Texas Society of CPAs

Annual Report on Oversight

Date Issued – December 31, 2014

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 past committee chairman and other committee members as deemed necessary. REC members meet at least twice 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. 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, 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.

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, 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/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, by 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 (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.

Number of Enrolled Firms by Number of Professionals* as of October 24, 2014.

	TSCPA Peer Review Program	AICPA Peer Review Program
Sole Practitioners	657	791
2 to 5	479	1043
6 - 10	59	366
11 - 19	10	154
20-49	1	55
50-99	0	11
100+	0	1
Total Enrolled Firms	1206	2421

* 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 2013

Results by Type of Peer Review and Report Issued

	TSCPA Peer Review Program	AICPA Peer Review Program
System Reviews:		
Pass	24	208
Pass with deficiency(ies)	11	28
Fail	9	11
Subtotal – System	44	247
Engagement Reviews:		
Pass	223	369
Pass with deficiency(ies)	74	97
Fail	46	40
Subtotal - Engagement	343	506
Totals	387	753

Note: The above data reflects peer review results as of October 24, 2014. Approximately 1.3% of 2013 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 2013. It is important to note that one review may have more than one reason for a report modification.

Reasons for Report Modifications	TSCPA Peer Review Program	AICPA Peer Review Program
Leadership responsibilities for quality with the firm ("the tone at the top")	4	5
Relevant Ethical Requirements	1	1
Acceptance and Continuance of Client Relationships and specific engagements	0	2
Human Resources	2	5
Engagement Performance	5	15
Monitoring	2	6
Totals	14	34

Note: The above data reflects peer review results as of October 24, 2014. Approximately 1.3% of 2013 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 2013. 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.

| | 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	60%	108	16	15%
Governmental – All Other	9	3	33%	65	10	15%
ERISA	3	1	33%	134	6	4%
FDICIA	0	0	0%	7	0	0%
Other	35	7	20%	275	25	9%
Reviews	56	11	20%	264	26	10%
Compilations:						
with Disclosures	29	10	34%	175	26	15%
without Disclosures	621	176	28%	1111	206	19%
Forecast & Projections	1	0	0%	4	0	0%
SOC Reports	0	0	0%	5	0	0%
Agreed Upon Procedures	3	1	33%	71	4	6%
Othere SSAEs	1	0	0%	4	0	0%
Totals	773	218		2223	319	

Note: The above data reflects peer review results as of October 24, 2014. Approximately 1.3% of 2013 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 2013, the following represents the type of follow-up actions required.

Type of Follow-up Action	TSCPA Peer Review Program	AICPA Peer Review Program
Agree to take certain Continuing Prof. Education (CPE)	126	174
Agree to hire consultant for inspection	1	2
Agree to hire consultant for preissuance reviews	20	27
Submit proof of CPE taken	15	7
Submit to team captain (TC) revisit – general	2	3
Submit to TC review of sub engagement with workpapers	3	2
Agree to have accelerated review	1	1
Team captain to review Quality Control Document	1	2
Review of Formal CPE plan by outsider	1	1
Outside Party to reivew inspection	0	3
Submit to TC review of sub engagement without workpapers	5	6
Submit inspection report to outside party	2	5
Outside party review substandard correction	0	1
Submit additional information regarding repeat findings	0	1
Submit monitoring report to Team Captain	0	1
Submit evidence of proper firm licensure	2	2
Totals	179	238

Note: The above data reflects peer review results as of October 24, 2014. Approximately 1.3% of 2013 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 Oversights Performed	Oversight Included Must Select Engagement (ERISA, GAGAS, FDICA, SOC)
System	9	ERISA 7 GAGAS 4 SOC 1
Engagement	14	0

Non-AICPA Member Firms

Type of Peer Review (Sys, Eng, Rpt)	Total Number of Oversights Performed	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC)
System	1	0
Engagement	12	0

Verification of Reviewer's Resumes

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

Administrative Oversights

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 9-10, 2013