

South Carolina Association of CPAs Peer Review Committee Annual Report on Oversight

Date Issued – October 31, 2011

I. Administering Entity Oversight Process and Procedures

The following outlines the policies and procedures used by the South Carolina Association of CPAs (SCACPA) Peer Review Committee (Committee) in fulfilling its oversight responsibilities.

A. Administering & Monitoring the Oversight Program

1. Administration - The oversight program is coordinated and scheduled by SCACPA as the peer review administering entity, under the direction of the Committee.
2. Monitoring - The Committee has designated an Oversight Subcommittee (Subcommittee), consisting of the chair, the senior technical reviewer and the peer review manager. The Subcommittee is responsible for the following:
 - a. Administering and monitoring its oversight program.
 - b. Periodically evaluating reviews for consistency in the treatment of identified matters and findings and reporting back to the full Committee.
 - c. The Subcommittee selects random reviews or reviewers for oversight and also selects the Committee members to perform the on-site and off-site oversights per the AICPA guidelines for oversights to ensure the Committee members have the qualifications to conduct the oversight and the appropriate numbers of reviews are over sighted.
 - d. Other duties as specified by the Committee.

B. Types of Oversight

There are three types of oversights performed:

1. *Administrative Oversight* – The Committee provides oversight of SCACPA’s Peer Reviewers. Statistics detailing the status of open peer reviews are presented at each full Committee meeting. In addition, an on-site oversight of SCACPA’s program administration is performed annually, alternating between the AICPA Peer Review Board’s Oversight Taskforce and the Committee Chair. In addition to the items specified in the AICPA Peer Review Program Oversight Handbook (Handbook), the following items are to be considered in connection with this review:

- Administrative procedures:
 - Corrective action – Appropriate and timely follow-up
 - Policies and procedures for granting extensions and off site system reviews
 - Timeliness of the scheduling and technical review processes, and the preparation of acceptance and follow-up letters
 - Cross-training procedures
 - Web site – Includes accurate and timely information
 - Work paper retention policies and procedures
 - Technical review procedures
 - Review presentation and acceptance – Timely, consistent basis
 - Reviewer feedback forms and deficiency letters policies
 - Oversight program – Formal, well-documented program
2. *Reviewer Resume Oversight* – The AICPA reviewer resumes of all active reviewers with a home office in South Carolina are selected for verification a minimum of once in a three-year period (33 percent each year). In addition, SCACPA may elect to oversight a reviewer’s resume at any time because of inconsistencies noted in the resume or in the reviewing firm’s industries, as part of its responsibility in determining a reviewer’s qualifications. [Note: individuals who perform reviews administered by only the AICPA National Peer Review Committee (NPRC) are subject to resume verification by the NPRC.]

Oversight includes verification of the qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to the FDIC Improvement Act of 1991, as well as verifying the reviewer’s license to practice and other items specified in the Handbook. Procedures include written requests for specific information, including the number and nature of engagements performed, as well as the individual’s CPE records. Information from the AICPA peer review system and the firm’s most recent peer review are compared against reviewer responses, and any inconsistencies are to be resolved. Reviewers failing to respond to multiple requests for information regarding their resume, or deemed lacking in the minimum requirements to perform peer reviews, are subject to administrative restrictions on the scheduling of future reviews.

3. *Peer Review Oversight* – Oversight selections are determined based on the criteria outlined in the Handbook. Recommendations are considered and approved by the Committee Chair, RAB, or the full Committee depending upon the circumstances for oversight according to criteria outlined in the Handbook.
- Requirements – In addition to the required peer review oversights described below, the Committee or its designee may conduct a less formal oversight of a particular review. Two of the on-site or full working paper (off-site) engagement oversights need to include a full oversight of the financial statements and working papers for two of the following types of “must select”

engagements: engagements under Governmental Auditing Standards, audits of employee benefit plans under ERISA, and FDIC engagements.

- Non-AICPA firms cannot be included in these minimum requirements, but will still be selected as necessary using the selection criteria described above.

a. Individuals providing oversight

- On-site oversights – Performed by Committee members that meet the requirements of a System Review Team Captain. SCACPA technical reviewers may also participate in an unofficial capacity.
- Off-site oversights – Can be performed by Committee members, SCACPA technical reviewers, or other designee.
- For on-site or full working paper (off-site) engagement oversights of “must select” engagements, the individual performing the oversight should have recent experience (within the last two years) in the “must select” engagement’s industry.
- Individuals who perform oversight on a peer review at the request of the Committee can participate in, or be present during, any discussion related to the acceptance of the peer review of the firm subject to oversight, but is not allowed to vote on any motion related to the firm’s review.
- Costs directly related to performing the oversight are reimbursed by SCACPA.

b. Materials reviewed during oversight

- On-site and off-site oversights will encompass all steps included on the oversight checklists provided by AICPA.
- Off-site oversights will also include a review of the related firm’s financial statements.
- Engagement oversights of the “must select” engagements that are required to be performed will include all working papers identified on the appropriate AICPA working paper oversight list, as well as the financial statements and related working papers that were reviewed during the peer review.

II. Summary of Peer Review Programs

The AICPA requires its members who are engaged in public accounting and have an accounting and auditing practice to be partners or employees of firms enrolled in the AICPA Peer Review Program. SCACPA serves as the administering entity for the AICPA Peer Review Program in South Carolina. To enroll in the AICPA Peer Review Program, at least one partner in the firm must be a member of AICPA. All firms enrolled in the AICPA Peer Review Program are required to have a peer review once every three years.

The South Carolina State Board of Accountancy (SC BOA) requires all licensed CPA firms (including sole practitioners) to undergo a peer review every three years if the firm provides audit or review services as part of its public accounting practice. To assist all CPA firms in meeting these requirements, SCACPA also administers the SCACPA Peer Review Program for those firms not eligible to enroll in the AICPA Peer Review Program. The SCACPA Peer Review Program operates in a similar fashion to the AICPA Peer Review Program under the *AICPA Standards for Performing and Reporting on Peer Review* found in the *AICPA Peer Review Program Manual*. The SC BOA has designated SCACPA as an authorized administering entity to approve peer review reports issued for firms enrolled in the peer review programs administered by SCACPA.

Number of Firms Undergoing Peer Review by Number of Professionals* as of October 17, 2011.

	AICPA [^] Peer Review Program	SCACPA Peer Review Program
Sole practitioners	139	58
2 to 5	205	51
6 to 10	50	5
11 to 19	19	0
20 to 49	10	0
50 to 99	1	0
100 or more	0	0
Total	424**	114**

* Professionals are defined as all personnel who perform professional services for which the firm is responsible, whether or not they are CPAs. This would include all personnel, including leased and per diem employees, who devote at least 25% of their time to performing audits, reviews, compilations, or other attest engagements, or those professionals who have partner/manager level responsibility for the overall supervision or review of such engagements.

The number of enrolled firms is 447 AICPA which includes 23 No A&A firms where no review is required and 123 SCACPA Peer Review firms which includes 9 No A&A firms where no review is required as of 10/17/11.

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

Results of Peer Reviews Performed During the Year 2010

Results by Type of Peer Review and Report Issued

	AICPA [^] Peer Review Program	SCACPA Peer Review Program
System Reviews:		
Pass	57	5
Pass with Deficiency(ies)	5	3
Fail / Adverse**	1	0
Subtotal – System	63	8

Engagement Reviews:		
Pass	55	46
Pass with Deficiency(ies)	4	5
Fail / Adverse**	0	7
Subtotal – Engagement	59	8
Totals	122	66

Note: The above data reflects peer review results as of 10/17/11. Approximately 3% of 120 AICPA reviews are in process and their results are not included in the total above. Approximately 7% of 61 SCACPA reviews are in process and their results are not included in the total above.

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

Reasons for Pass with Deficiencies and Fail Report Grade

The following chart lists the reasons; summarized by elements of quality control as defined by the Statements on Quality Control Standards (SQCS), for report modifications – that is, Pass with deficiency (ies) – from System Reviews performed in 2010. 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. Since Pass with deficiency (ies) or Fail reports can have multiple reasons identified, the numbers contained in this table may exceed the number of Pass with deficiency (ies) or Fail System Reviews.

	AICPA^ Peer Review Program	SCACPA Peer Review Program
Engagement Performance	5	3
Monitoring	2	0
Totals	7	3

Note: The above data reflects peer review results as of 10/17/11. Approximately 3% of 120 AICPA reviews are in process and their results are not included in the total above. Approximately 7% of 61 SCACPA reviews are in process and their results are not included in the total above.

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Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards

The following chart shows the total number of engagements reviewed and the number identified as “not performed and/or reported on in conformity with applicable professional standards” from peer reviews performed during 2010. The standards state that an engagement is ordinarily considered to have not been performed in accordance with professional standards when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represent an omission of a critical accounting, auditing, or attestation procedure required by professional standards.

	AICPA [^] Peer Review Program		SCACPA 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)	15	3		
Audits – Governmental – All Other	17	3	1	1
Audits – ERISA				
Audits – FDICIA				
Audits – Other	55	0	12	1
Reviews	56	1	20	3
Compilations with Disclosures	43	2	11	0
Compilations without Disclosures	1 58	1	107	13
Financial Forecast & Projections	2	0		
Other SSAEs	7	0	4	0
Agreed Upon Procedures	11	0		
Totals	381	11	155	18

Note: The above data reflects peer review results as of 10/17/11. Approximately 3% of 120 AICPA reviews are in process and their results are not included in the total above. Approximately 7% of 61 SCACPA reviews are in process and their results are not included in the total above.

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

Summary of Required Follow-up Actions

The Committee is authorized by the *Standards* to decide on the need for, and nature of, any additional follow-up actions required as a condition of acceptance of the firm’s peer review. During the report acceptance process, the Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of deficiencies noted in the peer review report. The Committee also considers the firm’s response to the peer review report. If the firm’s response contains remedial actions that are comprehensive, genuine, and feasible, then the Committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions.

Type of Follow Up Action	AICPA [^] Peer Review Program	SCACPA Peer Review Program
Receiving Revised Report	2	
Receiving revised SRM	1	
Team Captain revision of working papers	5	
Agree to take certain CPE	2	6
Submit proof of CPE Taken	4	7
Submit inspection completion letter	1	
Oversight of inspection – Visitation	1	1
Submit to t/c review of subsequent engagement w/o work papers	1	
Submit to t/c review of subsequent engagement w/ work papers	1	3

Submit Monitoring Report to Committee	1	
Agree to have accelerated review		1
Agree to hire consult-reissuance review		1
Receipt of additional information	1	
Total	19	19

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

Note: The above data reflects peer review results as of April 21, 2011. Approximately .4% of 2009 reviews are in process and their results are not included in the totals above.

III. Oversight Results

A. Peer Reviews

Type of Peer Review (Sys, Eng, Rpt)	Oversight Included "Must Select" Engagement - (ERISA, GAGAS, FDICA, NONE)	Type of Peer Review (Sys, Eng, Rpt)	Oversight Included "Must Select" Engagement - (ERISA, GAGAS, FDICA, NONE)
		n/a	n/a
System	2- ERISA,2-A-133 2- GAGAS		
Engagement	3 random selections		

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

B. Verification of Peer Reviewer Resumes

Total number of peer reviewers	Total number of resumes verified for year	% of total verified
31*	17	1/3

37 Reviewers however 6 had never participated in a review, only 31 were active.

C. Administrative Oversight

Date of last administrative oversight performed by the administering entity	12/30/10 performed by Committee Chair
Date of last on-site oversight performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	To be performed 11/17/11 & 11/18/11