."

Firms enrolled in either program are required to have a peer review every three years, the scope of which covers a one-year period. The review is conducted by an independent evaluator known as a peer reviewer and is not considered final until accepted by a committee of their peers, also known as report acceptance bodies (RABs). RABs must consist of at least three qualified individuals who are independent of the reviewed firm and the peer reviewer. In certain circumstances, reviewed firms are asked by the RAB to voluntarily complete one or more follow-up actions as a condition of acceptance by the RAB. See Exhibit E for a summary of required follow-up actions.

The following summarizes the different peer review types, objectives, and reporting requirements as defined under the AICPA *Standards:*

System Reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, in additional to reviews, compilations, or other attestation engagements. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on auditing and accounting engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately. The peer review report rating may be *Pass* (firm's system of quality control is adequately designed and the firm has complied with its system of quality control); *Pass with deficiencies* (firm has less than reasonable assurance of conformity with professional standards in one or more areas); or *Fail* (firm's system of quality control is not adequately designed or complied with and there is little or no assurance of conforming with professional standards).

Engagement Reviews: Engagement reviews are for firms that only perform services under SSARS of services under the SSAEs not included in System Reviews. Engagement reviews focus on work performed and reports and financial statements issued on particular engagements (reviews, compilations, or agreed-upon procedures). The peer review report may be a rating of *Pass* (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and /or reported on in conformity with applicable professional standards in all material respects); *Pass with deficiencies* (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects except for the deficiencies described in the report); or *Fail* (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). A report with a peer review rating of *Fail* is issued when deficiencies are evident on all of the engagements submitted for review.

See Exhibit B for a summary of results by type of peer review and report issued; Exhibit C for a summary of report modifications; Exhibit D for a summary of engagements not performed and/or reported on in conformity with professional standards in all material respects.

Oversight of Peer Reviews and Reviewers

Reviewer Evaluation Committee
The TSCPA Peer Review Committee (Committee) has established a Reviewer Evaluation Committee (REC) that is responsible for reporting to the full Committee on the activities of the oversight program regarding peer reviewers. The subcommittee is made up of the Committee Chair, Vice Chair, and other committee members as deemed necessary. REC members meet during the year to review the oversights conducted, reviewer resume verifications, consider reviewer performance and consult with staff on the status of reviews. Guidance from the AICPA Peer Review Program Oversight Handbook is followed.

Oversight Selection
Annually, the Society will perform random and targeted oversights on reviews and reviewers. The selections are based on the criterion for selection as outlined in the AICPA Peer Review Program Oversight Handbook, Chapter 2. At least 2% of all reviews performed in a calendar year are subject to oversight and will include at least two system and two engagement reviews. At a minimum, 2 system review oversights will be performed on-site.

Oversights are performed by either the program's technical reviewer, a member of the Peer Review Committee, or other qualified peer reviewers. A Peer Review Committee member or designee will perform all system reviews and must-select engagement oversights. This committee member must meet

team captain requirements and experience. Ordinarily, selection of the oversight reviewer is on a volunteer basis but may be assigned by the Committee Chairman, if there are no volunteers.

At least two "must select" engagements review oversights must be performed by a committee member or designee and may be performed on-site or off-site. The two engagement oversights must include audits of employee benefits plans under the Employee Retirement Income Security Act (ERISA), engagements under the *Government Auditing Standards*, audits of insured depository institutions subject to the Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991, audits of carrying broker dealers, or service organization engagements (SOC 1 and 2). Also, the two oversights selected should not be of the same type of audit.

> Firms
> All firms are subject to oversight and are selected 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 random selection, a notable and suspiciously too frequent submission of pass reports, conducting a significant number of reviews for firms with audits in high rise 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 or performance deficiencies, such as issuance of an inappropriate peer review report, improperly considering matters that turn out to be significant, or failure to select an appropriate number of engagements.

Oversight Process

Ordinarily, oversights are performed at the reviewed firm's office, but may be conducted at other locations. Unless required by the committee there is no cost to the firm or reviewer for the oversight. Committee members or designees performing oversight are reimbursed for their time plus all direct travel and out-of-pocket expenses. Prior approval of the reviewer is obtained if he/she is required to pay for the oversight. Committee members are required to document the results of the oversight by completing an AICPA Oversight Checklist and preparing a report for the committee. Oversight reports are kept on file at the TSCPA office for AICPA oversight visits. Reports are not sent to the AICPA unless remedial action must be ratified by the AICPA. The final report is prepared on the committee member's firm letterhead and submitted to the TSCPA REC. The reviewer may respond to the REC on the results of the oversight within 14 days of the date of the final report. See Exhibit F for a summary of oversights performed.

In situations where a reviewer has been allowed to conduct reviews only when there is a committee member present the reviewer may be required to reimburse the Society for the committee member's expenses as noted above.

During each REC meeting the oversight reports will be considered and if necessary, additional oversight procedures may be imposed on the reviewer. Additionally, in some circumstances the committee may be asked to consider acceptance of the review.

Administrative Oversight

In those years when there is no on-site Oversight Task Force (OTF) oversight, an administrative oversight is performed on the TSCPA administration of the peer review program by a member of the TSCPA Peer Review Committee or a designee pre-approved by the AICPA. Procedures will cover the administrative requirements of the administering the AICPA PRP. The administrative oversight reports are submitted

to the AICPA as part of the Plan of Administration and are reviewed by the TSCPA Peer Review Committee, and before an on-site oversight, by an OTF member.

Verification of Reviewers' Resumes

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 the 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, auditing and quality control standards every three years, with a minimum of 8 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 practice 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 TSCPA Peer Review Committee 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 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. In accordance with the AICPA Oversight Handbook, TSCPA must verify information within a sample of reviewers' resume on annual basis. See Exhibit G for a list of reviewer resumes verified in 2014. All reviewer resumes are verified over a three-year period.

Verification procedures include:
- The reviewer providing specific information such as the number of engagements they are specifically involved with and in what capacity. TSCPA staff then compares the information provided by the reviewer to the reviewer's resume on file in the AICPA system and to the reviewer firm's most recent background information to determine if those engagements were included in the firm's last peer review.
- Determining the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans under ERISA, audits of insured depository institutions subject to FDICIA and carrying broker dealers.
- If the reviewer has a license to practice as a certified public accountant in the state of Texas. (This may include requesting copies of their license.)
- A list of continuing professional education (CPE) courses taken over a three-year period, to document the required 120 hours of CPE over 3 years and 48 CPE hours related to accounting and auditing to be obtained every three years with at least 8 hours in one year, including CPE from a qualified reviewer training course; and qualification to perform Yellow Book audit, if applicable. Reviewers may also be required to provide CPE certificates.
- Determining whether the reviewer is a partner or manager in a firm enrolled in a practice monitoring program.
- Verifying that the reviewer's firm received a pass report on its most recently completed peer review.

Exhibit A

Number of Enrolled Firms by Number of Professionals* as of November 2, 2015.

	TSCPA Peer Review Program	AICPA Peer Review Program
Sole Practitioners	557	709
2 to 5	460	1015
6 - 10	70	373
11 - 19	13	145
20-49	1	71
50-99	0	10
100+	0	1
Total Enrolled Firms	1101	2324

* Professionals are considered all personnel who perform professional services, for which the firm is responsible, whether or not they are CPAs.

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

Exhibit B

Results of Peer Reviews Performed from 2012-2014

Results by Type of Peer Review and Report Issued

	2012		2013		2014	
	TSCPA Peer Review Program	AICPA Peer Review Program	TSCPA Peer Review Program	AICPA Peer Review Program	TSCPA Peer Review Program	AICPA Peer Review Program
System Reviews:						
Pass	33	245	24	208	28	244
Pass with	8	25	11	28	5	35
Fail	10	4	9	11	6	19
Subtotal – System	**51**	**274**	**44**	**247**	**39**	**298**
Engagement Reviews:						
Pass	202	362	223	369	256	426
Pass with deficiency(ies)	83	132	74	97	68	61
Fail	62	44	46	40	37	27
Subtotal - Engagement	**347**	**538**	**343**	**506**	**361**	**514**
Totals	**398**	**812**	**387**	**753**	**400**	**812**

Note: The above data reflects peer review results as of November 2, 2015. Approximately 1.87% of 2014 reviews are in process and their results are not included in the totals above.

Exhibit C

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 No. 10, for report modifications (when a pass with deficiencies or fail report is issued) from system reviews performed from 2012-2014. It is important to note that one review may have more than one reason for a report modification.

	2012		2013		2014	
	TSCPA Peer Review Program	AICPA Peer Review Program	TSCPA Peer Review Program	AICPA Peer Review Program	TSCPA Peer Review Program	AICPA Peer Review Program
Reasons for Report Modifications						
Leadership responsibilities for quality with the firm ("the tone at the top")	4	3	4	5	4	11
Relevant Ethical Requirements	0	0	1	1	1	3
Acceptance and Continuance of Client Relationships and specific engagements	3	0	0	2	2	6
Human Resources	9	7	2	5	2	15
Engagement Performance	16	28	5	15	11	43
Monitoring	6	10	2	6	6	21
Totals	**38**	**48**	**14**	**34**	**26**	**99**

Note: The above data reflects peer review results as of November 2, 2015. Approximately 1.87% of 2014 reviews are in process and their results are not included in the totals above.

Exhibit D

Number of Engagements Not Performed or Reported On 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 or reported on in accordance with professional standards in all material respects" from peer reviews performed 2012-2014. The Standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable 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.

	2014			
	TSCPA Peer Review Program		**AICPA Peer Review Program**	
	Number of Engagements		**Number of Engagements**	
Engagement Type	**Reviewed**	**Not Performed in Accordance with Professional Standards**	**Reviewed**	**Not Performed in Accordance with Professional Standards**
Audits:				
Single Audit Act (A-133)	11	4	110	15
Governmental – All Other	12	4	90	15
ERISA	10	6	181	47
FDICIA	0	0	5	0
Other	33	7	339	27
Reviews	61	16	311	21
Compilations:				
with Disclosures	40	13	189	13
without Disclosures	646	159	1257	133
Forecast & Projections	1	0	5	1
SOC Reports	1	0	8	3
Agreed Upon Procedures	8	0	97	6
Other SSAEs	8	1	33	3
Totals	831	210	2625	284
% of Totals		**25%**		**11%**

Note: The above data reflects peer review results as of November 2, 2015. Approximately 1.87% of 2014 reviews are in process and their results are not included in the totals above.

Exhibit D (continued)

	2013			
	TSCPA Peer Review Program		**AICPA Peer Review Program**	
	Number of Engagements		**Number of Engagements**	
Engagement Type	**Reviewed**	**Not Performed in Accordance with Professional Standards**	**Reviewed**	**Not Performed in Accordance with Professional Standards**
Audits:				
Single Audit Act (A-133)	15	9	108	16
Governmental – All Other	9	3	65	10
ERISA	3	1	134	6
FDICIA	0	0	7	0
Other	35	7	275	25
Reviews	56	11	264	26
Compilations:				
with Disclosures	29	10	175	26
without Disclosures	621	176	1111	206
Forecast & Projections	1	0	4	0
SOC Reports	0	0	5	0
Agreed Upon Procedures	3	1	71	4
Other SSAEs	1	0	4	0
Totals	773	218	2223	319
% of Totals		28%		14%

Exhibit D (continued)

Engagement Type	TSCPA Peer Review Program		AICPA 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)	14	8	108	11
Governmental – All Other	12	7	64	7
ERISA	4	0	120	7
FDICIA	0	0	2	0
Other	60	11	306	17
Reviews	70	19	328	47
Compilations:				
with Disclosures	40	13	171	27
without Disclosures	641	232	1350	267
Forecast & Projections	2	1	5	1
SOC Reports	1	0	4	1
Non-carrying Broker Dealer	0	0	2	0
Other SSAEs	8	0	73	4
Totals	852	291	2533	389
% OF Totals		34%		15%

(table header above: **2012**)

Exhibit E

Summary of Required Follow-up Actions

The TSCPA 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 2012-2014, the following represents the type of follow-up actions required.

Type of Follow-up Action	2012		2013		2014	
	TSCPA Peer Review Program	AICPA Peer Review Program	TSCPA Peer Review Program	AICPA Peer Review Program	TSCPA Peer Review Program	AICPA Peer Review Program
Agree to take certain Continuing Prof. Education (CPE)	135	179	126	174	119	150
Agree to hire consultant for inspection	2	9	1	2	0	4
Agree to hire consultant for preissuance reviews	23	12	20	27	15	37
Submit proof of CPE taken	26	15	15	7	8	7
Submit to team captain (TC) revisit – general	3	4	2	3	2	8
Submit to TC review of sub engagement with workpapers	2	7	3	2	5	4
Agree to have accelerated review	2	1	1	1	0	0
Team captain to review Quality Control Document	0	1	1	2	0	3
Review of Formal CPE plan by outsider	0	0	1	1	0	0
Outside Party to reivew inspection	0	0	0	3	1	5
Submit to TC review of sub engagement without workpapers	11	6	5	6	10	8
Submit inspection report to outside party	0	0	2	5	0	0
Outside party review substandard correction	1	3	0	1	1	1
Submit additional information regarding repeat findings	0	0	0	1	2	0
Submit monitoring report to Committee	0	0	0	0	2	0
Submit monitoring report to Team Captain	0	0	0	1	0	2
Oversight of monitoring by Team Captain	0	0	0	0	0	1
Submit proof of purchase of manuals	0	0	0	0	0	1
Submit evidence of proper firm licensure	0	0	2	2	1	0
Totals	205	237	179	238	166	231

Note: The above data reflects peer review results as of November 2, 2015. Approximately 1.87% of 2014 reviews are in process and their results are not included in the totals above.

Exhibit F

Oversight Results of Peer Reviews

	2012		2013		2014	
	AICPA Peer Review Program	TSCPA Peer Review Progam	AICPA Peer Review Program	TSCPA Peer Review Progam	AICPA Peer Review Program	TSCPA Peer Review Progam
Type of Peer Review (Sys, Eng,)						
System	13	3	9	2	9	1
Engagement	7	7	14	8	14	12
Totals	20	10	23	10	23	13
Type of Oversight Review:						
On-Site	3	1	2	0	5	0
Off-Site	17	9	21	10	18	13
Totals	20	10	23	10	23	13
"Must Select" Engagement Oversights						
ERISA	7	0	5	0	7	0
GAGAS	5	0	3	2	4	0
FDICIA	1	0	0	0	0	0
SOC 1 Engagement	0	0	0	0	1	0
Totals	13	0	8	2	12	0

Exhibit G

Verification of Reviewer's Resumes During 2014

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
126	45	36%

Administrative Oversight

Date of Last Administrative Oversight Performed by the Administering Entity	July 15, 2014
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	December 3-4, 2015