



Peer Review Program

ANNUAL REPORT ON OVERSIGHT

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Acronyms

Certain acronyms are used throughout this Report.

AICPA	American Institute of Certified Public Accountants
PRP	Peer Review Program
CPA	Certified Public Accountant
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
ERISA	Employee Retirement Income Security Act
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FSBA	Facilitated State Board Access
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office (U.S.)
NASBA	National Association of State Boards of Accountancy
NPRC	National Peer Review Committee
OCBOA	Other Comprehensive Basis of Accounting
OTF	Oversight Task Force (AICPA Peer Review Board)
PCAOB	Public Company Accounting Oversight Board
PRISM	Peer Review Information System Management
PRB	Peer Review Board (AICPA)
RAB	Report Acceptance Body (Administering Entity Peer Review Committee)
SASs	Statements on Auditing Standards
SEC	Securities and Exchange Commission (U.S.)
SQCS	Statements on Quality Control Standards
SSAEs	Statements on Standards for Attestation Engagements
SSARS	Statements on Standards for Accounting and Review Services

Introduction

Purpose of this Report

The purpose of this Annual Report on Oversight (Report) is to provide a general overview; statistics and information; the results of the various oversight procedures performed on the AICPA Peer Review Program (AICPA PRP); and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2011 oversight process were met.

Scope and Use of this Report

This Report contains data pertaining solely to the AICPA PRP and should be reviewed in its entirety and not taken out of context because there are:

- Approximately 29,000¹ firms enrolled in the AICPA PRP having a peer review performed once every 3 years.
- Approximately 10,000 peer reviews taking place each year.
- A total of 42² administering entities (AEs) covering 55 licensing jurisdictions.
- Over 680 volunteer Peer Review Committee members.

Years Presented in this Report

Statistical information presented in this Report for 2009-11 is determined by the actual date of the peer review, that is, when the peer review is performed.

Oversight procedures included in this report are performed on a calendar year basis.

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 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 Securities and Exchange Commission (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 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 and a peer review committee to create standards for performing, reporting and administering the 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 now undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected audit and accounting 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 in compliance 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 designed appropriately 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 name AICPA PRP governed by the PRB, which became effective in 1995. Thereafter, the PCPS, which, as a result of this vote, no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the 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.

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 state boards of accountancy (SBAs) 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 state board of accountancy licensing and other state and federal governmental agency peer review requirements.

Because both programs (AICPA and CPCAF PRPs) were now 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 *AICPA Standards for Performing and Reporting on Peer Reviews (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 AICPA PRP 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 (National PRC), a committee of the AICPA PRB.

In the over 20 years since peer review became mandatory for AICPA membership, 50 SBAs have adopted peer review requirements and many require their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with state board peer review document submission requirements, the AICPA created Facilitated State Board Access (FSBA) through which firms may give permission to the AICPA or their AEs to give access to the firms' documents mentioned below to state boards through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some state boards now require their licenses to participate in FSBA; others recognize it as an acceptable process to meet the peer review document submission requirements.

These documents typically include one or more of the following:

- Peer Review Reports,
- Letters of Response,
- Acceptance Letters,
- Letters signed by the reviewed firm accepting the peer review documents with the understanding that the firm agrees to take certain actions, and
- Letters notifying the reviewed firm that certain required actions have been completed.

About the AICPA Peer Review Board

The PRB is the senior technical committee governing the AICPA PRP and, as such, it is responsible for overseeing the entire peer review process. The PRB is dedicated to enhancing the performance and quality of non-SEC accounting, auditing and attestation engagements performed by AICPA members and their firms which are enrolled in the Program. The PRB seeks to attain its mission through education and remedial corrective actions which serves the public interest and enhances the significance of AICPA membership.

The mission of the PRB is achieved through establishing and conducting the Program. This includes developing, implementing, maintaining and enhancing comprehensive peer review *Standards* and related guidance for firms subject to peer review, those performing peer reviews and others involved in administering the Program for the PRB. In addition, the PRB is responsible for overseeing the entire peer review process. By reevaluating the validity and objectives of the Program, the PRB ensures continuous enhancement of the quality in the performance of non-SEC accounting, auditing and attestation engagements by AICPA members and their firms enrolled in the Program, and explicitly recognizes that protecting the public interest is an equally important objective of the Program.

The PRB composition has been developed to comprise of 20 members representing public practitioners from various size firms, state society CEOs and regulators. At the time of the issuance of this report, one position was vacant.

Various subcommittees and task forces are appointed to assist the PRB in carrying out its responsibilities. Their work is subject to review by the PRB. Currently, the PRB has task forces for planning, oversight, standards, education and communication, the National Peer Review Committee, technical reviewers' advise, administrative advise, and practice monitoring.

The activities of the PRB and its task forces and subcommittees are supported by AICPA peer review program staff who assist with drafting *Standards* and Interpretations; developing peer review guidance related to emerging issues; and work on projects in cooperation with other teams at the AICPA.

AICPA PEER REVIEW BOARD ROSTER
THROUGH OCTOBER 2012

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Andrews Barwick & Lee PC
Colonial Heights, VA

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PricewaterhouseCoopers
San Jose, CA

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KPMG LLP
New York, NY

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Mitchell Emert & Hill P. C
Knoxville, TN

John J. Lucas
BDO USA, LLP
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Thomas and Thomas LLP
Little Rock, AR

Jodi L. Rinne
Orizon CPAs LLC
Omaha, NE

Michael Solakian
Solakian Caiafa & Company LLC
Branford, CT

Randy Watson
Yanari Watson McGaughey PC
Greenwood Village, CO

James T. Ahler
North Carolina Association of CPAs
Raleigh, NC

Frank R. Boutillette
WithumSmith + Brown PC
New Brunswick, NJ

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CliftonLarsonAllen
Milwaukee, WI

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Grant Thornton LLP
Chicago, IL

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Hauppauge, NY

Michael W. McNichols
McGowen, Hurst, Clark & Smith, P.C.
West Des Moines, IA

J. Clarke Price
The Ohio Society of CPAs
Dublin, OH

Robert (Bob) Rohweder
Ernst & Young LLP
Cleveland, OH

Steven K. Stucky
Sikich Certified Public Accountants & Advisors
Indianapolis, IN

**AICPA Peer Review Board
Oversight Task Force
(October 2011 – October 2012)**

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Yanari Watson McGaughey PC
Greenwood Village, CO

J. Phillip Coley
Coley, Eubank & Company, P.C.
Lynchburg, VA

Richard W. Hill*
Mitchell Emert & Hill P. C
Knoxville, TN

John C. Lechleiter
AKT, LLP
Carlsbad, CA

Thomas J. Parry
Benson & Neff, CPAs, P.C.
San Francisco, CA

Robert C. Bezgin
Robert Christian Bezgin
Downingtown, PA

Jerry W. Hensley
Ray, Foley, Hensley and Company, PLLC
Lexington, KY

Paul V. Inserra
McClure, Inserra & Company, Chtd.
Arlington Heights, IL

John A. Lynch
BlumShapiro
Rockland, MA

Steven K. Stucky*
Sikich Certified Public Accountants & Advisors
Indianapolis, IN

*Member, AICPA Peer Review Board

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Public Practice and Global Alliances

Gary Freundlich, Technical Director

Susan Lieberum, Senior Technical Manager

Rachelle Drummond, Technical Manager

Lisa Joseph, Technical Manager

Carl Mayes, Technical Manager

Dennis Ridge, Technical Manager

James W. Brackens, Jr., Vice President
Ethics and Practice Quality

Beth Thoresen, Director of Operations

Frances McClintock, Senior Technical Manager

Laurel Gron, Technical Manager

LaShaun King, Technical Manager

LaVonne Montague, Technical Manager

Karl Ruben, Technical Manager

Letter to the AICPA Peer Review Board

To the Members of the AICPA Peer Review Board:

We have completed a comprehensive oversight program for the 2011 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state there should be reasonable assurance that (1) AEs are complying with the administrative procedures established by the 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 *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 Internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of state CPA societies or groups of state societies (AEs) that elect and are approved to administer the AICPA PRP, including the establishment and results of each AE's oversight processes.

Our procedures were conducted in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook* and included the following procedures:

- Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the Oversight Task Force (OTF), including its PRB members, which covered all parts of the peer review process from administrative functions, peer reviewer documents and checklists, technical reviewer procedures and peer review committee actions. For 2011, 307 or approximately 3.3% of total reviews were selected for oversight by the AICPA PRP staff which also covered 283 different peer reviewers or 23% of all active peer reviewers. These reviewers selected for oversight performed approximately 26% of the 2011 peer reviews. See pages 12–13, *Peer Review Working Paper Oversight*.
- Visits to the AEs, on a rotation 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. See pages 13–15, *Oversight Visits of the Administering Entities*.
- Monitoring the overall activities of the program. See page 14, *Review of AICPA PRP Statistics*.

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

- Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the OTF. See page 16, *Administrative Oversight of the Administering Entity*.
- Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2011, approximately 3.2% of total reviewers were selected for oversight. See pages 18–19, *Oversight of the Peer Reviews and Reviewers*.
- Verification of reviewers' resumes. For 2011, resumes were verified for 941 reviewers. See pages 18-19, *Annual Verification of Reviewers' Resumes*.

During the year, 307 working paper oversights were conducted by AICPA staff and 344 on- and off-site oversights were conducted by AEs.

Based on the results of the oversight procedures performed, the OTF has concluded that in all material respects (1) the AEs were complying with the administrative procedures established by the PRB, (2) the reviews were being conducted and reported upon in accordance with *Standards*, (3) the results of the reviews were being evaluated on a consistent basis by all AE peer review committees and (4) the information provided via the Internet or other media by AEs was accurate and timely. Based upon the OTF's conclusions, we believe for the 2011 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Randy Watson

Randy Watson, Chair
Oversight Task Force
AICPA Peer Review Board

October 9, 2012

The 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 not eligible to enroll, are themselves 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. In addition, there are currently 14 state CPA societies that have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, of the 55 licensing jurisdictions, currently 50 SBAs have statutorily made participation in a type of practice-monitoring program mandatory for licensure. See Exhibit 1.

The AICPA PRP has approximately 29,000 enrolled firms within the United States and its territories at the time this report was prepared. See Exhibit 2. There are approximately 10,000 peer reviews performed each year by a pool of approximately 2,400 qualified peer reviewers.

Firms enrolled in the program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-SEC issuers 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; and audits of non-SEC issuers performed pursuant to the standards of the Public Company Oversight Board (PCAOB)."

The following summarizes the different peer review types, objectives and reporting requirements as defined under the *Standards* effective January 1, 2009. There are two types of peer reviews: system and engagement.

System Reviews: System reviews are for firms that perform engagements under the SASs or Government Auditing Standards, examinations of prospective financial statements³ under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, in addition to reviews, compilations or agreed-upon procedures. 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 appropriately complying with its system. 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 or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects).

Engagement Reviews: Engagement reviews are for firms that only perform services under SSARS or services under the SSAEs not included in System Reviews and 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 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 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 in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. A report with a peer review rating of fail is issued when the reviewer concludes that, as a result of the deficiencies described in the report, all of the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.

Administering Entities

Each state CPA society annually elects the level of involvement that it desires in the administration of the AICPA PRP. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the AICPA PRP 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 AICPA PRP for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the AICPA PRP in compliance with the *Standards* and related guidance materials issued by the PRB. The PRB approved 42 state CPA societies, groups of state societies or specific-purpose committees, AEs, to administer the AICPA PRP in 2011. See Exhibit 3. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the AICPA PRP.

In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted with the annual Plan of Administration (POA). The annual POA is the AE's request to administer the peer review program and is reviewed by the OTF. In addition, all AEs are required to issue and post to their website an annual report on their oversight of the previous calendar year.

AEs may also elect to use the *Standards* and administer a peer review program for non-AICPA firms (and individuals). Non-AICPA firms (and individuals) are enrolled in the State CPA Society (AE) peer review programs and these, while very similar to the AICPA PRP, are not considered as being performed under the auspices of the AICPA PRP. They are not oversights by the AICPA PRB; therefore, this Report does not include information or oversight procedures performed by the AEs on their peer review programs of non-AICPA firms (and individuals).

Results of AICPA PRP

From 2009–2011, there were approximately 29,000 peer reviews performed in the AICPA PRP and Exhibit 4 shows a summary of these reviews by type of peer review and report issued. For system and engagement reviews performed during that three-year period, approximately 90% of the reviews resulted in Pass reports, 8% were Pass with deficiency(ies) and 2% were Fail. Exhibit 5 is a list of items noted as matters on peer reviews performed during 2009-2011. This list contains examples of noncompliance with professional standards. While this list is not all-inclusive and is not representative of all peer review results, it does contain some examples of matters that were identified during the peer review process.

Exhibit 6 summarizes the number and type of reasons by elements of quality control as defined by the Statements on Quality Control Standards (SQCS), for report modifications (that is, pass with deficiency(ies) or fail) on system reviews performed in the AICPA PRP from 2009–2011.

From 2009–2011, approximately 5% of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects.” The *Standards* state that an engagement is ordinarily considered “not being performed and /or reported in accordance with professional standards in all material respects” 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 7 shows the total number of individual engagements reviewed along with those identified as “not being performed and/or reported in accordance with professional standards in all material respects.”

During the report acceptance process, the AEs’ peer review committees determine the need for and nature of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the recommendations of the review team appear to address the engagement deficiencies adequately and whether the reviewed firm’s responses to the review team’s recommendations are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple corrective actions required on an individual review. In 2011, there was an increase in corrective actions which appears to correspond to the increased number of reports rated as pass with deficiency(ies) or fail in engagement reviews as well as an increased rate of engagements not performed or reported on in compliance with applicable standards. In total, there were 4,474 corrective actions required from 2009–2011 that are summarized in Exhibit 8.

In addition to the above corrective actions, there may be instances where an implementation plan is required as a result of FFCs. For implementation plans, the firm will be required to evidence its agreement to perform and complete the implementation plan in writing as a condition of cooperation with the AE and the board. Agreeing to and completing such a plan is *not* tied to the acceptance of the peer review. That is, the reviewed firm would nevertheless receive a “clean” acceptance letter for its peer review 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 due process procedures that could result in the firm’s enrollment in the program being terminated.

Because it is possible for a firm to receive a pass with deficiency or fail report, as well as FFCs which had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

Oversight Process

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

All SBAs that require peer review accept the AICPA PRP as a program satisfying its peer review licensing requirements. Some SBAs have entered into an agreement with State CPA Societies to perform oversight of their administration of the AICPA PRP. The SBA’s oversight process is designed to assess their reliance on the AICPA PRP for re-licensure purposes. This report is not intended to describe or report on that process. Exhibit 9 shows whether the respective AE

has entered into a peer review oversight relationship with the 50 SBAs that currently have statutorily made participation in a type of practice-monitoring program mandatory for licensure as indicated in Exhibit 1.

Objectives of Peer Review Board Oversight Process

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

- AEs are complying with the administrative procedures established by the PRB.
- Reviews are being conducted and results of reviews are being evaluated and reported in accordance with the *Standards* and on a consistent basis in all jurisdictions.
- Information provided to firms and reviewers (via the Internet or other media) 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 accomplish the following: obtain information about problems and concerns of AEs' peer review committees, provide consultation on those matters to specific AEs and initiate the development of guidance on a national basis, where appropriate.

OTF Oversight Procedures

The following oversight procedures were performed as a part of the OTF oversight program.

Peer Review Working Paper Oversight

Description

Throughout each year, a sample of peer reviews are randomly selected (by AICPA PRP Staff and approved by the OTF) from each of the AEs for submission to the AICPA PRP staff for a comprehensive review of all the documents prepared during a peer review. Documents from all parts of the peer review process (administrative, peer review checklists, technical reviewer checklist, peer review committee actions, warning letters, extensions and reviewer feedback) are submitted and then reviewed by the AICPA PRP staff to determine whether:

- The reviews are being conducted and reported on in accordance with the *Standards*.
- The AE is in compliance with the administrative procedures established by the PRB.
- Information is being entered into the computer system correctly.
- Reviewers are following the guidance and use the most current materials contained in the *AICPA Peer Review Program Manual*.
- Results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

As the AICPA PRP staff completes the desk review of all the documents prepared during the peer review, a summary report with staff comments is prepared for each AE and submitted to the OTF members for review and approval. Once approved, the summary

report is submitted to the respective AEs' peer review committee chairs requesting that they share the findings with their committees, technical reviewers, peer reviewers and team captains, as applicable. The committee chair is asked to communicate the comments to the committee and return the acknowledgement of communication letter to the AICPA PRP staff. Normally, the cover letter (included with the summary report) sent to the AEs indicates that they are not asked to take any additional actions on the specific reviews.

If issues are noted with reviewer performance, the OTF may choose to suggest or require, depending upon significance of issues, additional oversight. If significant pervasive deficiencies, problems or inconsistencies are encountered during the review of the above materials, the OTF may choose to: (1) visit the AE in which the deficiencies, problems or inconsistencies were noted to assist them in determining the cause of these problems and prevent their recurrence or both; or (2) request the AE to take appropriate corrective or monitoring actions.

Results

For the year 2011, 307 working paper reviews were selected for oversight covering 283 different peer reviewers. This represents approximately 3% of peer reviews conducted in 2011 and approximately 23% of peer reviewers active in that same period. Exhibit 10 shows, by AE, the number and type of reviews selected. The most prevalent comments from the working paper oversight process are summarized in Exhibit 11.

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; or performed the most recently completed oversight visit.

During these visits, the member of the OTF will at a minimum:

- 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.
- Perform face to face interviews with the administrator and technical reviewers.
- Evaluate the various policies and procedures for administering the AICPA PRP.

As part of the visit, the OTF member will request that the AE complete an Information Sheet documenting policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the AICPA PRP. The OTF member evaluates the Information Sheet, results of the prior oversight visit, POA and comments from working paper oversights to develop a risk assessment. A comprehensive oversight work program which contains the various procedures performed during the oversight visit is completed with the OTF member's comments. At the conclusion 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 to the AE which 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 as to whether the AE has complied with the administrative procedures and *Standards* in all material respects as established by the PRB. In addition to the aforementioned letter, the OTF member issues the AE an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed and observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is then required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter or at a minimum, when there are no findings reported, an acknowledgement of the visit. The oversight documents, including the Oversight Visit Report, the letter of procedures and observations and the AE's response, are presented to the OTF members at the next OTF meeting 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 oversight visit report, letter of procedures and observations and the response are posted to the following AICPA Peer Review Program web page: (<http://www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx>).

Results

During 2010–2011, a member of the OTF performed at least one on-site oversight visit to 41 AEs (excludes NPRC). See Exhibit 12 for a listing of the AEs and the year of oversight. See Exhibit 13 for a summary of observations from the on-site oversight visits performed during 2010-2011.

Review of AICPA PRP Statistics

Description

To monitor the overall activities of the program, the OTF periodically reviews the following types of statistical data for each AE and evaluates whether any patterns are emerging that should be addressed:

- The status of reviews in process,
- The results of reviews,
- The number and types of corrective actions,
- The number, nature and extent of engagements not performed in accordance with professional standards in all material respects, and
- The number of overdue peer reviews.

Results

As of August 2012, there were 776 incomplete reviews (124 due through 2010 and 652 due in 2011). Of these, 745 were in various stages of the evaluation process while 31 were in the background or scheduling phases of the review. AICPA PRP staff has been working with the AEs on these open reviews to ensure an appropriate course of action is taken on a case by case basis for each of these.

The status of 2011 reviews has been monitored on a periodic basis to determine reviews are being processed timely and to identify any reviews which are delinquent in the process. As of August 2012, there were 168 incomplete 2011 reviews. Firms that had not submitted background information or provided scheduling information were reviewed to determine that the appropriate overdue requests were mailed and notification sent to the AICPA to drop the firm from the program for failure to comply. For reviews that were scheduled but past their due date, inquiries were made to determine the proper extension procedures were followed.

Results of AICPA PRP are further summarized on page 9 of this Report.

Oversight by the Administering Entities' Peer Review Committees

The AEs' peer review committees are responsible for monitoring and evaluating peer reviews of those firms whose main offices are located in its 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 the AE personnel, the peer review committee establishes oversight policies and procedures that at least meet the minimum requirements (discussed on pages 14–17, *AE Oversight Procedures*) established by the PRB to provide reasonable assurance that:

- Reviews are administered in compliance with the administrative procedures established by the PRB.
- Reviews are being conducted and reported upon in accordance with the *Standards*.
- Results of reviews are being evaluated on a consistent basis.
- 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.

Administrative Oversight of the AE

Description

At a minimum, a committee member or a subcommittee of the AE's peer review committee should perform the administrative oversight in those years when there is no oversight visit by OTF. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP.

Results

The administrative oversight reports were submitted to the AICPA by the AE as part of the 2012 POA. Comments or suggestions resulting from the administrative oversights are summarized in Exhibit 14. In addition, the OTF member reviewed the results of the administrative oversight during their oversight visit (described on pages 13–15, *Oversight Visits of the Administering Entities*) and compared the results of the administrative oversight to those noted during the OTF oversight visit.

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 doing 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 actually 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 oversights firms being reviewed as well as reviewers performing reviews. There are also minimum oversight selection requirements imposed by the PRB.

Firms – The selection of firms to be reviewed is 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 or report 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 but not limited to random selection, frequent submission of pass report, conducting a significant number of reviews for firms with audits in high risk 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 of performance deficiencies, such as issuance of an inappropriate peer review report, not considering matters that turn out to be significant or failure to select an appropriate number of engagements. When an AE oversights 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 of time, and within the two percent selected, there must be at least two of each type of peer review evaluated (that is, system and engagement reviews). The oversight involves doing a full working paper review and may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended 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 acceptance of the review. At a minimum, two system review oversights are required to be performed on-site. Oversights could be random or could be a combination of a targeted and random selection.

AEs that administer less than 100 reviews annually can apply for a waiver from the minimum requirements. The request for a waiver includes the reason(s) for the request and

suggested alternatives to the minimum requirements. The waiver is to be submitted and approved by the PRB each year.

Also, at least two engagement oversights must be performed by the AE's peer review committee or by its designee from a national list of qualified reviewers, on an annual basis. An engagement oversight (performed either off-site or on-site) is the review of all peer reviewer materials and the reviewed firm's financial statements and working papers on the engagement. The two engagement oversights must include audits of employee benefits plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), engagements performed under GAGAS, or audits of insured depository institutions subject to the Federal Deposit Insurance Corporation Improvement Act (FDICIA). Also, the two oversights selected should not be of the same types of audits. No waivers of oversight of these types of engagements are permitted.

Results

For 2011, the AEs conducted oversight on 344 reviews, representing approximately 3.7% of all reviews performed in a twelve-month period of time. There were 189 system and 155 engagement reviews oversighted. Approximately 50% of the system oversights were conducted on-site. In addition, 79 ERISA, 92 GAGAS and 3 FDICIA engagements were oversighted. See Exhibit 15 for a summary of oversights by AE.

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 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 and auditing 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 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 has been verified by year two and 100% have been verified by year three. Verification must include the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans subject to ERISA and audits of insured depository institutions subject to FDICIA. Verification procedures may include requesting copies of their license to practice as a certified public accountant; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates 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; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The AE should also verify whether the reviewer is a partner or manager in a firm enrolled in a practice-monitoring 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 their oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2011. See Exhibit 16.

Feedback and Enhancements

Feedback from the Administering Entities

In order to maintain effective oversight procedures, the PRB obtains information from the AEs about matters to address, to provide consultation and to provide additional guidance as needed on a national basis. The following are areas in which feedback has been received during 2009 through 2011 and subsequently addressed.

Guidance, Manuals and Checklists: Requests for additional guidance, as a result of issues noted during desk reviews and AE oversights, related to implementation plans have been received.

Enhanced guidance related to completion of Finding for Further Consideration (FFC) forms and appropriate implementation plans (IPs) was issued in 2011. This was communicated by issuance of a Peer Review Alert. The Peer Review Manual includes the enhanced guidance for firms and reviewers in the *Report Acceptance Body Handbook*. The manual was made available on the AICPA website.

In addition, an administrative alert was issued and the changes were addressed during an AE training call. The Administrative Manual also includes the enhanced guidance for AEs. The manual was made available on the AICPA state administrator's website.

Training for Administrators: Requests have been received for additional training for administrators outside of the annual peer review conference.

Web and audio conferences have been held on various training issues for administrators. Biweekly calls are also held to address issues.

Firm Membership Changes: Concerns have been expressed over the length of time it is taking to process firm changes, including addresses, phone numbers or e-mails, enrollments, terminations, mergers or dissolutions.

AICPA staff continually reviews this process and works with other teams involved in this process. Revisions made during the year included focusing on technology issues, processes and communications. AICPA implemented a tracking system that allows the AEs access to additional information regarding the status of its changes. In addition, AICPA is exploring technology that will allow firms to enter the information directly into the peer review system.

Exhibit 1

**State CPA Societies and State Boards of Accountancy That Have Statutorily Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of July 2012**

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Alabama	No	Yes
Alaska	No	Yes
Arizona	No	Yes
Arkansas	No	Yes
California	No	Yes
Colorado	Yes	Yes in 2014
Connecticut	Yes	Yes
Delaware	Yes	No
District of Columbia	No	Yes
Florida	No	No
Georgia	Yes	Yes
Guam	No	Yes
Hawaii	No	Yes in 2015
Idaho	No	Yes
Illinois	No	Yes
Indiana	No	Yes
Iowa	No	Yes
Kentucky	No	Yes
Louisiana	Yes	Yes
Maine	Yes	Yes
Maryland	No	Yes
Massachusetts	No	Yes
Michigan	No	Yes
Minnesota	Yes	Yes
Mississippi	Yes	Yes
Missouri	No	Yes
Montana	No	Yes
Nebraska	No	Yes
Nevada	No	Yes
New Hampshire	No	Yes
New Jersey	No	Yes
New Mexico	No	Yes
New York	No	Yes
North Carolina	Yes	Yes
North Dakota	No	Yes
Northern Mariana Islands (MP)	N/A	No
Ohio	Yes	Yes
Oklahoma	No	Yes
Oregon	No	Yes

Exhibit 1, continued

State CPA Societies and State Boards of Accountancy That Have Statutorily Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of July 2012

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Pennsylvania	No	Yes
Puerto Rico	No	No
Rhode Island	No	Yes
South Carolina	Yes	Yes
Tennessee	No	Yes
Texas	Yes	Yes
Utah	No	Yes
Vermont	No	Yes
Virginia	Yes	Yes
Virgin Islands	No	No
Washington	No	Yes
West Virginia	No	Yes
Wisconsin	Yes	Yes
Wyoming	No	Yes

Exhibit 2

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice								Total
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+		
AK	28	34	11	8	1	1	0	83	
AL	137	225	74	21	16	7	2	482	
AR	45	98	45	15	4	2	0	209	
AZ	170	191	62	19	10	3	0	455	
CA	1,064	1,102	440	182	110	21	13	2,932	
CO	153	306	80	28	16	4	2	589	
CT	193	200	72	27	18	1	1	512	
DC	9	12	7	3	4	1	1	37	
DE	15	22	16	6	8	1	0	68	
FL	369	663	231	87	35	15	1	1,401	
GA	309	479	132	53	27	7	2	1,009	
GU	4	1	1	0	1	1	0	8	
HI	37	68	34	12	10	1	0	162	
IA	64	109	54	12	22	2	1	264	
ID	46	79	36	8	5	0	0	174	
IL	288	411	140	55	42	8	11	955	
IN	100	217	83	36	20	2	4	462	
KS	73	128	44	25	11	0	3	284	
KY	101	167	65	32	14	4	1	384	
LA	203	275	75	35	17	4	1	610	
MA	278	384	133	50	29	4	4	882	
MD	157	236	111	35	47	10	3	599	
ME	39	44	19	8	5	1	2	118	
MI	240	398	137	79	19	4	3	880	
MN	127	214	59	31	21	8	1	461	
MO	95	205	94	27	23	4	2	450	
MS	93	134	38	18	12	1	1	297	
MT	26	49	18	5	3	2	1	104	
NC	302	444	159	57	23	5	1	991	
ND	22	41	5	2	2	0	2	74	
NE	26	62	39	16	10	1	1	155	
NH	57	75	19	5	6	1	0	163	
NJ	389	539	146	66	31	9	4	1,184	
NM	89	109	30	10	7	1	0	246	
NV	67	98	35	22	5	1	0	228	
NY	358	606	255	129	73	22	20	1,463	
OH	265	486	174	88	35	11	4	1,063	

Exhibit 2, continued

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice							Total
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	
OK	113	174	77	18	8	1	0	391
OR	148	216	64	30	12	5	1	476
PA	261	475	214	74	45	20	7	1,096
PR	40	65	27	10	12	3	0	157
RI	47	72	22	7	5	2	1	156
SC	137	215	55	22	9	1	1	440
SD	16	34	11	12	1	0	1	75
TN	230	265	90	41	17	4	5	652
TX	939	1,078	316	156	64	21	5	2,579
UT	66	107	35	17	13	4	0	242
VA	265	277	101	36	20	6	4	709
VI	4	3	1	0	0	0	0	8
VT	27	36	14	9	2	1	0	89
WA	133	209	97	40	17	3	2	501
WI	70	131	63	28	15	5	5	317
WV	50	75	25	11	3	3	1	168
WY	<u>19</u>	<u>46</u>	<u>16</u>	<u>4</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>90</u>
Total	<u>8,603</u>	<u>12,389</u>	<u>4,401</u>	<u>1,827</u>	<u>987</u>	<u>252</u>	<u>125</u>	<u>28,584</u>

Exhibit 3

Administering Entities Approved to Administer the 2012 AICPA PRP

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

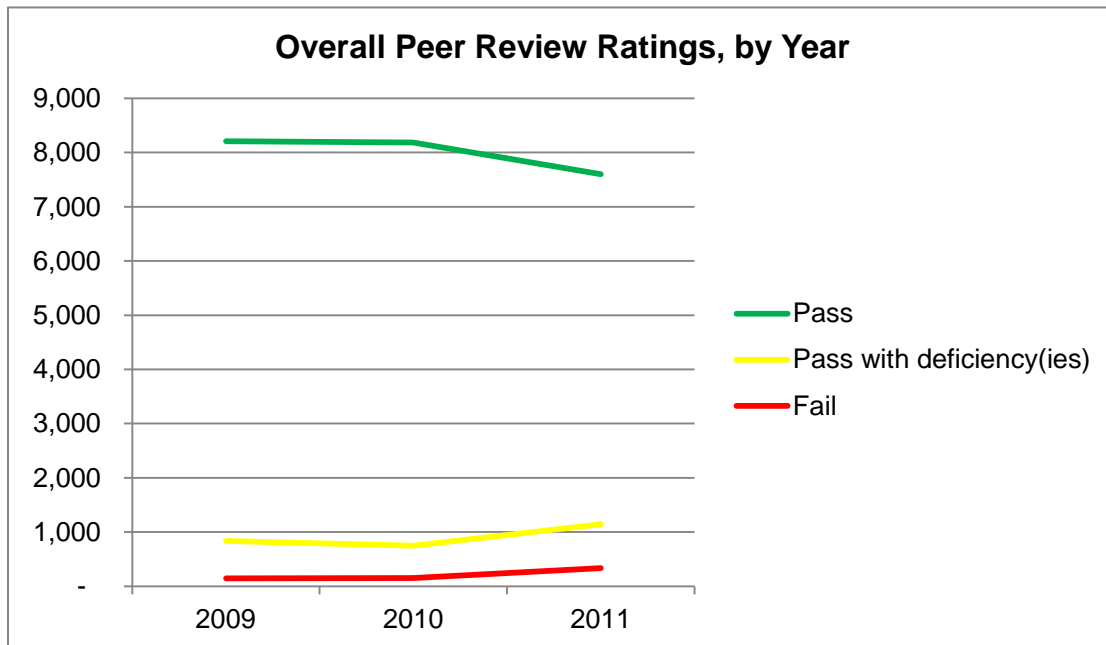
Exhibit 4

Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2009–2011 by type of peer review and report issued. (Effective with the revised *Standards*, report reviews are no longer performed. Firms that previously were subject to a report review would now have an engagement review performed.)

	2009		2010		2011		Total	
	#	%	#	%	#	%	#	%
<u>System reviews</u>								
Pass	3,995	88%	3,461	89%	3,680	89%	11,136	89%
Pass with deficiency(ies)	446	10%	341	9%	350	9%	1,137	9%
Fail	86	2%	97	2%	96	2%	279	2%
Subtotal	<u>4,527</u>	<u>100%</u>	<u>3,899</u>	<u>100%</u>	<u>4,126</u>	<u>100%</u>	<u>12,552</u>	<u>100%</u>

	2009		2010		2011		Total	
	#	%	#	%	#	%	#	%
<u>Engagement reviews</u>								
Pass	4,212	90%	4,723	91%	3,920	79%	12,855	87%
Pass with deficiency(ies)	387	9%	405	8%	795	16%	1,587	11%
Fail	60	1%	55	1%	239	5%	354	2%
Subtotal	<u>4,659</u>	<u>100%</u>	<u>5,183</u>	<u>100%</u>	<u>4,954</u>	<u>100%</u>	<u>14,796</u>	<u>100%</u>



Note: The above data reflects peer review results as of August 8, 2012. Approximately 2% of 2011 reviews are in process and their results are not included in the preceding totals.

Exhibit 5

Examples of Matters Noted in Peer Reviews

The following is a list of items noted as matters in peer reviews performed during 2009-2011. This list contains examples of noncompliance (both material and immaterial) with professional standards. While this list is not all-inclusive and is not representative of all peer reviews it does note some examples of matters that were identified during the peer review process.

Accounting and Reporting Matters

- Income taxes – disclosures relative to uncertain tax positions failed to include open tax years as required by FASB ASC 740-10-50 (FIN 48)
- Fair value – failure to disclose the fair value of investments by levels 1, 2 and 3 as required by FASB ASC 820-10-50
- Debt – failure to disclose 5 years of debt maturities as required by FASB ASC 470-10-50
- Statement of Cash Flows – failure to properly identify certain cash flow items as reporting, investing or as financing activities as required by FASB ASC 230-10-45
- Risks and Uncertainties – failure to properly disclose risks and uncertainties such as nature of operations, the use of estimates and concentrations as required by FASB ASC 275-10-50

Audit and Attest Services

- Auditor's Communication with Those Charged with Governance – failure to document those communications in accordance with AU section 380, *The Auditor's Communication with Those Charged with Governance*.
- Planning and Supervision – Incomplete or undocumented planning procedures related to risk.
- Communicating Internal Control Matters Identified in an Audit, including the following:
 - Failure to note the auditor's responsibility for communicating internal control matters identified in the audit in the engagement letter.
 - Failure to complete or inaccurate completion of the internal control matters section of the firm's audit work programs in accordance with quality control policies and procedures.
 - Failure to identify internal control matters during the planning stage of the engagement.
- Audit Documentation – Failure to prepare audit documentation in accordance with AU section 339.
- Analytical Procedures – General analytical procedures and specifically the failure to document expectations prior to performing analytical procedures and then failing to compare final results to expectations as well as document the procedures performed.

Compilation Services

- Basic performance requirements, including financial statements containing “current liabilities” without the appropriate caption or description and income statement noting the wrong periods (for example, 2007 and 2006 instead of 2008 and 2007)
- Failure to appropriately title financial statements (for example, income tax basis financial statements firm had GAAP basis financial statement titles).
- Reporting on the Financial Statements – Basic report elements were missing, including addressing all periods presented in the compilation report in accordance with AR section 60.
- Form of a Standard Compilation Report – Issuing tax basis financial statements and the compilation report was not modified to reflect this GAAP departure.

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

Review Services

- Analytical Procedures – Failure to document expectations when performing analytical procedures and to compare results to those expectations.
- Management Representations – Omissions and errors, including the following:
 - Management's representation letter failed to include all periods being reported on.
 - The representation letter did not include the statement about management's responsibility to detect and prevent fraud as required by AR section 90.
- Basic reporting elements – Failure to follow the basic report elements as required by the SSARS.
- Understanding the entity – Errors or omissions in the engagement letter, including the following:
 - Missing required signatures.
 - The required wording that the engagement could not be relied upon to disclose errors, fraud or illegal acts.
 - The required wording that the accountant would inform the appropriate level of management if certain matters came to his or her attention unless clearly inconsequential.
- Reporting on Comparative Financial Statements – Referencing all periods reviewed and to supplemental information provided in the accountant's review report.

Exhibit 6

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 performed in the AICPA PRP from 2009–11 summarized by elements of quality control as defined by the Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control* (note that SQCS No. 8 is effective as of January 1, 2012; thus, was not effective throughout the period of this Report). 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 SQCS No. 7, in all material respects. SQCS No. 7 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 4, Results by Type of Peer Review and Report Issued.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	28	38	45
Relevant Ethical Requirements	14	12	11
Acceptance and Continuance of Client Relationships and Specific Engagements	24	26	28
Human Resources	99	95	84
Engagement Performance	433	359	331
Monitoring	200	194	166
Totals	<u>798</u>	<u>724</u>	<u>665</u>

Exhibit 7

Number of Engagements Not Performed 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 in accordance with professional standards in all material respects from peer reviews performed in the AICPA PRP from 2009–11. The *Standards* state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards in all material respects when issues, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents the omission of a critical accounting, auditing or attestation procedure required by professional standards.

Engagement Type	2009			2010			2011		
	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 Act (A-133)	1,725	131	8%	1,490	182	12%	1,737	189	11%
Governmental - All Other	1,503	122	8%	1,374	129	9%	1,461	103	7%
ERISA	1,856	123	7%	1,827	108	6%	2,234	114	5%
FDICIA	27	2	7%	28	-	0%	26	-	0%
Carrying Broker-Dealers	-	-	-	-	-	-	6	-	0%
Other	4,812	285	6%	4,436	214	5%	5,017	246	5%
Reviews	5,765	192	3%	5,520	203	4%	5,892	362	6%
Compilations:									
With Disclosures	3,867	90	2%	3,860	89	2%	3,952	248	6%
Omit Disclosures	11,609	349	3%	11,446	304	3%	12,135	1,326	11%
Forecasts & Projections	77	1	1%	75	2	3%	135	7	5%
SOC 1 Reports	-	-	-	-	-	-	39	2	5%
Agreed Upon Procedures	759	15	2%	782	14	2%	1,061	26	2%
Other SSAEs	373	25	7%	297	17	6%	175	8	5%
Totals	32,373	1,335	4%	31,135	1,262	4%	33,870	2,631	8%

Exhibit 7, continued

Number of Engagements Not Performed in Accordance With Professional Standards in All Material Respects

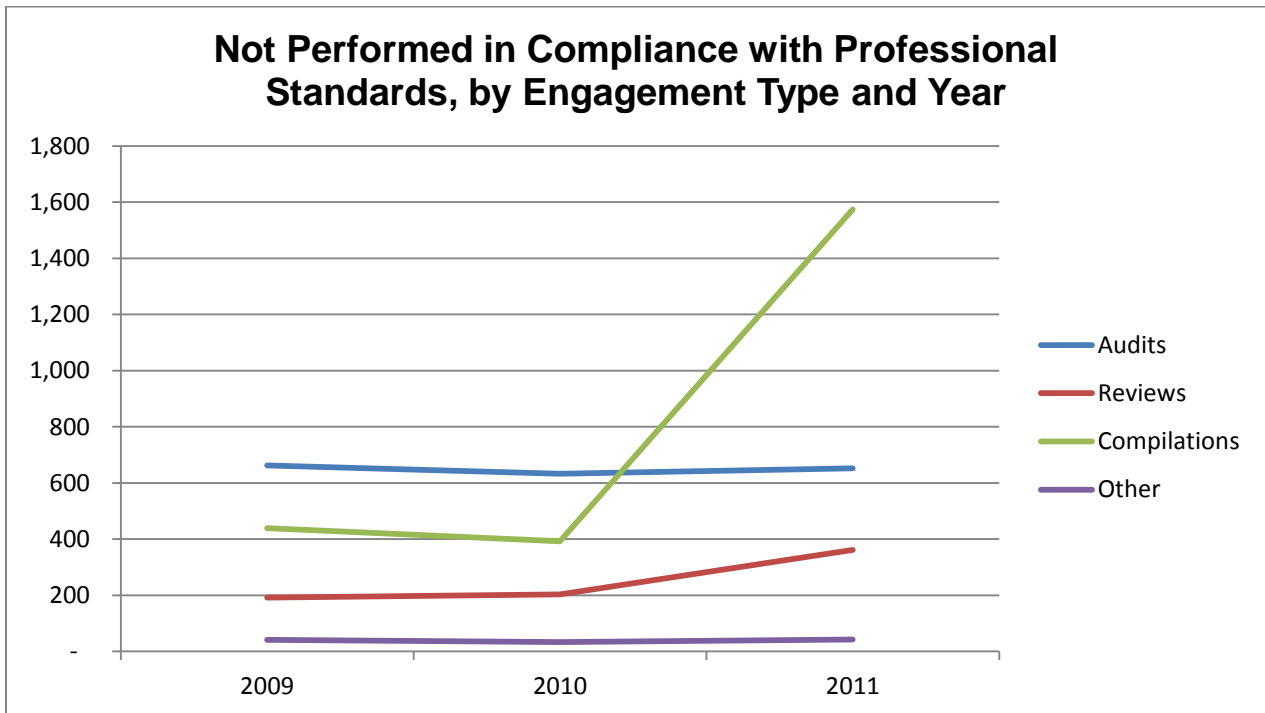
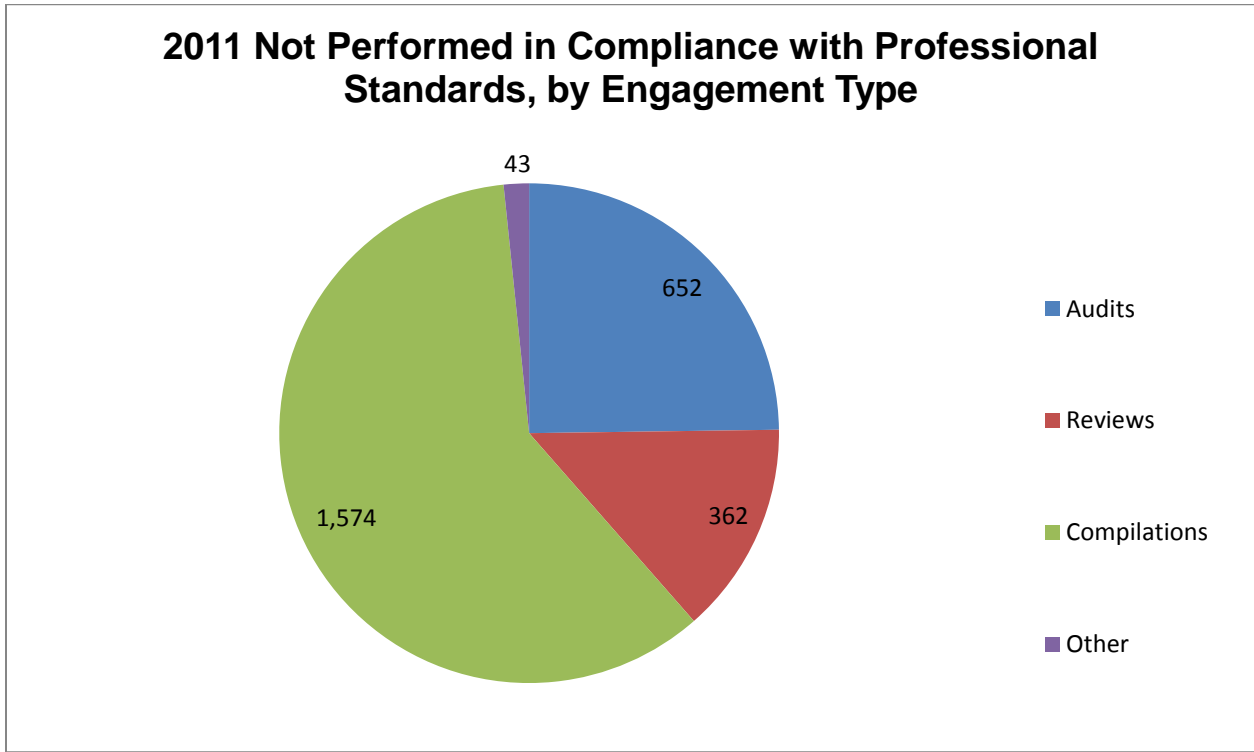


Exhibit 8

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 2009–11 reviews, committees required 4,474 corrective actions. The following represents the type of corrective actions required.

Type of Corrective Action	<u>2009</u>	<u>2010</u>	<u>2011</u>
Agree to take/submit proof of certain Continuing Professional Education (CPE)	650	584	1,019
Submit to review of correction of engagements that were not performed in accordance with professional standards	232	233	351
Agree to preissuance reviews	138	139	144
Submit monitoring report to Team Captain or Peer Review Committee	107	59	66
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	38	30	44
Submit to revisit (Team Captain or Peer Review Committee Member)	96	90	79
Agree to have accelerated review	26	31	22
Submit evidence of proper firm licensure	15	9	8
Firm has stated they do not perform any auditing engagements	11	11	11
Agree to hire consultant for inspection	11	5	11
Review of formal CPE plan	6	4	7
Team captain to review Quality Control Document	14	13	14
Submit inspection completion letter	5	2	4
Submit proof of purchase of manuals	8	16	19
Outside Party to Visit During Inspection	4	2	1
Agree to do comprehensive inspection	2	-	-
Submit report on consultant	-	2	4
Oversight of Inspection - - Review	10	13	7
Submit quarterly progress reports	4	4	1
Oversight of Inspection – Visitation	16	15	7
Total	<u>1,393</u>	<u>1,262</u>	<u>1,819</u>

Exhibit 9

Administering Entities That Have Entered Into a Peer Review Oversight Relationship with a State Board of Accountancy

The following shows whether the respective AE has entered into a peer review oversight relationship with the 50 SBAs that currently have statutorily made participation in a type of practice monitoring program mandatory for licensure as indicated in Exhibit 1, State CPA Societies and State Boards of Accountancy That Have Made Participation in an Approved Practice Monitoring Program a Condition of Membership or Licensure.

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between AE and State Board</u>
Alabama Society of CPAs	Alabama	No
California Society of CPAs	Alaska	No
California Society of CPAs	Arizona	No
Arkansas Society of CPAs	Arkansas	Yes
California Society of CPAs	California	No
Colorado Society of CPAs	Colorado	**
Connecticut Society of CPAs	Connecticut	No
Georgia Society of CPAs	Georgia	No
Oregon Society of CPAs	Guam	No
Hawaii Society of CPAs	Hawaii	**
Idaho Society of CPAs	Idaho	Yes
Illinois Society of CPAs	Illinois	Yes
Indiana CPA Society	Indiana	No
Iowa Society of CPAs	Iowa	No
Kansas Society of CPAs	Kansas	Yes
Kentucky Society of CPAs	Kentucky	No
Society of Louisiana CPAs	Louisiana	Yes
New England Peer Review, Inc.	Maine	No
Maryland Association of CPAs	Maryland	Yes*
Massachusetts Society of CPAs	Massachusetts	Yes
Michigan Association of CPAs	Michigan	No
Minnesota Society of CPAs	Minnesota	Yes
Mississippi Society of CPAs	Mississippi	Yes
Missouri Society of CPAs	Missouri	Yes

Exhibit 9, continued

**Administering Entities That Have Entered Into a Peer Review
Oversight Relationship with a State Board of Accountancy**

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between AE and State Board</u>
Montana Society of CPAs	Montana	No
Nevada Society of CPAs	Nebraska	No
Nevada Society of CPAs	Nevada	Yes
New England Peer Review, Inc.	New Hampshire	No
New Jersey Society of CPAs	New Jersey	Yes
New Mexico Society of CPAs	New Mexico	No
New York State Society of CPAs	New York	Yes
North Carolina Association of CPAs	North Carolina	No
North Dakota Society of CPAs	North Dakota	No
The Ohio Society of CPAs	Ohio	Yes
Oklahoma Society of CPAs	Oklahoma	Yes
Oregon Society of CPAs	Oregon	Yes
Pennsylvania Institute of CPAs	Pennsylvania	No
New England Peer Review, Inc.	Rhode Island	No
South Carolina Association of CPAs	South Carolina	Yes
Oklahoma Society of CPAs	South Dakota	No
Tennessee Society of CPAs	Tennessee	Yes
Texas Society of CPAs	Texas	Yes
Nevada Society of CPAs	Utah	No
New England Peer Review, Inc.	Vermont	No
Virginia Society of CPAs	Virginia	Yes*
Washington Society of CPAs	Washington	Yes
West Virginia Society of CPAs	West Virginia	No
Wisconsin Institute of CPAs	Wisconsin	No
Nevada Society of CPAs	Wyoming	Yes

* Oversight Relationship is currently in development.

** Licensing jurisdiction has statutorily adopted peer review and is in the process of adopting rules.

Exhibit 10

Number and Type of Working Paper Oversight Performed by AICPA Staff

The following shows the number and type of working paper oversight performed by AICPA Peer Review Program staff for 2011.

<u>AE</u>	<u>Engagement</u>	<u>System</u>	<u>Total</u>
Alabama	3	5	8
Arkansas	1	1	2
California	16	17	33
Colorado	3	4	7
Connecticut	2	2	4
Florida	8	6	14
Georgia	8	6	14
Hawaii	1	2	3
Idaho	2	1	3
Illinois	5	4	9
Indiana	2	2	4
Iowa	2	1	3
Kansas	1	3	4
Kentucky	3	2	5
Louisiana	3	3	6
Maryland	3	3	6
Massachusetts	4	4	8
Michigan	4	5	9
Minnesota	2	3	5
Mississippi	1	1	2
Missouri	4	2	6
Montana	2	1	3
Nevada	3	3	6
New England	3	3	6
New Jersey	6	6	12
New Mexico	3	1	4
New York	9	7	16
North Carolina	3	6	9
North Dakota	1	0	1
Ohio	6	6	12
Oklahoma	2	2	4
Oregon	3	3	6
Pennsylvania	7	7	14
Puerto Rico	0	4	4
South Carolina	4	2	6
Tennessee	4	3	7
Texas	14	12	26
Virginia	3	3	6
Washington	2	2	4
West Virginia	1	2	3
Wisconsin	1	2	3
Totals	155	152	307

Exhibit 11

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Throughout each year, a sample of reviews is selected (by AICPA PRP staff and approved by the OTF from the AEs for submission to the AICPA PRP staff for a full working paper review. Documents from all parts of the peer review process (administrative, PRISM computer system, peer review checklists, technical reviewer checklist and peer review committee actions) are reviewed to determine whether the reviews are being performed and reported on in accordance with the *Standards*. The following is a summary of the most prevalent comments that were generated as a result of the working paper oversights performed by the AICPA PRP staff during the year 2011. The comments are intended to provide the AEs, their committees, report acceptance bodies, peer reviewers and technical reviewers with information and constructive recommendations that will help ensure consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all of the respective parties. Ordinarily, AEs do not receive all of the peer review checklists that are obtained as part of the working paper reviews and therefore, would not be able to identify some of these comments.

Engagement Quality Control Review

- The firm failed to establish or established inappropriate, vague or insufficient criteria for the purposes of establishing a threshold for EQCR and it was not appropriately highlighted in the peer review documentation.

Monitoring

- The firm failed to appropriately respond to questions pertaining to performance of post-issuance review, review of compliance with firm QCPP and/or documentation of firm monitoring procedures. Based upon the peer review documentation, it is unclear how these responses or lack of responses were addressed by the reviewer.

Reviewer Feedback

- Feedback was not issued to the peer reviewer when it would have been appropriate. Some examples include scope matters, incomplete matters for further consideration (MFC) forms (for example, not referencing professional standards) and late submission of the report to the reviewed firm.
- Reviewer feedback forms were not used appropriately or were signed by the technical reviewer instead of a member of the peer review committee.

Engagement Checklists

- Peer reviewers did not use the correct or most current checklists when performing peer reviews.
- There were multiple “no” responses on the engagement checklists which did not have a documented resolution. They were not mentioned in the exit conference summary contained in the Summary Review Memorandum and there was no MFC prepared.
- The peer reviewer did not refer to the applicable supplemental checklist. For example, the review engagement selected for peer review was in the construction industry and the peer reviewer could have referred to the *Supplemental Checklist for Review of Construction Contractor Engagements*.
- There were sections on the engagement checklists which were not completed in their entirety. Some examples included: the general data, audit engagement risk assessment and the identification of significant audit areas.

Exhibit 11, continued

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Engagements not in conformity with applicable professional standards

- There were inconsistencies within the peer review documentation regarding evaluation of whether engagement(s) were performed and/or reported on in conformity with applicable professional standards.
- There were inconsistencies noted with respect to responses made by the reviewed firm on the engagement profile or questionnaire versus those made by the peer reviewer on the engagement checklists. Some examples include the firm indicated on the engagement questionnaire that they did provide nonattest services but the reviewer indicated nonattest services were not applicable on the checklist or the firm indicated on the engagement questionnaire that the financial statement did include a footnote related to income tax expense but the reviewer indicated on the Financial Reporting and Disclosure Checklist that income taxes were not applicable.

Engagement Selection

- A selection was not made from all levels of service provided by the firm, and the reviewer did not provide an explanation as to why this was appropriate.
- There were engagements reviewed which were outside of the scope of the peer review year, and no explanation was provided as to why this was appropriate.

Independence

- The information provided by the firm was incomplete in regards to the prior year's fees and also in regards to providing nonattest services, which are needed to appropriately determine the firm's independence on the engagement.

Risk Assessment

- The risk assessment included in the Summary Review Memorandum (SRM) failed to comprehensively address the inherent and control risks and discuss the firm's system of quality control.

Firm Representation Letter

- On system reviews, the firm's peer review representation letter was incorrectly dated. For system reviews the representations should be dated the same date as the peer review report.
- On engagement reviews, the firm's peer review representation letter was dated the same date as the peer review report. For engagement reviews, the representations should be the date the firm submits the list of engagements to the reviewer.

Matters for Further Consideration (MFCs) and Findings for Further Consideration (FFCs)

- MFCs should have been prepared, but were not. For example, if the engagement checklists address several "no" answers relating to disclosure and documentation, they should be carried forward to an MFC.
- MFCs did not reflect the respective professional standards in order to lend support for the matter being addressed as a deficiency and did not include the engagement, checklist page, or question where the comment was derived.
- MFCs were not signed and dated by the reviewed firm's engagement partner (or designated as being discussed by telephone) prior to or on the date of the report.

Exhibit 11, continued

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

- The Finding for Further Consideration (FFC) form was not written systemically. Paragraphs .83-.85 of the *Standards* contain guidelines on identifying the underlying cause of a finding. The team captain should identify the underlying systemic cause of all findings.

Summary Review Memorandum (SRMs)

- The SRMs were not completed accurately or consistently. This led to instances where necessary issues were not included in the FFCs; repeat findings and substandard engagements were not identified or properly addressed; and reports other than unmodified were not considered.
- The reviewer did not document in the SRM their consideration of issuing another type of report.

Surprise Engagement

- The surprise selection was not the firm's highest level of service and the team captain's conclusion for the selection was not documented in the SRM.

Isolated Matter

- There was no documentation as to the number of other engagements the team captain reviewed to determine if the matter was isolated and not pervasive.
- The team captain did not expand scope to determine the pervasiveness of the matter in the other engagements.

Engagement Statistics in the PRISM System

- Engagement statistics were not recorded into PRISM or were recorded incorrectly (that is, types of engagements reviewed and if an engagement was substandard).

Review Acceptance

- The review was not presented to the peer review committee within 120 days of receipt of the report and letter of response, if applicable, from the reviewed firm.
- The engagement review was not accepted by the technical reviewer within 60 days of receipt of the report.

Overdue Reviews

- The peer review was completed and submitted to the AE late and there was no extension granted or no overdue letters generated.

Incomplete Engagement Profiles

- The firm did not complete all sections of the engagement profile.

Use of alternative checklists

- In lieu of completing supplementary disclosure checklists for the applicable engagements reviewed, the reviewer copied and reviewed the engagement disclosure checklists completed by the firm. Per Interpretation 24-1, "reviews conducted utilizing alternate materials and checklists will require advance notice to the AE and the review must be subject to on-site oversight."

Exhibit 11, continued

**Comments from Working Paper Oversight
Performed by AICPA Peer Review Program Staff**

Client financial statements

- Client financial statements provided to the reviewer for the peer review were forwarded for oversight though required to be returned or destroyed.

Corrective actions and/or implementation plans

- Failure to utilize or improper use of implementation plans and/or corrective actions.

Exhibit 12

On-Site Oversight of Administering Entities Performed by AICPA Oversight Task Force

During 2009–2010, a member of the OTF performed an on-site oversight visit to each of the following 41 AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year.

<u>2011</u>	<u>2010</u>
Connecticut	Alabama
Georgia	Arkansas
Hawaii	California
Idaho	Colorado
Illinois	Florida
Indiana	Kansas
Iowa	Michigan
Kentucky	Mississippi
Louisiana	Missouri
Maryland	Montana
Massachusetts	Nevada
Minnesota	New England
North Carolina	New Jersey
Oklahoma	New Mexico
Puerto Rico	New York
South Carolina	North Dakota
Texas	Ohio
Virginia	Oregon
Washington	Pennsylvania
	Puerto Rico
	Tennessee
	West Virginia
	Wisconsin

Exhibit 13

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

As discussed in more detail in the *Oversight Visits of the AEs* section, each AE is visited by an OTF member at least every other year who performs various oversight procedures. At the conclusion of the visit, the OTF member issues an AICPA oversight visit report as well as an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed, observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is then required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter, or at a minimum, when there are no findings reported, an acknowledgement of the visit. The two oversight documents and the AE's response are presented by the AICPA OTF Peer Review Board (PRB) members at the next AICPA PRB meeting for acceptance. A copy of the acceptance letter, the two oversight visit letters and the response are posted to the following AICPA PRP web page:

<http://www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx>.

The following represents a summary of common observations made by the OTF resulting from the on-site oversight visits performed during 2009–2011. The observations listed below are not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- The appropriate letters for poor reviewer performance, delinquent peer reviews and follow-up reminders were not generated according to the time requirements in the administrative manual.
- Files still open due to delinquent follow-up actions were not periodically reviewed with the Peer Review Committee to determine what additional action should be taken.
- Reviewer feedback forms were not maintained in the appropriate reviewer file.
- Reviewer resume verification procedures did not include comparison of information supplied by the reviewer to the reviewer's firm's background information.
- Confidentiality Agreements were not obtained annually for committee members/technical reviewers.
- Follow up should be consistently monitored for completion by staff and committee members.
- Technical reviewer should monitor experience and training requirements for their role.

Web site and Other Media Information

- The data maintained on the web site as it relates to the PRP was not reviewed and revised to reflect current information.

Working Paper Retention

- Working papers were not retained and then destroyed 120 days after acceptance by the peer review committee in accordance with the working paper retention policy of the administrative manual.
- Reviewer feedback was maintained beyond the recommended guidelines.

Exhibit 13, continued

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

Review Presentation

- Report Acceptance Bodies (RABs) should be scheduled throughout the year so that RABs meet and accept reviews in the time frame required by the *Standards*.

Committee Procedures

- Reviewer feedback was not issued when necessary. Also, the reviewer feedback was not signed by a peer review committee member.
- Technical reviewers should address all significant issues before reviews are presented to the RAB.
- Committee members did not utilize implementation plans and/or corrective actions.

Exhibit 14

Administrative Oversight Performed By Peer Review Committees of Administering Entities

The AE's peer review committee is required to establish administrative oversight procedures to provide reasonable assurance that the AICPA PRP is being administered in accordance with guidance as issued by the PRB. An administrative oversight should be performed in those years when there is no AICPA oversight visit. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP. Each AE was requested to submit documentation indicating that an administrative oversight was performed with their 2012 POA. Comments or suggestions contained in the reports are summarized below and are not indicative of every AE and vary in degree of significance. In addition, the OTF member reviewed the results of the administrative oversight during the oversight visit (described on pages 13–15, *Oversight Visits of the Administering Entities*) and compared the results of the administrative oversight with those noted during the OTF oversight visit to evaluate whether any matters still need improvement.

- The status of open reviews should be monitored by the peer review committee at each meeting
- Files contained documents that should have been destroyed.
- Notifications not sent to team captains advising them of the working paper retention policy after the report acceptance.
- Delinquent letters on reviews were not being sent in a timely manner.
- Reviewer feedback and performance deficiency letters were not being issued when necessary.
- Reviews were not always presented to the peer review committee in accordance with the timelines specified by the *Standards*.
- The technical reviewer did not always resolve inconsistencies and disagreements before submitting reviews to the report acceptance bodies (RABs).
- RABs are not always consistent in regard to follow-up actions.
- Required oversights of “must select” engagements were not performed in a timely manner.

Exhibit 15

Summary of Oversight Performed by Administering Entities

AEs are required to conduct oversight on a minimum of 2% of all reviews performed in a 12-month period of time and within the 2% selected, there must be at least two of each type of peer review evaluated. Also, at least two engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2011 oversight year.

Administering Entity	Type of Review/Oversights			Type of Engagement Oversights				Total Oversights Performed at Firm
	System	Engagement	Total	ERISA	GAGAS	FDICIA	Total	
Alabama	2	2	4	-	2	-	2	2
Arkansas	3	2	5	2	1	-	3	2
California	15	15	30	8	10	-	18	2
Colorado	2	3	5	2	2	-	4	2
Connecticut	1	3	4	1	1	-	2	2
Florida	9	8	17	8	5	-	13	3
Georgia	8	4	12	-	1	-	1	2
Hawaii	1	1	2	1	1	-	2	1
Idaho	2	1	3	1	1	-	2	1
Illinois	12	2	14	4	5	1	10	5
Indiana	2	2	4	2	2	-	4	2
Iowa	3	3	6	1	1	-	2	2
Kansas	5	3	8	1	1	-	2	2
Kentucky	2	5	7	1	1	-	2	2
Louisiana	3	12	15	1	3	-	4	2
Maryland	2	4	6	1	1	-	2	2
Massachusetts	8	4	12	5	4	-	9	2
Michigan	3	4	7	5	5	-	10	3
Minnesota	3	3	6	1	1	-	2	2
Mississippi	2	2	4	1	2	-	3	2
Missouri	3	2	5	2	2	-	4	3
Montana	6	2	8	1	1	-	2	2
Nevada	2	5	7	2	2	-	4	2
New England	5	2	7	2	2	-	4	2
New Jersey	6	3	9	2	4	-	6	2
New Mexico	2	2	4	1	1	-	2	2
New York	10	6	16	4	2	-	6	3
North Carolina	10	5	15	1	1	1	3	3
North Dakota	1	1	2	1	1	-	2	1
Ohio	3	4	7	3	2	-	5	2
Oklahoma	3	2	5	1	1	1	3	2
Oregon	4	3	7	1	1	-	2	2
Pennsylvania	10	3	13	3	6	-	9	8
Puerto Rico	4	1	5	1	1	-	2	5
South Carolina	2	2	4	2	2	-	4	2
Tennessee	3	5	8	1	2	-	3	2
Texas	9	13	22	2	6	-	8	3
Virginia	6	2	8	-	2	-	2	2
Washington	8	3	11	1	1	-	2	2
West Virginia	2	4	6	1	1	-	2	2
Wisconsin	2	2	4	1	1	-	2	2
TOTAL	189	155	344	79	92	3	174	97

Exhibit 16

Summary of Reviewer Resumes Verified by Administering Entities

AEs are required to verify all reviewer resumes over a three-year period as long as at a minimum, one third are verified in year one, a total of two thirds has been verified by year two and 100% have been verified by year three. The following shows the number of reviewer resumes verified by AEs for the years 2009 through 2011.

Administering Entity	<u>2009</u>	<u>2010</u>	<u>2011</u>
Alabama	13	9	9
Arkansas	8	7	15
California	38	49	70
Colorado	9	11	9
Connecticut	7	11	12
Florida	46	25	40
Georgia	0	44	48
Hawaii	8	6	0
Idaho	6	5	17
Illinois	22	19	39
Indiana	11	11	12
Iowa	8	8	11
Kansas	17	0	18
Kentucky	18	14	16
Louisiana	43	49	48
Maryland	9	31	18
Massachusetts	2	0	14
Michigan	40	31	42
Minnesota	7	7	7
Mississippi	10	17	12
Missouri	20	15	20
Montana	3	0	5
Nevada	0	62	61
New England	9	7	7
New Jersey	26	29	28
New Mexico	20	0	20
New York	24	30	28
North Carolina	8	24	31
North Dakota	1	1	1
Ohio	0	14	36
Oklahoma	11	15	11
Oregon	13	12	9
Pennsylvania	40	33	26
Puerto Rico	13	13	12
South Carolina	12	11	46
Tennessee	20	24	20
Texas	37	43	61
Virginia	12	22	21
Washington	9	10	25
West Virginia	11	10	9
Wisconsin	6	20	7
Totals	<u>617</u>	<u>749</u>	<u>941</u>

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the “senior technical committee” governing the AICPA PRP and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the <i>Standards</i> , Interpretations to the <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 AICPA PRP.
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.
AICPA PRP Peer Review Alert	A document issued on a periodic basis by the AICPA PRB to communicate current information and guidance to peer reviewers.
Administering Entity	A state CPA society, group of state CPA societies, or other entity annually approved by the PRB to administer the AICPA PRP in compliance with the <i>Standards</i> and related guidance materials issued by the PRB.
Agreed Upon Procedures	Specific procedures agreed to by a CPA, a client and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
PRISM System	An online system that is accessed to carry out the AICPA PRP administrative functions.
Attest Engagement	An engagement that requires independence as defined in the AICPA professional standards.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a CPA.
Compilation	Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements performed under SSARS.
ERISA	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.

Glossary

<u>Term</u>	<u>Definition</u>
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 that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended 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 generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.
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 Form.
Firm	A form of organization permitted by law or regulation whose characteristics conforms to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Follow-up Action	A corrective type action, remedial and educational in nature, which may be imposed on a reviewed firm by the AE peer review committee upon the acceptance of the firm's peer review in an attempt to strengthen the performance of the firm.
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 due process procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA PRP 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.

Glossary

<u>Term</u>	<u>Definition</u>
Matter for Further Consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards. 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 Form.
Other Comprehensive Basis of Reporting	Consistent accounting basis other than generally accepted accounting principles (GAAP) used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the AICPA PRP 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	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the AICPA PRP.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
Program Administrator	Person responsible for administering the AICPA PRP for the AE.
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 AICPA PRP are being complied with.
Review	Performing inquiry and analytical procedures on financial statements that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with GAAP.
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 on the AICPA website 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 a reviewer as set forth in the <i>Standards</i> .

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Reviewer Resume	A document residing on the AICPA website 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 a reviewer as set forth in the <i>Standards</i> .
Scheduling Status Report	A report which provides key information on peer reviews such as firm name, due date, review number, type, status and the date background information was received.
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.
AICPA PRP Administrative Manual	Publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.
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.
System of Quality Control	A process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.
System Review	A type of peer review for firms that have an audit and accounting practice. 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.
Technical Reviewer	Individual(s) at the AE whose role is to provide technical assistance to the Report Acceptance Body (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, or the Virgin Islands.

¹ Approximately 33,000 firms are enrolled in the AICPA PRP. Approximately 4,000 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

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² The National Peer Review Committee (National PRC) became an AE of the AICPA PRP effective January 1, 2009. Prior to January 1, 2009, the National PRC was a separate peer review program called the CPCAF PRP. The National PRC has issued a separate report for the calendar year and its results are not included within this Report.

³ After 2010, examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting were added.