



**STATE OF OKLAHOMA
OKLAHOMA ACCOUNTANCY BOARD
PEER REVIEW OVERSIGHT COMMITTEE**

Peer Review Oversight Committee Annual Report for Calendar Year 2016

3/23/2017

Pursuant to the Oklahoma Accountancy Act (The Act), §15.30, the Oklahoma Accountancy Board (OAB) establishes a peer review program to monitor firms' compliance with applicable accounting and auditing standards adopted by generally recognized standard setting bodies, the program emphasizes education, including appropriate remedial procedures, which may be recommended or required when financial statement reports do not comply with professional standards. In the event a firm does not comply with established professional standards, or a firm's professional work is so inadequate as to warrant disciplinary actions, the OAB shall take appropriate action to protect the public interest.

The OAB, pursuant to Title 10 of the Oklahoma Administrative Code; Subchapter 33; Section 10:15-33-3 adopts the "*Standards for Performing and Reporting on Peer Reviews*," as promulgated by the American Institute of Certified Public Accountants (AICPA) or other standards approved by the OAB as its minimum standards for peer review of registrants.

Oversight of the minimum standards for peer review of registrants is established through the OAB's Peer Review Oversight Committee (PROC) which is provided for in 10:15-33-7 of the Oklahoma Administrative Code.

The purpose of the PROC is to monitor Sponsoring Organizations and provide the OAB with a reasonable assurance that peer reviews are being conducted and reported on in accordance with the OAB's minimum standards for peer review, review the policies and procedures of sponsoring organization applicants as to their conformity with the peer review minimum standards, and report to the OAB on the conclusions and recommendations reached as a result of performing the aforementioned functions.

The PROC operating statement is:

"To evaluate and monitor the Peer Review Program established by the Oklahoma Accountancy Board to provide reasonable assurance that the American Institute of Certified Public Accountant's Peer Review Program Standards are being properly administered in the State of Oklahoma making referrals to the Oklahoma Accountancy Board as needed for further action."

Oversight procedures have been established to ensure that the peer reviews being administered to OAB registrants are being conducted and reported in accordance with peer review minimum standards (PROC Operating Summary attached). The procedures include:

- A. At least one PROC member is scheduled to attend in person, all Oklahoma Society of Certified Public Accountant's (OSCPA) Peer Review Committee meetings to consider the acceptance bodies' deliberations in accepting peer reviews. In the event no PROC member is able to attend an OSCPAs Peer Review Committee meeting, the OAB Executive Director or Deputy Director is to attend in their place;

- B. On an annual basis, the PROC reviews the qualifications of each entity approved by the OAB to administer peer reviews. The PROC shall first seek to rely on the NASBA Compliance Assurance Committee's list of approved Peer Review Oversight Committees as oversight to ensure peer reviews are being performed in accordance with AICPA Minimum Standards. In the event this list is not available for the PROC to review, it will then seek to rely on the administering entity's AICPA Oversight Report;
- C. A detailed review of all Pass with Deficiency and Fail peer review reports are performed by the PROC. When necessary, prescribe actions designed to assure correction of the deficiencies in the reviewed firm's system of quality control;
- D. Monitor remedial and corrective actions as prescribed by the PROC and/or the administering entity to determine compliance by the firm;
- E. Accept all pass system and engagement peer review reports submitted to the OAB; and
- F. As deemed appropriate, refer firms to the OAB's Enforcement Committee for failing to comply with the OAB's peer review program or performing work that is so inadequate as to warrant disciplinary action. Files referred to the Enforcement Committee by the PROC may include commentary and/or suggestions for potential corrective actions. Firms will be referred to the Enforcement Committee for:
 - o Receiving consecutive substandard reports. Firms shall automatically be sent to the Enforcement Committee for further scrutiny unless the PROC determines the firm to have complied to the extent this action is not warranted (NASBA Compliance Assurance Committee Guidelines and Peer Review Committee Directive);
 - o Failing to submit required reports (10:15-33-6);
 - o Peer Review reports requiring continued oversight following deficient reports as described in 10:15-33-5; and
 - o Others as deemed appropriate by the PROC

Based on the aforementioned procedures, the following is a summary of the PROC activity during calendar year 2016.

At least one PROC member or Board staff member attended the following OSCP A Peer Review Committee meetings during calendar year 2016:

Thursday, February 4, 2016 - Gibson
Thursday, August 18, 2016 - Williamson
Thursday, October 27, 2016 - Williamson
Thursday, December 8, 2016 - Gibson

As of December 31, 2016, there were 61 Sole Proprietorships and 426 registered firms which have reported to the OAB the performance of engagements requiring peer review.

The PROC made four peer review referrals to the Enforcement Committee in calendar year 2016.

The PROC has concluded that for calendar year 2016:

1. Technical reviews are being performed and reviewed in a timely manner by the OSCPA;
2. Technical reviewers appear knowledgeable about their function;
3. Technical reviewers resolve inconsistencies and disagreements before accepting reports;
4. Technical reviewers make the OSCPA Peer Review Committee aware of matters needed to properly evaluate the review.
5. The technical reviewers are available during the meetings to answer questions; and

6. During its oversight of the OSCP Report Acceptance Bodies (RAB), the PROC specifically noted the various RABs consistently held open and thorough discussions of reviews. While attending 2016 meetings, the PROC also observed the RABs address every issue with purpose and in a thoughtful and meaningful discussion. Finally, the PROC concludes the vast knowledge collectively shared by RAB members regarding acceptance procedures and corrective or monitoring actions to be excellent.

At December 31, 2016, the following entities' are approved as sponsoring organizations:

- AICPA Center For Public Company Audit Firms
- Alabama Society of Certified Public Accountants
- Arkansas Society of Certified Public Accountants
- California Society of Certified Public Accountants
- Colorado Society of Certified Public Accountants
- Connecticut Society of Certified Public Accountants
- Florida Institute of Certified Public Accountants
- Georgia Society of Certified Public Accountants
- Illinois Society of Certified Public Accountants
- Indiana Certified Public Accountant Society
- Iowa Society of Certified Public Accountants
- Kansas Society of Certified Public Accountants
- Michigan Society of Certified Public Accountants
- Minnesota Society of Certified Public Accountants
- Mississippi Society of Certified Public Accountants
- Missouri Society of Certified Public Accountants
- Montana Society of Certified Public Accountants
- National Peer Review Committee
- Nevada Society of Certified Public Accountants
- New York State Society of Certified Public Accountants
- Ohio Society of Certified Public Accountants
- Oklahoma Society of Certified Public Accountants
- Oregon Society of Certified Public Accountants
- Pennsylvania Society of Certified Public Accountants
- Society of Louisiana Certified Public Accountants
- Tennessee Society of Certified Public Accountants
- Texas Society of Certified Public Accountants
- Virginia Society of Certified Public Accountants
- Washington Society of Certified Public Accountant

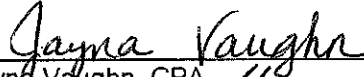
Nothing came to the PROC's attention that would lead them to believe that, these administering entities were not administering peer reviews in accordance with "*Standards for Performing and Reporting on Peer Reviews*," as promulgated by the AICPA.

Finally, the PROC concludes that peer reviews administered by the OSCP are being performed for Oklahoma registrants in accordance with the "*Standards for Performing and Reporting on Peer Reviews*," as promulgated by the AICPA.

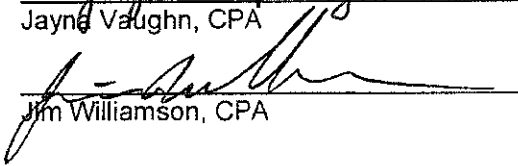
Oklahoma Accountancy Board Peer Review Oversight Committee



Mike Gibson, CPA, PROC Chair



Jayne Vaughn, CPA



Jim Williamson, CPA

**Oklahoma Accountancy Board
Peer Review Oversight Committee (PROC)**

OPERATING SUMMARY

Purpose

To evaluate and monitor the peer review program established by the Board to provide reasonable assurance that the AICPA Peer Review Program standards are being properly administered in the state of Oklahoma making referrals to the Board for further action as needed. (10:15-33-7)

Objectives and Procedures

Ensure that peer reviews are conducted in accordance with AICPA Standards for Performing and Reporting on Peer Reviews. (10:15-33-7e3)

- Review applications from entities requesting approval as a sponsoring organization (10:15-33-7a2)
- Annually obtain and review the list of NASBA Compliance and Assurance Committee approved Peer Review Oversight Committees, or if not available, the most recent sponsoring organization AICPA oversight report (10:15-33-7a1)
- At least one member of the PROC will attend each OSCP Peer Review Committee meeting (10:15-33-7e3). OAB staff may attend if a PROC member is not available
- At least one member of the PROC will attend the AICPA Oversight visit exit conference for the OSCP (10:15-33-7e3). The PROC shall use its discretion when determining the need to be present for more of the oversight process beyond attending the oversight exit conference. (Peer Review Committee Directive)
- Annually recommend sponsoring organizations to the Board for approval (10:15-33-7d)

Ensure firms undergo peer reviews as required and recommend appropriate remedial actions if necessary. (10:15-33-4 and 10:15-33-7e2)

- Ensure firms submit required reports (10:15-33-6)
- Accept all Pass reports submitted to the Board without review by PROC (10:15-33-7e4)
- Review and discuss all Pass with Deficiencies and Fail reports (10:15-33-7e4)
- Assess remedial action prescribed by the sponsoring organization for appropriateness and prescribe additional remedial action if deemed necessary (10:15-33-7e1)
- Monitor firm compliance with prescribed remedial action (10:15-33-7e2)
- Firms may be referred to the Enforcement Committee based on the judgement of the PROC: (10:15-37-1a)
 - o Firms not submitting required reports (10:15-33-6)
 - o Firms requiring continued oversight following deficient reports as described in 10:15-33-5

- Firms with consecutive substandard reports shall automatically be sent to the Enforcement Committee for further scrutiny unless the PROC determines the firm to have complied to the extent this action is not warranted (Peer Review Committee Directive)
- Files referred to the Enforcement Committee by the PROC may include commentary and/or suggestions for potential corrective actions (Peer Review Committee Directive)
- Others as deemed appropriate by the PROC

Regularly communicate results of PROC operations. (10:15-33-7a3)

- PROC will meet and report activities to the Board at least quarterly (March, June, September, and November) (10:15-33-7e4)
- Annually report conclusions and recommendations regarding evaluation and monitoring of peer review program to Board during the April Board meeting (10:15-33-7a3)
- Communicate problems encountered to sponsoring organizations as needed (10:15-33-7e5)

Oklahoma Accountancy Board

BOARD OVERSIGHT COMMITTEE

Summary of Oversight Visit - Peer Review Committee

Oversight Committee Member
Performing This Review

Date Performed

RAB # _____

Attend the program's Peer Review Committee meeting as an observer. Do not advise or otherwise attempt to influence the report acceptance process.

1. Are technical reviews being performed within a reasonable time period after review documents are submitted to the Peer Review Program?

Yes _____ No _____

2. Do technical reviewers appear knowledgeable about their function?

Yes _____ No _____

3. Do the technical reviewers attempt to resolve inconsistencies and disagreements before recommending the reviews for acceptance to the RAB?

Yes _____ No _____

4. Do the technical reviewers make the RABs aware of matters needed to properly evaluate the review?

Yes _____ No _____

5. Is the technical reviewer available during the meeting to answer questions that arise?

Yes _____ No _____

6. Are the technical reviewers knowledgeable about the treatment of:

Engagements not performed and reported on in	Yes _____	No _____	N/A _____
Monitoring issues?	Yes _____	No _____	N/A _____
Governmental issues?	Yes _____	No _____	N/A _____
Review scope?	Yes _____	No _____	N/A _____
Appropriate format for report and letter of response, if applicable?	Yes _____	No _____	N/A _____
Revisions to review documents?	Yes _____	No _____	N/A _____
Corrective or monitoring actions?	Yes _____	No _____	N/A _____

Summary of Oversight Visit - Peer Review Committee

Date _____

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7. Were any specific solutions to problems discussed?

Yes _____ No _____

8. Do technical reviewers believe sufficient guidance is provided by their program?

Yes _____ No _____

9. Have the technical reviewers demonstrated improvement from any prior oversight visit report?

Yes _____ No _____

10. Were the following manuals available during the meeting:

Peer Review Program Manual? Yes _____ No _____

Peer Review Administrative Manual? Yes _____ No _____

RAB Handbook? Yes _____ No _____

11. Is the RAB meeting comprised of at least three members?

Yes _____ No _____

12. Does the extent of the RAB's review appear appropriate?

Yes _____ No _____

13. Were the appropriate decisions made by the RAB regarding:

conformity with professional standards? Yes _____ No _____ N/A _____

Monitoring issues? Yes _____ No _____ N/A _____

Governmental issues? Yes _____ No _____ N/A _____

Review scope? Yes _____ No _____ N/A _____

Revisions to review documents? Yes _____ No _____ N/A _____

The issuance of team captain feedback forms? Yes _____ No _____ N/A _____

Requests for extensions? Yes _____ No _____ N/A _____

Handling problem reviews? Yes _____ No _____ N/A _____

Corrective or monitoring actions? Yes _____ No _____ N/A _____

Summary of Oversight Visit - Peer Review Committee

Date _____

Page 3 of 4

14. Were any specific solutions to problems discussed?

Yes _____ No _____

15. Has the RAB agreed to take any action on problems?

Yes _____ No _____

16. Do the RAB members believe sufficient guidance is provided by the program?

Yes _____ No _____

17. Does the RAB consider technical reviewers' recommendations and then come to its own decision?

Yes _____ No _____

18. Has the RAB demonstrated improvement from any prior oversight visit report?

Yes _____ No _____

19. Please rate the RAB's knowledge of acceptance procedures and corrective/monitoring actions?

- _____ Poor
- _____ Adequate; needs some improvement
- _____ Excellent

20. List any items discussed with the OSCP Peer Review Chairperson.

Summary of Oversight Visit - Peer Review Committee

Date _____

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21. List the number of each type of peer review presented:

_____ Pass System Reports

_____ Pass Engagement Reports

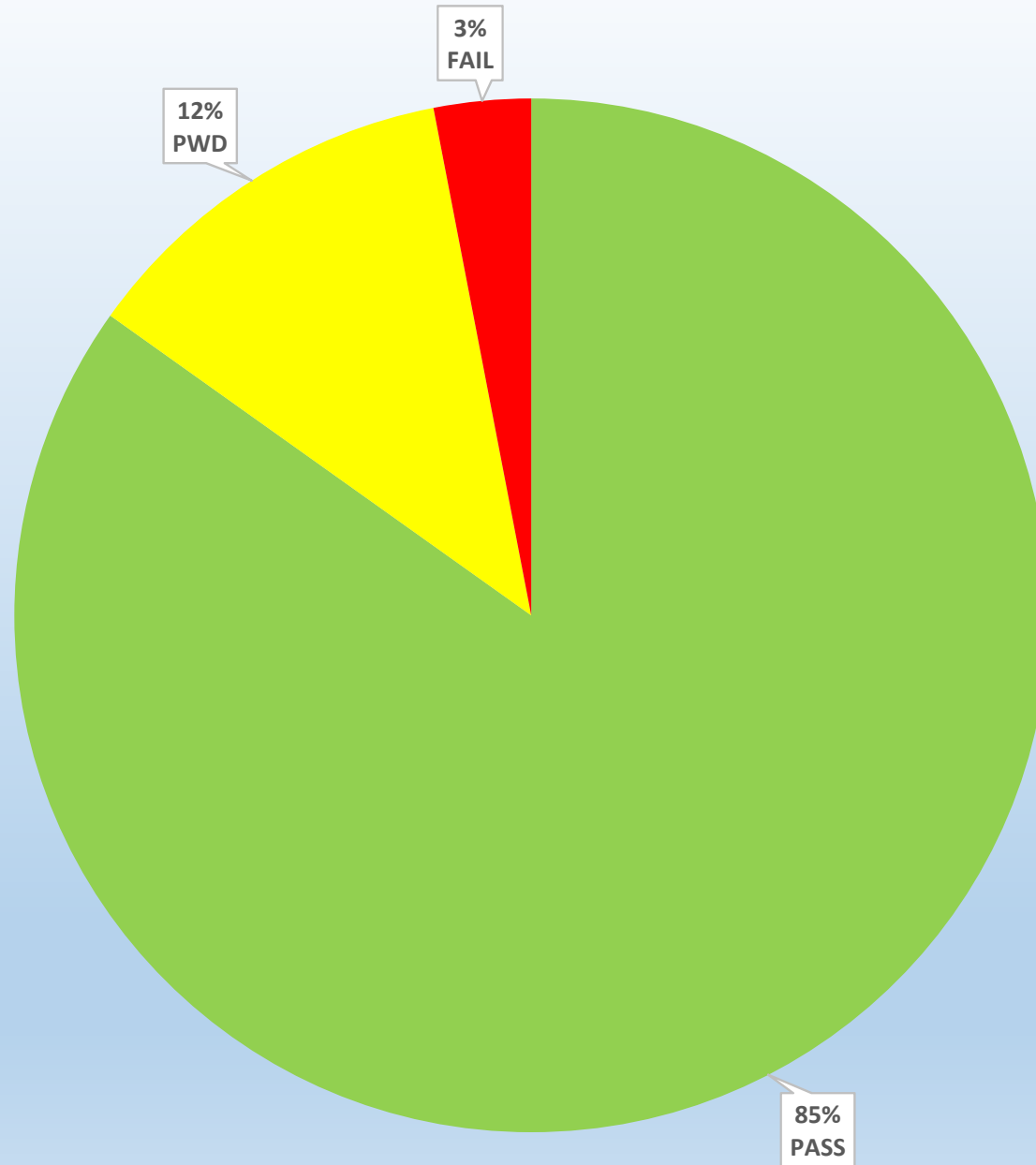
_____ Pass with Deficiencies System Reports

_____ Pass with Deficiencies Engagement Reports

_____ Fail System Reports

_____ Fail Engagement Reports

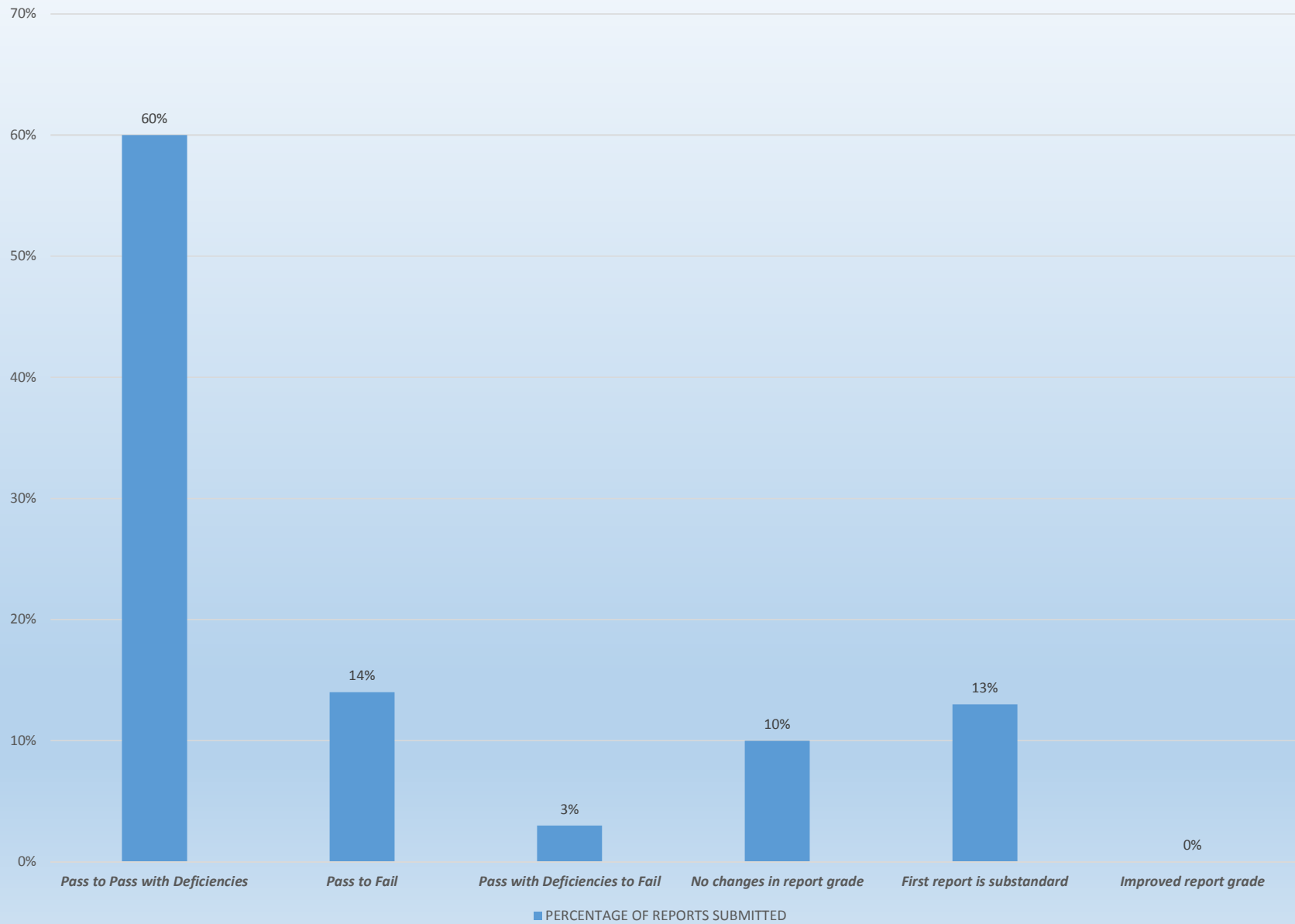
2016 Peer Reviews Submitted to the OAB



***SYSTEM AND ENGAGEMENT PEER REVIEWS**

2016 PEER REVIEW SUBSTANDARD REPORT TRENDS

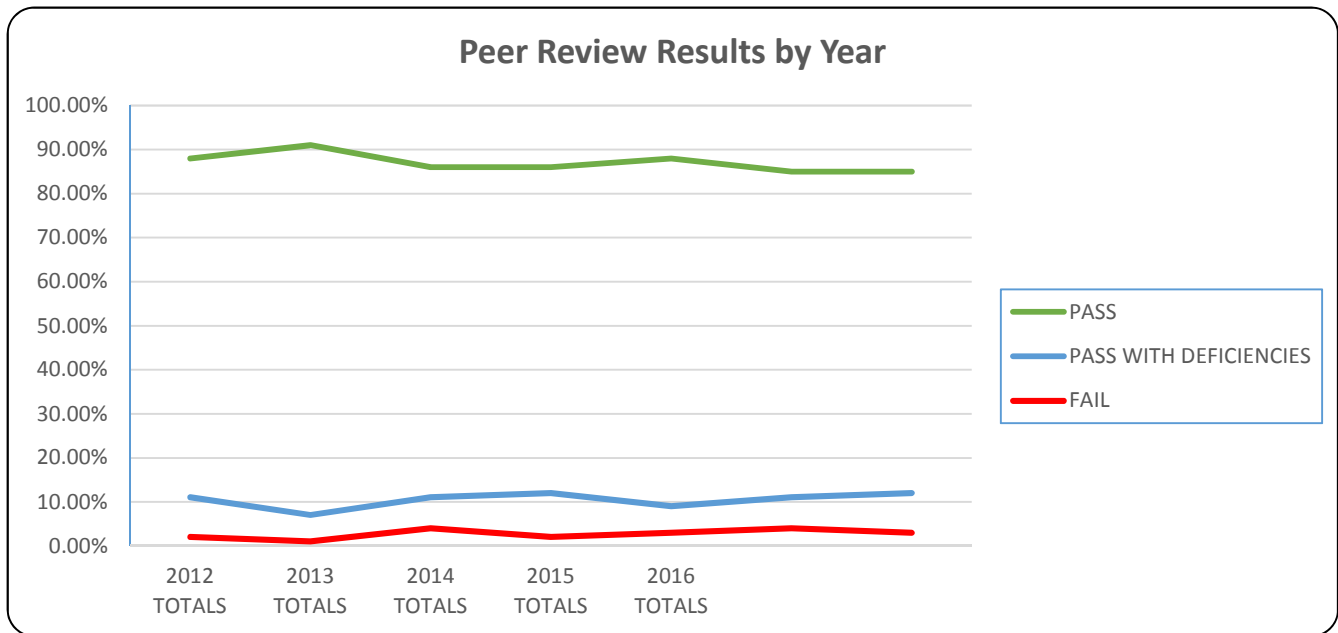
*Substandard reports submitted in 2016 as compared to the firm's prior report



PEER REVIEW RESULTS BY YEAR

PEER REVIEWS TOTAL (ALL)	2010 TOTALS	2011 TOTALS	2012 TOTALS	2013 TOTALS	2014 TOTALS	2015 TOTALS	2016 TOTALS
PASS	214	298	121	190	104	218	168
PASS WITH DEFICIENCIES	26	24	15	26	11	28	24
FAIL	4	4	5	4	3	11	6
TOTALS	244	326	141	220	118	211	198

PEER REVIEWS TOTAL (%)	2010 TOTALS	2011 TOTALS	2012 TOTALS	2013 TOTALS	2014 TOTALS	2015 TOTALS	2016 TOTALS
PASS	88%	91%	86%	86%	88%	85%	85%
PASS WITH DEFICIENCIES	11%	7%	11%	12%	9%	11%	12%
FAIL	2%	1%	4%	2%	3%	4%	3%
TOTALS	100%	100%	100%	100%	100%	100%	100%



SYSTEM PEER REVIEWS	OKLAHOMA PERCENTAGE	NATIONAL PERCENTAGE
PASS	87%	83%
PASS WITH DEFICIENCIES	11%	12%
FAIL	3%	5%

ENGAGEMENT PEER REVIEWS	OKLAHOMA PERCENTAGE	NATIONAL PERCENTAGE
PASS	75%	84%
PASS WITH DEFICIENCIES	19%	12%
FAIL	5%	4%

*Results of AICPA PRP Overall Results From 2013 – 2015, approximately 25,500 peer reviews were performed in the AICPA PRP. For system reviews performed during that three-year period, approximately 83 percent of the reviews resulted in pass reports, 12 percent were pass with deficiencies and 5 percent were fail. For engagement reviews performed during that three-year period, approximately 84 percent of the reviews resulted in pass reports, 12 percent were pass with deficiencies and 4 percent were fail.

*AICPA Peer Review Program Annual Report on Oversight, Issued September 27, 2016.

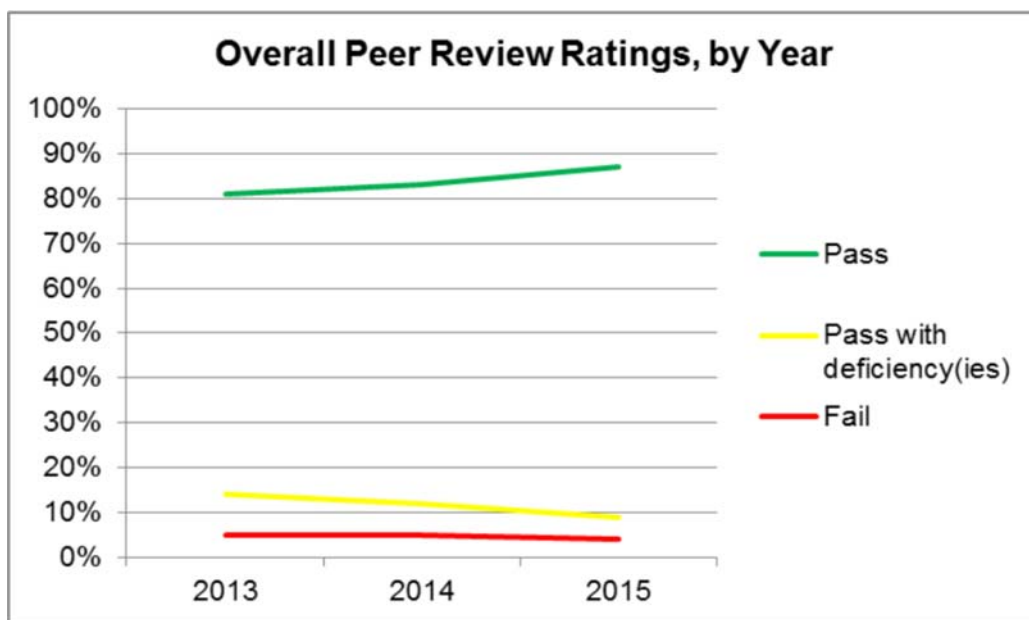
Exhibit 4

Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2013–2015 by type of peer review and report issued.

<u>System reviews</u>	<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>Total</u>	
	#	%	#	%	#	%	#	%
Pass	3,002	84	3,278	80	3,316	84	9,596	83
Pass with deficiency(ies)	429	12	557	14	435	11	1,421	12
Fail	130	4	265	6	188	5	583	5
Subtotal	<u>3,561</u>	<u>100</u>	<u>4,100</u>	<u>100</u>	<u>3,939</u>	<u>100</u>	<u>11,600</u>	<u>100</u>

<u>Engagement reviews</u>	<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>Total</u>	
	#	%	#	%	#	%	#	%
Pass	3,666	78	3,961	86	4,132	89	11,759	84
Pass with deficiency(ies)	761	16	479	10	334	7	1,574	12
Fail	262	6	151	3	166	4	579	4
Subtotal	<u>4,689</u>	<u>100</u>	<u>4,591</u>	<u>99</u>	<u>4,632</u>	<u>100</u>	<u>13,912</u>	<u>100</u>



Note: The preceding data reflects peer review results as of July 31, 2016. Approximately 3 percent of 2015 reviews are in process and their results are not included in the preceding totals.

Exhibit 12

Material Departures from Professional Standards Identified by SMEs

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

Employee Benefit Plan Engagements

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

Exhibit 12, continued

Material Departures From Professional Standards Identified by SMEs

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

Single Audit/A-133 and Government Auditing Standards Engagements

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

SOC 1[®] Engagement

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

Exhibit 12, continued

Material Departures From Professional Standards Identified by SMEs

section 801.09 requires that the service auditor only accept the engagement when specific conditions exist, including several acknowledgements to be provided by management of the service organization.

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

Exhibit 7

Summary of Required Corrective Actions

The AEs' peer review committees are authorized by the standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the AE peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple corrective actions. For 2013–2015 reviews, committees required 6,041 corrective actions. The following represents the type of corrective actions required.

Type of Corrective Action	<u>2013</u>	<u>2014</u>	<u>2015</u>
Agree to take/submit proof of certain (CPE)	1,011	1,005	825
Submit to review of correction of engagements that were not performed in accordance with professional standards	394	374	353
Agree to pre-issuance reviews	216	315	251
Submit monitoring report to Team Captain or Peer Review Committee	77	100	87
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	39	49	34
Submit to revisit (Team Captain or Peer Review Committee Member)	90	117	113
Elective to have accelerated review	11	11	5
Submit evidence of proper firm licensure	14	8	11
Firm has represented in writing they no longer perform any auditing engagements	29	75	45
Agree to hire consultant for inspection	8	17	10
Review of formal CPE plan	9	4	5
Team captain to review Quality Control Document	14	25	13
Submit inspection completion letter	2	5	-
Submit proof of purchase of manuals	30	24	22
Submit report of consultant	3	9	7
Oversight of Inspection – Review	12	17	5
Submit quarterly progress reports	1	8	3
Oversight of Inspection – Visitation	8	22	11
Agree to strengthen staff	1	1	3
Total	<u>2,059</u>	<u>2,178</u>	<u>1,804</u>