

Kansas Society of CPAs Peer Review Annual Report on Oversight Date Issued – December 2016

Administering Entity Oversight Process and Procedures

Oversight of Peer Reviews and Reviewers

Oversight Selection

Throughout the year, Kansas Society of CPAs (KSCPA) Peer Review Committee 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, Chapter 2, Section IV, Items B and C.

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 unmodified reports without a letter of comments, 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

A KSCPA Peer Review Committee member or their designee performs all oversight engagements. For system review and must-select engagement oversights, this committee member or designee must have team captain requirements and experience. Selection of the oversight reviewer is on a volunteer basis. If there are no volunteers, the KSCPA Peer Review Committee may appoint a technical reviewer on a review-by-review basis. This oversight will not, however, be included in the minimum oversight requirement.

All reviewers are paid by KSCPA at the maximum technical reviewer rate currently \$150 per hour. For on-site reviews, the rate is applied from door-to-door. 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 KSCPAs 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 KSCPAs Peer Review Committee. The reviewer may respond within 14 days of the date of the final report.

Minimum Requirements

At a minimum, the KSCPA 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). This minimum oversight requirement is applied at the state level rather than the administering entity level.

Administering entities that administer less than 100 reviews annually can apply for a waiver from the minimum requirements. The request for a waiver includes the reason(s) for the request and suggested alternatives to the minimum requirements. The waiver is to be submitted and approved by the PRB each year. As KSCPA administers the Peer Review Program for one state making our minimum requirement:

- Two on-site system oversights per year. (The two required “must-select” engagement oversights may be combined with the system oversights.)
- Two engagement review oversights.

Also, at least two “must-select” engagement oversights must be performed by the KSCPA 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 those years when there is no on-site Oversight Task Force (OTF) oversight, an administrative oversight is performed on the KSCPA by an individual approved by the AICPA and the KSCPAs Peer Review Committee. 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 KSCPAs Peer Review Committee.

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 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 KSCPA 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 KSCPA 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 KSCPAs staff then compares the information provided by the reviewers to the reviewer resume on file in the AICPA 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 the KSCPAs Peer Review

KSCPAs Peer Review program was formed in 1989, to operate the AICPA Peer Review Program, for AICPA and non-AICPA CPA firms located in Kansas.

The KSCPA serves as the administering entity for the AICPA Peer Review Program and also administers the KSCPA 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 Kansas Board of Accountancy (BOA) requires all firms in our state, who provide attestation services as part of their public accounting process, to be enrolled in a practice monitoring program. The BOA has designated KSCPAs Peer Review Program as an authorized report acceptance body to approve peer review reports issued for firms enrolled in peer review programs administered by Kansas.

**Number of Enrolled Firms by Number of Professionals*
Per State as of November 8, 2016**

	AICPA Peer Review Program Year^			Kansas Peer Review Program Year		
	2013	2014	2015	2013	2014	2015
Sole Practitioners	45	43	39	13	10	7
2-5 Professionals	126	117	115	11	9	11
6-10 Professionals	52	53	48	2	4	3
11-19 Professionals	29	31	27	0	0	0
20-49 Professionals	13	11	11	0	0	0
50+ Professionals	5	4	4	0	0	0
Totals	270	259	244	26	23	21

*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.

Results of Peer Reviews Performed During the Year 2015

Results by Type of Peer Review and Report Issued

	AICPA Peer Review Program [^]			Kansas Peer Review Program		
	2013	2014	2015	2013	2014	2015
Systems Reviews:						
Pass	29	38	33	2	2	3
Pass with deficiencies	4	4	7	1	1	0
Fail	2	2	0	2	0	0
Subtotal – System	38	44	40	5	3	3
Engagement Reviews:						
Pass	31	46	4	5	1	1
Pass with deficiencies	9	9	3	1	0	0
Fail	0	2	0	1	0	1
Subtotal – Engagement	40	57	33	7	1	2
Totals	78	101	73	12	4	5

Note: The above data reflects peer review results as of November 9, 2016. 5% of 2015 peer reviews are in process.

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

Number and Reasons for Report with Pass with Deficiency and Fail Report

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards, for report modifications (when a pass with deficiencies or a fail report is issued) and shows the number of firms that received modified reports from system reviews performed for 2015.

Reasons for Pass w/ deficiencies and Fail Reports	Code	AICPA Peer Review Program [^]	KSCPA Peer Review Program
Leadership Responsibilities for Quality	350	0	0
Relevant Ethical Requirements	351	0	0
Engagement Performance	352	6	0
Human Resources	353	2	0
Acceptance and Continuance of Client Relationship	354	0	0
Monitoring	355	2	0
Totals		10	0

Note: The above data reflects peer review results as of November 9, 2016. 5% of 2015 peer reviews are in process.

[^] 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	AICPA Peer Review Program [^]		KSCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Substandard	Reviewed	Substandard
Audits – Single Audit Act (A-133)	24	7	2	0
Audits – Governmental – All Others	11	0	0	0
Audits – ERISA	24	7	0	0
Audits – FDICIA	1	0	0	0
Audits – Other	59	2	3	0
Reviews	54	2	1	0
Compilations with Disclosures	25	1	0	0
Compilations without Disclosures	127	3	2	1
Financial Forecast & Projections	1	0	0	0
Other SSAEs	0	0	0	0
SOC 2 Reports	1	0	0	0
Agreed Upon Procedures	31	0	2	1
Compiled Financial Forecast and Projection	3	0	0	0
Totals	361	22	10	2
% Substandard		6%		20%

Note: The above data reflects peer review results as of November 9, 2016. 5% of the 2015 peer reviews are in process.

[^] 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-up actions required as a 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 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. For 2015, the following represents the type of follow-up actions required.

Type of Follow-up Action	AICPA Peer Review Program^	Kansas Peer Review Program
Receiving revised report	1	
Completion of working paper review	2	
TC revision of working papers	4	
Clarification of one or more issues	3	
Receipt of additional information	2	
Submit to TC review of subsequent engagements	1	
Agree to take certain CPE	8	
Agree to hire consultant – Pre-issuance reviews	7	
Submit monitoring report to committee	2	
Submit copy of inspection report	1	
Resolution of open questions	1	
Totals	32	0

Note: The above data reflects peer review results as of November 9, 2016. 5% of 2015 peer reviews are in process.

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

Oversight Process

Oversight Results

Peer reviews

AICPA Member Firms^			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, None)	Total Oversight	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, None)	Total Oversight
System	GAGAS	1	System	GAGAS	0
	ERISA	1		ERISA	0
	NONE			NONE	0
	GAGAS only			GAGAS Only	0
	ERISA only	1		ERISA Only	0
Engagement		2	Engagement		0

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

Verification of reviewer's resumes

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
12	7	58%

Note: Starting in calendar 2016, peer reviewer resumes will be verified coinciding with the peer reviewer's biennial CPA permit renewal. The current resume verification is in progress.

Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	October 19, 2015
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	August 25, 2016