

# **Alabama Society of Certified Public Accountants Peer Review Annual Report on Oversight 2011**

## **Administering Entity Oversight Process and Procedures**

### **Oversight of Peer Reviewers and Reviewers**

#### **Oversight Selection**

Throughout the year, the Alabama Society of CPAs (ASCPA) Peer Review selects various peer reviews for oversight. The selections may be random or targeted and are based on the criterion for selection as outlined in the AICPA Peer Review Program Oversight Handbook.

#### **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 random selection, frequent submission of pass/unmodified reports without Findings for Further Consideration (FFC), 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.

#### **Oversight Process**

The AICPA Peer Review Committee member performs all oversight engagements. For system review and must-select engagement oversights, this committee member must have team captain requirements and experience. Selection of the oversight reviewer is on a volunteer basis.

The AICPA Peer Review Program Oversight Checklists are utilized on all oversight engagements. Oversight reports are kept on file at the ASCPA office for AICPA oversight visits. Reports are not sent to the AICPA unless remedial action must be ratified by the AICPA. The final report is prepared on the reviewer's letterhead and submitted to the ASCPA Peer Review Committee. The reviewer may respond within 14 days of the date of the final report.

### **Minimum Requirements**

At a minimum, the ASCPA is required to conduct oversight on 2% of all reviews performed in a twelve month period of time, and within the 2% selected, there must be at least two of each type of peer review evaluated (system and engagement reviews). The minimum requirement covers:

- At least two on-site system review oversights (the two required “must-select” engagement oversights may be combined with the system oversights);
- At least two engagement review oversights.

Also, at least two “must-select” engagement oversights must be performed by ASCPA’s 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 under ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to 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.

### **Administrative Oversight**

In the years when there is no on-site Oversight Task Force (OTF) oversight, an administrative oversight is performed on the ASCPA by an individual approved by the ASCPA Peer Review Committee or the Peer Review Committee Chair. Procedures performed cover the administrative requirements of administering the AICPA PRP. The administrative oversight reports are submitted to the AICPA as part of the Plan of Administration and are reviewed by the ASCPA Peer Review Committee and, before an on-site oversight, an OTF member for any potential issues to be aware of.

### **Annual Verification of Reviewers’ Resumes**

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in the accounting or auditing functions. The firm that the member is associated with should have received an unmodified report or 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 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 ASCPA 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. In accordance with Oversight Enhancement No. 4, the ASCPA must verify information within a sample of reviewers' resumes on an annual basis. All reviewer resumes are verified over a three-year period.

### **Verification procedures include:**

- The reviewer providing specific information such as the number of engagements they are specifically involved with and in what capacity. The ASCPA staff then compares the information provided by the reviewers to the reviewer resume on file in the ACIPA system and to the reviewer firm's most recent background information to determine if the reviewer's firm actually performed those engagements during its last peer review.
- Determining the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to FDICIA.
- Which state(s) the reviewer has a license to practice as a certified public accountant in (this may include requesting copies of their license)
- A list of continuing professional education (CPE) courses taken over a three-year period, to document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least 8 hours in one year, including CPE from a qualified reviewer training course; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. Reviewers may also be requested to provide CPE certificates.
- Determining whether the reviewer is a partner or manager in a firm enrolled in a practice monitoring program.
- Verifying that the reviewer's firm received a pass/unmodified report on its most recently completed peer review.

## **Summary of Peer Review Programs**

### **Overview of ASCPA Peer Review**

The ASCPA Peer Review was formed in 1989, to operate the AICPA Peer Review Program, for AICPA and non-AICPA CPA firms located in our state.

The ASCPA serves as the administering entity for the AICPA Peer Review Program and also administers the ASCPA Peer Review Program (which operates exactly the same as the AICPA Peer Review Program) for firms not enrolled in the AICPA Peer Review Program.

The ASCPA Board of Accountancy (BOA) requires all firms in our state, who provide attestation or compilation services as part of their public accounting process, to be enrolled in a practice monitoring program. The BOA has designated the ASCPA as an authorized report acceptance body to approve peer review reports issued for firms enrolled in peer review programs administered by Alabama.

**Number of Enrolled Firms by Number of Professionals\* as of July 18, 2011.**

	AL Peer Review Program	Peer Review Program
Sole Practitioners	127	152
2 to 5	58	219
6 - 10	9	64
11 - 19	1	25
20-49		16
50-99		7
100+		2
<b>Total Enrolled Firms</b>	<b>195</b>	<b>485</b>

\*Professionals are considered all personnel who perform professional services, for which the firm is responsible, whether or not they are CPAs. The number of enrolled firms is as of July 18, 2011. (The table does not include 97 firms that are enrolled but perform no Audit and Accounting services.)

At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

## Results of Peer Reviews Performed During the Year(s) 2009

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

	AL Peer Review Program	^AICPA Peer Review Program
<b>System Reviews:</b>		
Pass	10	96
Pass with deficiency(ies)	2	3
Fail	0	0
Subtotal – System	12	99
<b>Engagement Reviews:</b>		
Pass	46	52
Pass with deficiency(ies)	4	4
Fail	0	0
Subtotal - Engagement	50	56
<b>Totals</b>	<b>62</b>	<b>155</b>

Note: The above data reflects peer review results as of July 15, 2011. Approximately 2% of 2009 (yr). reviews are in process and their results are not included in the totals above

\*At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

\*\* Effective 1/1/2009 the types of peer review reports were revised and Report reviews were discontinued according to the AICPA Standards for Performing and Reporting on Peer Reviews.

### Number and Reasons for Report Modifications

The following lists the reasons, summarized by elements of quality control as defined by Statement of Quality Control Standards, for the report modifications (when a modified or adverse report is issued) and shows the number of firms that received modified reports from system reviews performed for 2009

	AL Peer Review Program	^AICPA Peer Review Program
Reasons for Report Modifications		
Leadership responsibilities for quality within the firm ("the tone at the top")		
Relevant Ethical Requirements		
Acceptance & Continuance of Client Relationships and specific engagements		
Human Resources		1
Engagement Performance	2	3
Monitoring		
Totals	2	4

Note: The above data reflects peer review results as of July 15, 2011. Approximately 2% of 2009 (yr.) reviews are in process and their results are not included in the totals above.

At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

Number of Engagements Not Performed or Reported on in Accordance with Professional Standards in All Material Respects

Engagement Type	AL Peer Review Program		^AICPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	3	0	47	2
Audits – Governmental – All Other	6	0	34	1
Audits – ERISA			37	2
Audits – FDICIA			0	0
Audits – Other	6	1	125	1
Reviews	11	0	103	1
Compilations with Disclosures	18	2	82	1
Compilations without Disclosures	102	6	323	4
Financial Forecast & Projections			1	0
Other SSAEs	1	0	20	1
Totals	147	9	772	13

Note: The above data reflects peer review results as of July 15, 2011. Approximately 2% of 2009 (yr.) reviews are in process and their results are not included in the totals above.

At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

## Summary of Required Follow-up Actions

The Peer Review committee is authorized by the Standards to decide on the need for and nature of any additional follow actions required as condition of acceptance of the firm's peer review . During the report acceptance process, the peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The peer review committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine and feasible, then the committee may decide to not recommend further follow-up action. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions. The Peer Review committee determines a due date by which follow-up action should be completed.

Engagement Type	AL Peer Review Program		^AICPA Peer Review Program	
	Number of Engagements		Number of Engagements	
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Audits – Single Audit Act (A-133)	3	0	47	2
Audits – Governmental – All Other	6	0	34	1
Audits – ERISA			37	2
Audits – FDICIA			0	0
Audits – Other	6	1	125	1
Reviews	11	0	103	1
Compilations with Disclosures	18	2	82	1
Compilations without Disclosures	102	6	323	4
Financial Forecast & Projections			1	0
Other SSAEs	1	0	20	1
Totals	147	9	772	13

Note: The above data reflects peer review results as of July 15, 2011. Approximately 2% of 2009 (yr.) reviews are in process and their results are not included in the totals above.

At least one partner of the firm must be a member of the AICPA to enroll in the AICP/A Peer Review Program

### III. Oversight Process

#### Oversight Results

##### a) Peer reviews

##### AICPA Member Firms

Type of Peer Review (Sys, Eng, Rpt)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC, NONE)
System (2)	ERISA
Engagement (2)	

##### AICPA Non-Member Firms

Type of Peer Review (Sys, Eng, Rpt)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC, NONE)
System (1)	GAGAS
System (1)	ERISA
Engagement (2)	

At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

b) Verification of reviewer's resumes

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
20	10	50%

c) Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	November 6, 2009
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	October 20 & 21, 2010