

# Texas Society of CPAs

## Annual Report on Oversight

Date Issued – December 21, 2011

### Administering Entity Oversight Process and Procedures

#### Oversight of Peer Reviews and Reviewers

##### Reviewer Evaluation Committee

The TSCPA Peer Review Committee (Committee) has established a Reviewer Evaluation Subcommittee (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 subcommittee chairs of the Report Acceptance Body (RAB). REC members meet several times during the year to review the oversights conducted during the year, 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 and Process

Annually, the Society will perform random and targeted oversights on reviews and reviewers. The selections will be based on the criterion for selection as outlined in the AICPA Peer Review Program Oversight Handbook, Chapter 2, Sections IV, items B and C. At least 2% of all reviews performed in a calendar year will be 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 or a member of the Peer Review Committee. A Peer Review Committee member will perform all system reviews and must-select engagement oversights. This committee member must have 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" engagement review oversights must be performed by a committee member 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 or audits of carrying broker dealers. Also, the two oversights selected should not be of the same type of audit.

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 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 subcommittee. 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 reviewer's 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.

In situations where a reviewer has been allowed to conduct reviews only when there is 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 will be asked to consider acceptance of the review.

### **Annual 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/unmodified 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 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 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 Oversight Enhancement No. 4, TSCPA must verify information within a sample of reviewers' resume on annual basis. 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, and audits of insured depository institutions subject to FDICIA.
- 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 48 CPE credits 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/unmodified review report on its most recently completed peer 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, an OTF member.

## **Summary of Peer Review Programs**

### **Overview of TSCPA Peer Review**

TSCPA Peer Review was formed in 1989, to operate the AICPA Peer Review Program, for AICPA member firms located in Texas and in 1991 began administering the TSCPA Peer Review Program for non-AICPA member firms.

The Texas Society of CPAs (TSCPA) serves as the administering entity for the AICPA Peer Review Program in the State of Texas, and also administers the Texas Society of CPAs Peer Review Program (which operates exactly the same as the AICPA Peer Review Program) for firms not enrolled in the AICPA Peer Review Program.

The Texas State Board of Accountancy 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.

**Number of Enrolled Firms by Number of Professionals\* as of October 28, 2011.**

	<b>TSCPA Peer Review Program</b>	<b>^AICPA Peer Review Program</b>
Sole Practitioners	776	965
2 to 5	423	1056
6 - 10	45	317
11 - 19	8	139
20-49	2	50
50-99	0	8
100+	0	1
<b>Total Enrolled Firms</b>	<b>1254</b>	<b>2536</b>

\* 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

## Results of Peer Reviews Performed During the Year 2010

### Results by Type of Peer Review and Report Issued

	<b>TSCPA Peer Review Program</b>	<b>AICPA Peer Review Program</b>
System Reviews:		
Pass	42	238
Pass with deficiency(ies)	10	27
Fail	5	6
Subtotal – System	57	271
Engagement Reviews:		
Pass	268	462
Pass with deficiency(ies)	44	68
Fail	17	9
Subtotal - Engagement	329	539
Totals	386	810

Note: The above data reflects peer review results as of October 28, 2011. Approximately 7.28% of 2010 reviews are in process and their results are not included in the totals above.

## 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. 7, for report modifications (when a pass with deficiencies or fail report is issued) from system reviews performed for 2010. It is important to note that one review may have more than one reason for a report modification.

<b>Reasons for Report Modifications</b>	<b>TSCPA Peer Review Program</b>	<b>^AICPA Peer Review Program</b>
Leadership responsibilities for quality with the firm ("the tone at the top")	0	1
Relevant Ethical Requirements	0	1
Acceptance and Continuance of Client Relationships and specific engagements	0	4
Human Resources	2	6
Engagement Performance	11	27
Monitoring	5	14
<b>Totals</b>	<b>18</b>	<b>53</b>

Note: The above data reflects peer review results as of October 28, 2011. Approximately 7.28% of 2010 reviews are in process and their results are not included in the totals above.

**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 during 2010. 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.

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)	15	8	121	17
Audits – Governmental – All Other	21	6	69	3
Audits – ERISA	5	0	121	6
Audits – FDICIA	0	0	6	0
Audits – Other	47	9	296	11
Reviews	59	11	300	22
Compilations with Disclosures	74	5	248	12
Compilations without Disclosures	615	67	1233	79
Financial Forecast & Projections	0	0	9	0
Other SSAEs	10	2	98	8
Totals	846	108	2501	158

Note: The above data reflects peer review results as of October 28, 2011. Approximately 7.28% of 2010 reviews are in process and their results are not included in the totals above.

## 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 2010, the following represents the type of follow-up actions required.

Type of Follow-up Action	TSCPA Peer Review Program	<sup>^</sup> AICPA Peer Review Program
Agree to take certain Continuing Prof. Education (CPE)	61	72
Agree to hire consultant for inspection	1	4
Agree to hire consultant for preissuance reviews	19	26
Submit proof of CPE taken	11	14
Submit report to consultant	0	0
Team Captain to review QCD	0	0
Submit to team captain (TC) revisit – general	6	7
Submit to TC review of sub engagement with workpapers	2	2
Agree to have accelerated review	2	3
Submit to TC review of sub engagement without workpapers	7	16
Submit inspection report to Team Captain	0	0
Outside Party to Review Inspection	0	3
Submit to TC review of sub engagement without workpapers	0	0
Submit inspection report to outside party	1	3
Submit monitoring report to Committee	0	0
TC review correction of substandard engagement	1	3
Outside party review substandard correction	1	2
Submit additional information regarding repeat findings	0	0
Submit monitoring report to Committee	0	1
Submit monitoring report to Team Captain	0	0
Submit evidence of proper firm licensure	1	1
Submit to TC review of sub engagement with workpapers	0	0
Totals	113	157

Note: The above data reflects peer review results as of October 28, 2011. Approximately 7.28% of 2010 reviews are in process and their results are not included in the totals above.



**Oversight Results**

**Peer Reviews**

**AICPA Member Firms**

Type of Peer Review (Sys, Eng, Rpt)	Total Number of Oversight Performed	Oversight Included Must Select Engagement (ERISA, GAGAS, FDICA)
System	9	ERISA 2 GAGAS 6
Engagement	14	0

**Non-AICPA Member Firms**

Type of Peer Review (Sys, Eng, Rpt)	Total Number of Oversight Performed	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC)
System	3	GAGAS 2
Engagement	9	0

**Verification of Reviewer's Resumes**

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
136	43	31%

**Administrative Oversight**

Date of Last Administrative Oversight Performed by the Administering Entity	November 9, 2010
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	December 9, 2011