

MACPA Peer Review Annual Report on Oversight Date Issued – December 20, 2016

Administering Entity Oversight Process and Procedures

Oversight of Peer Reviews and Reviewers

Oversight Selection

Throughout the year, MACPA Peer Review Committee selects various peer reviews for oversight. The selections may be random or targeted and are based on the criterion for selection as outlined in the AICPA Peer Review Program Oversight Handbook, Chapter 2, Section IV, Items B and C.

Firms

The selection of firms to be reviewed is based on a number of factors, including but not limited to the types of peer review reports the firm has previously received, whether it is the firm's first system review (after previously having an engagement review), and whether the firm conducts engagements in high risk industries.

Reviewers

All peer reviewers are subject to oversight and they may be selected based on a number of factors, including random selection, frequent submission of pass reports with no findings for further consideration, conducting a significant number of reviews for firms with audits in high risk industries, performance of their first peer review, or performing high volumes of peer reviews. Oversight of a reviewer can also occur due to performance deficiencies, such as issuance of an inappropriate peer review report, not considering matters that turn out to be significant, or failure to select an appropriate number of engagements.

Oversight Process

A MACPA Peer Review Committee member performs all oversight engagements. For system review and must-select engagement oversights, this committee member must have team captain requirements and experience. Selection of the oversight reviewer is on a volunteer basis. If there are no volunteers, the MACPA Peer Review Committee may appoint a technical reviewer on a review-by-review basis.

The AICPA Peer Review Program Oversight Checklists are utilized on all oversight engagements. Oversight reports are kept on file at the MACPA's office for AICPA oversight visits. Reports are not sent to the AICPA unless remedial action must be ratified by the AICPA. The final report is prepared on the reviewer's letterhead and submitted to the MACPA Peer Review Committee. The peer reviewer may respond within 14 days of the date of the final report.

Minimum Requirements

At least 2% of all reviews are subject to oversight in Maryland. The committee will select 2 system and 3 engagement reviews to perform annual oversight. At least two on-site oversights will be performed each year. Two of the on-site oversights will include either audits of employee benefits plans under ERISA, engagements under the Government Auditing Standards or FDICIA engagements.

The purpose of placing oversight on a peer reviewer is to determine whether the peer reviewer has performed a peer review in accordance with *Standards*, and has reached appropriate conclusions. Oversight may also serve as an educational tool for the peer reviewer, promote consistency and

proficiency by all parties involved in the peer review process, and resolve a difference of opinion between the firm and peer reviewer.

The process includes performing committee oversight, either on-site or off-site depending on the type of review, and the completion of an oversight checklist. The oversight reviewer will be responsible for submitting a written report, evaluating the peer reviewer's performance and identifying any significant matters. In addition, a recommendation is made on the peer reviewer's ability to continue performing reviews. The recommendation may include, but is not limited to suggesting CPE, continued oversight, or suspension from performing reviews. All of the oversight information and the report are submitted to the peer review committee. Committee members are reimbursed for time and expenses for system review oversights.

Administrative Oversight

In those years when there is no Oversight Task Force (OTF) oversight, an administrative oversight is performed on MACPA by an individual approved by the AICPA and the MACPA Committee. Procedures performed cover the administrative requirements of administering the AICPA PRP. The administrative oversight reports are submitted to the AICPA as part of the Plan of Administration and are reviewed by the MACPA Peer Review Committee and, before an on-site oversight, an OTF member for any potential issues to be aware of.

Annual Verification of Reviewers' Resumes

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in the accounting or auditing functions. The firm that the member is associated with should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every three years, with a minimum of 8 in any one year. A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. MACPA's Peer Review Committee has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review. In accordance with Oversight Enhancement No. 4, MACPA must verify information within a sample of reviewers' resumes on an annual basis. All reviewer resumes are verified over a three-year period.

Verification procedures include:

- The reviewer providing specific information such as the number of engagements they are specifically involved with and in what capacity. MACPA staff then compares the information provided by the reviewers to the reviewer resume on file in the ACIPA system and to the reviewer firm's most recent background information to determine if the reviewer's firm actually performed those engagements during its last peer review.
- Determining the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to FDICIA.
- Which state(s) the reviewer has a license to practice as a certified public accountant in (this may include requesting copies of their license)

- A list of continuing professional education (CPE) courses taken over a three-year period, to document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least 8 hours in one year, including CPE from a qualified reviewer training course; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. Reviewers may also be requested to provide CPE certificates.
- Determining whether the reviewer is a partner or manager in a firm enrolled in a practice monitoring program.
- Verifying that the reviewer's firm received a pass report on its most recently completed peer review.

Summary of Peer Review Programs

Overview of MACPA Peer Review Program

MACPA Peer Review was formed in 1989, to operate the AICPA Peer Review Program.

MACPA serves as the administering entity for the AICPA Peer Review Program and also administers the MACPA Peer Review Program (which operates using the same standards as the AICPA Peer Review Program) for firms not enrolled in the AICPA Peer Review Program.

The Maryland Board of Accountancy requires all firms in our state, who provide attestation services as part of their public accounting process, to be enrolled in a practice monitoring program. The BOA has designated MACPA as an authorized report acceptance body.

Number of Enrolled Firms by Number of Professionals* Per State as of December 20, 2016

| | AICPA Peer Review Program | MACPA Peer Review Program |
|---------------------|---------------------------|---------------------------|
| Sole Practitioners | 112 | 71 |
| 2-5 Professionals | 194 | 73 |
| 6-10 Professionals | 100 | 14 |
| 11-19 Professionals | 43 | 4 |
| 20-49 Professionals | 40 | 0 |
| 50+ Professionals | 6 | 0 |
| Totals | 495 | 162 |

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

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

Results of Peer Reviews Performed For the Year 2015

Results by Type of Peer Review and Report Issued

| | ^AICPA Peer Review Program | | MACPA Peer Review Program | |
|------------------------------|----------------------------|-------------------|---------------------------|-------------------|
| System Reviews: | | | | |
| | <i>Initial Review</i> | <i>Subsequent</i> | <i>Initial Review</i> | <i>Subsequent</i> |
| Pass | 6 | 68 | 1 | 7 |
| Pass with Deficiency | 1 | 7 | 0 | 2 |
| Fail | 0 | 6 | 1 | 2 |
| Subtotal – System | 88 | | 13 | |
| Engagement Reviews: | | | | |
| Pass | 2 | 90 | 3 | 37 |
| Pass with Deficiency | 0 | 7 | 0 | 4 |
| Fail | 0 | 1 | 0 | 1 |
| Subtotal – Engagement | 100 | | 45 | |
| Totals | 188 | | 58 | |

Note: The above data reflects peer review results as of December 20, 2016. Approximately 1% of 2015 reviews are in process and their results are not included in the totals above.

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Reasons for Pass with Deficiencies & Fail Grade on System Reviews

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards for a pass with deficiency and fail reports issued in 2015.

| Reasons for Pass with Deficiencies & Fail Grade | ^AICPA Peer Review Program | | MACPA Peer Review Program | |
|---|----------------------------|-------------------|---------------------------|-------------------|
| | <i>Initial Review</i> | <i>Subsequent</i> | <i>Initial Review</i> | <i>Subsequent</i> |
| Leadership Responsibilities for Quality | 0 | 3 | 0 | 0 |
| Relevant Ethical Requirements | 0 | 0 | 0 | 0 |
| Engagement Performance | 1 | 12 | 1 | 4 |
| Human Resources | 0 | 0 | 0 | 0 |
| Acceptance & Continuance of Client Relationships & Specific Engagements | 1 | 0 | 0 | 0 |
| Monitoring | 0 | 6 | 1 | 1 |
| Totals | 2 | 21 | 2 | 5 |

Note: The above data reflects peer review results as of December 20, 2016. Approximately 1% of 2015 reviews are in process and their results are not included in the totals above

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Engagement Not Performed in Accordance with Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as not performed in accordance with professional standards in all material respects. The Standards state that an engagement is ordinarily considered substandard when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

| Engagement Type | ^AICPA Peer Review Program | | MACPA Peer Review Program | |
|--|----------------------------|---------------------------------------|---------------------------|---------------------------------------|
| | Number of Engagements | | Number of Engagements | |
| | # Eng. Reviewed | # Not Perf. In Conf. with Prof. Stan. | # Eng. Reviewed | # Not Perf. In Conf. with Prof. Stan. |
| Audits – Single Audit Act (A-133) | 27 | 4 | 1 | 1 |
| All others subject to GAS | 29 | 1 | 0 | 0 |
| Other SAS Engagements | 119 | 6 | 14 | 4 |
| Reviews | 139 | 7 | 28 | 6 |
| Compilations with Disclosures | 98 | 6 | 18 | 2 |
| Compilations omit Disclosures | 194 | 4 | 69 | 3 |
| Financial Forecast & Projections | 1 | 0 | 1 | 0 |
| Examinations of Written Assertions | 8 | 0 | 0 | 0 |
| SOC 1 Reports | 0 | 0 | 0 | 0 |
| Agreed-upon Procedures | 27 | 1 | 2 | 0 |
| Audits - ERISA | 73 | 10 | 4 | 2 |
| Compiled Financial Forecast & Projection | 1 | 0 | 0 | 0 |
| Totals | 716 | 39 | 137 | 18 |
| % Not Performed in Conformity with Prof. Stan | | 5% | | 13% |

Note: The above data reflects peer review results as of December 20, 2016. Approximately 1% of 2015 reviews are in process and their results are not included in the totals above.

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Summary of Required Follow-up Actions

The Peer Review Committee is authorized by the Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The peer review committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions. For 2015, the following represents the type of follow-up actions required.

| Type of Follow-up Action | ^AICPA Peer Review Program | MACPA Peer Review Program |
|---|----------------------------|---------------------------|
| Receiving Revised Report | 3 | 3 |
| Receiving Revised LOR | 1 | 0 |
| Agree to take certain CPE | 23 | 9 |
| Agree to hire consultant-pre-issuance reviews | 7 | 3 |
| Submit proof of CPE taken | 0 | 2 |
| Submit copy of inspection report | 2 | 1 |
| Does not Perform any Auditing Engagement | 6 | 1 |
| Submit proof of purchase of Manuals | 0 | 1 |
| Receipt of additional information | 3 | 0 |
| Submit evidence of proper firm licensure | 1 | 1 |
| Totals | 46 | 21 |

Note: The above data reflects peer review results as of December 20, 2016. Approximately 1% of 2015 reviews are in process and their results are not included in the totals above.

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Oversight Process

Oversight Results

| Type of Engagement | Must Select? | Date of Oversight | On site/off site |
|--------------------|--------------|-------------------|------------------|
| System | GAGAS | 01/17/2017 | Onsite |
| System | ERISA | 09/18/2016 | Onsite |
| Engagement | | 06/16/2016 | Offsite |
| Engagement | | 07/12/2016 | Offsite |
| Engagement | | 10/31/2016 | Offsite |

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Verification of reviewer's resumes

| Total Number of Peer Reviewers | Total Number of Resume's Verified for Year | % of Total Verified |
|--------------------------------|--|---------------------|
| 33 | 10 | 30% |

Administrative oversights

| | |
|---|-------------------|
| Date of Last Administrative Oversight Performed by the Administering Entity | December 16, 2016 |
| Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program) | October 13, 2015 |