

## North Carolina Association of CPAs

### 2017 Annual Report on Oversight

Date Issued: March 13, 2019

#### 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 (Committee) 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 Committee member to be able to perform the oversight according to the AICPA's guidelines.

Although not required, oversight of the workpapers will be at the discretion of the Committee 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 Committee member disagrees with the team captain's/review captain's conclusion, the Committee 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 Committee.

To keep the cost of time and travel to a minimum, the Peer Review Office will assign a Committee member within a reasonable distance of the reviewed firm, yet not too close. A copy of the memo will be sent to the Committee member to inform him/her of the assignment and details of who, when, and where to conduct the oversight. The Committee 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 Committee 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.

If a peer review not selected for oversight appears to have been improperly performed by the reviewer, the workpapers can be requested by the Report Acceptance Body (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 system peer reviews and 2% of all engagement peer reviews to be performed. The 2% may be comprised of a combination of random and non-random selections. At a minimum of two each of system and engagement peer reviews will be selected.

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.

### 3. Peer Reviews Selected for Random Oversight

At the beginning of the Committee year, staff will randomly select a two 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 Committee 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 Committee meeting of the Committee year:

- a) These selections are in addition to the minimum 2% of reviews randomly selected for oversight.
- b) 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.
- c) 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

(No longer required as of 2018.)

In accordance with the *AICPA Oversight Handbook*, the Committee 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 Committee Chair will appoint two Committee members to perform administrative oversight in the alternate year of the AICPA Peer Review Board's oversight visit. We strive to conduct the administrative oversight visit prior to July 31 and present the report at the August Committee meeting. The Committee members who perform administrative oversight will be reimbursed at the current technical reviewer rate.

### 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 (PRIMA) 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 program:
  - AICPA Peer Review Program (AICPA membership is not required.)
- 2) Currently, not all data is available from PRIMA to prepare the statistical analysis of peer reviews typically included in this report. An abbreviated version is presented.

Number of Enrolled Firms by Number of Professionals\* as of 3/13/19.

	^AICPA Peer Review Program
* Sole Practitioners	294
2 to 5	395
6 - 10	141
11 - 19	52
20-49	18
50-99	2
100+	0
^Total Enrolled Firms	902

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

### III. Oversight Process

#### a) 2017 Oversight Results

	<b>DUE</b>	<b>SYSTEM OR ENG.</b>	<b>EXIT</b>	<b>OV DATE</b>
ERISA	9/17	S	10/5/17	10/5/17
ERISA and GAS	12/16	S	12/9/16	5/9/17
	11/17	S	11/17/17	11/16/17
	9/17	E	9/21/17	9/21/17
	9/17	E	9/26/17	9/26/17
	10/17	E	11/15/17	11/21/17
	12/17	E	12/18/17	12/18/17
	9/16	E	1/30/17	1/27/17
	5/17	E	5/31/17	5/22/17

#### b) 2017 Verification of Reviewers' Resumes

Total Number of Peer Reviewers	Total Number of Resumes Verified	Percent of Total Verified
53	25	47%

#### c) Oversight Visits

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)	8/18/17 and 8/19/17