

Oversight Handbook

Eleventh Edition, Effective for Peer Reviews Commencing on or after January 1, 2009



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CHAPTER 3

An Administering Entity's Oversight Relationship

With its State Board of Accountancy or other Governmental Regulators

- I. Several state boards of accountancy (SBAs) have a statutory requirement to oversight the sponsoring organizations/entities administering peer review programs in its state that are intended to meet the SBA's peer review licensure requirements. There is an expectation that an SBA will want to perform certain procedures to gain a level of comfort that all peer review programs being administered in its state are being conducted in such a manner that is acceptable to the SBA. Accordingly, since all SBAs that require peer review accept the AICPA Peer Review Program (program), it is in the best interest of the program and our joint (with SBAs) mandate to protect the public that we cooperate in the establishment of a mutually acceptable oversight process.
- II. Therefore, administering entities are strongly encouraged to enter into an oversight agreement with their respective SBAs when requested to do so. The discussion that follows primarily refers to SBAs but could be tailored as necessary to include other governmental regulators. The AICPA Peer Review Board developed a paper describing a model for an oversight organization, which is included on the following pages.
- III. The relationship discussed in the paper is only a suggestion as to how an administering entity might interface with a SBA oversight body:
 - A. If the administering entity enters into such an agreement; and
 - B. If the operation of a SBA oversight program would guarantee the waiver from the SBA's positive enforcement program (peer review requirement).

Exhibit 3-1

Oversight Relationship Between the Administering Entity Fully Involved in the Administration of the AICPA's Peer Review Program and its Respective State Board of Accountancy

GENERAL

Some state boards of accountancy (SBAs) have implemented a program to review the accounting and auditing work performed by their licensees. In most cases, programs adopted by SBAs involve the submission by a licensee of at least one audit, review and compilation report selected by the licensee for technical review by the SBA. These programs usually do not involve a review of working papers except in extreme circumstances.

The SBA sponsored "positive enforcement programs" involves all practice units in a state whether or not they held membership in the AICPA or an administering entity. Such programs generally have the support of the profession as a desirable measure to enhance the quality of services provided by the profession to the public. Indeed, several state CPA societies actively pursued legislation to establish such a SBA program. Some state CPA societies support the SBA programs by providing volunteers to conduct reviews under the authority of the state board.

The AICPA has a national practice-monitoring program in which participation is required as a condition of continued AICPA membership if the practice unit performs engagements and issues reports that fall within the practice-monitoring program. Thus, many of the practice units in a state are now subject to a System or Engagement review, any one of which can be more extensive in scope than programs administered by the SBAs.

A few SBAs and other regulators consider adding additional peer review requirements that go beyond those in the *AICPA Standards for Performing and Reporting on Peer Reviews* (standards). There are 55 licensing jurisdictions and hundreds of other federal, state and local governmental regulators. Understandably, if each of these entities instituted their own specific peer review requirements in addition to those issued by the AICPA, conducting a national peer review program would not be possible and could result in firms having to participate in multiple peer reviews. However, we have found that as SBAs and other regulators become more familiar with the AICPA Peer Review Program, the standards and the process, sometimes via an oversight relationship, the need to consider adding additional peer review requirements no longer becomes necessary. We are always attempting to enhance peer review, whether it's the standards via the public exposure process or changes to our guidance which is predominantly done in meetings open to the public. We are also pleased to discuss the AICPA Peer Review Program with SBAs and other governmental regulators so we can better understand what each other is trying to accomplish with peer review.

In those states in which the SBA is now conducting or considering conducting a program, the prospect of their members having to participate in two practice-monitoring programs has led state CPA societies to approach their respective state boards to request a waiver from the SBA program for firms participating in the AICPA practice-monitoring programs.

Although most SBAs seem ready to grant some type of waiver from their positive enforcement program for a firm participating in an AICPA practice-monitoring program, several boards require the firm requesting such a waiver to submit its peer review report and, sometimes, other documents to the SBA in support of the waiver application. (The reports and certain other documents on peer reviews in the AICPA Private Companies Practice Section and Audit Quality Centers are public documents.)

The AICPA Peer Review Board conducts an extensive oversight program to ensure that the AICPA Peer Review Program is being conducted in accordance with the *Standards for Performing and Reporting on Peer Reviews* and the guidelines developed. In addition, the AICPA Peer Review Board agrees that when a SBA makes the request, an administering entity that is fully involved in the administration of the AICPA Peer Review Program may enter into an oversight agreement with its respective state board of accountancy.

The remainder of this discussion suggests a model for an oversight organization. Individual states may vary the size, composition or operation of the oversight body in their state to reflect local situations or other forces bearing on the issue.

However, the following restrictions should always apply:

- no member of a state oversight board shall be a current member of a SBA or ethics committees (the SBA could appoint a non-board/committee member liaison who is not currently directly involved in enforcement related work for the SBA, Ethics Committee or other regulatory body.
- access by members of a state oversight board to the records of the AICPA Peer Review Program will not be expanded beyond the limits set herein.

STRUCTURE

The SBA and the administering entity will mutually agree as to the size and composition of the oversight board. One recommendation is:

- two CPA members, with extensive experience in accounting and auditing, currently in practice at the partner level (similar to qualifications of a System Review team captain).
- one public member, with some background in the utilization of public accounting services.

Appointments would be by the SBA, with the extent of input and consultation by the administering entity to be decided locally.

FUNCTION

A fully involved administering entity may agree that an oversight board appointed by a SBA will have access to the following:

1. Standards, procedures, guidelines, training materials and similar documents prepared for the use of reviewers, reviewed firms, and administering entities.
2. State society peer review committee meetings and all minutes of such meetings, including meetings during which peer review reports are considered.
3. Information concerning the extent to which the administering entity peer review committee has reviewed the quality of reviewers' working papers in connection with the acceptance of reviews.
4. Statistical data concerning the results of reviews in the respective state including the number and type of corrective actions required and the number, nature and extent of the monitoring procedures applied.

A fully involved administering entity may also agree that the oversight board appointed by the SBA will have access to the following documents on a reasonable sample of reviews that have been accepted by the administering entity:

1. The report** on the review and the firm's letter of response, if applicable.
2. The firm-wide summary review memorandum.
3. The team captain/review captain's checklist.
4. Any working papers, notes, or other documentation, including reviewer's working papers prepared or reviewed by the administering entity in connection with the scheduling, performance, or acceptance of the review.
5. Correspondence or other documentation concerning acceptance of the review, the imposition of required corrective actions, the monitoring procedures applied, and the results thereof.

** And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

The oversight board shall predetermine the number of reviews to be selected each year and shall select the specific reviews using random sampling.

CONFIDENTIALITY

Members of the state oversight board must sign an agreement to treat all information to which they have access as confidential (exhibit 3-2). Failure to sign a confidentiality agreement will limit the state oversight board's access to only information as allowed by the standards. The standards do not allow access to information on reviewed firms such as findings of the review; reviewer's working papers; or documentation concerning scheduling, performance, or acceptance of the review. The oversight board shall not communicate to the SBA, or any other regulator, information that would divulge the identity of a licensee or a firm.

CONCLUSION

It should be stressed that these are only suggestions as to how an administering entity might interface with an SBA appointed oversight body, *if* the society enters into such an agreement, and *if* the operation of a SBA oversight program would guarantee the waiver from the SBA's positive enhancement program.

Exhibit 3-2

Illustrative Confidentiality Letter—State Board Peer Review Oversight Committee (PROC)

[Date]

[Address of PROC member]

Dear [Mr./Ms.] [PROC member]:

State Board Peer Review Oversight Committee (PROC) participation provides you with an opportunity to serve the accounting profession and the public in various interesting and worthwhile assignments. By accepting appointment to the PROC, you have a responsibility to exert your efforts towards achieving the PROC's objectives through preparation for and attendance at its meetings and participation in its deliberations.

In fulfilling your responsibilities as a PROC member, you have an obligation to adhere to the confidentiality requirements described in the AICPA *Standards for Performing and Reporting on Peer Reviews*. Thus, you would keep information concerning each reviewed firm or any of its clients or personnel, the peer reviewers and the findings of the review that is obtained as a consequence of the oversight procedures, confidential. You would not disclose such information to anyone not involved in carrying out the review or administering the program or use it in any way not related to meeting the objectives of the program.

Please confirm your acceptance of the responsibilities and obligations of the PROC by signing this letter in the space provided and return it to me. If you have any questions, please feel free to contact me at [phone number].

Sincerely,

[Administering Entity's Peer Review Committee Chair]

I accept the responsibilities and obligations this participation entails.

Signature: _____ Date: _____