

## **North Carolina Association of CPAs**

### **2015 Annual Report on Oversight**

**Date Issued: November 9, 2016**

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

##### **1. General Process**

According to the *AICPA Peer Review Program Oversight Handbook*, the North Carolina Peer Review Committee (PREC) must annually perform oversight on peer reviews. The purpose for conducting oversight is to ensure firms are receiving properly performed peer reviews and that the peer review process is of an educational nature.

When the Peer Review Office receives the scheduling information of a firm selected for oversight, a memo will be sent to the team captain/review captain with the scheduling confirmation (except for "engagement specific oversights"). The memo will specify items that must be complete at the time of the expected exit conference for the assigned PREC member to be able to perform oversight according to the AICPA's guidelines.

Although not required, oversight of the workpapers will be at the discretion of the PREC member. The team captain is expected to complete the review on his/her own without the assistance or guidance of the Committee member. If the PREC member disagrees with the team captain's/review captain's conclusion, the PREC member should so note the disagreement. Disagreements should not be pursued in the presence of the reviewed firm, as the final conclusion will be made by the full PREC.

To keep the cost of time and travel to a minimum, the Peer Review Office will assign a PREC member within a reasonable distance of the reviewed firm, yet not too close. A copy of the memo will be sent to the PREC member to inform him/her of the assignment and details of who, when, and where to conduct the oversight. The PREC member will be reimbursed for out-of-pocket expenses and will be paid the current technical reviewer rate. Half of the time spent traveling may be billed at the current technical reviewer rate.

Oversight of a selected engagement review will be performed by the assigned PREC member. Attendance at the exit conference is not necessary. However, the financial statements will be requested for inclusion in the oversight. If a reviewer happens to be assigned to more than one of the selected reviews due for oversight, another firm's review may be selected.

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If a peer review not selected for oversight appears to have been improperly performed by the reviewer, the workpapers will be requested by the RAB. An off-site review of these workpapers will determine the need for a Committee member's attendance at the reviewer's next scheduled peer review.

In addition to the aforementioned, reviews may be selected for non-random oversight to include, but not limited to, firms:

- Which have received consecutive pass with deficiency(ies) and/or fail peer review report grade prior to the current review;
- Which previously received a fail report grade;
- Which previously had an engagement peer review that was not a pass report grade and is having its first system peer review;
- Which have requested and have been approved for an administrative change of venue into NCACPA's jurisdiction;
- Where the managing owner and/or several owners are peer reviewers that perform a significant number of reviews (In this case, the peer reviewer resume and most recent scheduling forms may also be reviewed.).
- When the peer review has taken place and:
  - i) The RAB questioned the appropriateness of the report and could not resolve its questions without an independent look at the reviewed firm;
  - ii) There was a difference of opinion between the reviewed firm and the reviewer that could not be resolved without an independent look at the engagement(s) in question;
  - iii) The RAB questioned whether the reviewed firm understands the importance of the peer review findings or has committed to corrective actions that are impracticable in the circumstances.

## 2. General Selection Procedures

At a minimum, NCACPA will annually conduct oversight on 2% of all peer reviews to be performed. Within the 2%, a minimum of two each of system and engagement peer reviews will be selected. However, the 2% may be comprised of a combination of random and non-random selections.

An "engagement specific oversight," which can be performed off-site or on-site, is the review of must select FDICIA, GAGAS, and ERISA audit engagements. Staff does not inform the team captain of the "engagement specific oversight" until after submission of his/her materials to NCACPA.

On an annual basis, two "engagement specific oversights" must be performed. The two selected should not be of the same type audit.

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3. Peer Reviews Selected for Random Oversight  
At the beginning of the committee year, staff will randomly select a one percent minimum of the total number each of system and engagement peer reviews. These selections will be confirmed by the Oversight and Complaint Resolution Sub-Committee and presented at the first face-to-face PREC meeting of the committee year.
4. Peer Reviews Selected for Non-Random Oversight  
The Oversight and Complaint Resolution Sub-Committee makes selections for non-random oversight based on the following criteria to be presented at the first face-to-face PREC meeting of the committee year:
  - a) From the last three years, staff will create a spreadsheet of team captains/reviewers (not team members) who have performed 25+ reviews. At a minimum, spreadsheet criteria should include: name, total number of reviews performed in the three year period, number of system reviews, number of engagement reviews, date and type of last oversight, and total number of oversights in the three year period.
  - b) These selections will complete the additional one percent of reviews for oversight.
  - c) Special selection emphasis will be placed on reviewers who have never had an oversight, reviewers who have had an oversight with problems noted, and reviewers who have had a non-system oversight.
  - d) The peer review budget will pay for a reviewer's first non-random oversight. After the reviewer's first non-random oversight, NCACPA will be reimbursed for those costs by the reviewer upon receipt of invoice.
5. Administrative Oversight  
In accordance with the *AICPA Oversight Handbook*, the PREC must also perform administrative oversight. The purpose of administrative oversight is to ensure peer reviews are administered in compliance with the administrative procedures established by the AICPA Peer Review Board as set forth in the *State CPA Society Peer Review Program Administrative Manual*.

The goals of administrative oversight are to:

- Emphasize the year not subject to an AICPA oversight visit
- Focus on the status of open reviews
- Evaluate team captain/reviewer performance
- Access the technical reviewer function
- Review administrative back-up/cross training plans

The PREC Chair will appoint two PREC members to perform administrative oversight in the alternate year of the AICPA Peer Review Board's oversight visit. Administrative oversight should be conducted prior to July 31 and the

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report should be presented at the August Committee meeting. The committee members who perform administrative oversight will be reimbursed at the current technical reviewer rate.

6. Peer Reviewer Resume Verification

Over a three year period, all North Carolina peer reviewers must verify information within a sample of the peer reviewer's resume. Verification includes the peer reviewer's qualifications and experience related to audits performed under GAGAS, ERISA, and FDIC. Verification procedures include, but are not limited to, calling/writing a peer reviewer with the request to provide specific information such as the number of engagements they are specifically involved with and in what capacity and then determining from AICPA's computer system whether the peer reviewer's firm actually performed those engagements during its last peer review, verification of license to practice, and verification of CPE attendance and credits.

## II. Summary of Peer Review Programs

- 1) The NC Association of CPAs administers the following peer review programs:
  - AICPA Peer Review Program (at least one partner must be an AICPA member)
  - NCACPA Peer Review Program (no partners are AICPA members, and at least one partner is an NCACPA member)
  - NCACPA Peer Review Program for Non-Members (no partner is either an AICPA or NCACPA member) – statistics for this group are included in the columns labeled "NC Peer Review Program"
- 2) Number of Enrolled Firms by Number of Professionals\* as of 11/9/16.

	NC Peer Review Program	^AICPA Peer Review Program
* Sole Practitioners	71	223
2 to 5	65	393
6 - 10	6	144
11 - 19	0	65
20-49	0	22
50-99	0	4
100+	0	0
Total Enrolled Firms	142	851

\* professionals are considered all personnel who perform professional services, for which the firm is responsible, whether or not they are CPAs.

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### 3) Results of Peer Reviews Performed During 2015

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

	NC Peer Review Program	^AICPA Peer Review Program
System Reviews:		
Pass	5	116
Pass with Deficiency(ies)	2	11
Fail	2	7
Subtotal – System	9	134
Engagement Reviews:		
Pass	39	141
Pass with Deficiency(ies)	6	8
Fail	5	4
Subtotal - Engagement	50	153
Totals	59	287

Note: The above data reflects peer review results as of 11/9/16. Less than 1% of 2015 peer reviews are in process and their results are not included in the totals above.

#### b) Reasons for Pass with Deficiencies and Fail Report Grade

	NC Peer Review Program	^AICPA Peer Review Program
Reasons for Report Modifications		
Leadership Responsibilities for Quality Within the Firm ("Tone at the Top")	2	3
Relevant Ethical Requirements	0	0
Engagement Performance	3	13
Human Resources	1	2
Acceptance and Continuance of Client Relationships and Specific Engagements	0	4
Monitoring	1	7
Totals	7	29

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c) Engagements Not Performed in Accordance with Professional Standards in All Material Respects

Engagement Type	NC 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)	0	0	48	4
Audits – Governmental – All Other	2	1	32	0
Audits – ERISA	2	1	53	5
Audits – FDICIA	0	0	0	0
Audits – Other	6	2	121	7
Reviews	10	1	179	5
Compilations with Disclosures	13	2	103	2
Compilations without Disclosures	65	5	326	12
Financial Forecast & Projections	0	0	1	0
Other SSAEs	0	0	2	0
SOC 1 Reports	0	0	0	0
SOC 2 Reports	0	0	0	0
Examinations of Written Assertions	0	0	2	0
Agreed-Upon Procedures	5	0	37	0
Non--Carry Broker Dealers	0	0	0	0
Other Audits Under PCAOB Standards Not Covered by PCAOB Permanent Inspection Program	0	0	1	0
Other	2	0	15	3
Totals	105	12	920	38

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d) Summary of Required Follow-up Actions

Type of Follow-up Action	NC Peer Review Program	<sup>^</sup> AICPA Peer Review Program
Agree to take certain CPE	9	22
Agree to comprehensive inspection		
Agree to hire consultant for inspection		
Agree to hire consultant for preissuance reviews	7	8
Agree to strengthen staff		
Submit proof of CPE taken		3
Submit copy of inspection report		
Submit inspection completion letter		
Submit report on consultant		
Submit quarterly progress reports		
Submit to team captain (TC) revisit – general		
Submit to TC review of sub engagements with workpapers		
Submit to committee member visit		
Agree to have accelerated review		
Oversight of Inspection – Review		
Oversight of Inspection – Visitation		
Submit Inspection Report to Team Captain		
Team captain to review Quality Control Document		
Review of formal CPE plan by outsider		
Submit a CPE plan to the committee		
Outside Party to Review Inspection		
Outside Party to Visit During Inspection		
Submit to TC review of sub engagement without workpapers		
Submit inspection report to outside party		
Team captain review correction of substandard engagement		1
Outside party review substandard correction		
Does not perform any auditing engagements		
Submit additional information regarding repeat findings		
Submit monitoring report to Committee		2
Submit monitoring report to Team Captain		
Oversight of monitoring by Team Captain		
Submit proof of purchase of manuals	2	3
Submit evidence of proper firm licensure		
Agree to hire consultant – preissuance reviews		
Submit to TC review of sub engagement with workpapers		
Receiving revised report		
Other- No follow up required	1	2
Totals	19	

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### III. Oversight Process

#### a) Oversight Results

	DUE	S/E	EXIT	OV DATE
*FDICIA				
*ERISA	6/16	S	5/26/16	6/9/16
*GAGAS	10/16	S	7/6/16	9/27/16
	9/16	S	7/28/16	7/28/16
	10/16	S	10/6/16	10/6/16
	7/16	E	6/8/16	6/8/16
	9/16	E	9/2/16	9/2/16
	9/16	E	TBD	TBD
	12/16	S	TBD	TBD
	2/16	S	2/22/16	2/29/16
	10/16	E	10/28/16	10/28/16

#### b) Verification of reviewer's resumes

Total Number of Peer Reviewers	Total Number of Resume's Verified	% of Total Verified
84	26	31%

#### c) Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	10/12/16
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	8/19/15 and 8/20/15

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