

NEW YORK STATE EDUCATION DEPARTMENT

Peer Review Oversight Committee
Meeting Agenda

NYS Education Department
80 Wolf Road, Albany, NY

May 18, 2022

11:00 a.m. Public Session

• Review and Approval of Minutes from the February 9, 2022 meeting	Pages 2 - 4
• Future PROC Meetings: <ul style="list-style-type: none">○ August 3, 2022, 9:00 a.m. - TBD	
• AICPA Peer Review Board Open Meetings <ul style="list-style-type: none">○ May 4th○ Future Peer Review Board Open Meetings in 2022:<ul style="list-style-type: none">▪ September 9th and November 16th	Pages 5 - 70
• Mandatory Peer Review Program <ul style="list-style-type: none">○ Mandatory Peer Review Website FAQs	Pages 71 - 77
• PCAOB <ul style="list-style-type: none">○ 2021 Annual Report	Page 78 - 113
• PROC <ul style="list-style-type: none">○ 2021 Annual Report	Page 114 - 125
• New Business	N/A

12:00 p.m. Executive Session

NEW YORK STATE EDUCATION DEPARTMENT

Peer Review Oversight Committee

Meeting Agenda
NYS Education Department
WebEx Video Conference
February 9, 2022

The following members were present:

Frank S. Venezia, CPA, Chair
David Iles, CPA
Mitchell Mertz, CPA

Mary E. MacKrell, CPA, Vice Chair
Grace G. Singer, CPA

The following members were absent:

David Pitcher, CPA

Others in attendance:

Jennifer Winters, CPA, Executive Secretary, NYS Education Department
Thomas Cordell, Auditor 2, NYS Education Department
Philip Jesmonth, Auditor 1, NYS Education Department
Catherine Slattery, Prosecutor, NYS Education Department (left at 10:10 a.m.)
Eugene McTague, Auditor 2, NYS Education Department (left at 10:10 a.m.)
Amy Jun Yu, Auditor 1 NYS Education Department (left at 10:10 a.m.)

Call to Order: On a motion by Ms. MacKrell, seconded by Mr. Mertz, the Committee unanimously agreed to move to public session at 9:11 a.m.

Mandatory Peer Review Program:

Peer Review Discipline Cases - The Committee proceeded to introduce themselves to the Office of Professional Discipline (OPD) staff: Ms. Slattery, Mr. McTague and Ms. Yu. The Committee and OPD discussed the new rules regarding the referral of cases that are considered unprofessional conduct as it relates to the peer review program. A discussion regarding the termination of a firm from the Peer Review Program was noted and it would be an “automatic” referral without the PROC review as it is now defined as unprofessional conduct.

A discussion ensued regarding expulsion from the AICPA Peer Review Program, and it was noted that licensees may be barred from AICPA activities for up to two years. Licensees are not allowed to identify as members of the AICPA during that time. The Committee discussed the PROC’s role in monitoring expelled licensees.

The discussion included the type of disciplinary action against the licensee or firm and it may include: a fine, suspension, surrender, revocation, etc. Ms. Winters noted that the firm would no longer be able to provide attest or compilation services without a valid firm registration.

Additionally, a further discussion is needed to review the matters for firms that are dropped from the program and how their cases should be handled. The Committee discussed the possibility of developing a timeline on how long and much back and forth communication with the firm should be allowed. Ms. Winters noted it will depend on the facts and circumstances and some cases may take time to resolve the issues and the main goal is to get firms in compliance with NYS laws and regulations.

The Chair and Vice Chair will work with Ms. Winters on developing guidelines for the Committee and OPD. The PROC members noted they would be willing to assist the staff of OPD to understand the new rules and noting that they are precluded from participating in the disciplinary action itself as they are not board members. Ms. Slattery will inquire with the Director of the Office of Professional Discipline about this process. Ms. Slattery agreed we should reconvene when specific examples present themselves.

Minutes: Based on a motion made by Mr. Iles, seconded by Ms. Singer, the Committee approved the October 27, 2021 meeting minutes. Mr. Mertz abstains.

Future Meetings: The Committee has scheduled the following future meetings:

- May 18, 2022, 10:30 a.m. –80 Wolf Rd, Albany, NY
- August 3, 2022, 9:00 a.m. - TBD

AICPA Annual Report: Ms. Winters noted interesting statistics in the benchmark data with only 27 Administering Entities, there were three areas with a high percentage of non-compliance.

Ms. MacKrell noted that there is misapplication within the non-conforming engagements and a matter being a critical matter. In her experience, a slight finding makes something non-conforming, not just a critical error. It was noted that could be a reason for the increase in the number of engagements that are non-conforming.

AICPA Peer Review Board Open Meetings

February 2, 2022 – Additional handout. The highlight was the approved exposure draft with changes and the upcoming PRIMA changes.

Future AICPA Peer Review Committee Open Meetings in 2022:

May 4th, September 9th, November 16th - Ms. Winters and Mr. Cordell will attend the calls.

Mandatory Peer Review Program (continued):

Sponsoring Organizations – The Committee discussed an email from a firm wanting to know if the Chartered Accountants of British Columbia can be accepted in lieu of the AICPA Peer Review Program. The Committee decided that, when appropriate, it would ask NASBA to review this matter.

Mandatory Peer Review Website FAQs – Ms. Winters noted that firms who are subject to PCAOB inspection must also be enrolled in the Peer Review Program and provide an annual list of their engagements to ensure they are not required to have a peer review. This will be added to the FAQs.

Question number 15, page 54 – Mr. Mertz and Ms. MacKrell note the firm should not need an additional peer review. The Committee decided to have this FAQ removed.

Ms. Winters and Mr. Venezia will make final modifications to the FAQs and have them posted to the website. The finalized version will be provided to the Committee.

Peer Review Cycle – A discussion ensued regarding instances when firms take a substantial amount of time to complete a peer review and when should their next peer review period should occur. The law in NYS is that a firm must have a peer review every three years, however, the AICPA allows for adjustments to firms who take an abnormal amount of time to complete its peer review. AICPA regulations are superseded by NYS laws and regulations. Mr. Iles noted that another peer review cannot

be scheduled until the previous peer review is completed. This should be added to the FAQs on the NYSED website. The PROC cannot propose changes to the law that requires a peer review to be completed every three years. The discussion included the disciplinary problem for a firm if a peer review is not done in the three-year timeframe and the penalty of a fine for the firm for every year they fail to have a peer review over the three-year period. The Committee will seek information regarding the disciplinary action to include restricting licensees from performing specific services, including attest services. Ms. Winters noted that it is possible, however the Board and PROC are not authorized to send cease and desist orders.

PICPA Oversight: Mr. Mertz attended the August 24, 2021 RAB meeting and noted the PICPA RAB members were reasonable in their meeting.

Mr. Iles attended the January 20, 2022 PRC meeting and noted they were organized, well run, and dedicated to the Peer Review Program.

Ms. Singer attended the February 3, 2022 RAB meeting and noted it was a very smooth meeting and discussions went very well. A firm was found to have gone without a peer review for over nine years.

NASBA Peer Review Compliance Committee Survey – The survey results included in the packet was sent to the state boards to determine the level the State Boards participation in peer review.

New Business: Ms. Winters noted the website will be moving to a Drupal platform and will require the PROC Members Only site to be moved to a Sharepoint site. She is currently working with IT and is hopeful to have it in place by the next PROC meeting. Committee members will be receiving an email regarding this.

Public Session: A motion by Ms. MacKrell and seconded by Mr. Mertz, the Committee voted unanimously in favor of adjourning the public session at 11:19 a.m.

Executive Session: On a motion by Mr. Mertz and seconded by Ms. MacKrell, the Committee voted unanimously to enter executive session at 11:30 a.m.

On a motion by Mr. Iles and seconded by Mr. Mertz, the Committee unanimously agreed to close executive session and the meeting at 12:50 p.m.

Respectfully submitted,

Jennifer Winters, CPA
Executive Secretary



Peer Review
Program

Peer Review Board Open Session Materials

May 4, 2022

Virtual Meeting

**AICPA Peer Review Board
Open Session Agenda
Wednesday May 4, 2022
Teleconference**

Date: Wednesday May 4, 2022

Time: 11:00AM – 1:00PM Eastern Time

- 1.1 Welcome Attendees and Roll Call of Board** – Mr. Kindem/Mr. Bluhm
- 1.2 Modifications to the Reviewer Resume Verification Process* – Mr. Bluhm
- 1.3 Discussion of Procedures Related to Administration Requirements under the Clarified Standards* - Ms. Schweigel
- 1.4 Task Force Updates*
 - Standards Task Force Report – Ms. Schweigel
 - Oversight Task Force Report – Mr. Bluhm
 - Education and Communication Task Force Report – Mr. Beck
- 1.5 Other Reports*
 - Operations Director's Report – Ms. Thoresen
 - Report from State CPA Society CEOs – Ms. Stewart
 - Update on National Peer Review Committee – Mr. Wagner
- 1.6 Other Business** - Mr. Bluhm
- 1.7 For Informational Purposes*:
 - A. AICPA PRB Annual Report on Oversight
 - B. Report on Firms Whose Enrollment was Dropped or Terminated
 - C. Compliance Update - Firm Noncooperation
- 1.8 Future Open Session Meetings**
 - A. September 9, 2022 – Teleconference
 - B. November 16, 2022 - Teleconference

* Included on SharePoint

** Verbal Discussion

Agenda Item 1.2

Modifications to the Reviewer Resume Verification Process

Why is this on the Agenda?

Reviewers update their resume in PRIMA at least annually to reflect their qualifications and experience. Administering entities (AEs) are required to verify this information at a minimum every three years to validate the accuracy. Currently, the resume verification process is entirely manual. AEs and reviewers requested reconsideration of this process since most of the data is captured in PRIMA and reviewers attest to the accuracy of the information.

The Oversight Task Force (OTF) considered this feedback and reevaluated the resume verification process. Since this process originated, there have been advances in technology and the OTF recommends using current technology to enhance the process.

The current manual resume verification process includes several areas related to reviewer qualifications and experience. Nine of those areas are automatically checked during the peer review scheduling process in PRIMA today based on information entered by the reviewer in his or her resume. If any of the qualifications or experience listed below is not met, the reviewer cannot be selected in PRIMA to perform a peer review, or a scheduling error or oversight flag generates that must be investigated by AE staff. Those include whether the reviewer:

1. Is a partner, manager, or person with equivalent responsibilities in a firm enrolled in the AICPA Peer Review Program
2. Is licensed to practice as a CPA
3. Is employed by or the owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review and the report was accepted timely
4. Updated his or her resume in the previous 12 months
5. Spent the last five years in the practice of public accounting in the accounting or auditing function
6. Has current practice experience by performing or supervising accounting or auditing engagements in their firm or carrying out a quality control function in their firm, with reports dated within the last 18 months
7. Has included must-select engagements (engagements under *Government Auditing Standards*, audits of employee benefit plans under ERISA, audits under FDICIA, and examinations of service organizations) that match must-select engagements included in the reviewer's firm's most recent peer review
8. Completed required peer review training including additional training focused on must-select engagements (if applicable)
9. The reviewer's firm, or a firm the reviewer has obtained industry experience from has received communications relating to allegations or investigations or has been restricted

The current manual resume verification process also includes verifying a reviewer's compliance with:

10. Continuing professional education (CPE) requirements, and
11. Yellow Book CPE requirements, if applicable.

The OTF recommends continuing the manual process to verify a reviewer's compliance with applicable CPE requirements when circumstances warrant. See examples below.

Examples

An example of circumstances that may warrant verification of a reviewer's CPE includes when a reviewer has been oversighted (by the OTF via enhanced oversight or by an AE) and the results indicate the reviewer failed to identify a nonconforming engagement. In such a situation, the OTF or the AE has the option to request the reviewer to provide details (such as CPE certificates) to verify the reviewer met the CPE requirements or to verify that the reviewer has obtained adequate CPE in a specialized industry, if appropriate, as a supplemental procedure.

Another example may include if the OTF believes that the results of periodic reviewer performance monitoring warrant verification of a reviewer's qualifications and experience. The OTF may consider asking a reviewer to provide documentation to verify they met the CPE requirements.

Feedback Received

Feedback from the Administrators Advisory Task Force, the Technical Reviewers Advisory Task Force, and the CPA on Staff Advisory Task Force was that the manual process is time-consuming and labor-intensive and, while verifying the reviewer's compliance with CPE requirements has some value, it rarely resulted in a reviewer being deemed ineligible (or removed) for not meeting the qualifications to be a reviewer. The OTF's recommendation incorporates suggestions by all three task forces.

PRIMA Impact

The statement below will be added to the reviewer's resume section in PRIMA as an alert that CPE requirements may be verified.

“The AICPA Peer Review Board's Oversight Task Force, Administering Entities, and AICPA Peer Review staff reserve the right to ask peer reviewers to provide details to verify that the reviewer has met the CPE requirements in the AICPA Standards for Performing and Reporting on Peer Reviews.”

AE Impact

Modifying the resume verification process to rely on technology would result in significant resource savings for AEs performing the current manual steps and ease the burden on reviewers.

Communications Plan

If OTF's recommendations are approved by the board, information about the revisions will be distributed to:

- AEs (AE alert article)
- Peer reviewers (reviewer alert article)

Manual Production Cycle (estimated)

- The proposal will not require any revisions to the Clarified AICPA Standards for Performing and Reporting on Peer Reviews (effective for peer reviews commencing on or after May 1, 2022).
- These revisions would be part of a full update of the AICPA Peer Review Program Oversight Handbook, which would be provided to the Board at that time. Until the update is complete, AEs with questions about implementing the modifications to the reviewer resume verification process may contact staff for assistance.

Effective Date

Upon approval by the Board.

Board Consideration

1. Does the Board agree with the proposal to modify the reviewer resume verification process by relying on PRIMA technology and supplemental procedures, as needed?
2. Are there are any other changes needed?

Agenda Item 1.3

Procedures Related to Administration Requirements under the Clarified Standards

Why is this on the Agenda?

As we implement the clarified standards, which are effective for peer reviews commencing on or after May 1, 2022, questions have been raised regarding administering entities (AEs) handling items that are not directly connected to a review's commencement date.

The board recognizes that the clarified standards contain some changes to the way various items are addressed by administrators or technical reviewers, or presented to RABs for acceptance such as reviews, corrective actions, and implementation plans. It is likely more efficient for AEs to use certain processes in the clarified standards without consideration of a review's commencement date. Additionally, this approach would be consistent with the way the PRIMA system will be updated in June for certain acceptance processes.

Specifically, AEs may identify process changes that are not directly connected to the review's commencement date including, but not limited to the following:

- Certain documents that are included in the report acceptance body (RAB) package
- Certain corrective actions and implementation plans that may be issued
- Engagement reviews that may be accepted by a technical reviewer on behalf of a RAB
- Criteria for items that may be presented to a RAB on a consent agenda such as those for engagement reviews, corrective actions, implementation plans, and requests for extensions of corrective actions and implementation plans.

Recognizing this period of transition to implement the clarified standards in May and June, the board would not object if an AE elects to use this approach when changing administrative procedures to be consistent with the requirements and related application and other explanatory material of the clarified standards.

Agenda Item 1.4

Standing Task Force Updates

Why is this on the Agenda?

Each of the standing task forces of the PRB will provide this information to the Board at each open session meeting to gather feedback on the nature and timing of agenda items that will be considered in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to feedback received.

Standards Task Force

Accomplished since last PRB meeting:

- Published the finalized clarified peer review standards on the [peer review web page](#) and in the AICPA's online professional library.
- Updated various checklists and forms and other peer review documents to conform to the clarified peer review standards including:
 - Summary Review Memorandum
 - Team Captain Checklist
 - Review Captain Summary
 - Checklists for Reviewing Quality Control Policies and Procedures
 - Technical reviewer checklists for system and engagement reviews
 - The PR Summary page that is referenced in peer reviewer's reports
 - Other documents in practice management toolkits for publishing in the April PRPM update
- Updated the team captain and review captain checklist to include considerations related to potential for Single Audits related to the CARES Act.
- Published an alert for peer reviewers and those involved in the report acceptance process clarifying how noncompliance with the risk assessment standards should be assessed, now that the temporary guidance (previously included in PRPM Section 3100, Supplemental Guidance) has ended.
- Discussed timing of PRIMA system enhancements to align with the clarified standards and whether additional guidance may be appropriate for AE processes during the period of transition to the clarified standards
- Discussed potential effects on the AICPA Peer Review Program (the program), resulting from the impending Statement on Quality Management Standards (SQMS)
- Discussed potential impacts of engagement acceptance as an area of focus in the 2022 Enhancing Audit Quality initiatives

Upcoming tasks:

- Finalize and publish the questions and answers document related to peer review independence requirements.
- Develop conforming changes to peer review program engagement checklists and other resource documents to align with the clarified standards for the Fall 2022 PRPM update
- Continue discussions of potential effects on the program resulting from the forthcoming risk assessment standard (SAS No. 145)
- Continue discussions related to effect of SQMS on the program
- Monitor feedback from users and evaluate whether additional resources or application material may be appropriate to assist users with understanding the intent of requirements in the clarified peer review standards

Oversight Task Force

Accomplished since last PRB meeting:

- Approved Report Acceptance Body (RAB) observation reports
- Approved AE oversight reports and AE responses
- Reviewed AE benchmark summary forms and feedback received
- Approved, conditionally approved, or deferred AE plans of administration for 2022
- Approved revisions to the 2023 plan of administration form due November 1, 2022
- Reviewed enhanced oversight reports with comments for consistency
- Monitored results of enhanced oversights
- Discussed the type of feedback issued by AEs as a result of enhanced oversights
- Monitored reviewer performance
- Approved modifications to the reviewer resume verification process
- Approved AICPA Annual Report on Oversight
- Discussed revisions to the AICPA Peer Review Program Oversight Handbook

Upcoming tasks:

- Approve RAB observation reports
- Approve response to AE oversight report
- OTF members will perform AE oversights
- Review AE benchmark summary forms and feedback received
- Review enhanced oversight reports with comments for consistency
- Monitor results of enhanced oversights
- Discuss the type of feedback issued by AEs as a result of enhanced oversights
- Monitor reviewer performance
- Discuss revisions to the AICPA Peer Review Program Oversight Handbook
- Joint meeting with NASBA's Peer Review Compliance Committee (PRCC)

Education and Communication Task Force

Accomplished since last PRB meeting:

- Published a Special Reviewer Alert regarding the Clarified Peer Review Standards on February 7, 2022
- Published the February Reviewer Alert (regular edition) on February 28, 2022
- Developed materials for
 - peer review sessions at other AICPA conferences, including
 - the 2022 EBP Conference (satisfies the EBP Must-Select training requirement)
 - the 2022 Engage Conference (satisfies the Team/Review Captain training requirement)
 - the Peer Review Update course that is developed by Staff and provided to the State Societies for presentation
 - the May 11, 2022 webcast of Are You Ready for Your Firm's Peer Review?
 - the May 17, 2022 Peer Reviewer Forum.

Upcoming tasks:

- Continue planning for the 2022 Peer Review Conference to be held August 8-10 in St. Louis, MO, including:

- Developing session materials, including session presentations, conference cases, and other materials
- Continue analysis of the reviewer pool and implement plans to improve the pool where necessary
- Continue monitoring our available courses to determine if improvements should be made to our overall training framework
- Develop and publish the May 2022 Reviewer Alert and the Spring 2022 publication of the PR Prompts newsletter
- Hold the first of three scheduled AICPA-sponsored 2022 virtual offerings of the live seminar portion of the initial team captain training course.

Agenda Item 1.5**Other Reports****Why is this on the Agenda?**

The purpose of this agenda item is to provide PRB members and other attendees an update on various PRB related activities and initiatives.

Operations Director's Report

Ms. Thoresen will provide a verbal update during the meeting.

Report from State CPA Society CEOs

Ms. Stewart has nothing to report at this time from the perspective of state society CEOs.

Update on the National Peer Review Committee

The NPRC met last on February 10th. No large firm reviews or QCM reviews were presented.

Since the February PRB meeting, the NPRC has held seven RAB meetings. During those meetings:

- 88 reviews have been presented, including:
 - 73 Pass
 - 7 Pass with Deficiencies and
 - 8 Fail

The NPRC's next meeting will be held on May 12, 2022.



AICPA[®]

Peer Review
Program

ANNUAL REPORT ON OVERSIGHT

**Issued
April 18, 2022**

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Introduction

Purpose of this report

The Annual Report on Oversight (report) provides a general overview and information on the results of the AICPA Peer Review Program (Program) oversight procedures. This report concludes as to whether the objectives of the AICPA Peer Review Board's (PRB) oversight processes performed in 2021 were compliant with the requirements of the Program.

Scope and use of this report

This report contains data pertaining to the Program and should be reviewed in its entirety to understand the full context. Information presented in this report pertains to peer reviews accepted during calendar years 2019–2021, which covers a full three-year peer review cycle. Oversight procedures included in this report are performed on a calendar-year basis.

Letter to the AICPA Peer Review Board

To the members of the AICPA Peer Review Board:

This report includes oversight procedures performed in 2021. Information presented in this report pertains to peer reviews accepted¹ during the calendar years 2019–2021, which covers a full three-year peer review cycle. As a result of the COVID 19 pandemic and the automatic six-month extensions approved by the Peer Review Board (PRB) in May 2020 for all firms with reviews, corrective actions, and implementation plans originally due from January 1 to September 30, 2020, fewer reviews were accepted during 2020. With the ongoing impact of the pandemic, administering entities (AEs) were encouraged to continue to be lenient when considering due date extension requests from firms in 2021 which has further delayed reviews being performed and accepted.

In planning and performing our procedures, we considered the objectives of the oversight program, which state that there should be reasonable assurance that (1) AEs are complying with the administrative procedures established by the PRB; (2) the reviews are being conducted and reported upon in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)*; (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees; and (4) the information disseminated by AEs is accurate and timely.

Our responsibility is to oversee the activities of AEs that elect and are approved to administer the Program, including the establishment and results of each AE's oversight processes. The ongoing COVID-19 pandemic impacted oversight procedures in 2020 and 2021. Certain procedures were not performed in 2021 and others continued with a reduced scope. These impacts are described throughout this report.

Oversight procedures performed by the AEs in accordance with the *AICPA Peer Review Program Oversight Handbook* included the following:

- *Oversight of peer reviews and reviewers.* Oversight of various reviews, selected based on reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2021, 133 were selected for oversight at the AE level. See pages 12–13, “Oversight of peer reviews and reviewers.”
- *Annual verification of reviewers' resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2021, AEs were not required to perform resume verification due to the ongoing COVID-19 pandemic. For a description of the resume verification process, see pages 13–14, “Annual verification of reviewers' resumes.”
- *Benchmarks.* Since 2018, AEs have monitored and periodically reported on compliance with AE benchmarks, which are qualitative, objective and measurable criteria to enhance overall quality and effectiveness of Program administration. See pages 14–15, “Evolution of peer review administration.”

The Oversight Task Force (OTF) utilizes subgroups, known as focus groups, to monitor and perform procedures in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook*. These focus groups report to the full OTF.

¹ All peer reviews accepted by a Report Acceptance Body (RAB) during the period, regardless of when the peer review was performed or the peer review year-end.

AE Oversight Focus Group

The AE oversight focus group monitors the results of AE oversights performed by OTF members (which occur on a rotating basis, ordinarily every other year). These oversights include testing the administrative and report acceptance procedures established by the PRB. OTF members oversighted 15 AEs in 2020 and 11 AEs in 2021. See pages 7–8 “Oversights of the Administering Entities” for further information.

Report Acceptance Body (RAB) Observation Focus Group

The RAB observation focus group reviews and approves RAB observation reports, including any responses received from the AEs. Periodically, the focus group will review the process, including applicable checklists. RAB observations, which are performed by OTF members and Program staff, focus on whether the report acceptance process is being conducted in accordance with *Standards* and guidance. In 2021, RAB observations were performed on 78 RAB meetings and 327 peer reviews were selected during these observations. See pages 8–9 “RAB Observations” for a detailed description of the process.

Enhanced Oversight Focus Group

Enhanced oversights are performed by approved subject matter experts (SMEs) on must-select engagements and include the review of financial statements and working papers for such engagements. The enhanced oversight focus group reviews and evaluates the results of enhanced oversights and the oversight reports with comments, then provides input and feedback to Program staff and SMEs. The focus group also evaluates the reviewer performance feedback issued by AE peer review committees as a result of these oversights and recommends that the reviewer performance focus group consider issuing feedback when necessary. See pages 9–11 “Enhanced Oversights” for a detailed description of the process.

Evolution Focus Group

The evolution focus group developed the AE benchmark criteria approved by the PRB. AEs submit three benchmark summary forms during the year, each covering a four-month period. The focus group reviews the results of the benchmark summary forms submitted by the AEs, evaluates AE performance and provides feedback to AEs as necessary. The focus group also considers whether modifications to the benchmarks are needed.

Plan of Administration (POA) Focus Group

The POA focus group reviews and annually approves the plans submitted by the AEs agreeing to administer the Program in compliance with *Standards* and guidance. Information is submitted in two parts. The first part is due each November and typically includes various acknowledgments, policies and procedures. The second part is due each April and reports on compliance with oversight requirements. Final approval of the POA is evaluated after the completion of the second submission.

Reviewer Performance Focus Group

The reviewer performance focus group reviews the reviewer performance monitoring report prepared by Program staff. This report summarizes Program staff’s procedures to evaluate and monitor peer reviewers and AEs for compliance with *Standards*. The focus group evaluates the results to determine if further action should be taken when performance continues to be unsatisfactory or not in compliance with *Standards*.

Conclusion

Based on the results of the oversight procedures performed in 2021, the OTF concluded the objectives of the PRB oversight program were met.

Respectfully submitted,

Brian Bluhm

Brian Bluhm, Chair
Oversight Task Force
AICPA Peer Review Board

AICPA Peer Review Program

There are approximately 21,400 firms currently enrolled in the Program within the United States and its territories, that have a peer review performed once every three years. In recent years, the AICPA has noted a decrease in the number of firms enrolled in the Program. This is attributed to firm mergers and firms no longer performing the accounting and auditing engagements that would subject them to a peer review. There are also approximately 1,400 firms enrolled in the Program that indicated they do not currently perform any engagements subject to peer review. Approximately 7,900 peer reviews are performed each year by a pool of approximately 1,600 qualified peer reviewers. Refer to appendix 2 for an additional overview of the Program and information about the AEs.

Results of AICPA Peer Review Program

Overall results

From 2019–2021, approximately 23,600 peer reviews were accepted in the Program. During the three-year period, more peer reviews were accepted than the number of firms currently enrolled because a firm could have multiple peer reviews accepted during the period, or a firm could have had a peer review accepted and subsequently resigned from the Program. Exhibit 1 shows a summary of these reviews by type of peer review and report issued. The overall results of the reviews accepted during the three-year period by report type were:

	System Reviews	Engagement Reviews
Pass	82%	82%
Pass with deficiency(ies)	12%	11%
Fail	6%	7%

A list of recent examples of matters noted in peer review is available on the [AICPA's website](#). Although this list is not all-inclusive and is not representative of all peer review results, it contains examples of noncompliance with professional standards (both material and immaterial) that were most frequently identified during the peer review process.

Exhibit 2 summarizes the number and type of reasons by quality control element as defined by the Statement on Quality Control Standards (SQCS), for report deficiencies (that is, pass with deficiency[ies] or fail) on system reviews accepted from 2019–2021 in the Program.

Nonconforming engagements identified

The *Standards* state that an engagement is ordinarily considered “not being performed or reported on in conformity with applicable professional standards in all material respects” (hereinafter referred to as nonconforming) when deficiencies, individually or in the 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. Exhibit 3 shows the total number of individual engagements reviewed for both system and engagement reviews, along with those identified as nonconforming.

The percentage of nonconforming engagements identified each year from 2019–2021 (for system and engagement reviews combined) were:

Year	% of nonconforming engagements
2019	10%
2020	16%
2021	14%

The percentage of nonconforming audit engagements each year were:

Year	% of nonconforming audits
2019	15%
2020	26%
2021	27%

Multiple factors contributed to the increase in nonconforming audit engagements identified in 2020 and 2021, including the implementation or renewed focus on specific professional standards. Since 2018, there has been an increased focus on compliance with risk assessment standards. The PRB issued guidance enhancing the evaluation of noncompliance with the risk assessment standards effective for peer reviews commencing on or after October 1, 2018. Beginning April 1, 2019, Program staff began tracking the number of nonconforming audits that included noncompliance with the risk assessment standards. In 2019, 2020, and 2021 respectively, approximately 12%, 16%, and 17% of audits reviewed were identified as nonconforming due to noncompliance with the risk assessment standards. Note that those audits may have been nonconforming for additional reasons beyond noncompliance with the risk assessment standards.

In addition to the focus on compliance with the risk assessment standards, significant new accounting and auditing standards became effective that likely contributed to the increased percentage of nonconforming audits in 2020 and 2021. The *Government Auditing Standards (GAS)* 2018 Revision became effective for periods ending after June 30, 2020. In addition, other new accounting standards, including financial reporting on not-for-profit engagements and revenue recognition, became effective during this period.

Corrective actions and implementation plans

During the report acceptance process, an AE's peer review committee determines the need for, and type of, any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. It also considers whether the reviewed firm's responses are comprehensive, genuine and feasible. Corrective actions are remedial in nature and are imposed to strengthen the performance of the firm. The firm acknowledges that it will perform and complete the corrective action plan as a condition of its peer review acceptance. The firm's peer review is not complete until the AE's peer review committee has accepted the completed corrective actions.

In addition to corrective actions, there may be instances in which an implementation plan is required to be completed by the firm as a result of Findings for Further Consideration (FFCs).

There can be multiple corrective actions and implementation plans required on an individual review. For implementation plans, the firm is required to acknowledge that it will perform and complete the implementation plan as a condition of cooperation with the AE and the PRB. Agreeing to and completing such a plan is *not* tied to the acceptance of the peer review. The reviewed firm would receive an acceptance letter with no reference to the implementation plan if the peer review committee did not otherwise request the firm to also perform a corrective action plan related to the deficiencies or significant deficiencies, if any, noted in the peer review report. However, if the firm fails to cooperate with the implementation plan, the firm would be subject to fair procedures that could result in the termination of the firm's enrollment in the Program.

Overall, the total number of corrective actions and implementation plans issued in 2021 was higher than the number issued in 2020, but significantly lower than the number issued in 2019. This correlates with the total number of reviews and number of non-pass reviews accepted each year.

The number of corrective actions and implementation plans as a percentage of overall reviews accepted decreased in 2021 compared to both 2019 and 2020. The decrease is likely due to the increase in the percentage of pass reports accepted during 2021 compared to the other two years. Additionally, the number of nonconforming engagements compared to the total number of engagements reviewed decreased compared to 2020. Corrective actions and/or implementation plans required from 2019–2021 are summarized in exhibit 4.

Since a firm can receive a pass with deficiency(ies) or fail report in addition to FFCs, it is possible for a corrective action plan to be imposed upon the firm for the deficiency(ies) or significant deficiency(ies) in the peer review report, as well as an implementation plan for the FFCs.

Oversight process

The PRB is responsible for oversight of all AEs. In turn, each AE is responsible for overseeing peer reviews and peer reviewers for the jurisdictions it administers. See exhibit 5 for a list of approved AEs. This responsibility includes having written oversight policies and procedures.

All states and jurisdictions that require peer review accept the Program as satisfying their peer review licensing requirements. Some state boards of accountancy (SBOAs) oversight AEs' administration of the Program. This report does not describe or report on that process.

Objectives of PRB oversight process

The PRB appointed the OTF to oversee the administration of the oversight program and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that:

- AEs comply with the administrative procedures established by the PRB,
- Reviews are conducted and reported upon in accordance with the *Standards*,
- Results of the reviews are evaluated on a consistent basis by all AE peer review committees and
- Information disseminated by AEs is accurate and timely.

The oversight program also establishes a communications link with AEs and builds a relationship that enables the PRB to:

- Obtain feedback from AEs' peer review committees and staff,
- Provide consultation on matters applicable to specific AEs and
- Develop guidance on a national basis, when appropriate.

OTF oversight procedures

The following Program oversight procedures were performed:

Oversights of the Administering Entities

Description

Each AE is oversighted by a member of the OTF (ordinarily, at least once every other year). No member of the OTF is permitted to perform the oversight of the AE in the state that his or her main office is located, where he or she serves as a technical reviewer, may have a conflict of interest (for example, performing the oversight of the AE that administers the OTF member's firm's peer review) or where he or she performed the most recently completed oversight.

Oversight procedures

During these oversights, the OTF member will:

- Meet with the AE's peer review committee during its consideration of peer review documents,
- Evaluate a sample of peer review documents and applicable working papers on a post-acceptance basis, as needed,
- Interview the administrator(s), technical reviewer(s), CPA on staff and peer review committee chair and
- Evaluate the various policies and procedures for administering the Program.

As part of the oversight, the AE completes an information sheet that documents policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the Program. The OTF member evaluates the information sheet, results of the prior oversight and comments from RAB observations to develop a risk assessment. A comprehensive oversight work program that contains the various procedures performed during the oversight is completed with the OTF member's comments. At the end of the oversight, the OTF member discusses any comments identified during the oversight with the AE's peer review committee and CPA on staff. The OTF member then issues an AICPA Oversight Report (report) to the AE that discusses the purpose of the oversight and objectives of the oversight program considered in performing those procedures. The report also contains the OTF member's conclusion about whether the AE has complied with the Program's administrative procedures and *Standards* in all material respects.

In addition to the report, the OTF member issues an AICPA Oversight Letter of Procedures and Observations (letter) that details the oversight procedures performed and observations noted by the OTF member. The letter also includes recommendations to enhance the quality of the AE's administration of the Program. The AE is then required to respond, in writing, to any findings included in the report and letter or, at a minimum, acknowledge the oversight if there are no findings reported. The oversight documents, which include the report, the letter of procedures and observations and the AE's response, are presented to the OTF for acceptance. The AE may be required to complete corrective actions as a condition of acceptance. The acceptance letter would

reflect corrective actions, if any. A copy of the acceptance letter, the report, the letter of procedures and observations and the AE's response are available on the [AICPA's website](#).

Results

For 2020 and 2021, a member of the OTF performed an oversight of each AE. See exhibit 6 for a list of the 26 AE oversights performed for 2020 and 2021. See exhibit 7 for a summary of observations from the oversights performed during the two years.

RAB observations

Description

The primary objectives of the RAB observation are to determine whether:

- Reviews are conducted and reported on in accordance with the *Standards*,
- Results of reviews are evaluated on a consistent basis within an AE and in all jurisdictions,
- Administrative procedures established by the PRB are being followed and
- Administrators, technical reviews, peer review committee/RAB members and the CPA on staff are complying with applicable benchmarks monitored through RAB observations.

RAB observations allow for real-time feedback to RABs and AEs, which helps improve overall quality and consistency of the RAB process. The process for RAB observations is similar to the process used during the AE oversights. Prior to the meeting, the RAB observer receives the materials that will be presented to the RAB, selects a sample of reviews of firms enrolled in the Program and reviews the materials. During the meeting, the RAB observer offers comments at the close of discussions based on issues or items noted during his or her review of the materials. All significant items that were noted by the RAB observer, but not the RAB, are included as comments in the RAB observation report, which is reviewed and approved by the OTF. The final report is sent to the AE's peer review committee chair and CPA on staff. Peer review committees may respond after the final report is issued by the OTF.

Results

For 2020, all AEs had at least one RAB observation, and in 2021, all AEs had at least two RAB observations. RAB observations were performed by OTF members or Program staff. Recurring comments generated by RAB observations are summarized in exhibit 8. Individual peer reviews selected during an observation incorporate an element of risk and are not reflective of the entire population. RAB observation results for 2020 and 2021 are as follows:

	2020	2021
RAB meetings observed	70	78
Peer reviews selected during observations	263	327
Peer reviewers	196	222
Based on observers' comments:		
Acceptance delayed or deferred	21	24
Feedback forms issued to reviewers	2	3

The number of reviews delayed or deferred as a result of the RAB observers' comments decreased from 8.0% in 2020 to 7.3% in 2021.

Enhanced oversights

Description

In May 2014, the PRB approved the addition of enhanced oversights performed by subject matter experts (SMEs). SMEs consist of current or former members of the applicable Audit Quality Center executive committee and expert panels, current or former PRB members, individuals from firms that perform a large number of engagements in a must-select category, individuals recommended by the Audit Quality Center executive committees and expert panel members and other individuals approved by the OTF. Enhanced oversights are one element of the AICPA's [Enhancing Audit Quality](#) (EAQ) initiative.

The enhanced oversights identify areas that need improvement and provide meaningful data to inform other EAQ activities. As a result of these oversights, the PRB has approved multiple initiatives to improve reviewer performance on must-select engagements, such as additional training requirements for reviewers. The results of the enhanced oversight findings are shared with other teams at the AICPA to further the goal of improving audit quality.

Enhanced oversight samples

One objective of the enhanced oversight program is to increase the probability that peer reviewers are identifying all material issues on must-select engagements, including whether engagements are properly identified as nonconforming. Ordinarily this objective is achieved through the selection of two samples.

- *Random sample* – Selected from all peer reviews that include at least one must-select engagement. Each peer review included in the population has an equal chance at being selected for oversight.
- *Risk-based sample* – Selected based on certain criteria established by the OTF.

The oversight samples are selected from peer reviews with must-select engagements performed during the calendar year. In 2020, the OTF suspended the enhanced oversight process due to the COVID-19 pandemic; however, the process resumed in September 2021. As a result, a random sample was not performed in 2021 and all selections were risk-based.

Beginning in 2021, peer reviewers generally were limited to being selected for oversight no more than once per year. These oversights neither replace nor reduce the minimum number of oversights currently required by AEs.

Enhanced oversight scope

Enhanced oversights focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), and examinations of service organizations). Prior to 2021, when *Government Auditing Standards* engagements with single audits were selected, the oversight focused only on the Single Audit portion of the audit. Beginning in 2021, the entire engagement was reviewed as part of these oversights. Most oversights are performed on employee benefit plan, single audit and *Government Auditing Standards* engagements as these are the most common must-select engagements. Only one engagement is reviewed for each firm selected, and the SME does not expand the scope of the oversight.

Enhanced oversight process

The enhanced oversight process consists of the review of the financial statements and working papers by the SME for the engagement selected. Program staff notifies the peer reviewer and the firm that they have been selected for oversight and the engagement selected after the peer review working papers and report have been submitted to the AE.

The SME reviews the same working papers and compares his or her results to those of the peer reviewer. The SME issues a report, with comments, if applicable, detailing any material items not identified by the peer reviewer that cause the engagement to be considered nonconforming. If the report includes comments, the peer reviewer has an opportunity to provide a letter of response (LOR) explaining whether he or she agrees with the oversight report and any additional procedures that he or she will perform.

The enhanced oversight report and LOR (if applicable) are provided to the AE for consideration during the peer review report acceptance process. If the peer reviewer disagrees with the results of the oversight, the AE will follow the disagreement guidance in the RAB Handbook.

Program staff monitors the effects of the oversights on the peer review results (report rating change from “pass” to “pass with deficiency” or “pass with deficiency” to “fail”), and the type of reviewer performance feedback (feedback form or performance deficiency letter) issued to the peer reviewer, if any.

OTF review of enhanced oversight reports

The OTF reviews the enhanced oversight reports when the SME identifies material items not identified by the peer reviewer that cause the engagement to be considered nonconforming. The OTF reviews the reports for consistency and to verify that the items identified by the SME are material departures from professional standards.

Feedback issued from the enhanced oversight process

The OTF monitors the types of feedback issued for oversights where a nonconforming engagement was not originally identified by the peer reviewer or for oversights where the peer reviewer identified the engagement as nonconforming but failed to identify additional material items. If an AE does not issue feedback, the OTF considers if any further actions are necessary, including whether to issue a reviewer performance finding, reviewer performance deficiency or performance deficiency letter to the peer reviewer.

- *Reviewer performance finding* – Issued when a peer reviewer does not identify a nonconforming engagement but demonstrates sufficient knowledge and experience required to review the engagement.
- *Reviewer performance deficiency* – Issued when a peer reviewer does not identify a nonconforming engagement and does not demonstrate sufficient knowledge and experience required to review the engagement.
- *Performance deficiency letter* – Issued when a peer reviewer has a pattern of reviewer performance findings or more than one performance deficiency is noted.

Results

As previously discussed, in 2018, an increased focus was placed on evaluating noncompliance with the risk assessment standards with the PRB issuing guidance effective for peer reviews commencing on or after October 1, 2018. This increased focus impacted the Program, as neither peer reviewers nor SMEs were raising risk assessment issues to the level of nonconforming, whereas these engagements are now being deemed nonconforming.

The following table summarizes the annual results, including an adjusted nonconforming rate beginning in 2018 to remove those engagements that are nonconforming only due to risk assessment issues. Because the guidance was only effective for the last quarter of 2018, it had a limited impact on the results of the 2018 oversight sample; however, there was a significant impact on the results in 2019. Of the 46 engagements identified as nonconforming in 2019, 17 were nonconforming only because of risk assessment issues. When excluding those engagements with only risk assessment issues, the adjusted nonconforming rate is 37%, which is an improvement from prior years.

Year	Sample size	Total nonconforming engagements identified	%	Nonconforming engagements with only risk assessment issues	Adj %	Number of nonconforming engagements identified by peer reviewer	% of Nonconforming engagements identified by peer reviewer
2014	90	40	44%	N/A	44%	7	18%
2015	190	104	55%	N/A	55%	42	40%
2016	108	38	35%	N/A	35%	18	47%
2017	87	43	49%	N/A	49%	27	63%
2018	185	108	58%	11	52%	68	63%
2019	79	46	58%	17	37%	37	80%
2020	*	*	*	*	*	*	*
2021**	32	13	41%	0	41%	7	54%

* The OTF suspended the enhanced oversight process due to the COVID-19 pandemic; therefore, no oversights were performed for 2020 and resumed in September 2021.

** As of the date of this report, the 2021 enhanced oversight sample is 94% complete.

The enhanced oversights indicate considerable improvement in peer reviewer performance since the enhanced oversight program began in 2014. Through 2019, peer reviewers improved in detecting nonconforming engagements. In the first year of oversights, peer reviewers only identified nonconforming engagements 18% of the time prior to the oversight and this detection rate improved in subsequent years. The detection rate decreased in 2021; however, with a limited sample size, caution should be exercised in drawing any inferences from this data. The PRB's focus on oversight and reviewer education has led to significant improvements in peer reviewer performance, which will ultimately, result in improved firm performance and higher audit quality.

Exhibit 9 lists items identified by SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a nonconforming engagement.

Oversight by the AEs' peer review committees

The AEs' peer review committees are responsible for monitoring and evaluating peer reviews of those firms whose main offices are in their licensing jurisdiction(s). Peer review committees may designate a task force to be responsible for the administration and monitoring of its oversight program.

In conjunction with AE staff, the peer review committee establishes oversight policies and procedures that meet the minimum requirements established by the PRB to provide reasonable assurance that:

- Reviews are administered in compliance with the administrative procedures established by the PRB,
- Reviews are conducted and reported on in accordance with the *Standards*,
- Results of reviews are evaluated on a consistent basis,
- Open reviews are monitored on a timely and consistent basis and
- Information disseminated by the AE is accurate and timely.

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. The following oversight procedures are performed as part of the AE oversight program:

Oversight of peer reviews and reviewers

Description

Throughout the year, the AE selects various peer reviews for oversight. The selections for oversight are made by the peer review committee chair or designated task force of peer review committee members, based on input from AE staff, technical reviewers, and peer review committee members and can be on a random or targeted basis. The oversight may consist of completing a full working paper review after the review has been performed but prior to presenting the peer review documents to the peer review committee. The oversight may also consist of having a peer review committee member or designee visit the firm, either while the peer review team is performing the review or after the review. It is recommended that the oversight be performed prior to presenting the peer review documents to the peer review committee, as this allows the peer review committee to consider all the facts before accepting the review. However, a RAB may review the peer review documents and decide an oversight should be performed before they can accept the peer review.

As part of its oversight process, the peer review committee considers various factors and criteria when selecting peer reviews for oversight, such as the following.

- *Firm based* – Selection considers various factors, such as 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.
- *Reviewer based* – Selection considers various factors, including random selection, an unusually high percentage of pass reports as compared to non-pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, performance of the peer reviewer's first peer review for an AE or performing high volumes of reviews. Oversight of a reviewer can also occur due to previously noted performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review

report, not considering significant matters or failure to select an appropriate number and cross-section of engagements.

- *Minimum requirements* – At a minimum, typically each AE is required to conduct oversight on two percent of all reviews performed in a 12-month period (ordinarily the previous calendar year), and within the two percent selected, there must be at least two system and two engagement reviews. Additionally, at least two system review oversights are required to be performed on-site. Due to the ongoing COVID-19 pandemic, the minimum requirements continue to be reduced. For 2021, each AE was required to conduct oversight on one percent of all reviews performed in a 12-month period (ordinarily the previous calendar year), and within the one percent, generally there must be at least one system and one engagement review. Furthermore, for 2021, there was no requirement to perform any on-site oversights.
- *Exception* – AEs that administer fewer than 25 system reviews annually are required to perform a minimum of one system review oversight on-site. As noted above, there was no requirement for an oversight to be performed on-site in 2021. If the AE administers fewer than 25 engagement reviews annually, ordinarily a minimum of one must be selected for oversight. Waivers may be requested in hardship situations, such as a natural disaster or other catastrophic event.

Results

For 2021, AEs conducted oversight on 133 reviews. There were 87 system and 46 engagement reviews oversighted. See exhibit 10 for a summary of oversights by AEs.

Annual verification of reviewers' resumes

Description

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 accounting or auditing functions. The firm(s) with whom the member is associated should have received a pass report on either its most recent system or engagement review. The reviewer should obtain at least 48 hours of CPE in subjects related to accounting and auditing every three years, with a minimum of eight hours 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 AE has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

A critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review includes providing reasonable assurance that reviewers' resumes are updated annually and are accurate. Typically, the AE verifies information within a sample of reviewers' resumes on an annual basis. All reviewer resumes should be verified over a three-year period, as long as, at a minimum, one-third are verified in year one, a total of two-thirds have been verified by year two and 100 percent have been verified by year three. Verification includes the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards (GAGAS), audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), audits of insured depository institutions subject to the FDICIA, and examinations of SOC 1®

engagements and SOC 2® engagements, as applicable. Verification procedures may include requesting copies of their license to practice as a CPA, CPE certificates from a qualified reviewer training course, CPE certificates that document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least eight hours in one year and CPE certificates that document qualifications to perform audits under *Government Auditing Standards*, if applicable. The AE also verifies whether the reviewer is a partner or manager in a firm enrolled in the Program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Due to the ongoing COVID-19 pandemic, AEs were not required to perform resume verification procedures in 2020 or 2021; however, AEs could use the verification process to monitor reviewer performance issues, if necessary. The OTF has been evaluating the resume verification process for potential revisions.

Evolution of peer review administration

Description

The evolution of peer review administration is part of the AICPA's EAQ initiative, with the objective to ultimately improve audit performance by increasing the consistency, efficiency and effectiveness of the Program administration.

Each of the state CPA societies and all AEs have been integral to the success of the Program, which is enormous in both scope and size across the country. Their commitment to meeting the needs of practitioners, members and regulators has been, and continues to be, tremendous. At the same time, the need for an evolution of peer review administration was overwhelmingly validated by stakeholder feedback.

Benchmark model

As part of evolution and the AICPA's EAQ initiative, the PRB approved AE benchmarks to enhance overall quality and effectiveness of Program administration. Benchmarks are divided into four categories based on the individual(s) with primary responsibility: administrators, technical reviewers, peer review committee/RAB members and the CPA on staff. The benchmarks include qualitative, objective measurable criteria, which may be modified over time due to advances in technology and other factors.

The benchmark model started with a pilot period for monitoring and reporting on the benchmarks. During the pilot period, which began on July 2, 2018 and ended on December 31, 2019, AEs were not subject to fair procedures. During the pilot, the OTF monitored benchmarks and reporting requirements to determine if modifications were needed, including the frequency and timing of reporting. Revisions to the benchmarks were made during this process.

For reporting periods beginning January 1, 2020 and afterwards, AEs are subject to fair procedures when there is a pattern of consistent noncompliance with the benchmarks. As anticipated by the OTF, many AEs reported noncompliance with certain benchmarks because of the ongoing COVID-19 pandemic. The OTF did not plan to and has not commenced fair procedures against any AE for benchmark noncompliance related to the pandemic. The OTF continues to evaluate the benchmark measurements and will make modifications, as needed.

Results

AEs report on their compliance with the benchmarks three times per year, with each reporting period covering four months. The OTF did not identify any AEs with patterns of consistent noncompliance that required further actions. See exhibit 11 for a summary of results for 2020 and 2021.

The following shows the results of the Program from 2019–2021 by type of peer review and report issued. This data reflects the results based on the report acceptance date of the peer review.

System Reviews

	2019		2020		2021		Total	
	#	%	#	%	#	%	#	%
<i>Pass</i>	3,246	79	2,316	79	3,200	86	8,762	82
<i>Pass with deficiency(ies)</i>	579	14	394	14	358	10	1,331	12
<i>Fail</i>	263	7	219	7	167	4	649	6
<i>Subtotal</i>	4,088	100	2,929	100	3,725	100	10,742	100

Engagement Reviews

	2019		2020		2021		Total	
	#	%	#	%	#	%	#	%
<i>Pass</i>	3,867	79	2,814	83	3,890	85	10,571	82
<i>Pass with deficiency(ies)</i>	532	11	365	11	467	10	1,364	11
<i>Fail</i>	483	10	190	6	245	5	918	7
<i>Subtotal</i>	4,882	100	3,369	100	4,602	100	12,853	100

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 QC section 10, *A Firm's Systems of Quality Control*, in all material respects. QC section 10 states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm ("the tone at the top"), relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.

The following table lists the reasons for report deficiencies (that is, pass with deficiency[ies] or fail reports) from system reviews in the Program accepted from 2019–2021 summarized by each element of quality control as defined by QC section 10. Since pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in exhibit 1, *"Results by type of peer review and report issued."*

REASON	2019	2020	2021
Leadership responsibilities for quality within the firm ("the tone at the top")	144	99	67
Relevant ethical requirements	76	67	47
Acceptance and continuance of client relationships and specific engagements	78	77	52
Human resources	266	207	219
Engagement performance	728	530	433
Monitoring	438	309	237
TOTALS	1,730	1,289	1,055

The following shows the total number of engagements reviewed, for both system and engagement reviews, and the number identified as not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming) from peer reviews accepted from 2019–2021 in the Program.

On April 1, 2019, Program staff began tracking the number of nonconforming audits due to noncompliance with the risk assessment standards. In 2019, 2020 and 2021 respectively, approximately 12%, 16% and 17% of audits reviewed were identified as nonconforming due to noncompliance with the risk assessment standards. Furthermore, those audits may have been nonconforming for additional reasons beyond noncompliance with the risk assessment standards.

Engagement Type	2019			2020			2021		
	Total engagements reviewed (#)	Total non-conforming (#)	%	Total engagements reviewed (#)	Total non-conforming (#)	%	Total engagements reviewed (#)	Total non-conforming (#)	%
Audits:									
Single Audits	1,353	304	22%	1,314	532	40%	1,346	554	41%
Government Auditing Standards - All Other	1,955	292	15%	1,617	494	31%	1,812	526	29%
ERISA	2,527	400	16%	2,249	724	32%	2,380	665	28%
FDICIA	47	12	26%	71	24	34%	46	3	7%
Broker-Dealers	121	21	17%	144	61	42%	121	48	40%
Other	5,349	635	12%	6,434	1,261	20%	6,016	1,387	23%
Reviews	6,140	423	7%	4,435	450	10%	5,787	616	11%
Compilations & Preparations:									
With Disclosures	3,894	244	6%	2,725	149	5%	3,629	250	7%
Omit Disclosures	10,696	1,057	10%	7,330	639	9%	10,736	647	6%
Forecasts & Projections	21	3	14%	22	1	5%	17	2	12%
SOC® Reports	167	19	11%	199	22	11%	215	28	13%
Agreed Upon Procedures	1,223	91	7%	987	143	14%	1,232	99	8%
Other SSAEs	161	2	1%	165	11	7%	194	18	9%
Totals	33,654	3,503	10%	27,692	4,511	16%	33,531	4,843	14%

The AEs' peer review committees are 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. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Follow up actions include both corrective actions and implementation plans. Follow up actions are remedial and educational in nature and imposed to strengthen the performance of the firm. A review can have multiple corrective actions and/or implementation plans. For 2019–2021 reviews, the following represents the type of corrective actions and/or implementation plans required.

Type of follow-up action	2019	2020	2021
Agree to take/submit proof of certain (CPE)	2,974	2,276	2,561
Submit to review of correction of nonconforming engagements	272	235	246
Agree to pre-issuance reviews	641	364	352
Agree to post-issuance reviews	820	468	522
Agree to review of remedial actions	143	105	108
Submit monitoring or inspection report to team captain or peer review committee	297	200	129
Submit to outside party revisit	187	84	76
Elect to have accelerated review	11	1	1
Submit evidence of proper firm licensure	87	62	63
Firm has represented in writing they no longer perform or are engaged to perform any engagements subject to peer review	63	62	39
Agree to hire outside party or consultant for inspection	70	46	25
Team captain to review Quality Control Document	37	26	25
Submit proof of purchase of manuals	23	13	13
Agree to join an Audit Quality Center	56	20	29
Other	204	62	102
TOTALS	5,885	4,024	4,291

Administering Entity	Licensing jurisdiction(s)
California Society of CPAs	California, Arizona, Alaska
Coastal Peer Review, Inc. ²	Maryland, North Carolina
Colorado Society of CPAs	Colorado, New Mexico
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Society of Louisiana CPAs	Louisiana
Massachusetts Society of CPAs	Massachusetts, New Hampshire
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota, North Dakota
Missouri Society of CPAs	Missouri
National Peer Review Committee	All jurisdictions
Nevada Society of CPAs	Nevada, Idaho, Montana, Nebraska, Utah, Wyoming
New England Peer Review, Inc.	Maine, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, Kansas, South Dakota
Oregon Society of CPAs	Oregon, Guam, Hawaii, Northern Mariana Islands
Partners in Peer Review ³	Alabama, Arkansas, Mississippi
Peer Review Alliance	Illinois, Indiana, Iowa, Kentucky, South Carolina, West Virginia, Wisconsin
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, New York, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington

² Effective January 2021, Maryland and North Carolina created Coastal Peer Review, Inc., to administer the Program for both states.

³ During 2021, the Alabama Society of CPAs renamed their administering entity to Partners in Peer Review. There were no changes to the jurisdictions administered.

For the years 2020 and 2021, an OTF member performed an oversight of each of the following AEs. The oversight results are available on the [AICPA's website](#).

2020	2021
Alabama	Coastal Peer Review, Inc.
California	Colorado
Florida	Connecticut
Georgia	Louisiana
Michigan	Massachusetts
Missouri	Minnesota
National Peer Review Committee	Oklahoma
Nevada	Peer Review Alliance
New England Peer Review, Inc.	Texas
New Jersey	Virginia
Ohio	Washington
Oregon	
Pennsylvania	
Puerto Rico	
Tennessee	

The following represents a summary of observations made by the OTF during the 2020 and 2021 AE oversights. The observations are examples not indicative of every AE and may have been a single occurrence that has since been corrected.

Administrative procedures

- All required materials not provided to the RAB
- AE did not perform evaluations for technical reviewers that were specific to their performance as a technical reviewer
- Open reviews, including those with open corrective actions or implementation plans, did not appear to be actively monitored for completion
- Peer review data maintained on the website is not current or not in accordance with Program guidance
- Appropriate signed versions of confidentiality agreements were not obtained based on the individual's role (i.e., administrator, technical reviewer, CPA on staff or committee member) or did not adhere to the current templates
- Hearing referral decision letter regarding firm's consecutive non-pass report was sent, though it was unclear if an assessment had been performed and documented in accordance with guidance

Technical reviewer procedures

- Technical reviewers did not address issues before reviews were presented to the RAB
- Technical reviewer recommended an implementation plan to the RAB that was not allowable per guidance
- Reviews were not consistently presented to the RAB within 120 days of receipt of working papers from the reviewer

Peer review committee/RAB procedures

- Reviewer performance feedback not issued when appropriate
- The RAB did not initially identify issues noted by the OTF member
- Guidance for assessment of firms with consecutive non-pass reports had been misinterpreted and misapplied resulting in referral decision letters being sent before the committee had completed their assessment

The following is a summary of comments generated from RAB observations performed by the Program staff and OTF members for 2020 and 2021. These comments provide the AEs' peer review committee/RAB members, technical reviewers, and CPAs on staff with information that will increase consistency and improve the peer review process. The comments vary in degree of significance and are not applicable to all the respective parties.

- Firm representation letters were not tailored appropriately or not consistent with the *Standards*
- RAB agreed to a recommended implementation plan or corrective action that was not in accordance with RAB Handbook guidance
- Peer review report was not properly tailored or was not consistent with the *Standards*
- Technical issues and questions were not appropriately identified and/or addressed prior to the review being presented to the RAB
- RAB did not contain the minimum number of qualified members (e.g., team captain qualified for system reviews or RAB member with current must-select engagement experience) to present, discuss and accept a peer review
- Firm's letter of response did not adequately address the firm's actions taken or planned to remediate nonconforming engagements nor the timing of the remediation
- Single audit engagement profile was unclear regarding the firm's safeguards in place to address nonattest services performed, requiring follow up to determine the impact on the engagement
- Single audit profile identified a high-risk Type A program that was not audited as a major program
- Technical reviewers did not evaluate reviewer performance history and present it to the RAB
- Firm's response to an FFC form was not clear enough to suggest that the firm understood the requirements of SQCS No. 8
- Systemic cause missing or did not appropriately address the underlying cause of deficiencies in the report or findings on FFC forms
- Systemic cause of a finding was the same on the current and prior peer reviews, but the finding was not identified as a repeat finding
- Finding for risk assessment noncompliance was not appropriately elevated to a deficiency when other deficiencies or significant deficiencies exist that resulted in omitted audit procedures
- Reviewer did not appropriately identify a nonconforming engagement
- Peer review documentation was not clear enough to determine if an engagement was nonconforming

As discussed in more detail in the “Enhanced Oversight” section, the following is a list of example departures from professional standards identified by the SMEs in the 2021 sample that were not identified by the peer reviewers. The SMEs identified these departures from professional standards, individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered nonconforming.

Employee Benefit Plan engagements

- Failure to perform an appropriate risk assessment including not assessing risk at the assertion level, not supporting inherent risk assessments, not properly linking audit procedures performed to the risk assessment, not documenting understanding of controls including IT and complementary user controls, and not appropriately testing controls
- Lack of documentation over tests of operating effectiveness on key complementary user controls for a SOC® report upon which reliance was placed
- Control risk assessed at less than high without obtaining a SOC® report or performing other control testing
- Failure to perform or document sufficient procedures over participant data, participant contributions, benefit/distribution payments or income allocation to participant accounts
- Failure to perform or document sufficient procedures to conclude whether employer contributions were correctly calculated
- Failure to appropriately include sufficient documentation such that an experienced auditor can understand the nature, timing and extent of procedures performed; results of procedures performed; audit evidence obtained; conclusions reached; and any professional judgments used
- Failure to identify and report prohibited transactions
- Failure to appropriately report on prior year when the firm early adopted SAS 136
- Failure to sufficiently document how the auditor was able to properly test plan document compliance or plan attributes based on the Plan document in effect for the year under audit
- Auditor's report and financial statements stated use of modified cash basis; however, various receivables and disclosures seemed to indicate preparation on a GAAP basis

Single audit and Government Auditing Standards engagements

- Failure to document the safeguard applied to address a significant threat to independence
- Failure to sufficiently test or document testing of all direct and material compliance requirements
- Insufficient documentation of auditor analysis and judgment of which applicable compliance requirements were determined not to be direct and material
- Failure to appropriately update a legal letter initially provided approximately two months prior to the report date and failure to document resolution of legal cases discussed in the letter

The following shows the number of oversights performed by each AE for 2021.

Administering Entity	2021 Type of review/oversights		
	System	Engagement	Total
California	9	1	10
Coastal Peer Review	2	2	4
Colorado	1	1	2
Connecticut	2	1	3
Florida	7	1	8
Georgia	1	3	4
Louisiana	3	3	6
Massachusetts	1	1	2
Michigan	2	1	3
Minnesota	1	1	2
Missouri	1	1	2
National Peer Review Committee	23	1	24
Nevada	1	2	3
New England Peer Review	1	1	2
New Jersey	1	3	4
Ohio	5	1	6
Oklahoma	1	1	2
Oregon	1	1	2
Partners in Peer Review	4	2	6
Peer Review Alliance	4	4	8
Pennsylvania	7	3	10
Puerto Rico	1	0	1
Tennessee	1	1	2
Texas	4	4	8
Virginia	1	3	4
Washington	2	3	5
Total	87	46	133

AEs report on their compliance with the benchmarks three times per year, with each reporting period covering four months. The following shows the number of AEs not in compliance during at least one of the benchmark reporting periods in 2020 and 2021. The OTF did not identify any AEs with a pattern of consistent noncompliance that required further actions.

		AEs not in compliance during one or more reporting periods (#)	
Benchmark reference	Benchmark	2020	2021
Administrators			
Admin 1	Perform tasks associated with cases and letters (e.g., Peer Review Information or Scheduling) in PRIMA within 14 calendar days of receipt. Over this reporting period, an AE should have 10% or fewer not performed within this timeframe.	4	1
Admin 2	Provide RAB materials electronically to RAB members at least seven calendar days before RAB meetings.	4	2
Admin 3	Send revised acceptance letters within 14 calendar days of the committee granting firm requests for waiver or replacement of corrective actions or implementation plans.	8	8
Technical Reviewers			
TR 1	Meet all qualifications established in the RAB Handbook, including training requirements.	0	1
TR 2	Perform the technical review in accordance with guidance.	4	3
TR 3	Maintain objectivity and skepticism to mitigate familiarity threat and implement appropriate safeguards while performing the technical review.	0	1
TR 4	Complete technical reviews to meet the 120-day rule for initial presentation of reviews. Over this reporting period, an AE should have fewer than 10% of reviews not presented within this timeframe.	22	4
TR 5	Complete technical reviews to meet the 60-day rule for engagement reviews with certain criteria. Over this reporting period, an AE should have fewer than 10% of reviews not accepted within this timeframe.	8	2
TR 6	Thoroughly review and prepare peer reviews for RAB meetings to minimize the number of reviews that are deferred. Over this reporting period, an AE should have fewer than 10% of reviews deferred.	12	7

Benchmark reference	Benchmark	AEs not in compliance during one or more reporting periods (#)	
		2020	2021
TR 7	Limit reviews with open items and missing relevant information from the RAB package unless RAB consultation is necessary.	1	1
TR 8	Evaluate reviewer performance history and present to RAB.	0	0
TR 9	Provide reviewer performance feedback recommendations to the committee or RAB on reviewer performance issues.	1	1
TR 10	Be available during RAB meetings in which his or her reviews are presented to answer questions to avoid deferrals or delays.	0	0

Committee/RAB

Comm/RAB 1	Meet all qualifications established in the RAB Handbook, including training requirements.	0	0
Comm/RAB 2	Follow peer review standards, interpretations and related guidance in the evaluation and acceptance of peer reviews.	5	2
Comm/RAB 3	Maintain objectivity and skepticism to mitigate familiarity threat and implement appropriate safeguards while considering the results of peer reviews.	0	1
Comm/RAB 4	Issue reviewer performance feedback forms and performance deficiency letters when appropriate.	1	1
Comm/RAB 5	Waive or replace corrective actions and implementation plans in accordance with guidance except in hardship situations.	1	1
Comm/RAB 6	Assess firm referrals for noncooperation related to consecutive non-pass reports.	0	1
Comm/RAB 7	Perform oversights on firms and reviewers (or review oversights performed by technical reviewer(s)) in accordance with the Oversight Handbook and risk criteria included in policies and procedures.	0	0

CPA on staff

CPA 1	Submit current benchmark forms signed by CEO to OTF by due date.	4	1
CPA 2	Monitor committee and RAB members' qualifications established in the RAB Handbook.	0	1
CPA 3	RAB member composition includes members with current experience in must-select engagements.	0	1

Benchmark reference	Benchmark	AEs not in compliance during one or more reporting periods (#)	
		2020	2021
CPA 4	A minimum of three RAB members evaluate every peer review for acceptance in accordance with the RAB Handbook.	0	2
CPA 5	Maintain documentation of committee/RAB's decision for firm referrals for noncooperation related to consecutive non-pass reports.	0	0
CPA 6	Decisions on due date extensions and year-end changes are approved in accordance with guidance and documented.	0	0
CPA 7	Scheduling error overrides are appropriate and approved in accordance with AE's policies and procedures.	2	7
CPA 8	Implement appropriate remediation such that RAB observation report comments are not consistently repeated in subsequent observations.	0	3
CPA 9	Respond to requests from OTF or AICPA staff by due date.	0	0
CPA 10	Submit complete Plan of Administration including all AE oversight requirements by April 1.	2	2
CPA 11	Annual reviewer resume verification process is performed in accordance with the Oversight Handbook and verification information is included in Plan of Administration.	0	0
CPA 12	Policies and procedures designed to mitigate familiarity threat for committee/RAB members and technical reviewers are submitted with the Plan of Administration by the due date.	0	1
CPA 13	Submit complete Plan of Administration by November 1.	2	1
CPA 14	Meet all qualifications of the CPA on staff, including training requirements.	1	0
CPA 15	Oversight procedures are approved by the Committee and in place by the Plan of Administration due date.	0	0
CPA 16	Obtain confidentiality and administration agreements from all AE staff associated with peer review on an annual basis.	1	1

A system of internal inspection was first used regularly in the early 1960s, when a number of large firms used this method to monitor their accounting and auditing practices and to make certain that their different offices maintained consistent standards. Firm-on-firm peer review emerged in the 1970s. No real uniformity to the process existed until 1977, when the AICPA's Governing Council (council) established the Division for CPA Firms to provide a system of self-regulation for its member firms. Two voluntary membership sections within the Division for CPA Firms were created—the SEC Practice Section (SECPS) and the Private Companies Practice Section (PCPS).

One of the most important membership requirements common to both sections was that once every three years, member firms were required to have a peer review of their accounting and auditing practices to monitor adherence to professional standards. The requirements also mandated that the results of peer review information be made available in a public file. Each section formed an executive committee to administer its policies, procedures and activities as well as a peer review committee to create standards for performing, reporting and administering peer reviews.

AICPA members voted overwhelmingly to adopt mandatory peer review, effective in January 1988, and the AICPA Quality Review Program was created. Firms could enroll in the newly created AICPA Quality Review Program or become a member of the Division for CPA Firms and undergo an SECPS or PCPS peer review. Firms enrolling in the AICPA Quality Review Program that had audit clients would undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected accounting and auditing engagements. Firms without audit clients that only performed engagements under the attestation standards or accounting and review services standards would undergo off-site peer reviews, which also included a review of selected engagements to determine if they were compliant with professional standards.

From its inception, the peer review program has been designed to be remedial in nature so that deficiencies identified within firms through this process can be effectively addressed. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether the reviewed firm's system of quality control for its accounting and auditing practice has been appropriately designed and whether the firm is complying with that system.

In 1990, a new amendment to the AICPA bylaws mandated that AICPA members who practice public accounting with firms that audit one or more SEC clients must be members of the SECPS. In 1994, council approved a combination of the PCPS Peer Review Program, and the AICPA Quality Review Program under the Program governed by the PRB, which became effective in 1995. Thereafter, because of this vote, the PCPS no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB) as a private sector regulatory entity to replace the accounting profession's self-regulatory structure as it relates to public company audits. One of the PCAOB's primary activities is the operation of an inspection program that periodically evaluates registered firms' SEC issuer audit practices.

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with and inspected by the

PCAOB. Because many SBOAs and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAIF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their SBOA licensing and other state and federal governmental agency peer review requirements.

Because both programs (AICPA and CPCAIF PRPs) were only peer reviewing non-SEC issuer practices, the PRB determined that the programs could be merged and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved the revised *Standards* effective for peer reviews commencing on or after January 1, 2009. This coincided with the official merger of the programs, at which time the CPCAIF PRP was discontinued, and the Program became the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAIF PRP, the activities of the former program were succeeded by the National Peer Review Committee (NPRC), a committee of the AICPA PRB.

Since peer review became a mandatory AICPA membership requirement in 1988, 53 states and territories have adopted peer review licensure requirements. Many licensees are also required to submit certain peer review documents to their SBOA as a condition of licensure. To help firms comply with state peer review document submission requirements, the AICPA created facilitated state board access (FSBA). FSBA allows firms to give permission to the AICPA or their AEs to provide access to the firms' documents (listed in the following paragraph) to SBOAs through a state-board-only-access website. Permission is granted through various opt-out and opt-in procedures. Some jurisdictions now require their licensees to participate in FSBA, whereas others recognize it as an acceptable process to meet the peer review document submission requirements.

Documents included in FSBA are:⁴

- Peer review reports
- Letters of response (if applicable)
- Acceptance letters
- Letters signed by the reviewed firm indicating that the peer review documents have been accepted, with the understanding that the reviewed firm agrees to take certain actions (if applicable)
- Letters notifying the reviewed firm that required actions have been completed to the satisfaction of the peer review committee (if applicable)

Beginning in January 2020, FSBA was enhanced to also provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when the firm has given permission.

⁴ As of February 2015, a firm's current and prior peer review documents are available via FSBA. The documents are available if the state participated in FSBA for both review periods, and the firm did not opt out of FSBA for either review.

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

Firms enrolled in the Program are required to have a peer review of their accounting and auditing practice once every three years, not subject to PCAOB permanent inspection, covering a one-year period. The peer review is conducted by an independent evaluator known as a *peer reviewer*. The AICPA oversees the Program, and the review is administered by an entity approved by the AICPA to perform that role. An *accounting and auditing practice*, as defined by the *Standards*, is "all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARSs); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office (GAO); and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards."

The following summarizes the different peer review types, objectives and reporting requirements as defined under the *Standards*. There are two types of peer reviews: system reviews and engagement reviews.

System reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations under the SSAEs, or engagements under PCAOB standards. In addition, agreed-upon procedures, reviews, compilations and preparation engagements are also included in the scope of the peer review. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (QC sec. 10)⁵, in all material respects. The peer review report rating may be *pass* (firm's system of quality control is adequately designed and firm has complied with its system of quality control); *pass with deficiency(ies)* (firm's system of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of deficiency(ies) described in the report); or *fail* (firm's system of quality control is not adequately designed to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects).

Engagement reviews: Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that at least one, but not all, the

⁵ QC section 10 can be found in AICPA *Professional Standards*.

engagements submitted for review were not performed 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 the reviewer concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

AEs

Each state CPA society elects the level of involvement that it desires in the administration of the Program. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the Program for enrolled firms whose main offices are located in that state; or (3) ask the AICPA to request another state CPA society to administer the Program for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the Program in compliance with the *Standards* and related guidance materials issued by the PRB. The PRB approved 26 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the Program in 2021. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the Program.

To receive approval to administer the Program, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted as part of the annual Plan of Administration (POA). The annual POA is the AE's request to administer the Program and is reviewed and approved by the OTF.

AEs may also elect to use the *Standards* and administer a PRP for non-AICPA firms and individuals who chose not to enroll in the Program. These firms and individuals are enrolled in the state CPA society PRPs and these reviews, although very similar to reviews administered by the Program, are not considered as being performed under the auspices of the Program. The reviews are not oversighted by the AICPA PRB; so, this report does not include information or oversight procedures performed by the AEs on their PRPs of non-AICPA firms and individuals.

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board (PRB)	Functions as the “senior technical committee” governing the AICPA Peer Review Program (PRP) and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	A publication that is developed by the PRB. It includes the revised AICPA <i>Standards for Performing and Reporting on Peer Reviews</i> , interpretations to the revised AICPA <i>Standards for Performing and Reporting on Peer Reviews</i> , and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the administering entity (AE) oversight process for the Program.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications and responsibilities of AE peer review committees, report acceptance bodies (RAB) and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
Administering entity	A state CPA society, group of state CPA societies or other entity annually approved by the PRB to administer the Program in compliance with the <i>Standards</i> and related guidance materials issued by the PRB.
Agreed-upon procedures (AUP) engagement	An engagement in which a practitioner is engaged to issue, or does issue, a practitioner’s report of findings based on specific agreed-upon procedures applied to subject matter for use by specified parties. Because the specified parties require that findings be independently derived, the services of a practitioner are obtained to perform procedures and report the practitioner’s findings. The specified parties determine the procedures they believe to be appropriate to be applied by the practitioner. Because the needs of specified parties may vary widely, the nature, timing and extent of the agreed-upon procedures may vary, as well; consequently, the specified parties assume responsibility for the sufficiency of the procedures because they best understand their own needs. In such an engagement, the practitioner does not perform an examination or a review and does not provide an opinion or conclusion. Instead, the report on agreed-upon procedures is in the form of procedures and findings.
Attest engagement	An engagement that requires independence, as set forth in the AICPA Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARs) and Statements on Standards for Attestation Engagements (SSAEs).
Audit	An engagement which provides financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

<u>Term</u>	<u>Definition</u>
Compilation	An engagement in which an accountant applies accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with SSARS without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.
Corrective action	A corrective action is a course of action that a reviewed firm has agreed to take in response to deficiencies.
CPA on staff	Individual at the AE responsible for managing the Program.
Employee Retirement Income Security Act (ERISA) of 1974	The Employee Retirement Income Security Act (ERISA) of 1974 is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans.
Engagement review	A type of peer review for firms that do not perform audits or certain SSAE engagements that focuses on work performed and reports and financial statements issued on particular engagements (reviews, compilations or preparation engagements).
Enhancing Audit Quality initiative	The Enhancing Audit Quality (EAQ) initiative is the AICPA's commitment to providing the resources and tools, as well as standards, monitoring and enforcement, necessary to move the profession further on its journey toward greater audit quality.
Facilitated State Board Access (FSBA)	<p>Developed by the AICPA to assist firms in complying with state peer review document submission requirements. Firms give permission to provide the results of their peer reviews to SBOAs via the secure FSBA website. Several SBOAs allow firms to voluntarily meet their state peer review document submission requirements using FSBA and many SBOAs require firms to use FSBA.</p> <p>FSBA was enhanced in January 2020 to provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when a firm gives permission.</p>
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 recapitalized the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), expanded the authority of banking regulators to seize undercapitalized banks and expanded consumer protections available to banking customers.

<u>Term</u>	<u>Definition</u>
Financial statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.
Finding for further consideration (FFC)	One or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
Firm	A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the Program should be terminated or whether some other action should be taken.
Implementation plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to an FFC form.
Licensing jurisdiction	For purposes of this report, licensing jurisdiction means any state or commonwealth of the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico or the Virgin Islands.
Matters	Matters are typically one or more "no" answers to questions in peer review questionnaires. A matter is documented on a Matter for Further Consideration (MFC) form.
Oversight Task Force (OTF)	Appointed by the PRB to oversee the administration of the Program and make recommendations regarding the PRB oversight procedures.
Peer review committee	An authoritative body established by an AE to oversee the administration, acceptance and completion of the peer reviews administered and performed in the licensing jurisdiction(s) it has agreed to administer.
Plan of administration (POA)	A form completed annually by entities requesting to administer the program whereby the entity agrees to administer the program in compliance with the <i>Standards</i> , interpretations and other guidance established by the PRB.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.

<u>Term</u>	<u>Definition</u>
Preparation engagement	An engagement performed in accordance with SSARS in which a practitioner is engaged to prepare financial statements in accordance with a specified financial reporting framework but is not engaged to perform a compilation, review, or audit of those financial statements.
PRIMA	An online system that is accessed to carry out the Program administrative functions.
Report Acceptance Body (RAB)	A committee or committees appointed by an AE for the purpose of considering the results of peer reviews and ensuring that the requirements of the Program are being complied with.
Review	An engagement in which the accountant obtains limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures.
Reviewer feedback form	A form used to document a peer reviewer's performance on individual reviews and give constructive feedback.
Reviewer resume	A document within PRIMA required to be updated annually by all active peer reviewers, that is used by AEs to determine whether individuals meet the qualifications for service as reviewers as set forth in the <i>Standards</i> .
Special purpose framework	A financial reporting framework other than GAAP that is one of the following bases of accounting; cash basis, tax basis, regulatory basis, or contractual basis, commonly referred to as <i>other comprehensive bases of accounting</i> .
State board of accountancy	An independent state governmental agency that licenses and regulates CPAs, each jurisdiction may use a different name for this agency.
State CPA society	Professional organization for CPAs providing a wide range of member benefits.
Summary review memorandum	A document used by peer reviewers to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in an FFC form.
System of quality control	<p>Policies and procedures designed and implemented to provide a firm with reasonable assurance that:</p> <ul style="list-style-type: none"> a. the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and b. reports issued by the firm are appropriate in the circumstances.

<u>Term</u>	<u>Definition</u>
System review	A type of review that 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 Statement on Quality Control Standards (SQCS) No. 8, <i>A Firm's System of Quality Control</i> (QC sec. 10), in all material respects.
Technical reviewer	Individual(s) at the AE whose role is to provide technical assistance to the RAB and the peer review committee in carrying out their responsibilities.
Territory	A territory of the United States is a specific area under the jurisdiction of the United States and, for purposes of this report, includes Guam, the District of Columbia, the Northern Mariana Islands, Puerto Rico and the Virgin Islands.

Agenda Item 1.7B

**Firms Dropped from the AICPA Peer Review Program for Noncooperation
between January 1, 2022 and March 31, 2022**

Enrollment in the Program for the following firms was dropped for noncooperation. Those reenrolled as of April 4, 2022, are denoted by an “*” following the firm name.

Firm Number	Firm Name	State
900010103586	Tegeler & Associates, Inc.	AK
900010117159	Harbin & Stough PC	AL
900255274429	Haynie Accounting and Tax Service	AL
900255349498	Macaroy Underwood CPA	AL
900001104649	Doris Davis CPA PC	AR
900010155458	Braverman International P C	AZ
900010100067	Colby & Powell, PLC	AZ
900010097810	Cosse & Wallace, CPA's, P. C.	AZ
900255349067	Hector M. Hurtado, CPA PLLC	AZ
900010008764	Jim E. Brown	AZ
900010021109	John E. Stevens CPA, P. C.	AZ
900006593601	Mark D McGaffin CPA, PLLC	AZ
900010149527	N. A. Livingston Company PLC	AZ
900010102749	A R Kakhsaz Company AAC	CA
900000851003	A. M. Tchobanian CPA, A. C.	CA
900255270804	Abeye Hailu, CPA	CA
900009201073	Accounting Offices of Kayleen Clemens, CPA	CA
900010078509	Alan D. Borisoff	CA
900010154789	Alex C. Anguiano	CA
900011574830	Alex Y. Lee & Co.	CA
900010140229	Alexander Schurawel	CA
900011351729	American Accounting Services	CA
900001117863	Andrew E. Colker	CA
900255351040	Anne E. Zurbuchen	CA
900011571429	Arne R. Oftedal, CPA	CA
900004359693	Ball & Associates, An Accountancy Corporation	CA
900006688109	Becci Knight	CA
900255346011	Bextil Accounting	CA
900006461257	BW CPA Group, Inc.	CA
900010129870	Carter & Associates	CA
900011476691	Cavanagh Ringelman CPAs, PC	CA
900005737442	Charles Guenther CPA	CA
900005716994	Cheung & Chu, CPA	CA
900005790138	CNYU, Inc. DBA: CNY Accountants & Consultants	CA

Firm Number	Firm Name	State
900001184701	Coates Accountancy Corporation	CA
900004806575	CPA Corporation	CA
900005751239	Daren M. McDonald, CPA	CA
900011360409	Darrell J. Dwyer, CPA	CA
900005240056	DAS CPA Inc	CA
900255349558	Dennis Duncan & Covington LLP	CA
900011574209	Doug Sanchez, CPA	CA
900255182510	Edwin J. Estrada, CPA	CA
900010155864	Eric S. Schroeder	CA
900007080731	Evergreen Alliance Prof. Corp.*	CA
900255350403	FRANCES EUNJOO KIM, CPA	CA
900010134721	Frank X. Gloeggler	CA
900010150010	Gaidano and Associates	CA
900011569009	Gold & Gold CPAs	CA
900006970997	Gregory Herrman, CPA	CA
900010080259	Harn & Dolan	CA
900010118587	Haskell & Davis	CA
900008353361	Hudson Henderson & Company, Inc.	CA
900005301905	Ilma V. Avila, CPA	CA
900010104876	Irene Perer CPA, P. C.*	CA
900010121537	James G. Woo	CA
900255186105	Jeffery A. Brooks, CPA	CA
900010129945	John Y. Awad	CA
900010113208	Jonathon P. Reuben CPA, A.A.C.*	CA
900011550549	Judge & Judge, CPA	CA
900010092765	Katz & Assoicates, CPA's , P.C.	CA
900010149900	Khandelwal & Associates, AAC	CA
900255349807	Koppula Associates CPA	CA
900010042640	LINDQUIST, VON HUSEN & JOYCE*	CA
900011468269	Lisa Lynn Smith Jones, CPA	CA
900011549289	Lydia Lopez Banes	CA
900007557675	Mass-Tel Communications	CA
900006475147	Matthew Lemas CPA's Associates*	CA
900010142220	Maurer, Gittings & Graf, LLP*	CA
900005284997	McBride Edwards LLP	CA
900011600109	McLevich & Company	CA
900006591636	Mejia & Associates	CA
900006107807	Michael Miller Brown & Co. Certified Public Accountant, Inc.	CA
900010145276	Michelle C. Herting	CA
900010109808	Migliore & Company*	CA

Firm Number	Firm Name	State
900255348067	Mitchell R. Geller dba Geller and Company CPAs*	CA
900011314313	Morris & Morris	CA
900255350187	Mountain Family Tax Preperation	CA
900010148387	Neal & Leidholdt, An Accountancy Corp.	CA
900010123434	Oishi and Company	CA
900010117036	Oscar H. Gamez	CA
900010147801	Phillips Accountancy Corp.	CA
900010106622	Raphael & Associates	CA
900010135404	Reiss Jackson & Jamison LLP	CA
900011942775	Robert D. Heinrich CPA Inc.	CA
900007442873	Robert W. Martin, CPA	CA
900006483007	Rod B. Johnson CPA	CA
900009858423	Rose Davis	CA
900005566140	Ryan, Saunders & Co	CA
900255350971	Satyamus Tax Filings Inc	CA
900010132223	Scott C. Thompson & Assoc.	CA
900001112211	Scott Price & Company	CA
900003823678	Shahen Derderian and Associates	CA
900001035355	Stephen G. Gavlick CPA APC	CA
900255188293	Tanya Pontep, CPA	CA
900010068430	Temen, Kaiser & Cameron CPAs, LLP	CA
900000241680	Thielen & Associates, Inc.	CA
900001143734	Weston & Tuttle, LLP	CA
900010128305	Wilcox Hokokian, Bains & Dill, LLP	CA
900010141421	Wulstein Financial Services	CA
900007326725	Jill Johnson CPA PC	CO
900010155925	Jobe and Company CPAs, PC	CO
900008195151	Yeater and Associates, Inc.*	CO
900010132360	Zaffore Ruane CPAs PC	CO
900255349634	Jeter & Johnson, LLC	DE
900010083563	De La Vega & Jewett, PA	FL
900010108130	Jeffrey I. Marcus CPA, P. A.	FL
900001059978	John Michael Smith CPA P. A.	FL
900010133572	Koch & Company, CPA, P.A.	FL
900010112580	Richard D. Awe	FL
900010147343	Richard H. Stern, PC	FL
900010153385	Barry P. McIntosh, CPA, P.C.	GA
900005918136	Barry H. Franklin, CPA, LLC	GA
900010131230	Carey L. Grossman	GA
900010137443	Clayton, Paulk & Associates, PC	GA

Firm Number	Firm Name	State
900006817268	David B. Julian	GA
900010108884	Davis, Pechter & Associates PC*	GA
900008395771	DLC Audit Tax & Advisory dba DLC CPAs	GA
900000952210	Gary R. Zeigler P. C.*	GA
900010145110	Gloria F. Smith CPA, PC	GA
900010094961	Haley & Associates	GA
900004742198	Karen C. Drescher, CPA, PC	GA
900010012014	Choo, Osada & Lee CPA's, Inc.	HI
900011661313	Karen Havens, CPA	IA
900006311897	Robert C. Armbrust, CPA, P.C. d/b/a Johannsen & Beldin	IA
900010092384	Beveridge & Lange, LLC	ID
900010134802	Ware & Associates	ID
900255190145	Alexander Narod	IL
900010135992	Dan Bjornson ,CPA, Ltd.	IL
900008898414	Elena Y Olshansky, CPA	IL
900007029205	Helen J Ajder CPA, PC	IL
900010080552	Irwin F. Noparstak CPA, Ltd.	IL
900010133691	J. Y. Oh Company Ltd	IL
900002113784	King & Moran LTD	IL
900010116603	Maloney & Company, Ltd.	IL
900010130631	Randall R. Grieder	IL
900001023830	Varey & Vaccariello, CPAs, PC	IL
900010128378	Voellinger, Simpson, Dolan & Associates, P. C.*	IL
900255348854	Eric O'Neal January, CPA	IN
900010129590	Hare, Russell & Holder, P. C.	IN
900001027497	Kenneth P. Kelley	IN
900010112313	Weidner and Company, P. C.	IN
900007886393	Winters CPA Group, LLC	IN
900005848812	Bressler & Company, PSC	KY
900010013392	Compton, Kottke & Associates, P.S.C.	KY
900010145631	John P. Schmidt CPA, PSC	KY
900008151056	Johnson CPA & Associates, PSC	KY
900010126355	Joseph W. Rieber Jr., PSC, Certified Public Accountant	KY
900255351209	M. Bayer Consulting	KY
900255181226	Mike Zeller, CPA, PLLC	KY
900255351282	Thomas Mark Stice	KY
900011695334	Kenneth J. Rachal, CPA	LA
900255349190	Nicholas Wilkins, CPA, LLC	LA
900004271284	Beverly J. Donovan, C.P.A.	MA
900010127943	David M. Gannett, CPA, PC	MA

Firm Number	Firm Name	State
900010145789	J. Kelly Thomas CPA P.C.	MA
900010114882	Jeffrey J. Bannon, CPA, P.C.	MA
900004039367	Angela B Assadi, LLC*	MD
900010098499	Mudd & Moreland, LLC	MD
900010017569	C. H. Dorr & Co., P. A.*	ME
900010151899	DMF & Company, LLC	ME
900010109548	Getzen and Connell, CPAs, P.C.	MI
900010013145	Hollander, Ellison & Associates, P. C.	MI
900010135871	Scott R. Kenney	MI
900010104348	Slomski & Raedel, CPA, PC	MI
900010131727	Cobb & Associates, Ltd.	MN
900000487116	Larsen, Larsen, P.A.	MN
900003751598	Michael G. McDonnell CPA	MN
900010148009	Charlie B. Sandbach C.P.A., INC. A Professional Corporation	MO
900011353009	Douglas N Shanley CPA PC	MT
900010013314	Collis and Associates, CPAs, P. C.	NC
900010145431	GBK Peabody, PLLC	NC
900006920481	Will Johnson, CPA PLLC	NC
900004962652	Willie Cooper, Jr, CPA*	NC
900010152903	Dean M Broich PC	NE
900010092923	Hellman, Main, Coslor & Kathol	NE
900010142537	Hansen Accounting Services Inc	NH
900255019151	Aloy E. Nwosu, CPA & Associates	NJ
900005619000	Galleros Robinson Certified Public Accountants, LLP*	NJ
900010080956	Gershon Biegeleisen*	NJ
900010151582	Gillespie & Associates, Inc.	NJ
900011462409	Hutman & Hutman LLP*	NJ
900255351100	Hyde & Associates LLC	NJ
900255348796	Kudisch, Oster & Company, LLC*	NJ
900010044725	Mandel, Fekete & Bloom	NJ
900255273812	Marc Wasserman, PC, CPA	NJ
900010101195	Mizzone & Associates	NJ
900010121457	P&G Associates	NJ
900001044400	Philip J. Ciriello	NJ
900010152263	Seramba & Associates, CPA, LLC	NJ
900010128174	Timothy G. Gearity	NJ
900010148003	Werdann, DeVito, LLC*	NJ
900010116443	Gary J. Podris, CPA	NM
900010126473	Rogers CPA	NM
900010114489	Wait R S Chtd*	NV

Firm Number	Firm Name	State
900255350483	Angelo J. Milone, C.P.A., P.C.	NY
900006479624	Babaian CPA Associates PLLC	NY
900010152272	Coghill & Associates, PLLC	NY
900001162921	CPA Services, P. C.	NY
900001154968	Isaac Oberlander & Co., LLP	NY
900255191557	Nadler & Upbin, LLP	NY
900001180186	Richard H. Dinolfo CPA	NY
900005263979	Richards Accounting & Financial Services	NY
900010140582	Roush CPA PC	NY
900255351175	Starowitz & Hofrichter CPA's, LLP	NY
900010090736	Steven J. Lubbe CPA PLLC	NY
900255186702	Hixenbaugh & Hixenbaugh	OH
900009215973	JL Associates Inc	OH
900255192920	Lindholm & Company	OH
900010150576	Mischler & Nurre, LLC	OH
900010072330	Volpe Brown & Company LLC	OH
900001137034	Metter & Company	PA
900001063916	Juan A Feliciano Charneco*	PR
900008230603	Torres-Fred & Co.*	PR
900010119221	Cox, Cauley & Richardson, LLC	SC
900255349090	Infini8 Financial Solutions LLC	SC
900255349742	James Accounting Associates LLC	SC
900081197149	C Richard Phebus	TN
900010141862	James Longest CPA, PC	TN
900010149978	Judy Sinz CPA PC	TN
900007718364	KBMD & Associates, P.C.	TN
900003839458	Kroeger-Miller CPA, LLC	TN
900255350754	Rebecca Hutsell CPA	TN
900011702412	Valerie Kemp Dreier CPA	TN
900011702052	W. David Buckner, CPA	TN
900255193597	Baker, Ford & Company, PLLC	TX
900010098534	Buffo & Berkman	TX
900255350659	Dana Robertson, PLLC	TX
900006230826	Gene B. Reynolds & Assoc., PLLC*	TX
900002209406	Gonzalez & Arrambide, Inc.	TX
900003812358	Gordon & Associates, PLLC	TX
900001141577	Hale, Simpson, Pate & Associates, P.C.	TX
900000472331	Herbert Kraus, CPA	TX
900010100369	Janet Salmon Crawford	TX
900001072001	John E. Taylor	TX

Firm Number	Firm Name	State
900001301720	Jones & Jones, CPAs P. C.	TX
900010147486	Jones and Company Certified Public Accountants, PC	TX
900255349446	Ricky Porter, CPA	TX
900010129887	Steven C. Butler, CPA	TX
900010123885	Thomas Stephen & Company, L.L.P.	TX
900010151095	Van Kerr P. C.	TX
900255350995	VCruz CPA PC	TX
900010145360	Matheson Monson & Nisson CPAs LLC	UT
900010152994	Springer & Co, PLLC	UT
900002173062	Webster & Co. P.C.	UT
900010124524	Carl Hart & Associates CPAs Inc	WA
900010104180	David T Saathoff CPA	WA
900010130949	Linda M Shiraiwa CPA PS Inc	WA
900255351152	Real-Time Accounting Services, LLC	WA
900010152673	Cynthia Zarda, CPA, Ltd	WI
900001059772	Bruce M. Avey Jr.	WV
900006794126	Donna L Schulte CPA	WV
900010105526	Fisher & Hodges, CPA's. A. C.	WV
900001010762	John W. Slough	WV
900255185270	Murray, Queen & Company, PLLC	WV
900001103904	Kraig Kobert CPA P.C.	WY
900005934722	Western Sage CPA, PC	WY

Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program since Last Reported

Failure to complete a corrective action

The AICPA Peer Review Program terminated the following firms' enrollment in the AICPA Peer Review Program for failure to cooperate. The firms did not complete corrective actions designed to remediate deficiencies identified in their most recent peer review.

J. Robyn Underwood CPA, P.C. – Barnesville, GA
 Freizer and Freizer – Bayonne, NJ
 R M Komorowski Jr. CPA – Steubenville, OH
 William L. McKernan CPA – Blue Bell, PA
 Christopher O. Ihejirika and Associates, LLC – Chicago, IL
 Timmer & Associates CPA, PC – Rock Island, IL
 Dale & Associates, PLLC – Trenton, MI
 DiMaria & DiMaria – Lodi, NJ
 Susan W Svoboda, CPA – Tupper Lake, NY
 Trenary CPA Firm, PLLC – Oklahoma City, OK
 Bulloch, Dupertuis, Schulman, Seger & Co – Dallas, TX
 Chandra D. Shelby, CPA, PC – Paris, TX

Failure to complete an implementation plan

The AICPA Peer Review Program terminated the following firm's enrollment in the AICPA Peer Review Program for failure to cooperate. The firms did not complete an implementation plan designed to remediate findings identified in their most recent peer review.

Naden/Lean, LLC – Hunt Valley, MD

Failing to submit revised documents:

The AICPA Peer Review Program terminated the following firm's enrollment in the AICPA Peer Review Program for failure to cooperate. The firm did not timely submit to its administering entity revised documents required to complete the acceptance process of its peer review.

Savas & Company, LLC – Salt Lake City, UT

Failing to submit signed acknowledgement letters

The AICPA Peer Review Program terminated the following firm's enrollment in the AICPA Peer Review Program for failure to cooperate. The firm did not timely submit evidence of agreement to perform remedial actions as required as a condition of completion of its peer review.

Ward, Lane & Associates, P.C. – Elgin, IL

Failing to complete its peer review after it has commenced:

The AICPA Peer Review Program terminated the following firm's enrollment in the AICPA Peer Review Program for failure to cooperate. The firm did not timely submit to its administering entity documents required to complete the acceptance process of its peer review.

Michael Szczekan & Co., P.C. – Centennial, CO
Velma Butler & Company, Ltd – Chicago, IL
Michael Gaus, Carol Haney & Co PC – Houston, TX

Firm terminations are also published on our website at:

<https://us.aicpa.org/forthepublic/prfirmterm/2022peerreviewfirmterminations.html>

Agenda Item 1.7C

Compliance Update - Firm Noncooperation

Why is this on the Agenda?

This is an informational item to keep AICPA Peer Review Board (PRB) members informed about firm noncooperation, such as drops and terminations.

Hearings, Drops and Terminations

Firm Hearing Referrals and Mediation

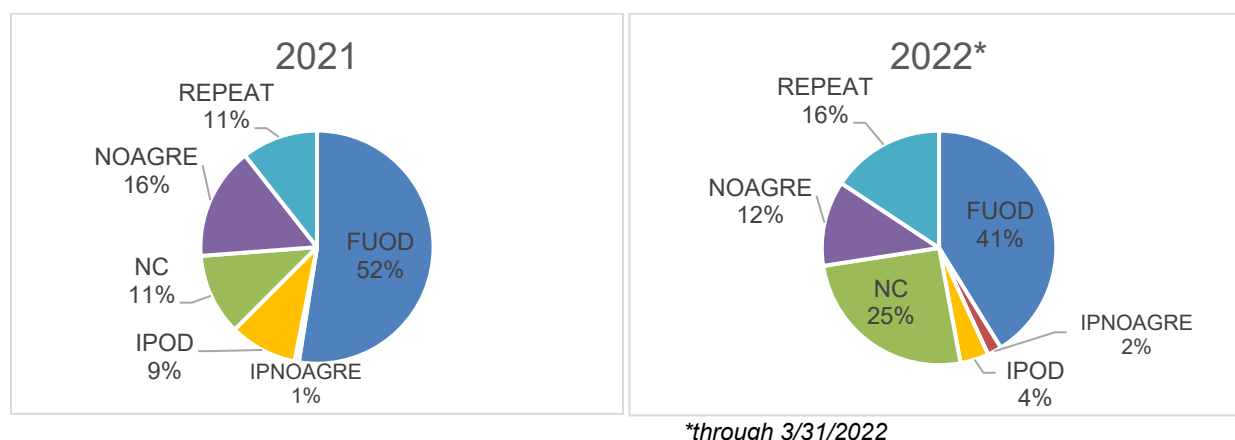
Referrals are firm noncooperation cases for which the administering entity (AE) has submitted documentation to AICPA staff to proceed with a termination hearing. The table below shows overall hearings volume through the first quarter of 2022:



**through 3/31/2022*

Firms referred to the PRB for a termination hearing increased significantly after PRIMA implementation in 2017, due in part, to process automation as well as changes in guidance to expedite such matters and align more closely with Enhancing Audit Quality initiatives. The decrease shown in 2020 relates to several temporary changes made by the AICPA Peer Review Program (PRP) in response to the coronavirus impact on firms, providing firms with additional time to complete peer reviews, corrective actions, and implementation plans. As of March 31, 2022, hearings volume appears to be approximating the levels from before those measures.

The types of matters for which firms are referred for termination hearings were as follows:



Legend:	
FUOD/IPOD	Failure to complete corrective action(s) or implementation plan
NC	General non-cooperation (includes completeness activities/material omission from scope, failure to undergo/complete peer review, failure to improve after consecutive corrective actions, etc.)
NOAGRE/IPNOAGRE	Failure to agree to corrective action or implementation plan, including those subsequently revised upon firm request.
REPEAT	Failure to improve after consecutive non-pass peer reviews

During 2021, there was an increase in the number of cases related to failure to complete corrective actions as many of the extensions granted on corrective actions due to the coronavirus impact on firms expired. In 2022, there has been an increase in the number of firms referred for failure to complete their peer review (reflected in the NC number above), which appears to relate to monitoring efforts by AEs.

Firms referred for certain charges, such as failing to complete corrective actions, can sometimes be encouraged and assisted to resolve these matters prior to hearing. AICPA staff attempts to mediate hearing referrals where appropriate, which ultimately leads to less panel and other resource usage. Mediation is not attempted for charges such as consecutive non-pass reports or material omission from scope because those firms do not have any recourse. In the first quarter of 2022, mediation was attempted for 34 of the 51 hearing referrals received, resulting in 11 hearings being resolved prior to hearing.

Firm Enrollment Drops

A firm's enrollment may be dropped from the AICPA PRP without a hearing prior to the commencement of a review for failure to submit requested information concerning the arrangement or scheduling of its peer review or timely submit requested information necessary to plan or perform the peer review. A detailed list of noncooperation reasons that may lead to a drop is in the [Peer Review Board Drop Resolution](#) (Interpretation 5h-1¹) on aicpa.org. Although warning letters are sent, staff does not perform mediation outreach to firms that may be dropped. Firms whose enrollment will be dropped from the AICPA PRP are sent to PRB members for approval

¹ Note that here and throughout this agenda item, guidance references are to guidance in effect at the time of the commencement of related peer reviews, which would be before the effective date of clarified guidance.

via negative clearance and subsequently reported in PRB open session materials. Firms may appeal AICPA PRP enrollment drop and mediation is attempted for firms filing an appeal. In the first quarter of 2022, 11 firms appealed enrollment drops and mediation was attempted. To date, 4 of those 11 have reinstated prior to appeal hearing.

Firm Enrollment Terminations

A firm's enrollment may be terminated for other failures to cooperate with the AICPA PRP (typically after the commencement of a review). A detailed list of noncooperation reasons that may lead to a termination is in the [Peer Review Board Termination Resolution](#) (Interpretation 5h-1) on aicpa.org. Terminations from the AICPA PRP must be decided upon by a hearing panel of the PRB. Firms may appeal AICPA PRP enrollment termination.

Drops and terminations of firms enrolled in the AICPA PRP are ordinarily reported in a monthly communication to state boards of accountancy Executive Directors and State Society CEOs and maintained on a listing for AEs.

[Firms with AICPA members whose enrollment in the AICPA Peer Review Program is terminated](#) are published on aicpa.org and included in the PRB open session materials. Firms without AICPA members whose enrollment in AICPA PRP has been terminated are not published by the AICPA but are included in the statistics of this agenda item.

Below is a summary of firm hearing panel decisions over the past several years:

<u>Year</u>	<u>Number of Firms</u>	
	<u>Terminated</u>	<u>Not Terminated</u>
2016	41	6
2017	18	6
2018	41	25
2019	59	57
2020	32	9
2021	39	11
2022*	20	-
Total	250	114

**through 3/31/2022*

Terminated firms reported above represent hearing panel decisions to terminate, including those within their available appeal period, and firms that agreed to the charges and were terminated without a hearing.

For firms whose enrollment was not terminated, the firm may be required to complete additional corrective actions to remain enrolled. Examples of additional corrective actions that might be required include, but are not limited to:

- Replacement review (omission cases)
- Formalization (in writing) of a firm's decision to limit practice in a certain industry or engagement type or
- Pre-issuance or post-issuance review

In the rare circumstance that additional corrective actions are not required, the review continues uninterrupted. For example, any outstanding corrective actions would need to be completed and accepted before the review is completed.

This summary does not reflect:

- Later decisions by an appeal mechanism to reverse or modify PRB hearing panel termination decisions or
- Cases that are mediated or the underlying cause is resolved (stopped hearings)

Firm Reenrollments

Ordinarily, firms that have had enrollment dropped or terminated firm may reenroll by implementing appropriate changes to correct the cause of the drop or termination. For example, a firm terminated for failure to complete a corrective action may be reenrolled by completing the corrective action to the peer review committee's satisfaction. However, reinstatement or reenrollment requests for some firms must be considered by a hearing panel (Interpretation 5h-2). These include firms:

- Dropped for not accurately representing its accounting and auditing practice;
- Terminated for:
 - Omission or misrepresentation of information relating to its accounting and auditing practice;
 - Failure to improve after consecutive non-pass peer reviews; and
 - Failure to improve after consecutive corrective actions

During 2021, six reenrollment cases were considered, resulting in four approvals. Through March 31, 2022, one reenrollment case was considered and approved. Reinstatement and reenrollment approvals by a hearing panel may be contingent upon some required action(s), such as a successful pre- or post-issuance review of a particular engagement type. Such required actions are a condition of reinstatement/reenrollment and, as such, evidence of completion must be completed (attached to the reinstatement case in PRIMA) at the time of reinstatement/reenrollment.

PRB Observers

Dan Weaver	Suzanne Heidenreich
Nicole Kint	Kathy Creel
Jiayi Bao	Tara Loghing
Karen Welch	Katie Cheek
Paul Burns	Kary Arnold
Lisa Brown	Viki Windfeldt
Richard Hill	Leah Moore
Marissa Mahoney	Anna Durst
Stephen Young	Michelle Thompson
Thomas Kirwin	Julie Salvaggio
Jaime Sanabria	Darlene Boles
Sharon Romere-Nix	Jerry Weinstein
Vinit Shrawagi	Abby Dawson
Jeff De Lyser	Raegen Nuffer
Laura Ross	Amber Bowman
Jennifer Winters	Julie McNeal
Mark Harris	Mary Kelly
Rich Daisley	Sherry Kidd
Heather Trower	Dawn Carlson
Jon Arbles	Robert Irwin
Faye Hayhurst	Karen Guerra
Jerry Cross	Patti Woods
Heather Lindquist	Jeff Strand
Gary Miyashiro	Kari Bedell
Jessica Mytrohovich	Thomas Cordell
Rita Barnard	Ashley Sellers
Paul Ziga	Mary Beth Halpern
Jeannine Birmingham	Kathleen Meyer
Gloria Snyder	
Marilee Lau	
Annie Wheeley	
Paul Pierson	
Marc Feinstein	
Chuck Jordan	
Todd Shapiro	
Adebimpe McMillon	
Albert Denny	
Julie Phipps	
Noel Davis	
William Bailey	
Chris Rouse	
Colleen Clark	
Laura Harrison	
Melinda Hart	
Marysue Bulcavage	
Clay Huffman	
Warren Morrison	
Adelina Burke	



TM

AICPA[®]

Peer Review
Program

Mandatory Peer Review

[General Information](#) | [Frequently Asked Questions](#)

General Information

On October 23, 2017, Governor Cuomo signed [into law](#) the [new](#) Peer Review Law, [Chapter 364](#), which became effective immediately. This [new](#) Peer Review Law repealed the exemption from the Peer Review requirement for small firms with two or fewer accounting professionals. The [new](#) Peer Review Law requires all CPA firms to undergo a Peer Review if the firm performs any attest services [\(see question #2 below\)](#).

Section 7410 of the State Education Law requires public accounting firms to undergo a peer review of the firm's attest services within 18 months of [providing](#) its initial attest service and thereafter every three years [\(see question #4 below\)](#). Firms must provide the NYS Department of Education (Department) a copy of the peer review documents each time the firm registers with the Department and upon the initial issuance of the peer review documents.

All CPA firms, including sole proprietorships, must register with the Department. For [information](#), please review the [Registration of Public Accounting Firms](#).

Firms can verify their firm's registration status [here](#).

The rules regarding the Mandatory Peer Review Program are complex and will vary significantly depending upon the type of audits and other attest services provided by your firm. In addition, if your [firm's](#) peer review results are deemed to be substandard, additional remediation and corrective actions will also be applicable. For more complete information as to these laws and rules, click here for the Education Law Section [7410](#), and the Regulations of the Commissioner Section [70.10 and the Rules of the Board of Regents 29.10.j](#).

Commented [A1]: The changes made effective date of Nov 2021 are still not posted in West Law (includes addition of 29.10)

Frequently Asked Questions

1. **When are public accountancy firms required to participate in the Mandatory Peer Review Program?**

Firms that provide any attest services are required to participate in the Mandatory Peer Review Program.

2. What is considered attest services that requires a peer review of a firm?

Attest services include audits, reviews and examinations conducted under the following standards: Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Attestation Engagements, Government Auditing Standards, and audits of [Securities and Exchange Commission \(SEC\)](#) and non-SEC issuers performed pursuant to the standards of the [Public Company Accounting Oversight Board \(PCAOB\)](#).

In more common terms, attest services include Audits, Reviews, Attestation Engagements and Agreed-Upon Procedures [Engagements](#).

Commented [SM2]: Consider writing out all acronyms in full when initially used. Then use acronym throughout the document as appropriate..

Commented [JW3R2]: Yes, SEC was spelled out in question 2 and then I changed it to an acronym in question 3

3. What if my firm only performs audits for the SEC issuers that are inspected by the PCAOB?

[Per NYS law, the firm is required to be enrolled in the peer review program as this service is considered an attest service. Therefore, the firm is required to enroll in the American Institute of Certified Public Accountants \(AICPA\) Peer Review Program and firms that perform engagements under PCAOB standards are required to have their peer review administered by the National Peer Review Committee. Annually the firm will review its engagements, including the level of service and industries that it performs in the Peer Review Integrated Management Application \(PRIMA\).](#)

3-4. Do Compilation or Preparation Engagement services qualify as attest services?

No. Compilation or Preparation Engagement services are not considered attest services. Firms that [only](#) provide [only](#) these services are [are](#) not mandated to participate in the peer review program but are encouraged to do so.

4-5. When is ~~the~~ [considered the](#) initial performance of attest services ~~considered~~?

Initial performance of [attest](#) services means when the firm or a professional in the firm first begins the process to perform an attest service. This could include the receipt of a signed engagement letter from a client, the initial planning for an audit or other service, or the start of engagement fieldwork, whichever occurs first.

Firms that offer these services become subject to the Mandatory Peer Review Program and must complete specific actions as outlined below.

5-6. What specific actions does a firm need to take when it becomes subject to the Mandatory Peer Review Program?

Firms MUST take the following actions:

- Within 30 days of the initial performance of attest services
 - Notify the Department, and
 - Provide proof of enrollment in the AICPA's peer review program; and
- Within 18 months of the initial performance of attest services complete the peer review process.

6-7. How do I enroll in the peer review program?

Currently, the accepted peer review program is the AICPA's Peer Review Program. The firm must enroll using the AICPA's Peer Review Integrated Management Application (PRIMA), and follow the procedures posted on the AICPA's website for enrolling in the peer review program.

Firms enroll in the AICPA's peer review program by submitting the AICPA's Public Accounting Firm Creation Form. The form must be submitted to an Administering Entity to enroll in the peer review program. Additional enrollment information can be found on the AICPA's website at: www.aicpa.org/interestareas/peerreview.html

The enrollment letter will be issued to the firm when complete. The firm must submit the enrollment letter with its notification to the Department.

7-8. Do I need an AICPA membership to enroll into the peer review program?

No. Firms that are not members of the AICPA are allowed to enroll in the peer review program.

8-9. Can out-of-state firms satisfy the peer review requirement with a peer review that was administered by an out-of-state administering entity?

Yes. Firms located in another state can enroll in that state's peer review program as long as it is the AICPA's peer review program. Your firm will need to make your documents accessible to the New York State Board of Accountancy and the Peer Review Oversight Committee. You may do this

through the PRIMA website by selecting NY or you may submit copies of the documents via [email](#),
mail or facsimile.

Commented [A4]: Hyperlink to
PeerReviewCPA@nysed.gov

9-10. What is an Administering Entity?

The Administering Entity is the entity (usually a committee of a state society) responsible for administration of the AICPA Peer Review Program generally for firms in particular regions or states.

10. What if my firm was previously exempt from the peer review program but participated in the peer review program on a voluntary basis?

If your firm is already participating in the peer review program, your firm will continue the 3-year cycle of having a peer review performed. When the firm files their annual statement or the triennial firm registration renewal, the firm must provide their most recent peer review report, acceptance letter and other peer review related letters, as applicable.

11. What if my firm was previously exempt from the Mandatory Peer Review Program (MPRP) and the firm did not participate in the peer review program?

Firms that perform attest services and were previously exempt from the MPRP fall into one of the following two categories:

- Firms that were performing attest services as of October 23, 2017, the effective date of the law, were immediately subject to the MPRP. These firms should immediately enroll in the AICPA's peer review program by submitting the AICPA's Public Accounting Firm Creation Form using the Peer Review Integrated Management Application (PRIMA) (see question #6). The form must be submitted to an Administering Entity to enroll in the peer review program. The firm must notify the Department within 30 days and provide proof of enrollment in the peer review program; or
- Firms that were not performing attest services as of October 23, 2017, the effective date of the law, have 30 days from the initial performance of an attest service to notify the Department and include proof of enrollment in the peer review program.

Commented [A5]: This transition period is now over. No longer needed.

12-11. What action is required of the firm to complete the peer review process?

The firm owners must cooperate with the peer reviewer and administering entity. Once the peer review documents are issued, firms must make them available to the Department. The documents may be made available via the AICPA's [Peer Review Integrated Management Application \(PRIMA\) website](#) within thirty days of the date of issuance. If the documents cannot be provided via ~~the website~~PRIMA, the firm must provide copies of the peer review documents to the Department by ~~mail, email or facsimile~~ within ten days of receipt of the documents.

Commented [SM6]: Should this include a link to the same email as Q9 above?

13.12. What are the possible results of a peer review?

A firm can receive the following peer review report ratings: pass, pass with deficiencies, or fail.

Commented [JW7R6]: Hyperlink to PeerReviewCPA@nysed.gov

14.13. What is the impact of receiving a pass with deficiency or a fail rating on my peer review?

The American Institute of Certified Public Accountants (AICPA) Peer Review Standards outline the implications of receiving a rating other than pass. Please access the AICPA's [website](#) for additional information.

The Peer Review Oversight Committee monitors firms ~~who~~ which have received a rating other than pass. See ~~question #19~~[the Peer Review Oversight Committee information](#) below.

15.14. What competency requirements must ~~a licensee meet if my firm meet if I receives~~ a rating of fail.

The licensees who supervised attest services ~~must have~~ had at least 1,000 hours of experience within the previous five years in providing attest services or reporting on financial statements gained through employment in government, private industry, public ~~practice~~practice, or an education institution satisfactory to the State Board for Public Accountancy.

16.15. What are the peer review documents that must be submitted after the peer review is completed?

The peer review documents consist of the following: the Peer Review report issued by the reviewing firm, ~~and the~~ acceptance letter issued by the Administering Entity, [letter of response \(if applicable\)](#), and [completion letter \(if applicable\)](#).

16. What will happen if my firm is dropped from the peer review program by the AICPA?

The Peer Review Oversight Committee (PROC) reviews all firms that are dropped from the peer review program by the AICPA. The PROC will send the firm a letter and CPA Form 6PR – Peer Review, Competency, and Annual Statement seeking information about the firm’s decision to reenroll in the peer review program, the change in the services the firm performs, or other circumstances. As required by the [Rules of the Board of Regents-Rules](#), the firm is required to respond within 30 days.

A firm ~~will-is~~ not ~~be~~ authorized to drop out and reenroll into the program to circumvent the Mandatory Peer Review Program requirements. Firms that have performed attest services and were dropped are not considered to be in compliance with the Mandatory Peer Review Program and may be sent to the Office of Professional Discipline for a disciplinary action.

17. What are the requirements for firms that do not provide attest services?

Firms that do not provide attest services are required to notify the Department that the firm does not perform attest services and it is not required to participate in the peer review program.

Annually, firms are sent a CPA Form 6PR – [Peer Review, Competency, and Annual Statement](#) to report this information. Firms are required to return the form within 30 days of its receipt to the Department.

[Overview of the Peer Review Oversight Committee](#)

18. What is the Peer Review Oversight Committee?

The Peer Review Oversight Committee (PROC) is a committee comprised of six members, with five of them required to be a Certified Public Accountant. The PROC is separate from the State Board for Public Accountancy ([Board](#)). The PROC is charged with overseeing the Mandatory Peer Review Program in New York State. Annually it reports to the Board and the Department on its monitoring activities and issues related to the peer review program.

The ~~PROC-Department~~ monitors the status of all firms that are required to be enrolled ~~into~~ the peer review program. [As noted above, the PROC monitors those firms that receive a rating other than pass on its peer review report.](#)

19. What if I receive a letter from the Peer Review Oversight Committee (PROC) stating that it is monitoring my firm due to a peer review report with a rating of fail or pass with deficiencies?

Your firm is required to respond to the monitoring letter within 30 days of its receipt to acknowledge that the PROC will monitor your firm's compliance with the corrective actions prescribed by the administering entity.

19:20. What if my firm is determined not to have cooperated with the peer review program?

The PROC will contact the firm regarding its noncooperation and evaluate the firm's response. A failure to cooperate with the peer review program may be considered unprofessional conduct and may be subject to disciplinary action.

21. What if my firm is terminated or expelled from the peer review program?

A firm that has been terminated or expelled from the peer review program by the AICPA will be referred by the PROC to the Office of Professional Discipline for disciplinary action.

20:22. What can the firm owners do if they have questions?

Firm owners can contact the State Board for Public Accountancy or the Peer Review Oversight Committee for additional information. You may call, write, or email if you have questions regarding the Mandatory Peer Review Program. ~~NY State Education Department~~

~~Office of the Professions~~New York State Education Department
State Board for Public Accountancy / Peer Review Oversight Committee
89 Washington Avenue

2nd Floor, East Wing
Albany, New York 12234-1000
Phone: 518-474-3817, ext. 160
Fax: 518-474-6375

E-mail State Board for Public Accountancy: cpabd@nysed.gov

E-mail Peer Review Oversight Committee: PeerReviewCPA@nysed.gov

~~Last Updated: January 17, 2018~~

2021 Annual Report

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ABOUT THE PCAOB

The Public Company Accounting Oversight Board (PCAOB or “the Board”) is a nonprofit corporation established by Congress to oversee the audits of public companies. The PCAOB also oversees the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

The five members of the Board are appointed to staggered five-year terms by the SEC, after consultation with the Chair of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The SEC has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget.

Mission

The PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Vision

The PCAOB will be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. At all times, we will act with integrity, pursue excellence, operate with effectiveness, embrace collaboration, and demand accountability.

Values



Integrity

We adhere to the highest standards of ethical and professional conduct. We engage internally and externally in a manner that is consistent, honest, and fair.



Excellence

We pursue excellence in all we do. We are committed to further developing the many talents of our people so that we can improve our oversight and operations.



Effectiveness

We manage our resources effectively and efficiently. We respond to a changing environment by implementing relevant, timely, and innovative solutions to achieve our mission.



Collaboration

We are dedicated to a culture of collaboration and inclusiveness, which we foster by encouraging openness, accessibility, trust, and respect. We embrace a diverse set of experiences, skills, perspectives, and backgrounds, which enriches our work and enhances the effectiveness of our efforts.



Accountability

We depend on the diligence and dedication of our people to accomplish our mission and implement our vision. We owe each other our very best effort and expect to be held accountable. We recognize and reward outstanding performance.

MESSAGE FROM THE CHAIR

I am pleased to present this report, which summarizes our operations and financial results for the fiscal year ended December 31, 2021.

In 2021, the PCAOB faced changes and transition, including the continuing challenges of the COVID-19 pandemic, high-profile developments in the capital markets, and ongoing technological evolution in auditing. The leadership of our organization also changed with the [appointment](#) of four new Board members in November.

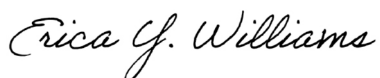
Amid these shifts, our organization stayed focused on performing at a high level. It did so thanks in large part to things that don't change.

The first of these constants is the PCAOB's mission. As we take steps to adapt to a changing environment, we strive to fulfill our purpose: to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The second of these constants is our extraordinary team. Guided by our mission, PCAOB staffers each day draw on their diverse backgrounds and talents to promote high-quality auditing through oversight that is both rigorous and responsive.

The PCAOB achieved a number of significant accomplishments in 2021. I look forward to working with my fellow Board members and our talented staff to build on these accomplishments as we develop and work to fulfill the organization's strategic priorities for 2022 and beyond.

Respectfully,



Erica Y. Williams

Chair

Public Company Accounting Oversight Board

Washington, DC, March 28, 2022

PCAOB BY THE NUMBERS 2021

All numbers are as of December 31, 2021, or for the year ended December 31, 2021

Reach



1,709

Total number of
PCAOB-registered
public accounting firms

\$64.89 trillion

Global market
capitalization of the



8,626

U.S. public companies
that file financial statements with
the SEC and that are audited by
PCAOB-registered firms

Inspections

191

Number of audit
firms reviewed
by our inspectors,
which includes:



- **12** U.S. firms with more than 100 issuer audit clients
- **81** U.S. firms with 100 or fewer issuer audit clients
- **50** U.S. firms that audit broker-dealers
- **48** Non-U.S. firms in over **26** jurisdictions



782

Unique audit
engagements

reviewed by the PCAOB
as part of our inspections

People

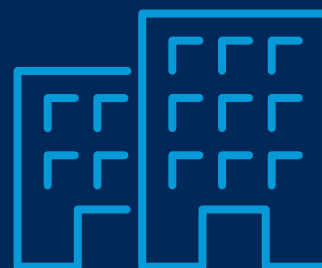
807

Number of
employees



10

Regional offices
across the United
States of America



Enforcement



21

Settled

disciplinary orders
issued



15

Individuals

sanctioned



14

Audit firms

sanctioned



14

Orders

involving U.S. auditors

7

Orders

involving non-U.S. auditors

5

Orders

involving the six largest
global accounting firm
networks

16

Orders

involving smaller
accounting firms

HIGHLIGHTS FROM OUR 2021 OVERSIGHT, ENGAGEMENT, AND OPERATIONS

Driving Improvement in the Quality of Audit Services to Protect Investors

Adapting our inspection program in a shifting crisis: We designed our 2021 inspection program to respond to the effects of the COVID-19 pandemic on financial reporting and audit risks. We adapted our program in several key ways, as discussed in two staff publications: an [April 2021 Spotlight publication](#) and a [companion resource for audit committees](#). First, we selected more audits for review in industries experiencing significant disruptions or elevated risks during the pandemic, such as transportation, entertainment, hospitality, manufacturing, certain aspects of the retail segment, and commercial real estate (including real estate investment trusts). Second, we focused on certain financial statement items and other reporting matters that were affected by the pandemic, including going concern assessments, allowances for loan losses, impairments, and the increased risk of fraud. Finally, we enhanced the unpredictability of our inspections by (1) significantly increasing the percentage of audits we select randomly, especially for the largest audit firms, and (2) selecting more nontraditional financial statement focus areas (e.g., cash) for inspection.



Board Viewpoint

Working effectively with audit oversight authorities in foreign jurisdictions is crucial for the PCAOB to fulfill its statutory mandate. That's why we have always been strongly committed to diplomatically and collaboratively engaging with the global audit oversight community to facilitate our cross-border cooperation and advance important policy initiatives.

Duane M. DesParte
Board Member

Shedding light on recurring audit deficiencies, quality control, and good practices:

As we proceeded with our 2021 inspection plan, we worked to educate auditors, audit committees, investors, and others on what we learned through our 2020 reviews of audits of public companies. Our [October 2021 Spotlight publication](#) summarized our observations related to common or recurring deficiencies, the effectiveness of quality control systems at audit firms, good practices that can enhance audit quality, and how auditors are responding to major technological developments.

Enhancing our broker-dealer inspection information:

Released in August 2021, the Board's "[Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers](#)" came with several enhancements aimed at making this information clearer and more actionable. These enhancements included providing more specific information in the areas of revenue and internal control over compliance, both of which continue to drive high deficiency rates in audit and examination engagements.

Enforcing compliance with our standards and rules:

In 2021, our [enforcement actions](#) included sanctioning 14 firms and 15 individuals in settled matters. Our Division of Enforcement and Investigations (DEI) continued to prioritize (1) investigations involving significant audit violations, which typically present the greatest risks to investors, (2) non-cooperation with PCAOB inspections and other matters threatening or eroding the

integrity of the Board's regulatory oversight process, and (3) audit matters relating to significant auditor independence violations. DEI also focused on matters relating to deficiencies in firm quality control policies and procedures.

Maintaining our strong commitment to international cooperation: In the spring of 2021, we announced a new cooperative agreement with the [Belgian Audit Oversight College](#) and the renewal of our cooperative agreement with the [Haut Conseil du Commissariat aux Comptes](#) of France. Allowing for cooperation in audit oversight and the exchange of confidential information in accordance with applicable law, these agreements extended the PCAOB's long track record of working cooperatively with oversight bodies outside the United States. With these agreements in place, we have the ability to inspect and investigate all PCAOB-registered accounting firms that are located in a European country and that issue audit reports for public companies that have a reporting obligation with the SEC.

Promoting transparency and consistency in the fulfillment of the Board's HFCAA responsibilities: Following a [proposal and request for comment](#) issued in May 2021, we adopted a [new rule](#) in September 2021 related to the PCAOB's responsibilities under the Holding Foreign Companies Accountable Act (HFCAA). The rule provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the Board is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. Following the SEC's approval of the rule in November 2021, the Board made its [first HFCAA determinations](#) in December 2021, finding that the PCAOB is unable to inspect or investigate completely registered firms headquartered in mainland China and Hong Kong.

Anticipating and Responding to the Changing Environment

Crafting new PCAOB requirements to reflect the evolving audit landscape: In 2021, we updated PCAOB rules, notably with our HFCAA rulemaking, and made progress on the items on our [research and standard-setting agenda](#). Our staff worked to develop a proposed standard on quality control for the Board's consideration and continued its monitoring of other areas for addition to the standard-setting agenda. Another standard-setting initiative that advanced in 2021 was our project on lead auditors' use of other auditors. The roles of other auditors have become more significant as companies' global operations have grown. Working with other auditors can differ from working with people in the same audit firm, creating coordination and communication challenges that can have significant implications for audit quality and investor protection. The PCAOB has issued a proposal that would strengthen existing requirements and impose a more uniform approach to a lead auditor's supervision of other auditors. In September 2021, we [issued a supplemental request for comment](#) seeking further public input on revisions to the proposal, with an eye towards adopting final amendments and completing this standard-setting project in 2022.



Board Viewpoint

Ensuring our standards remain relevant and fit for use is essential to our investor-protection mission. Our goal is to set high-quality standards informed by our oversight activities, our understanding of the audit and financial reporting environment, and public input.

[Erica Y. Williams](#)
Chair

Staying abreast of developments in data and technology:

Advancements in technology continue to affect the nature, timing, and preparation of financial information, including preparers' controls around financial information, and the planning and performance of audits. Our Office of the Chief Auditor devoted further attention to our research project on data and technology, informed in part by input from a [Data and Technology Task Force](#), to assess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions. In May 2021, [we issued a Spotlight](#) to share insights from our research and outreach.

Providing guidance related to the use of external audit evidence:

A major technological development for both public companies and their auditors is the ever-increasing volume and availability of information from external sources such as regulatory agencies and industry data providers. Some external sources, for example, have developed interactive applications that can provide real-time industry data to companies (e.g., hotel occupancy rates). In October 2021, [we released staff guidance](#) on considerations regarding the relevance and reliability of information from external sources that the auditor plans to use as audit evidence. The guidance also addresses the relationship between the quality and quantity of audit evidence.



Board Viewpoint

With increased digitization, the adoption of cloud and advanced technology (including artificial intelligence and machine learning), and cybersecurity risks, providing assurance on financial disclosures has become more complex. In order to continue to protect investors and enhance public trust in financial information, the PCAOB needs to be proactive, innovative, and data-driven in understanding and shaping the future of auditing.

[Christina Ho](#)
Board Member

Enhancing Transparency and Accessibility Through Proactive Engagement With Investors and Other Stakeholders

Briefing investors on international issues: In June 2021, we held [an investor webinar focused on international issues](#), an area of significant investor interest given the global and interconnected nature of the capital markets. (In 2021, PCAOB-registered firms located outside the U.S. issued over 1,000 audit reports for companies whose securities are listed on U.S. exchanges.) During the event, Board members and PCAOB staff briefed webinar attendees on the scale of [our international oversight](#), the operation and coordination of our [inspections of non-U.S. firms](#), and [access challenges](#).

Engaging with audit committee chairs: Each year, we reach out to audit committee chairs at U.S. public companies whose audits we inspect that year, inviting them to connect with staff from our Division of Registration and Inspections for a substantive conversation covering a range of topics related to oversight of external auditors. In 2021, more than 240 audit committee chairs accepted our invitation to talk. Highlights from this engagement are contained in a March 2022 publication, [“2021 Conversations With Audit Committee Chairs.”](#)



Board Viewpoint

We are committed to engaging with investors and other stakeholders to enhance our effectiveness. We will listen, ask for advice, share information, and be open about our decisions.

Kara M. Stein Board Member

Innovating in our stakeholder engagement: In the continuing virtual environment of 2021, we looked for ways to counter remote “fatigue” and to keep our dialogue with stakeholders engaged and dynamic. In honor of Women’s History Month and International Women’s Day in March 2021 — and in a first for the PCAOB — we hosted two roundtables composed entirely of women audit committee members. In addition to topics related to audit quality, the conversation covered how boards and/or companies are striving to improve diversity, as well as issues associated with record numbers of women leaving the workforce as a result of the pandemic.

Sharing our insights: As part of executing our mission and strategy, we seek continually to provide key stakeholder groups with timely resources and updates that can promote improvements in audit quality. To that end, we were pleased in October 2021 to again host our annual [Forum for Auditors of Small Businesses and Broker-Dealers](#). Although still in virtual format given COVID-19 precautions, the forum provided presentations from the PCAOB and the Financial Industry Regulatory Authority. We also provided insights through publications, such as our [February 2021 summary](#) of what we learned from the nearly 300 conversations that we had with audit committee chairs during 2020.

Exercising leadership in global engagement: An important multilateral venue for the PCAOB’s global engagement is the International Forum of Independent Audit Regulators (IFIAR), an organization where PCAOB Board Members and staff play active roles. In April 2021, Board Member Duane M. DesParte was elected IFIAR Chair for a two-year term expiring in April 2023. “IFIAR brings together audit regulators from across the globe to share experiences, knowledge and perspectives, helping to improve the effectiveness of audit oversight globally and thereby raising the bar on audit quality,” said Board Member DesParte in [a statement](#).

Bringing together academics and other key stakeholders: In 2021, we saw an increase in interest for our annual [Conference on Auditing and Capital Markets](#), which aims to foster economic research on topics such as the economic impact of auditing and audit regulation on the capital markets. More than 300 people attended the virtual event – a record for the PCAOB. With an audience of academics, economists, auditors, and investors, the conference focused on audit quality and quality control; the impact of the COVID-19 pandemic; trends in environmental, social, and governance reporting and assurance; and the use of technology in audits.

Supporting the next generation of leaders in accounting and auditing: The Sarbanes-Oxley Act of 2002 (“the Sarbanes-Oxley Act”), requires that funds generated from the collection of PCAOB monetary penalties be used to fund a merit scholarship program for students in accredited accounting degree programs. In 2021, we [awarded \\$2.53 million in scholarships](#) to 253 students from 229 institutions, bringing the total number up to \$16.23 million in scholarships offered by the PCAOB since the program’s inception in 2011. Among our 2021 PCAOB Scholars who participated in a voluntary survey, 51% self-identified as non-white, 67% identified as female, and 56% come from households with annual incomes under \$48,000. To build our rapport with these talented individuals, we invited scholarship recipients to join us for a series of online get-togethers, allowing PCAOB Scholars to connect with us and each other.

Pursuing Operational Excellence

Celebrating and strengthening our diversity: Furthering efforts launched in 2020, we took steps to share, listen, learn, and engage on key diversity, inclusion, and cultural issues and topics. These steps included continuing with PCAOB Voices, an organization-wide initiative to foster dialogue and understanding. In 2021, we conducted more than a dozen PCAOB Voices sessions with staff, including conversations on the scope and impacts of anti-Asian sentiment in the wake of COVID-19. We also launched new staff training opportunities focused on countering unconscious bias, creating an inclusive environment, and building and sustaining trust, while highlighting and celebrating the diversity of the PCAOB's people during national observances such as Asian Pacific American Heritage Month, Black History Month, Hispanic Heritage Month, and LGBTQ Pride Month.

Transforming our use of data and technology: Enhancing the effectiveness of the PCAOB's data, security, and technology has been a top strategic and operational priority for the organization. In 2021, our Office of Data, Security, and Technology (ODST) made transformational progress through the implementation of new collaboration tools, data and analytical capabilities, advances in mobility, and technology platforms — all while maintaining the highest caliber of security operations to keep PCAOB assets safe from cyber threats. Examples include the rollout of a new Inspection Management System used for all 2021 inspections, the launch of a new human resources platform, the creation of our enterprise data catalog, using cloud analytics, and deployment of a modernized Library Management System. In the ongoing mandatory teleworking period, ODST continued to deploy the latest productivity and teleconferencing technologies. ODST also partnered with our Office of Enterprise Risk Management on cybersecurity, including responding to emerging worldwide 2021 cyber events, authoring a ransomware playbook, and continuing our active network and data monitoring.



Board Viewpoint

Collaboration and transparency are very important to me, and I see both at work each day at the PCAOB. Our Board and staff strive to work openly and together so we can set the standard for outstanding oversight that benefits investors and the American public.

Anthony C. Thompson
Board Member

FINANCIAL REVIEW

This financial review, together with the 2021 audited financial statements and the accompanying notes, provides financial information related to our programs and activities. Our financial statements are presented in accordance with accounting principles generally accepted in the United States of America and reflect the specific reporting requirements of not-for-profit organizations. The following discusses the highlights of our activities and financial position as presented in the accompanying audited financial statements.

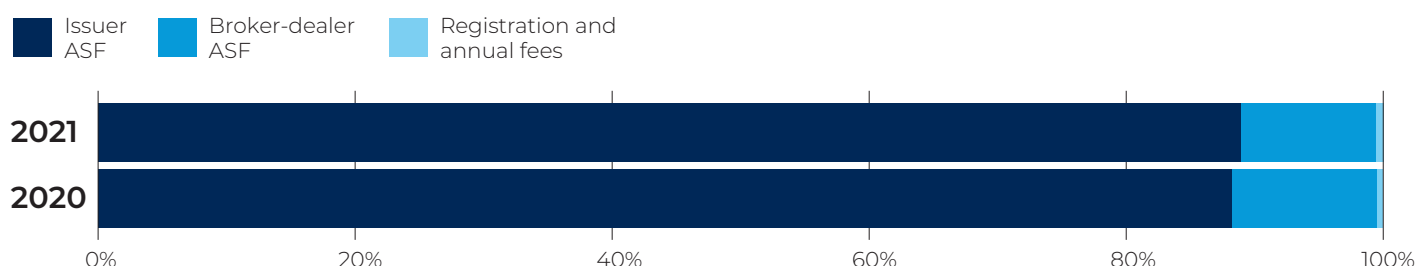
Financial Highlights

Results of Operations

Operating Revenue

Most of our revenue is generated from the accounting support fee (ASF), which is assessed annually on issuers and SEC-registered broker-dealers. The ASF is calculated during the annual budget process based on an estimate of annual expenses and an estimate of expenses for the first five months of the subsequent year, net of cash on-hand and certain other adjustments. The ASF is subject to review and approval by the SEC, concurrent with each annual budget.

Percentage of operating revenues by type 2021 vs. 2020



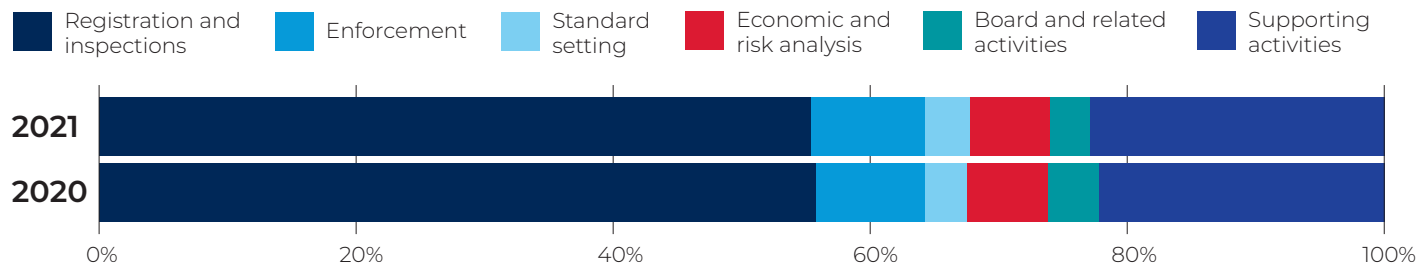
Our net operating revenue decreased by approximately \$6.2 million, or 2%, from the prior year due to the decrease in the ASF in 2021. The 2021 ASF decrease was primarily related to unspent funds from our 2020 budget.

The table below presents our net operating revenue by line item for each of the years ended December 31, 2021 and 2020:

(\$ in millions)	2021	2020
Issuer accounting support fee	\$236.2	\$239.6
Broker-dealer accounting support fee	27.7	30.5
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	\$265.3	\$271.5

Operating Expenses

Percentage of operating expenses by functional classification 2021 vs. 2020



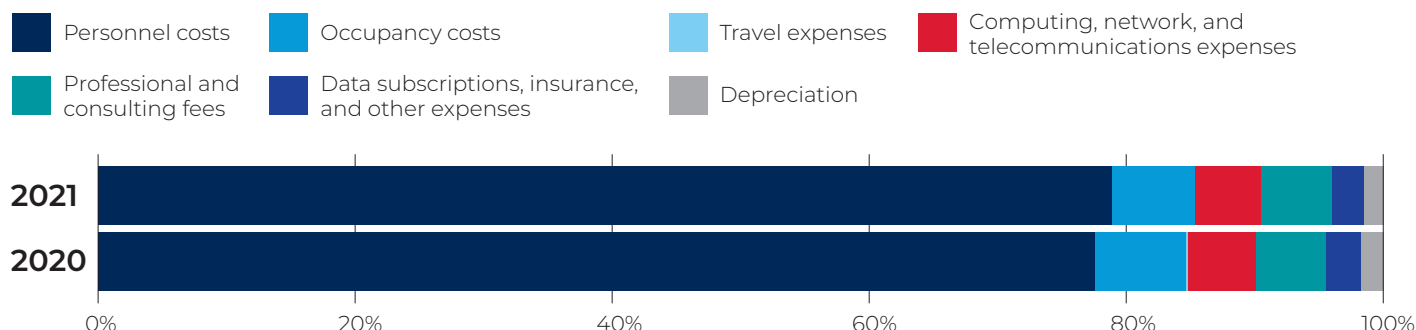
Our people are our most important asset, and our investments in human capital enable us to fulfill our statutory mission. Personnel costs continued to represent approximately three-fourths of our operating expenses, with more than half of these costs related to our registration and inspections program.

Overall, operating expenses remained generally consistent compared to the prior year and decreased by approximately \$2.6 million, or 1%. Costs for program services decreased by \$3.9 million compared to the prior year primarily due to lower average headcount in 2021 in our registration and inspections program and the Board. This was partially offset by an increase of \$1.3 million in costs in supporting activities related to higher average headcount, other personnel costs, and an increase in legal fees.

The table below presents operating expenses (by program services and supporting activities) for each of the years ended December 31, 2021 and 2020:

(\$ in millions)	2021	2020
Program services:		
Registration and inspections	\$145.3	\$147.8
Enforcement	23.3	22.6
Standard setting	9.1	8.6
Economic and risk analysis	16.5	16.7
Board and related activities	8.0	10.4
Supporting activities:		
Administration and general	45.2	44.4
Information technology	14.9	14.4
Total operating expenses	\$262.3	\$264.9

Percentage of operating expenses by natural classification 2021 vs. 2020



The table below presents operating expenses (by natural classification) for each of the years ended December 31, 2021 and 2020:

(\$ in millions)	2021	2020
Personnel costs	\$207.0	\$205.6
Occupancy costs	17.0	18.8
Travel expenses	-	0.4
Computing, network, and telecommunications expenses	13.3	13.9
Professional and consulting fees	14.6	14.5
Data subscriptions, insurance, and other expenses	6.5	7.2
Depreciation	3.9	4.5
Total operating expenses	\$262.3	\$264.9

Personnel costs increased by approximately \$1.4 million, or 1%, in 2021, due primarily to an increase in merit pay and the payout of paid time off for departing employees compared to the prior year.

Occupancy costs were lower in 2021 as we did not renew our short-term leases for our former satellite office locations upon the expiration of the leases in 2020. No material travel expenses were incurred in 2021 as a result of the suspension of domestic and international travel in response to the COVID-19 pandemic for the entire year, as opposed to approximately nine months in 2020. Depreciation decreased because certain network assets became fully depreciated in the prior year.

Computing, network, and telecommunication expenses; and data subscriptions, insurance, and other expenses remained generally consistent compared to the prior year. Professional and consulting fees remained generally consistent compared to the prior year, with an increase in fees to outside counsel primarily offset by deferral of cloud implementation costs due to our adoption of the related accounting standard as of January 1, 2021. See Note 2 for additional details on the adoption of the related accounting standard.

See Note 8 for additional details of expenses by program services and supporting activities.

Other (Expense) Revenue

The table below presents components of other (expense) revenue for each of the years ended December 31, 2021 and 2020:

(\$ in millions)	2021	2020
Interest income and other	\$0.5	\$1.0
Monetary penalties, net	1.2	1.7
Scholarship payments, net	(2.5)	(2.2)
Total other (expense) revenue	\$(0.8)	\$0.5

Interest income and other decreased by approximately \$0.5 million, or 50%, compared to the prior year primarily due to lower interest rates on cash and cash equivalents.

Monetary penalties, net, decreased by approximately \$0.5 million, or 29%. Revenue from monetary penalties depends on the amount of monetary penalties imposed by disciplinary orders in a given year.

Scholarship payments, net of amounts unused or deferred, increased by approximately \$0.3 million or 14% compared to the prior year. The PCAOB awarded 253 merit-based scholarships of \$10,000 each in 2021, as compared to 234 awarded in 2020. The increase in the number of scholarships awarded in 2021 was primarily attributable to extended nomination deadlines and additional outreach to colleges and universities.

Statements of Financial Position

Assets

The table below presents our total assets by type as of December 31, 2021 and 2020, respectively:

(\$ in millions)	2021	2020
Cash and cash equivalents	\$146.0	\$166.3
Restricted cash and cash equivalents	11.8	12.9
Short-term investments	17.6	-
Accounts and other receivables, net	5.9	2.3
Prepaid expenses and other assets	15.8	12.9
Furniture and equipment, leasehold improvements, and technology, net	13.1	15.2
Total assets	\$210.2	\$209.6

Cash and cash equivalents decreased by approximately \$20.3 million from the prior year primarily due to the timing of both investment purchases of sequestered funds (cash) in a U.S. Treasury Bill (presented as approximately \$17.6 million at fair value in short-term investments) and receipt of issuer and broker-dealer ASF payments, along with the overall decrease in the ASF assessed in 2021.

Restricted cash and cash equivalents totaled \$11.8 million and \$12.9 million as of December 31, 2021 and 2020, respectively, and consisted primarily of funds designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act. The change was related to both the decrease in monetary

penalties and the increase in scholarship payments compared to the prior year. See Note 7 for additional discussion.

Accounts and other receivables, net, increased by approximately \$3.6 million compared to the prior year primarily due to the timing of issuer and broker-dealer ASF payments.

Prepaid expenses and other assets increased by approximately \$2.9 million, or 22%, from the prior year primarily due to the recognition of \$2.7 million of net deferred cloud implementation costs in accordance with the recent accounting standard update. See Note 2 for additional discussion.

Furniture and equipment, leasehold improvements, and technology, net, decreased by \$2.1 million, or 14%, from the prior year, primarily related to depreciation and amortization expenses of \$3.9 million, partially offset by fixed asset additions.

Liabilities

Our total liabilities decreased by approximately \$1.6 million, or 3%, from the prior year. This was primarily related to a decrease in deferred rent due to the amortization of lease incentives. Accrued payroll and related benefits increased due to higher accrued variable pay and the timing of certain benefits payments compared to the prior year. The table below presents total liabilities by type as of December 31, 2021, and 2020, respectively:

(\$ in millions)	2021	2020
Accrued payroll and related benefits	\$27.4	\$27.1
Accounts payable and accrued expenses	1.4	1.5
Deferred rent	18.8	20.6
Total liabilities	\$47.6	\$49.2

Liquidity

We are primarily funded by the ASF assessed on issuers and SEC-registered broker-dealers, with certain assets being subject to statutory restrictions for scholarships and sequestration, or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to maintain liquidity to meet our general expenditures, liabilities, and other obligations as they become due. Due to the timing required to complete the billings and collections of the ASF, we maintain a working capital reserve to cover our estimated expenditures in the first five months of the fiscal year.

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of the
Public Company Accounting Oversight Board

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying statement of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2021 and 2020, and the related statements of activities and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively referred to as the financial statements). We also have audited the PCAOB's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)*, as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly—in all material respects—the financial position of the PCAOB as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Additionally, in our opinion, the PCAOB maintained—in all material respects—effective internal control over financial reporting as of December 31, 2021, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The PCAOB's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Financial Reporting Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the PCAOB's financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits. We are required to be independent with respect to the PCAOB in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement—whether due to error or fraud—and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements—whether due to error or fraud—and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that:

1. Pertain to the maintenance of records that—in reasonable detail—accurately and fairly reflect the transactions and dispositions of the assets of the company.
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that both the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company.
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the PCAOB Board and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Description of the Matter

As disclosed in Note 2, the PCAOB adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-15, *Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* on a prospective basis, effective January 1, 2021. The main provision of this standard, as it applies to cloud computing implementation costs, are that organizations should determine which cloud computing implementation costs to capitalize as an asset (i.e., defer) and which costs to expense. In deferring such costs, organizations also should expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement.

In implementing this standard, the PCAOB's Office of Finance coordinated with the Office of Data, Security, and Technology (ODST) and project owners to identify and understand each cloud computing project with implementation costs subject to this standard, to develop and implement capitalization guidance to be used by project owners, and to determine the appropriate inputs and assumptions used

in estimating the capitalizable cloud computing costs. Management evaluated these inputs to calculate the amount of deferred implementation costs and the amortization of such costs.

Auditing the PCAOB's adoption of ASU 2018-15 required complex auditor judgment due to the nature of the PCAOB's assumptions and estimation used in determining cloud computing costs that were deferred versus expensed.

How We Addressed the Matter in Our Audit

In our audit of the PCAOB's deferred cloud implementation costs in accordance with ASC 2018-15, we performed the following:

- Obtained an understanding of the PCAOB's processes for identifying, estimating, and calculating capitalizable cloud implementation costs.
- Evaluated the relevancy, reliability, and appropriateness of assumptions and inputs used in determining capitalizable contractor, PCAOB employee labor, and other relevant costs.
- Tested certain inputs used in the PCAOB's calculation of deferred cloud implementation costs.
- Developed an independent expectation of the estimated cloud computing cost deferral by recalculating management's analyses and assessed the reasonableness of management's estimation.
- Evaluated the PCAOB's disclosures in Notes 2 and 8 related to this matter and the related balances that are included within prepaid expenses and other assets on the Statement of Financial Position.

We have served as the PCAOB's auditor since 2021.

COTTON & COMPANY ASSURANCE AND ADVISORY LLC



Alan Rosenthal, CPA, CFE
Engagement Partner

Alexandria, Virginia
March 28, 2022

FINANCIAL STATEMENTS

Statements of Financial Position

December 31, 2021 and 2020

(\$ in millions)	2021	2020
Assets		
Cash and cash equivalents	\$146.0	\$166.3
Restricted cash and cash equivalents	11.8	12.9
Short-term investments	17.6	-
Accounts and other receivables, net	5.9	2.3
Prepaid expenses and other assets	15.8	12.9
Furniture and equipment, leasehold improvements, and technology, net	13.1	15.2
TOTAL ASSETS	\$210.2	\$209.6
Liabilities and net assets without donor restrictions		
Liabilities		
Accrued payroll and related benefits	\$27.4	\$27.1
Accounts payable and accrued expenses	1.4	1.5
Deferred rent	18.8	20.6
Total liabilities	47.6	49.2
Net assets without donor restrictions		
Undesignated	134.5	130.6
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	11.7	13.0
Statutorily designated for sequestration	16.4	16.8
Total net assets without donor restrictions	162.6	160.4
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	\$210.2	\$209.6

The accompanying notes are an integral part of the financial statements.

Statements of Activities

For the years ended December 31, 2021 and 2020

(\$ in millions)	2021	2020
Changes in net assets without donor restrictions		
Net operating revenue		
Issuer accounting support fee	\$236.2	\$239.6
Broker-dealer accounting support fee	27.7	30.5
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	265.3	271.5
Operating expenses		
Program services		
Registration and inspections	145.3	147.8
Enforcement	23.3	22.6
Standard setting	9.1	8.6
Economic and risk analysis	16.5	16.7
Board and related activities	8.0	10.4
Supporting activities		
Administration and general	45.2	44.4
Information technology	14.9	14.4
Total operating expenses	262.3	264.9
Operating income	3.0	6.6
Other (expense) revenue		
Interest income and other	0.5	1.0
Monetary penalties, net	1.2	1.7
Scholarship payments, net	(2.5)	(2.2)
Total other (expense) revenue	(0.8)	0.5
Increase in net assets without donor restrictions	2.2	7.1
Net assets without donor restrictions —Beginning of year	160.4	153.3
Net assets without donor restrictions —End of year	\$162.6	\$160.4

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(\$ in millions)	2021	2020
Cash flows from operating activities		
Cash received from issuers	\$235.4	\$238.2
Cash received from broker-dealers	26.0	29.5
Cash received from PCAOB-registered public accounting firms	1.3	1.3
Interest income and other	0.2	1.1
Cash received from monetary penalties, net	1.3	1.7
Cash paid to fund scholarships, net	(2.5)	(2.2)
Cash paid for operating expenses	(263.9)	(254.7)
Net cash (used in) provided by operating activities	(2.2)	14.9
Cash flows from investing activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(1.6)	(2.1)
Purchases of short-term investments	(34.0)	(17.0)
Proceeds from maturity of short-term investments	16.4	153.6
Proceeds from maturity of short-term investments - restricted	-	11.0
Net cash (used in) provided by investing activities	(19.2)	145.5
(Decrease) increase in cash and cash equivalents, and restricted cash and cash equivalents	(21.4)	160.4
Cash and cash equivalents, and restricted cash and cash equivalents — Beginning of year	179.2	18.8
Cash and cash equivalents, and restricted cash and cash equivalents — End of year	\$157.8	\$179.2
Supplemental disclosures:		
Fixed asset purchases acquired but not paid for as of year-end	\$0.1	\$0.1
Cash received during the year for refund of unrelated business income taxes paid	\$0.1	\$0.2
Fixed asset purchases acquired through the use of leasehold incentives	\$0.1	-

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1—Organization

The Public Company Accounting Oversight Board is a District of Columbia nonprofit corporation established by the Sarbanes-Oxley Act to oversee the audits of public companies and SEC-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

We are overseen by the SEC, which has the authority to appoint Board members and to approve our rules, standards, and budget. The Sarbanes-Oxley Act established funding for our activities primarily through an ASF assessed on issuers based on their relative average monthly market capitalization and on SEC-registered broker-dealers based on their relative average quarterly tentative net capital. The annual ASF is approved by the SEC.

Our operations consist of program services and supporting activities. Our program services for financial reporting purposes are: registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Our supporting activities are administration and general activities and information technology activities. Refer to Note 8 for additional details related to our program services and supporting activities.

Throughout 2021 we assessed and closely monitored the impact of the COVID-19 pandemic on all aspects of our operations and financial results. Similar to 2020, the pandemic had no material impact on our financial statements or internal control over financial reporting other than a reduction in travel expenses.

Note 2—Summary of Significant Accounting Policies

Presentation—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are presented pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities* (ASC 958).

In August 2018, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The guidance conforms the requirements for capitalizing implementation costs incurred in cloud computing arrangements that are service contracts to the accounting guidance that provides for the capitalization of costs incurred to develop or obtain internal-use software. Under the guidance, implementation costs that are capitalized should be characterized in financial statements in the same manner as other service costs and assets related to service costs and are amortized over the term of the hosting arrangement, which includes consideration of the non-cancellable contractual term and reasonably certain renewals.

We adopted this guidance on January 1, 2021, using the prospective transition approach, under which we apply the guidance to all eligible costs incurred subsequent to adoption. Under the guidance, we capitalize eligible implementation costs associated with cloud computing arrangements that are service contracts within prepaid expenses and other assets in our statement of financial position. We amortize these costs on a straight-line basis over the term of the hosting arrangement, which includes consideration of the non-cancellable contractual term and reasonably certain renewals. Under the new guidance, we capitalized approximately \$2.7 million of costs incurred in 2021 that would have been expensed under our previous policy.

Cash and Cash Equivalents—The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in non-interest-bearing accounts with a domestic high-credit-quality financial institution, money market funds, and investments in securities made pursuant to an overnight automated investment sweep agreement. All non-restricted highly liquid instruments purchased with an original maturity of three months or less are cash equivalents.

Money market funds—Our money market funds are available on-demand and valued using quoted prices in active markets and consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. We consider these money market funds to be Level 1 financial instruments.

Automated Investment Sweep—Pursuant to the sweep agreement, we invest excess cash at the end of each business day in a money market fund that invests in high-quality money market instruments (primarily U.S. Treasury securities and repurchase agreements). Purchased money market fund shares are held by the financial institution, as an agent, on an overnight basis and are liquidated by the financial institution on the next business day at an agreed-upon price. In the event of the financial institution's failure or default, we could experience a delay in disposing of such securities.

Restricted Cash and Cash Equivalents—The term restricted cash and cash equivalents, as used in the accompanying financial statements, consists of cash or money market funds to be used to fund our Scholarship Program, established pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act, as well as funds held for the FASB under an agency agreement.

Investments—The term investments, as used in the accompanying financial statements, consists primarily of short-term investments in U.S. government securities that mature within one year of purchase. See Note 7 for additional discussion of funds statutorily designated for sequestration. Our investments are recorded at fair value. We estimate fair value based on pricing from observable trading activity for similar securities or from a third-party pricing service; accordingly, we have classified these instruments as Level 2 fair value measurements. Purchases and sales of securities are recorded on a trade date basis. Interest income and net gains and losses are recorded on an accrual basis and are included in interest income and other on the accompanying statements of activities.

Concentration of Credit Risk—Our cash and cash equivalents are held in accounts with a single domestic high-credit-quality financial institution. Amounts held in these accounts that exceed the Federal Deposit Insurance Corporation insurable limit are uninsured. We mitigate this risk in two ways. We invest directly in multiple money market funds that consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. Remaining cash balances are secured by daily overnight investment sweep agreements that invest in money market funds comprised primarily of U.S. government/agency obligations and repurchase agreements.

Accounts and Other Receivables, Net—Accounts and other receivables are carried at the amount billed or accrued, net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on management's review, specific identification, and to the extent applicable, historical experience.

Fair Value of Financial Instruments—The fair values of cash and cash equivalents, restricted cash and cash equivalents, accounts and other receivables, and accounts payable approximate their carrying values due to the short-term nature of these items.

Cloud Computing Arrangements—We incur costs to implement cloud computing arrangements that are hosted by a third-party vendor as we move certain on-premises systems and services to the cloud. Implementation costs incurred during the application development stage are generally capitalized and amortized over the term of the hosting arrangement on a straight-line basis.

For the year ended December 31, 2021, we capitalized approximately \$2.9 million of costs incurred to implement cloud computing arrangements. These costs were primarily related to the migration of certain on-premise applications to the cloud, including the implementation of a cloud-based human resources management platform. Amortization expense of capitalized implementation costs for cloud computing arrangements totaled \$0.2 million for the year ended December 31, 2021, which is included in computing, network, and telecommunications expenses within the statement of activities as presented in Note 8. The net deferred cloud implementation costs of \$2.7 million are included within prepaid expenses and other assets on the statement of financial position and will be expensed over the term of the related cloud computing arrangements.

Furniture and Equipment, Leasehold Improvements, and Technology, Net—Furniture and equipment, leasehold improvements, and technology, net are stated at cost, less accumulated depreciation and amortization, computed using the straight-line method utilizing a half-year convention. Furniture and equipment and technology are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lesser of the term of the lease or the life of the asset. Costs incurred during the application development stage for internal-use software are capitalized and amortized using the straight-line amortization method over the estimated useful life of the applicable software. Repairs and maintenance are charged to expense when incurred.

Deferred Rent—We recognize rent on a straight-line basis over the lease term. The differences between rent expense recognized and rental payments made, as stipulated in the leases, are recognized as increases or decreases to deferred rent.

In addition, leasehold incentives obligated under facilities leases are recorded as deferred rent when we obtain control of the leased space that is related to the leasehold incentives due from the landlord. Deferred rent related to leasehold incentives is amortized on a straight-line basis over the lease term as a reduction of rent expense.

Revenue Recognition—The Sarbanes-Oxley Act established funding for our activities primarily through the ASF assessed on issuers and broker-dealers. The annual ASF is approved by the SEC. We also assess and collect registration and annual fees and may impose monetary penalties as prescribed by the Sarbanes-Oxley Act.

Annual ASF—The annual ASF is assessed on issuers, as defined in the Sarbanes-Oxley Act, and on broker-dealers registered with the SEC. The purpose of the fees is to fund our mission to oversee the audits of public companies and SEC-registered broker-dealers to protect the interests of investors and further the public interest in informative, accurate, and independent audit reports. The ASF is established annually by the Board based on our approved operating budget for each calendar year and adjusted to reflect amounts estimated to fund our operations for the first five months of the subsequent year, as well as other adjustments. The ASF is recognized as operating revenue in the year in which it is assessed.

Registration Fees—Each public accounting firm must pay a registration fee when it applies for registration with us. Registration fees are recognized as operating revenue in the year the application is submitted.

Annual Fees—All registered public accounting firms are required to file annual reports with us and pay annual fees to us. Annual fees are recognized as operating revenue in the year they are assessed.

Monetary Penalties, Net—Our sanctions may include monetary penalties imposed pursuant to Section 105 of the Sarbanes-Oxley Act. Monetary penalties are recognized as other revenue generally in the year (1) disciplinary orders are settled or (2) adjudicated final Board actions imposing sanctions in disciplinary proceedings are effective.

Monetary Penalties, Net and Scholarship Payments, Net—Amounts collected from monetary penalties are required to be used to fund merit scholarships awarded to students of accredited accounting degree programs, after congressional appropriation for such use of the monetary penalties. Amounts not paid out as of year-end are included in restricted cash and cash equivalents in the statements of financial position. In the statements of financial position, the net change in penalties assessed and paid out as merit scholarships is reported as an increase or decrease in net assets without donor restrictions statutorily designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act.

Cash Held for Others under Agency Agreement—We serve as the collection agent for invoicing and collecting the FASB ASF and are paid a collection fee by FASB for serving as its collection agent. As FASB's collection agent, we received a collection fee of approximately \$0.2 million in each of 2021 and 2020. Pursuant to the collection agent agreement, we collected \$31.4 million on behalf of FASB and remitted \$31.2 million to FASB in 2021, and collected \$31.4 million and remitted \$31.0 million in 2020. Funds received and not remitted to the FASB by year-end are included in restricted cash and cash equivalents with a corresponding amount included in accounts payable and accrued expenses. The collection fees are included in interest income and other in the accompanying statements of activities and statements of cash flows.

Taxes—We are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (IRC). Effective January 1, 2018, IRC Section 512(a)(7) required tax-exempt organizations to include qualified transportation benefits provided to their employees as unrelated business taxable income. As a result of providing such benefits, we paid and recorded a provision for unrelated business income taxes of approximately \$0.2 million as part of administration and general expenses in the statements of activities for the year ended December 31, 2018, and made payments related to unrelated business taxable income totaling approximately \$0.2 million during 2019. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 retroactively repealed IRC Section 512(a)(7). Pursuant to this legislation, Section 512(a)(7) was repealed retroactive to the date of its enactment. As a result, we recorded a receivable of approximately \$0.4 million in our 2019 financial statements and filed a refund claim in 2020. In 2020, we received a refund of approximately \$0.2 million from the IRS, and approximately \$0.2 million remained in accounts and other receivables, net, in our statement of financial position as of December 31, 2020. In 2021, we received an additional refund of approximately \$0.1 million from the IRS. Approximately \$0.1 million remained in accounts and other receivables, net, in our statement of financial position as of December 31, 2021.

Use of Estimates—The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements and accompanying notes. These estimates and assumptions are based on management's best knowledge of current and future events. Estimates and assumptions are used in accounting for, among other items, the allowance for doubtful accounts, useful lives of property and equipment, allocation of expenses to program services and supporting activities, and deferred cloud implementation costs. Actual results could differ from these estimates.

Statements of Cash Flows—We use the direct method of reporting net cash provided by or used in operating activities in the statements of cash flows.

The total of cash and cash equivalents and restricted cash and cash equivalents in the statements of financial position is shown in the statements of cash flows as follows:

(\$ in millions)	2021	2020
Cash and cash equivalents	\$146.0	\$166.3
Restricted cash and cash equivalents	11.8	12.9
Total cash and cash equivalents, and restricted cash and cash equivalents shown in the statements of cash flows	\$157.8	\$179.2

Accounting Pronouncements Issued but Not Yet Adopted—In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting about leasing transactions. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with GAAP, the recognition, measurement, and presentation of expenses and cash flows will depend on its classification as a finance or operating lease. With the issuance of ASU 2020-05 in June 2020, the new standard will be effective for our 2022 fiscal year. We are currently evaluating the effect that this ASU will have on our financial statements. Upon adoption of the ASU, right-of-use assets and corresponding liabilities are expected to be material.

Note 3—Accounts and Other Receivables, Net

Accounts receivables and other receivables consist of the following as of December 31, 2021 and 2020:

(\$ in millions)	2021	2020
Accounts receivable—issuer and broker-dealer accounting support fees and annual fees	\$6.0	\$3.3
Accounts receivable—other	1.4	0.2
Other receivables—monetary penalties	0.5	0.6
Accounts and other receivables, gross	7.9	4.1
Less: Allowance for doubtful accounts	(2.0)	(1.8)
Accounts and other receivables, net	\$5.9	\$2.3

Note 4—Furniture and Equipment, Leasehold Improvements, and Technology, Net

Furniture and equipment, leasehold improvements, and technology, net consist of the following as of December 31, 2021 and 2020:

(\$ in millions)	2021	2020
Technology		
Hardware	\$10.5	\$10.6
Purchased and developed software	11.8	11.4
Leasehold improvements	22.2	21.9
Furniture and equipment	8.3	8.3
Technology development and construction in process	0.5	0.6
Furniture and equipment, leasehold improvements, and technology, gross	53.3	52.8
Less: Accumulated depreciation and amortization	(40.2)	(37.6)
Furniture and equipment, leasehold improvements, and technology, net	\$13.1	\$15.2

Depreciation and amortization expense was approximately \$3.9 million and \$4.5 million for each of the years ended December 31, 2021 and 2020, respectively.

Note 5—Lease Commitments

As of December 31, 2021, we had long-term leases for office space that expire at various dates through 2028. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for each of the years ended December 31, 2021 and 2020 was \$15.4 million and \$16.3 million, respectively.

Minimum rental commitments for our office leases exceeding one year as of December 31, 2021 are presented in the table accompanying this Note.

(\$ in millions)	
Year ending December 31,	
2022	\$17.6
2023	18.0
2024	17.1
2025	15.6
2026	15.7
Thereafter	26.2
Total minimum lease payments	\$110.2

Note 6—Retirement Benefit Plan

We have a defined contribution retirement plan that covers all eligible employees. For each of the years ended December 31, 2021 and 2020, we matched 100% of employee contributions up to 7% of eligible compensation. Our contributions vest immediately. Our contributions to employees' accounts were \$10.3 million and \$9.9 million, for each of the years ended December 31, 2021 and 2020, respectively.

Note 7—Net Assets Without Donor Restrictions

Our net assets are not subject to any donor-imposed restrictions. Our net assets include a working capital reserve that we maintain to fund our operations during the five-month period prior to the collection of the ASF for the current year. Our net assets also include funds designated for specific uses, as described below.

Designated for the PCAOB Scholarship Program—The statements of financial position include funds statutorily designated for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act authorizes us to impose monetary penalties and requires us to use those penalties to award merit scholarships to students of accredited accounting degree programs, after congressional appropriation for such use. Accordingly, we awarded 253 and 234 merit-based scholarships of \$10,000 each to eligible students for the 2021-2022 and 2020-2021 academic years, respectively.

Statutorily designated funds for scholarships are included in restricted cash and cash equivalents. The activity of the statutorily designated funds for the years ended December 31, 2021 and 2020, was as follows:

(\$ in millions)	
Statutorily designated funds, as of December 31, 2019	\$13.5
Monetary penalties assessed in 2020, net	1.7
Less scholarship payments for the 2020–2021 academic year, net of amounts unused or deferred	(2.2)
Statutorily designated funds, as of December 31, 2020	\$13.0
Monetary penalties assessed in 2021, net	1.2
Less scholarship payments for the 2021–2022 academic year, net of amounts unused or deferred	(2.5)
Statutorily designated funds, as of December 31, 2021	\$11.7

Of the \$11.7 million in statutorily designated funds for scholarships as of December 31, 2021, approximately \$4.5 million has already been appropriated by Congress and may be used for awarding scholarships in 2022 or subsequent years. Prior to 2018, Congress had appropriated each year the full amount of monetary penalties collected in the previous year and made them available for scholarships. In 2018, Congress limited the appropriation it provided for scholarships to \$1 million of the total monetary penalties collected in 2017. As of December 31, 2021, Congress has not appropriated approximately \$7.2 million of the remaining monetary penalties collected in 2017. As a result, as of each of December 31, 2021, and 2020, approximately \$7.2 million of the \$11.7 million in 2021 and \$13.0 million in 2020 in statutorily designated funds was not available to distribute for scholarships.

Designated for Sequestration—The statements of financial position include funds statutorily designated for sequestration. In March 2013, the Office of Management and Budget (OMB) determined that we are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. In November 2013, OMB determined that our sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On February 10, 2020, OMB issued a report, “OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2021,” specifying that our sequestration percentage in 2021 was 5.7% of our approved 2021 budget, or approximately \$16.4 million. These sequestered funds remained unspent as of December 31, 2021, and were included in short-term investments in the accompanying statements of financial position. In a separate report issued on May 28, 2021, “OMB Report to the Congress on the BBEDCA 251A Sequestration for Fiscal Year 2022,” OMB specified that our sequestration percentage in 2022 was 5.7% of our approved 2022 budget, or approximately \$17.7 million. We used the \$16.4 million sequestered in 2021 to offset the \$17.7 million sequestered for 2022. The net increase of \$1.3 million in the required sequestration amount for 2022 has been implemented by the PCAOB adopting a revised spending plan for 2022 that reduces the PCAOB’s approved budget by \$1.3 million. The scholarship funds were not subject to sequestration in 2021 or 2020.

Note 8—Expenses by Program Services and Supporting Activities

The statements of activities reflect program services related to registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Program services consist of the following:

- Registration and inspections (DRI) executes the Board’s registration and inspections authority under the Sarbanes-Oxley Act. DRI processes and makes recommendations to the Board on applications from public accounting firms to register with the PCAOB. DRI also inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board and the SEC, and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving issuers and broker-dealers audited by the registered firms.
- Enforcement conducts investigations and recommends instituting disciplinary proceedings concerning registered public accounting firms and their associated persons related to possible violations of the Sarbanes-Oxley Act, the rules of the Board and the SEC, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations of accountants with respect to audit reports or professional standards.
- Standard setting advises the Board on establishing or amending auditing, quality control, ethics, independence, and attestation standards applicable to registered public accounting firms in the preparation and issuance of audit reports as required by the Sarbanes-Oxley Act or the SEC, or as may be necessary for the protection of investors and the public interest.
- Economic and risk analysis conducts economic analysis and research, risk assessment, and data analysis to inform our other program services.
- Board and related activities primarily consists of the programmatic activities of the Board and the Office of International Affairs (OIA). Supported by the other program services, the Board issues inspection reports on registered public accounting firms; approves registration applications of public accounting firms; initiates formal investigations and enforcement actions; and establishes or amends auditing, quality control, ethics, independence, and attestation standards for registered public accounting firms. Under the direction and supervision of the Board, OIA promotes our mission internationally by developing and fostering bilateral relationships and negotiating bilateral cooperative arrangements with non-U.S. regulators to facilitate our international inspections and investigations.

Program expenses include salaries, benefits, occupancy, program-specific technology costs, and other direct and indirect operating expenses. The statements of activities also reflect costs associated with supporting activities such as accounting and finance, legal, human resources, enterprise risk, and

information technology. Indirect costs, including certain occupancy and depreciation costs, are allocated to program services and supporting activities proportionately based on numbers of personnel.

The statements of activities report certain categories of expenses that are attributable to more than one program service or supporting activity. These expenses are allocated on a reasonable basis that is consistently applied. In particular, these expenses have been allocated to program services and supporting activities based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of headcount or other measures such as time and effort. The expenses that are allocated in this manner include: personnel costs, including fringe benefits and payroll taxes; occupancy costs; computing, network, and telecommunications expenses; and depreciation.

For the year ended December 31, 2021
(\$ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	\$121.0	\$18.8	\$7.7	\$11.6	\$6.6	\$165.7	\$31.3	\$10.0	\$41.3	\$207.0
Occupancy costs	8.6	1.8	0.7	1.1	0.6	12.8	3.2	1.0	4.2	\$17.0
Travel expenses	-	-	-	-	-	-	-	-	-	-
Computing, network, and telecommunications expenses	7.5	1.2	0.3	1.0	0.3	10.3	2.5	0.5	3.0	\$13.3
Professional and consulting fees	5.4	0.8	0.2	0.5	0.2	7.1	5.0	2.5	7.5	\$14.6
Data subscriptions, insurance, and other expenses	0.9	0.4	0.1	2.0	0.2	3.6	2.5	0.4	2.9	\$6.5
Depreciation	1.9	0.3	0.1	0.3	0.1	2.7	0.7	0.5	1.2	\$3.9
Total operating expenses	\$145.3	\$23.3	\$9.1	\$16.5	\$8.0	\$202.2	\$45.2	\$14.9	\$60.1	\$262.3

For the year ended December 31, 2020
(\$ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	\$121.7	\$18.2	\$7.1	\$11.5	\$8.5	\$167.0	\$30.5	\$8.1	\$38.6	\$205.6
Occupancy costs	9.9	1.9	0.7	1.2	1.2	14.9	2.9	1.0	3.9	\$18.8
Travel expenses	0.3	-	-	-	-	0.3	0.1	-	0.1	\$0.4
Computing, network, and telecommunications expenses	6.8	1.1	0.2	1.0	0.2	9.3	3.4	1.2	4.6	\$13.9
Professional and consulting fees	6.0	0.8	0.2	0.4	0.1	7.5	3.7	3.3	7.0	\$14.5
Data subscriptions, insurance, and other expenses	1.0	0.3	0.1	2.3	0.2	3.9	3.0	0.3	3.3	\$7.2
Depreciation	2.1	0.3	0.3	0.3	0.2	3.2	0.8	0.5	1.3	\$4.5
Total operating expenses	\$147.8	\$22.6	\$8.6	\$16.7	\$10.4	\$206.1	\$44.4	\$14.4	\$58.8	\$264.9

Note 9—Liquidity

We are primarily funded by the ASF, with certain assets being subject to statutory restrictions or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due.

As of December 31, 2021, we held cash and cash equivalents of approximately \$146.0 million, which were available on demand to pay general expenditures. As of December 31, 2021, we held short-term investments of approximately \$17.6 million, which is designated for sequestration in 2022. As of December 31, 2021, \$4.5 million of restricted cash and cash equivalents were available to pay for future scholarship awards, with an additional \$7.2 million that is required to be appropriated by Congress prior to their use to fund scholarships (as discussed in Note 7).

Note 10—Subsequent Events

We have evaluated subsequent events through March 28, 2022, which represents the date the audited financial statements were available to be issued. We determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

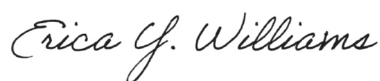
FINANCIAL REPORTING MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management, including the Chief Financial Officer and Acting Chief Administrative Officer, under the direction of the Chair (collectively, "financial reporting management"), is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2021. In making this assessment, financial reporting management used the criteria established in *Internal Control—Integrated Framework* (2013 version), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, the PCAOB's financial reporting management concluded that the organization's internal control over financial reporting was effective as of December 31, 2021.

March 28, 2022



Erica Y. Williams
Chair



Holly Wheaton Greaves
Chief Financial Officer and Acting
Chief Administrative Officer



2021

NEW YORK STATE

PEER REVIEW OVERSIGHT COMMITTEE

ANNUAL REPORT

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I. Message from the Committee

The timing of this year's report covers the time period January 1, 2021 to December 31, 2021. In 2021 the Mandatory Peer Review Program continued to be significantly impacted by the COVID-19 pandemic. Blanket extensions and delays slowed the pace of peer review completions as both firms and their peer reviewers grappled to learn how to provide services remotely. As a result, the number of firms monitored were at the highest level since the Committee's inception in 2012. The Pennsylvania Institute of CPA's (PICPA), the administering entity (AE) that administers the peer reviews of the majority of New York firms, also moved to remote operations.

Commented [JW1]: Likely a good idea to continue to mention this about the extensions.

The changes to Chapter 3 of the AICPA Peer Review Standards that were approved in 2018 continued to impact the PROC's ability to assemble information to monitor firms. As reported last year, the ability to obtain information from the AE has been negatively impacted since the original proposed changes to Chapter 3 were released and has precluded PICPA from providing the PROC with timely information to carry out our function. However, the staff of the PROC have explored and found new and different ways to obtain information to continue monitoring firms.

Commented [JW2]: To be reviewed. Likely needs modification.

Additionally, on a national level, in 2019 there was an exposure draft on the Uniform Accountancy Act, Article 7 – Permits to Practice - Firms. There were significant changes to make the Model Rules more closely reflect current practice. Some of the changes included: basic definitions, recognition of approved sponsoring organizations, requirement that non-AICPA members be allowed to participate in the AICPA's program, clarification on dates for completing tasks, guidance on Peer Review Oversight Committee members, and required submission of documents to the State Board.

Commented [JW3]: To be reviewed. Likely remove for the 2021 report

During 2021, the PROC's recommended changes to the Commissioner's Regulations and the Board of Regents Rules that were submitted to the Department by the Board in the fall of 2016 were permanently adopted by the Board of Regents and became effective in November. The changes will provide the PROC with additional tools to improve firm compliance with the MPRP.

Commented [JW4]: Updated. Any additional modifications?

To further our monitoring of AEs, the PROC expanded its request for the Plan of Administration (POA) from several other AEs that administer the peer reviews of New York firms. A POA was obtained from the New England Peer Review (NEPR) and was requested from New Jersey Peer Review (NJPR). We were unable to obtain a POA from NJPR and were referred to the NJ PROC by the AICPA. Our contact with the NJ PROC provided minimal information. In 2021, the PROC reviewed the AICPA oversight reports for the three AEs to provide oversight.

Commented [JW5]: Updated. Any additional modifications?

As reported previously, the Peer Review Integrated Management Application (PRIMA) launched in May 2017 to replace the previous application to schedule and administer reviews for firms, reviewers, and administering entities. Data and utilization

issues have continued since 2017 and continue. The result is that information regarding the reviews processed by the various AEs or the National Peer Review Committee is not timely and in some cases inaccurate. The PROC staff continue to submit “tickets” to the AICPA and PICPA to correct information on PRIMA.

Commented [JW6]: To be reviewed. This is still valid, and I suggest it is kept in the 2021 report

During 2021, despite the continued issues related to COVID-19 pandemic, the PROC continued to monitor the administering entity (PICPA), other AEs, and firms to help to improve the quality of assurance services in New York State.

II. Background

In 2009, the NYS Legislature passed significant changes to laws that regulate Public Accounting in New York. The legislature required the implementation of the Mandatory Quality Review Program (MQRP). The program became effective for firms registering on or after January 1, 2012. Firms in the MQRP are required to undergo a peer review once every three years as a condition of their firm registration renewal. The purpose of the MQRP is to promote quality in the attest services provided by CPAs. The 2009 law required firms with three or more CPAs, providing attest services, to participate in the MQRP.

In the fall of 2017, the NYS Legislature revised the MQRP law. The new legislation repealed the small firm exemption and, therefore, all firms that provide attest services are required to participate in the peer review program. The changes to the law also included a name change of the program from the Mandatory Quality Review Program to “Mandatory Peer Review Program” (MPRP) and the committee from the Quality Review Oversight Committee to the Peer Review Oversight Committee (PROC).

III. PROC Regulatory Authority and Responsibilities

The PROC derives its regulatory authority from Section 70.10 of the Regulations of the Commissioner (Regulations). In November 2021 the Regulations were permanently amended by the Board of Regents. The purpose of the PROC includes approving and monitoring the Sponsoring Organization, informing, and reporting matters concerning peer review to the Department, assessing and reporting on the effectiveness of the program, and reviewing individual peer review reports for compliance. Following the amendments to the Regulations, the PROC has the responsibility to:

- receive and approve administration plans from entities applying to be sponsoring organizations;
- monitor sponsoring organizations to provide reasonable assurance that the sponsoring organization is conducting the peer review program in accordance with the peer review standards;
- inform the Department of any issues and/or problems relating to the peer review program which may require the Department's intervention;
- annually report to the Department as to whether each sponsoring organization meets the standards necessary to continue as an approved sponsoring organization;
- annually assess the effectiveness of the peer review program;
- annually report to the Department on any recommended modifications to the peer review program;
- review each peer review report submitted by a firm, as part of its registration or renewal of its registration, to determine whether the firm is complying with applicable professional standards.
- where applicable, the PROC may refer firms that are not in compliance with applicable standards to the Office of Professional Discipline pursuant to Education Law section 6510; and
- ensure that any documents received from a firm or reviewer remain confidential and not constitute a public record, unless such document is admitted into evidence in a hearing held by the Department.

Additionally, a new subdivision (j) of the Board of Regents Rules Part 29, Unprofessional Conduct, Section 29.10, Special Provisions for the Profession for Public Accountancy (Rules) was adopted as it relates to the Mandatory Peer Review Program.

The Rules define unprofessional conduct as follows:

- failure to cooperate with the peer review process;
- making a false, fraudulent, misleading or deceptive statement, as part of, or in support of, a firm's peer review reporting;

Commented [JW7]: Added a new sentence on the Unprofessional conduct Rules, modification to the rules. At the end added the 29.10 rules. Noted that they were adopted in Nov.

- a firm's termination or expulsion from the peer review program;
- failure of a firm and its licensees to follow the peer review process and complete any remedial actions required;
- failure of a firm to provide access to its peer review information, as required by subdivision (j) of section 70.10 of the Regulations of the Commissioner.

IV. PROC Recognized Peer Review Program Providers

The American Institute of Certified Public Accountants (AICPA) is currently the only Peer Review Program Provider (sponsoring organization) that is acceptable to the PROC. The PROC accepts all AICPA approved organizations (administering entities) that are authorized to administer the AICPA Peer Review Program. The AICPA's Peer Review Board (PRB) is responsible for maintaining, furthering, and governing the activities of the AICPA's Peer Review Program, including the issuance of peer review standards, and peer review guidance. The Peer Review Program provides for a triennial review of a firm's accounting and auditing practice. The review is performed by a peer reviewer who is unaffiliated with the firm being reviewed. The goal of the program is to monitor and enhance quality, and conformity with professional standards.

There are two types of peer reviews. System reviews are designed for firms that perform audits or other attest engagements. Engagement reviews are for firms that do not perform audits but perform other engagements such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

Entities that are currently acceptable to administer the peer review program in New York State are:

- Pennsylvania Institute of CPAs (PICPA) – As of March 15, 2018, PICPA administers the AICPA Peer Review Program for the majority of New York firms. Prior to this date, the New York State Society of CPAs (NYSSCPA) administered the peer review program for most NY firms. As the administering entity, PICPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's Standards. The PICPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews.
- National Peer Review Committee (NPRC) -The AICPA also administers a peer review program through the National Peer Review Committee for firms required to be registered with and/or inspected by the Public Company Accounting Oversight Board (PCAOB) or perform audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB.

- Other State Societies and Organizations - New York registered accountancy firms are allowed to have their peer review administered by an AICPA approved administering entity in another state. The AICPA maintains the listing of the administering entities assigned to each state.

V. Committee Members and Staff

The PROC consists of six members who are appointed by the NYS Board of Regents for five-year terms and may serve up to two terms. At least five members must be licensed CPAs and the sixth member may be a public member or a licensed CPA. Additionally, PROC members cannot be members of the State Board for Public Accountancy or one of its committees.

Licensed members must be licensed certified public accountants in New York State, and hold current registrations with the Department. If a public member is appointed to the PROC, he or she must have received or used the services provided by CPAs.

Member Name:

Member Term:

David Iles, CPA

Oct 1, 2020 – Sep 30, 2025
(Second term)

Mary MacKrell, CPA
Vice Chair

Mar 1, 2018 – Feb 28, 2023
(Second term)

Mitchell Mertz, CPA

Jun 1, 2021 – May 31, 2026
(First term)

David Pitcher, CPA

Dec 1, 2019 – Nov 30, 2024
(First term)

Grace Singer, CPA

Feb 1, 2019 – Jan 31, 2024
(First term)

Frank S. Venezia, CPA
Chair

Apr 1, 2020 – Mar 31, 2025
(Second term*)

*Frank Venezia served an initial 3-year term at the inception of the program. This is his second, 5-year term.

Staff of the PROC – The PROC has three staff members, the Executive Secretary and Auditor 1 and 2 who support its efforts in effectively carrying out its duties and responsibilities. The Executive Secretary, Jennifer Winters, is the lead staff liaison for the members. The Auditor 2 position was filled with Thomas Cordell in August 2019. The Auditor 1, Philip Jesmonth, has been in the position since November 2015.

The volunteer members of the PROC rely on the support of the staff to conduct its meetings and handle routine firm matters related to peer review. The staff review the firms' annual statement on peer review compliance, compile the information on the firms that are monitored, and communicate outstanding matters with the firms on behalf of the volunteer PROC members.

VI. Statistics: This year's report includes the calendar year, note the timing of the reported data for prior years*. The following statistics were obtained from the PRIMA system**.

	Oct 1, 2017 to Sep 30, 2018				Oct 1, 2018 to Dec 31, 2019				Jan 1, 2020 to Dec 31, 2020				Jan 1, 2021 to Dec 31, 2021			
	NYSSCPA/ PICPA		NPRC		PICPA		NPRC		PICPA		NPRC		PICPA		NPRC	
<u>System Reviews</u>																
Pass	162	72%	40	85%	260	79%	57	85%	202	65%	25	86%	196	75%	36	95%
Pass with deficiencies	33	15%	2	4%	33	10%	7	10%	55	18%	1	4%	45	17%	2	5%
Fail	29	13%	5	11%	37	11%	3	5%	53	17%	3	10%	20	8%	0	0%
Subtotal – System	224		47		330		67		310		29		261		38	
<u>Engagement Reviews</u>																
Pass	114	81%			196	85%			86	78%			162	88%		
Pass with deficiencies	13	9%			23	10%			16	14%			13	7%		
Fail	13	9%			11	5%			9	8%			9	5%		
Subtotal – Engagement	140				230				111				184			
Total System & Engagement	411				627				450				483			

*The timing of the statistics has changed. In the past the PROC had presented statistics for the period Oct 1st to Sep 30th and as noted last year's report, the timing changed to move to the calendar year period that included an additional three months for the period Oct 1, 2018, through Dec 31, 2019. This year the statistics are presented on the calendar year.

**As reported in previous years, due to complications resulting from the AICPA's transfer of the Peer Review Program's monitoring software from PRISM to PRIMA, this data may not be fully reliable as there have been noted discrepancies.

VII. Meetings, Accomplishments and Advocacy Efforts

Following are the meetings, accomplishments, and advocacy efforts in 2021.

a. Committee Meetings - The PROC holds meetings to conduct business and report to the Department regarding the effectiveness of mandatory peer review program. Minutes from each public meeting are available upon request.

Since the last annual report was issued, the PROC, despite COVID-19, has held the following virtual meetings:

- February 3, 2021
- May 19, 2021
- August 11, 2021
- October 27, 2027

On July 28, 2021, the Chair of the PROC attended the State Board for Public Accountancy's virtual Board meeting to present its 2020 Annual Report.

b. Administering Entity (AE) Status – PICPA submitted its Plan of Administration (POA) to the AICPA in April 2020. The Chair of the PROC contacted PICPA to obtain a copy of its POA. The PICPA sought the approval from the AICPA to release to the POA to the PROC. The Chair of the PROC held several conversations with the AICPA peer review staff before PICPA released the POA to the PROC. The PROC obtained a copy of the accepted POA and agreed to accept it at its October meeting. However, the PROC was concerned with several items listed in the POA pertaining to the PROC and the Commissioner's Regulations and asked for the Chair and Executive Secretary of the PROC to contact PICPA to discuss. The Chair and Executive Secretary of the PROC held a virtual meeting with the Director of the Peer Review Program at PICPA.

Commented [JW8]: Find this date for 2021

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The Chair of the PROC attempted to obtain the POAs from New England Peer Review and NJCPAs as there are numerous NY firms that have its peer review administered by those administering entities. The two Administering Entities were hesitant to release the Plan of Administration without approval by the AICPA. Further,

the AICPA instructed the NJCPAs to have the NY PROC contact the NJ PROC as the NJCPAs is not the primary AE for NY firms. The POA was not provided. The NEPR released the POA without any attachments.

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c. Oversight of the Peer Review Committee (PRC) and Report Acceptance Body (RAB) of PICPA - To continue the Committee's monitoring of the sponsoring organization, on July 27, 2021, Ms. Singer attended a PRC meeting. Mr. Mertz and Ms. Singer attended a RAB meeting on August 24 and October 7, 2021, respectively.

The PROC members who attended these meetings unanimously agreed the program is run by dedicated professionals in accordance with the AICPA standards. Based on the report from the members who attended the meetings, the PROC agreed that the PRC is well informed and engaged in the process and the RAB meetings are organized and well run. The conclusion regarding the PRC oversight by the PROC members was that the peer review program was administered in accordance with the AICPA standards.

d. Rules and Regulations - A revised set of rules and regulations was approved by the PROC and submitted to the Department in the summer of 2020. In June 2021 they were presented to the Board of Regents and were permanently adopted in November 2021. Reference additional information in item III above.

e. AICPA's Enhancing Audit Quality - The AICPA's initiative continues to have an impact on firms and Peer Review. Peer reviewer training and oversight have increased the detection of non-conforming engagements to 70% or more. The AICPA also reported that 97% percent of firms that were required to undergo remedial actions improved their report rating on their next peer review. In addition, 53% of firms made the business decision to stop performing engagements in the area where non-conformity was detected. Due to COVID-19 pandemic, the Peer Review Program granted an automatic six-month extension for peer reviews and corrective actions with due dates through September 30, 2020 and waived the requirement for approval for remote reviews. The initiative continues with current areas of focus in risk assessment, engagement acceptance and continuance and certain SOC engagements. We continue to monitor these changes and the effect on peer review.

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f. PCAOB - Interim Inspection Program Related to Audits of Broker and Dealers. The PROC continues to monitor the various reports related to the inspections of public accounting firms providing audits and the related attestation engagements for Brokers and Dealers. The reports continue to find issues with firms that perform a limited number of these engagements.

g. AICPA Peer Review Board (PRB) Open Meetings - The PROC monitors the AICPA's PRB's public sessions throughout the year. PROC members and staff attend these meetings via teleconference and report back to the full PROC. The sessions are informative and allow for an exchange of ideas and practices across state lines. The following PRB meetings were attended:

- February 11, 2021
- May 19, 2021
- September 2, 2021
- October 16, 2021

h. Quality Control Materials (QCM) – In 2021, the PROC reviewed the updates to the QCM that were approved by the National Peer Review Committee.

i. Monitoring of Firms in Peer Review - The PROC monitors firms throughout the remediation phase of their peer review, where applicable. Firms are informed by letter that the PROC is monitoring their remediation progress and are required to acknowledge receipt of the letter. Remediation is considered complete when the peer review is accepted as complete by the respective Peer Review Committee. The PROC also monitors the firms that have dropped out of the program and those that are terminated by the program. The determination to monitor, continue to monitor, or remove from monitoring is done at the PROC meetings in executive session.

System and Engagement Reviews that have a rating of fail or pass with deficiencies are monitored by the PROC. During 2021, the PROC has monitored 215 firms, including firms that have been carried over from the prior year. During this time, 100 of these firms had their peer reviews accepted as complete, while 115 firms are still being actively monitored. During 2020, due to COVID-19 all firms that had open corrective actions received an authorized extension by the AICPA. Extensions continued into 2021, however, were on a case-by-case basis.

VIII. Recommendations

The PROC recommends that the Department continue its Sponsoring Organization Agreement with the PICPA.

Commented [JW12]: Any other recommendations from 2021

IX. Conclusions

Based on its oversight activities, the PROC concluded that the Pennsylvania Institute of Certified Public Accountants has been an effective administrator as the Mandatory Peer Review Program's (MPRP) Sponsoring Organization. The PROC has established an oversight role utilizing the PICPA; however, the AICPA's changes to the Chapter 3 of the AICPA Peer Review Standards, continue to impede our oversight efforts by making it difficult to obtain timely information about the status of a firm's peer review. Based on the PROCs interaction with the PICPA, the PROC is confident that the MPRP will continue to be an effective program monitoring firms in New York State.

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