

Tennessee Society of CPAs (TSCPA) Peer Review Annual Report on Oversight

Date Issued – 11.11.16

Introduction

Purpose of this Report

The purpose of this Annual Report on Oversight (Report) is to provide a general overview of the Peer Review Program (PRP) as administered by the Tennessee Society of CPAs (TSCPA), past and current statistics and the results of various oversight procedures performed by the TSCPA Peer Review Committee.

Years Presented in this Report

Information presented in this Report is reported on a calendar year basis for peer reviews and oversight procedures actually performed in 2013, 2014 and 2015.

Overview of TSCPA Peer Review

The TSCPA began operating a peer review program (quality review) in 1989, to administer the American Institute of CPAs (AICPA) Peer Review Program for AICPA member firms located in Tennessee. In 2009, TSCPA was approved to serve as an administrator for non-AICPA member firms as well, and the TSCPA Peer Review Program was established. The TSCPA Peer Review Program has adopted the AICPA *Standards for Performing and Reporting on Peer Reviews* as its minimum standards for review. Therefore, the TSCPA Peer Review Program operates similar to the AICPA Program.

The Tennessee State Board of Accountancy (TSBA) requires all firms in Tennessee, who provide attestation or compilation services as part of their public accounting practice, to be enrolled in an approved practice monitoring program. The TSBA has approved the AICPA and TSCPA Peer Review Programs as acceptable practice monitoring programs. See Exhibit A for a summary of enrolled firms by number of professionals.

AICPA bylaws require that members engaged in the practice of public accounting be associated with a firm that is enrolled in an approved practice-monitoring program if the services performed by such firm are within the scope of the AICPA's practice monitoring standards, and the firm prepares reports in accordance with AICPA professional standards. For purposes of peer review under the AICPA program, an accounting and auditing practice is "all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)¹; Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the US Government Accountability Office; and audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB)." Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection.

Firms enrolled in either program are required to have a peer review every three years, covering a one-year period. The review is conducted by an independent evaluator known as a peer reviewer and is not considered final until accepted by a committee of peers. Report Acceptance Bodies (RABs) must consist of at least three qualified individuals who are independent of the reviewed firm and the peer reviewer. In certain circumstances, reviewed firms are asked to complete one or more corrective actions as a condition of acceptance by the RAB. See Exhibit E for a summary of required corrective actions.

¹ Statements on Standards for Accounting and Review Services that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes.

The following summarizes the different peer review types, objectives and reporting requirements as defined under the AICPA Standards:

System Reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, in addition to reviews, compilations, agreed-upon procedures or engagements under PCAOB standards, as their highest level of service. The peer reviewer's objective is to determine 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 professional standards in all material respects. The peer review report rating may be **Pass** (firm's system of quality control is suitably designed and firm has complied with its system of quality control to provide the reasonable assurance); **Pass with deficiencies** (firm's system of quality control is suitably designed and the firm has complied with its system of quality control to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies described in the report; or **Fail** (firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects). In the event of a scope limitation, a report with a peer review rating of *Pass (with a scope limitation)*, *Pass with deficiencies (with a scope limitation)* or *Fail (with a scope limitation)* is issued.

Engagement Reviews: Engagement reviews are for firms that only perform services under SSARS or services under the SSAEs not included in System Reviews and focus on work performed and reports and financial statements issued on particular engagements. The peer review report may be a rating of **Pass** (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects); **Pass with deficiencies** (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies described in the report; or **Fail** (reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects). A report with a peer review rating of *Fail* is issued when deficiencies (but not the same deficiency) are evident on all of the engagements submitted for review. In the event of a scope limitation, a report with a peer review rating of *Pass (with a scope limitation)*, *Pass with deficiencies (with a scope limitation)* or *Fail (with a scope limitation)* is issued.

See Exhibit B for a summary of results by type of peer review and report issued, Exhibit C for a summary of report modifications, and Exhibit D for a summary of engagements not performed or reported on in accordance with professional standards in all material respects.

Oversight of Peer Reviews and Reviewers

Oversight Selection

At the beginning of each calendar year, TSCPA Peer Review Program selects various peer reviews and reviewers 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*, Chapter 2. A minimum of 2% of reviews being performed that year will be selected for oversight. In addition, a minimum of two system reviews will be performed onsite and at least two engagements from the ERISA, government and/or banking industry will receive direct oversight.

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 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, a notable and suspiciously too frequent submission of pass reports, 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, improperly considering matters that turn out to be significant, or failure to select an appropriate number of engagements.

Oversight Process

Oversight reviews are performed by either the program's technical reviewer, a member of the Peer Review Committee, or other qualified peer reviewers. A peer review committee member (or another individual approved by the peer review committee chair) will perform all system reviews and must-select engagement oversights. This committee member must meet team captain and experience requirements and experience. Selection of the oversight reviewer for on-site system reviews is on a volunteer basis. If there are no volunteers, the peer review committee chair may appoint a reviewer on a review-by-review basis.

All oversight reviewers are paid out of the TSCPA peer review program budget at a committee approved rate of \$225 per hour. The current IRS mileage rate and other incidental expenses are reimbursed in addition to the hourly rate.

The AICPA Peer Review Program Oversight Checklists are utilized on all oversight engagements. Oversight reports are kept on file at the TSCPA 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 TSCPA Peer Review Committee. The reviewer may choose to respond to the final report.

Administrative Oversight

In those years when there is no on-site AICPA Oversight Task Force (OTF) oversight, an administrative oversight is performed on the TSCPA administration of the peer review program by a member of the TSCPA Peer Review Committee or a designee approved by the 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 each December and are reviewed by the TSCPA Peer Review Committee and, before an AICPA OTF on-site oversight, by an OTF member.

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. All firms that the member is associated with should have received 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 TSCPA Peer Review Committee 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. TSCPA 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 on engagements they are specifically involved with and in what capacity. TSCPA staff then compares the information provided by the reviewers to the reviewer's resume on file in the AICPA system and to the reviewer's firm's most recent background information to determine if those engagements were included in the firm's last peer review.
- Determining the reviewers' qualifications and experience related to engagements performed under *Government Auditing Standards (Yellow Book)*, audits of employee benefit plans under ERISA, reports on Service Organizations (SOC 1, 2 and 3), Carrying Broker Dealers and audits of insured depository institutions subject to FDICIA.
- If the reviewer has a license to practice as a certified public accountant in the state of Tennessee. (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 qualifications to perform Yellow Book audits, if applicable. Reviewers may also be requested to provide CPE proofs of completion.
- 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 report on its most recently completed peer review.
- Verifying whether the reviewer has taken a peer review training course to qualify him/her as a team captain or review captain.

Exhibit A**Number of Enrolled Firms by Number of Professionals*
as of October 7, 2016**

	^AICPA Peer Review Program	TSCPA Peer Review Program
Sole Practitioners	144	89
2-5 Professionals	247	80
6-10 Professionals	86	7
11-19 Professionals	46	1
20-49 Professionals	16	0
50+ Professionals	3	0
No A&A	42	24
Totals	584	201

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

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

Exhibit B

Results by Type of Peer Review and Report Issued

	2013				2014				2015			
	^AICPA Peer Review Program		TSCPA Peer Review Program		^AICPA Peer Review Program		TSCPA Peer Review Program		^AICPA Peer Review Program		TSCPA Peer Review Program	
System Reviews:	#	%	#	%	#	%	#	%	#	%	#	%
Pass	69	81%	3	60%	62	78%	7	58%	69	86%	5	63%
Pass with Deficiencies	11	13%	0	0%	10	12%	1	8%	4	5%	1	13%
Fail	5	6%	2	40%	8	10%	4	33%	7	9%	2	25%
Subtotal – System	85		5		80		12		80		8	
Engagement Reviews:	#	%	#	%	#	%	#	%	#	%	#	%
Pass	102	81%	52	72%	100	92%	60	81%	95	91%	37	88%
Pass with Deficiencies	16	13%	12	17%	8	7%	10	14%	4	4%	1	2%
Fail	8	6%	8	11%	1	1%	4	5%	5	5%	4	10%
Subtotal – Engagement	126		72		109		74		104		42	
Totals	211		77		189		86		184		50	

Note: The above data reflects peer review results as of October 7, 2016. This includes 96.8% of 2015 reviews.

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

Exhibit C**Number and Reasons for Report Modifications**

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards No. 8, for report modifications (when a pass with deficiencies or fail report is issued) from system reviews performed during 2013, 2014 and 2015. It is important to note that one review can have more than one reason for a report modification.

Reasons for Report Modifications	2013		2014		2015	
	^AICPA Peer Review Program	TSCPA Peer Review Program	^AICPA Peer Review Program	TSCPA Peer Review Program	^AICPA Peer Review Program	TSCPA Peer Review Program
Leadership Responsibilities for Quality Within the Firm ("Tone at the Top")	1	0	3	4	5	0
Relevant Ethical Requirements	1	0		0	0	0
Human Resources	2	1	1	0	2	0
Acceptance & Continuance of Client Relationships and Specific Engagements	3	1	3	1	1	0
Engagement Performance	11	2	15	4	7	3
Monitoring	4	1	7	3	9	1
Totals	22	5	29	12	24	4

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

Exhibit D

Number of Engagements not Performed or Reported on in Accordance with Professional Standards in all Material Respects

The following shows the total number of engagements reviewed and the number identified as “not performed or reported on in accordance with professional standards in all material respects” from peer reviews performed during 2015. The Standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards when issues, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

Engagement Type	2015			
	^AICPA Peer Review Program		TSCPA 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)	32	3	1	0
Governmental – All Others	52	10	2	1
ERISA	44	6		
FDICIA	1	0		
Carrying Broker-Dealers				
Non-Carrying Broker-Dealers				
Other	78	7	7	2
Reviews	131	8	18	1
Compilations with Disclosures	63	1	8	1
Compilations without Disclosures	229	6	58	6
Preparation Eng. w/ Disclosures	1	0		
Preparation Eng. w/o Disclosures	4	0		
Financial Forecast & Projections	1	0		
SOC 1 Reports	1	0		
Other SSAEs	4	2		
Agreed-Upon Procedures	25	0	3	
Totals	666	43	97	11
% of Total		6%		11%

Exhibit D (continued)**Number of Engagements not Performed or Reported on in Accordance with Professional Standards in all Material Respects**

The following shows the total number of engagements reviewed and the number identified as “not performed or reported on in accordance with professional standards in all material respects” from peer reviews performed during 2014. The Standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards when issues, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

Engagement Type	2014			
	^AICPA Peer Review Program		TSCPA 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)	29	3		
Governmental – All Others	43	7	3	2
ERISA	44	8	3	3
FDICIA				
Carrying Broker-Dealers				
Non-Carrying Broker-Dealers	3	0		
Other	95	8	10	0
Reviews	102	2	37	6
Compilations with Disclosures	58	3	19	4
Compilations without Disclosures	246	7	104	14
Financial Forecast & Projections	3	1	2	0
SOC 1 Reports	3	0		
Other SSAEs	3	1	1	0
Agreed-Upon Procedures	23	1	1	0
Totals	652	41	180	29
% of Total		6%		16%

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

Exhibit D (continued)

Number of Engagements not Performed or Reported on in Accordance with Professional Standards in all Material Respects

The following shows the total number of engagements reviewed and the number identified as “not performed or reported on in accordance with professional standards in all material respects” from peer reviews performed during 2013. The Standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards when issues, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

Engagement Type	2013			
	^AICPA Peer Review Program		TSCPA 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)	29	2		
Governmental – All Others	48	4		
ERISA	39	5	1	1
FDICIA				
Carrying Broker-Dealers				
Non-Carrying Broker-Dealers	3	1		
Other	85	6	5	1
Reviews	116	3	18	1
Compilations with Disclosures	56	4	19	4
Compilations without Disclosures	361	41	100	18
Financial Forecast & Projections	1	0		
SOC 1 Reports	3	0		
Other SSAEs	1	1		
Agreed-Upon Procedures	19	0		
Totals	761	67	143	25
% of Total		9%		17%

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

Exhibit E

Summary of Required Corrective Actions

The TSCPA Peer Review Committee is authorized by the Standards to decide on the need for and nature of any corrective actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the RAB evaluates the need for corrective actions based on the results of the review. The RAB also considers the matters 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 RAB may decide not to recommend further corrective actions. Corrective 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 corrective actions.

Type of Corrective Action	2013		2014		2015	
	^AICPA Peer Review Program	TSCPA Peer Review Program	^AICPA Peer Review Program	TSCPA Peer Review Program	^AICPA Peer Review Program	TSCPA Peer Review Program
Agree to take certain Continuing Prof. Education (CPE)	3	6	10	9	5	
Agree to hire consultant for inspection	1	0			1	
Agree to hire consultant for preissuance reviews	0	0	4	1	4	1
Submit proof of CPE taken	9	2	1		7	4
Submit to Team Captain (TC) revisit -- general	7	0	3		1	1
Submit to TC review of engagements w/ workpapers	3	1	1		4	
Agree to have accelerated review	0	0				
Oversight of Inspection	0	0				
Submit to TC review of engagements w/o workpapers	14	8	1	3	4	1
Team Captain to review QCD	2	0			2	
Submit CPE Plan to Committee	1	0	1	1	1	
Firm agrees not to perform any auditing engagements	3	3	4	6	2	1
Submit inspection report to Team Captain				1		
Submit monitoring report to the Committee	0	0	1		1	
Submit monitoring report to Team Captain			1			
Outside party review of corrected engagement	0	0	1	1	2	1
Submit proof of purchase of Manuals	3	2	2	1		
Receipt of additional information	4	2	6	3	1	
Submit evidence of proper firm licensure	0	0			1	
Join audit quality center			1			
Totals	50	24	37	26	36	9

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

Exhibit F

Oversight of Reviews

TSCPA is required to conduct oversight on a minimum of 2% of all reviews performed in a 12-month period of time and within the 2% selected, there must be at least two of each type of peer review evaluated. Also, at least two engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under *Government Auditing Standards* (Yellow Book), or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2013-2015 oversight years.

	2013		2014		2015	
	^AICPA Peer Review Program	TSCPA Peer Review Program	^AICPA Peer Review Program	TSCPA Peer Review Program	^AICPA Peer Review Program	TSCPA Peer Review Program
Type of Peer Review:						
System	3	0	3	0	2	0
Engagement	5	1	3	0	4	1
Totals	8	1	6	0	6	1
Type of Oversight Review:						
On-site	2	0	2	0	2	0
Desk	6	1	4	0	4	1
Totals	8	1	6	0	6	1
“Must Select” Engagement Oversights						
ERISA	1	0	3	0	1	0
GAGAS (Yellow Book)	2	0	2	0	1	0
FDICIA	0	0	0	0	0	0
Totals	3	0	5	0	2	0

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

Exhibit G**Verification of Reviewer's Resumes'**

Total Number of Peer Reviewers	Total Number of Resumes Verified for Year	% of Total Verified
76	31	40%

Administrative Oversight

Date of Last Administrative Oversight Performed by the Administering Entity	October 27, 2015
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	November 10, 2016