

**ADMINISTRATIVE PROCEDURES FOR ILLINOIS CPA SOCIETY
PEER REVIEW COMMITTEE**

OVERSIGHT PROGRAM

Adopted by the ICPAS Peer Review Executive Committee,
with amendments through May 7, 2015

The Illinois CPA Society (ICPAS) Peer Review Committee has instituted a regular oversight program of team captains/reviewers (hereinafter referred to as “reviewers”) and firms in order to ensure the consistency and quality of reviewers’ work in Illinois and Iowa. All reviewers and firms are subject to this program.

Scope of Oversight

1. Oversight procedures will be conducted on at least 2% of all reviews performed annually in Illinois and Iowa and within the 2% selected there will be at least two of each type of review – system and engagement (**Ch. 2, ¶ IV.C.1.**).
2. At least two on-site oversights or engagement oversights will be performed annually in Illinois and Iowa, which will include either audits of employee benefit plans under ERISA, engagements under the Government Auditing Standards, audits of insured depository institutions subject to FDIC Improvement Act of 1991, audits of carrying broker-dealers or examinations of Service Organization Control (SOC) reports. The two oversights selected shall not be of the same types of audits (**Ch. 2, ¶ IV.C.2.**).
3. Information within a sample of reviewers’ resumes will be verified on an annual basis, such that the resumes of all active reviewers affiliated with one or more firms having a home office in Illinois and Iowa will be verified over a three-year period. Verification will include the reviewers’ qualifications and experience related to engagements performed under GAGAS, audit of employee benefit plans under ERISA, audits of insured depository institutions subject to the FDIC Improvement Act of 1991, audits of carrying broker-dealers and examinations of service organization control (SOC) reports. (**Ch. 2, ¶ IV.D.**).

Types of Oversight:

1. Oversight during a peer review (to be performed at the reviewed firm's location)
2. Oversight after a peer review (generally performed away from the reviewed firm's location before committee acceptance)
3. Desk oversight (to be performed at the oversight reviewer’s office after a peer review has been accepted)
4. Verification of reviewers’ resumes
5. Administrative oversight (similar to an inspection)

The details of each type are discussed below.

1. Oversight during a Peer Review

The purpose of the oversight visit will be for the oversight reviewer to conclude whether or not the reviewer conducted the peer review in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews* (hereinafter referred to as "Standards") and reached appropriate conclusions.

Reviewer Selection

When selecting reviewers for in-the-field committee oversight to be performed during a peer review, there are two methodologies to be followed:

Quasi-Random Selection

- * Reviewers that do a large number of reviews (as defined periodically by the committee)
- * Reviewers that issue a large number of peer review reports with a rating of *pass* without findings for further consideration (FFC) forms (a percentage greater than the overall percentage of these reports issued in Illinois or Iowa)
- * Reviewers conducting peer reviews of firms with a number of high-risk area audits or a concentration of audits in a single high-risk area
- * Reviewers selected on a purely random or haphazard basis

Problem Situations

- * Disagreements between the reviewer and the reviewed firm **during the conduct of a peer review** that cannot be resolved without an independent look at the engagement(s) in question
- * Reviewers who have had unsatisfactory performance on prior peer reviews, such as:
 - * Repeatedly being required to reissue corrected documents to the firm
 - * Repeatedly being challenged on adequacy of review scope
- * Reviewers who have received a peer review report with a rating of *pass with deficiencies* or *fail* on his/her own firm's peer review that has not been accepted by the committee
 1. Oversight to be performed at the reviewer's expense if the review is scheduled after ICPAS has been notified that the reviewer's firm received a peer review with a rating of *pass with deficiencies* or *fail*.
 2. Consideration will be given for not charging for the oversight for reviews that were already scheduled when the reviewer's firm had its peer review.

Oversight Procedures

The oversight will take place while the peer review is in process. Typical procedures will include:

- * Inquiries of ICPAS peer review department staff regarding results of review team's most recent resume and CPE verification procedures
- * Review of the review team's planning documentation, reliance on the reviewed firm's monitoring procedures (if any) and engagement selection
- * Review of selected engagement workpapers

- * Review of selected peer review forms, checklists and workpapers for completeness and consistency with conclusions reached
- * Discussion with the team captain regarding the review team's general approach and scope of the peer review, engagement-related problems and overall findings and conclusions
- * Attendance at exit conference to observe discussions
- * Pre-issuance review of the peer review report and FFCs, if any, and the firm's letter of response, if applicable

Documentation of these procedures will be provided using the AICPA Peer Review Program Oversight Checklist. This process will normally take place during the last day of the peer review, with additional time needed in planning and for the final review of documents. Both the reviewer and reviewed firm will be notified in advance so that appropriate arrangements can be made.

The oversight reviewer will submit a report on the results of the oversight. **A draft of the report should be reviewed with the reviewer prior to submission**, along with all workpapers generated on the oversight, to the Illinois Peer Review Executive Committee. Based on the results of the oversight visit, it may be appropriate for the oversight reviewer to recommend additional CPE for the reviewer, additional oversight and/or suspension of the reviewer's qualifications pending further action.

Oversight Reviewer Selection

The oversight reviewer will generally be selected from the members of the ICPAS Peer Review Executive Committee (which consists of a chair, vice chair, AICPA Peer Review Board (PRB) or Oversight Task Force (OTF) member, if any, RAB subcommittee chairs and a few members at large) based on geographical location, areas of expertise, and experience as a reviewer. All oversight reviewers chosen to perform in-the-field oversight will be qualified at the team captain level. If the need should arise, the overall committee chair may designate current or former committee members or experienced reviewers to perform the oversight. Oversight reviewers will be paid an hourly rate plus expenses by the ICPAS. Six to eight hours are usually budgeted for an in-the-field oversight.

It is anticipated that four to six on-site oversight visits will be scheduled each year to take place during the conduct of the peer review.

2. Oversight After A Review

After the completion of a peer review, the RAB may request that certain oversight procedures be performed **prior to the acceptance of the peer review** to provide added assurance that the peer review was carried out consistently and in accordance with Standards. This oversight could be done either by calling in the peer review working papers for review or going in the field to the reviewed firm's location.

Peer reviews identified for this type of oversight will ordinarily meet one or more of the following criteria:

- * The RAB questions the appropriateness of the peer review report issued and cannot resolve the questions without an independent look at the firm being reviewed
- * There was a disagreement between the reviewer and the reviewed firm that cannot be resolved without an independent look at the engagement(s) in question
- * The reviewer had performed in an unsatisfactory manner on a prior review
- * The RAB questions whether the reviewed firm understands the importance of the peer review findings and/or has committed to corrective actions that are practicable in the circumstances
- * The reviewer's firm received a peer review report with a rating of *pass with deficiencies* or *fail* on his/her own firm's peer review

Oversight Procedures

The nature, extent and timing of procedures applied by the oversight reviewer will depend on the reason for the oversight:

- * If oversight is performed because the RAB had questions about the appropriateness of the peer review report issued or because there was a disagreement between the reviewer and the reviewed firm, the oversight will focus on the specific quality control policies and procedures and the engagement(s) in question. The person(s) performing the oversight may conclude that it is necessary to look at other work of the firm in order to reach a conclusion.
- * If oversight is performed because the reviewer had performed in an unsatisfactory manner on a prior peer review, the oversight will include a review of the workpapers for completeness and consistency with conclusions reached, and a discussion with the reviewer regarding the general approach and scope of peer review, engagement-related problems and overall findings and conclusions.
- * If oversight is performed because the RAB questions whether the reviewed firm understands the importance of the peer review findings and/or has committed to corrective actions that are practicable in the circumstances, the oversight will normally consist of discussions with the reviewed firm (either at the firm's location or by telephone).
- * If oversight is performed because the reviewer's firm received a peer review report with a rating of *pass with deficiencies* or *fail* on his own firm's peer review, the oversight will focus on the deficiencies that caused the reviewer's firm to receive

other than a pass report. The person(s) performing the oversight may conclude that he/she may need to look at some of the reviewed firm's engagements along with the review workpapers.

The oversight reviewer may use the AICPA Peer Review Program Oversight Checklist as a guide and/or prepare a brief memo to document the oversight procedures and the conclusions reached as a result of the oversight. **Any oversight reviewer comments and conclusions should be reviewed with the reviewer prior to submission**, along with all workpapers generated on the oversight, to the ICPAS Peer Review Executive Committee.

Oversight Reviewer Selection

The oversight reviewer will generally be selected from the members of the ICPAS Peer Review Executive Committee based on geographical location, areas of expertise and experience as a reviewer. All oversight reviewers chosen to perform in-the-field oversight will be qualified at the team captain level. If the need should arise, the overall committee chair may designate current or former committee members or experienced reviewers to perform the oversight. Oversight reviewers will be paid an hourly rate plus expenses, normally by the ICPAS. Oversight required because of a reviewer performance letter will be paid at the same rates by the reviewer. It is possible for a situation to occur in which the reviewed firm would be required to pay for the oversight (e.g., the reviewed firm is unreasonable in requesting the oversight because of disagreement with the opinion issued).

3. Desk Oversight

At various times throughout the year, a random or haphazard selection is made of ten to twelve peer reviews. System and engagement reviews are selected in order to choose a variety of opinions, firm-on-firm and CART reviews, different RABs and different reviewers. The workpapers are obtained from the reviewers in the case of firm-on-firm reviews and materials for the CART reviews are pulled from the files maintained in the ICPAS peer review department. Copies of these materials are then mailed to the oversight reviewer on the ICPAS Peer Review Executive Committee.

Documentation of these procedures will be provided using the AICPA Peer Review Program Oversight Checklist. Procedures consist of reviewing the peer review working papers, reports and finding for further consideration forms and letters of response, if any, to determine whether the peer review was performed according to the Standards and that the technical reviewer and the RAB reached the appropriate conclusions regarding the acceptance of the peer review and in requiring additional corrective actions, if any. Procedures also include a review of certain other documents to determine whether ICPAS personnel properly administered the peer review. Any comments generated as a result of this process are shared with the reviewer and/or RAB as feedback for future peer reviews; changes to existing documents are not anticipated. The oversight reviewer gets agreement from the reviewer on any comments that would have caused a revision in the peer review report or letter of comments. This oversight is performed as part of the committee member's volunteer time.

4. Verification of Reviewers' Resumes

Verification procedures will include calling/writing peer reviewers and requesting them to provide specific information such as the number of engagements they are specifically involved with and in what capacity and then determining from PRISM whether the peer reviewer's firm actually performed those engagements during its last peer review.

Verification procedures will also include obtaining a summary of the reviewers' CPE in order to test whether they are in compliance with Interpretation No. 33 of the Standards and, if the reviewer has indicated experience in audits under *Government Auditing Standards*, with the Yellow Book CPE requirements.

5. Administrative Oversight

Self-oversight of internal matters is performed once a year, except for any year in which there is AICPA PRB administrative oversight. It is done to obtain reasonable assurance that the peer review program in Illinois is being administered according to guidelines established by the AICPA PRB as set forth in the *State CPA Society AICPA Peer Review Program Administrative Manual*.

Oversight Procedures

The oversight reviewers use the Administrative Oversight Summary (Exhibit 2-1) of the *AICPA Peer Review Program Oversight Handbook Program* as a guide in performing their oversight procedures. A report is prepared and presented to the ICPAS Peer Review Executive Committee.

Oversight Reviewers

All oversight procedures are performed by a member(s) of the ICPAS Peer Review Executive Committee.

Changes in Peer Review Documents as a Result of Oversight Visit

During the performance of or upon completion of an oversight visit done in conjunction with the actual peer review or done subsequent to the peer review but prior to its acceptance, the oversight reviewer may suggest the need for a change in the peer review report and/or letter of comments. If the reviewer and the reviewed firm agree with the changes suggested, those changes should be made. If agreement cannot be reached, the matter should be referred to the ICPAS Peer Review Executive Committee. If the reviewer or the reviewed firm does not agree the executive committee's decision, the peer review may be referred to the AICPA PRB for resolution.

Retention of Oversight Workpapers

Oversight workpapers should be retained by the oversight reviewer until 120 days after the ICPAS Peer Review Executive Committee has accepted the oversight reviewer's report and has issued a letter to the reviewer regarding the results of the oversight.

The report and workpapers on all oversight reviews should be kept by the ICPAS peer review department in a separate oversight file for a period of time to enable the AICPA PRB oversight reviewer to evaluate the extent of the ICPAS' compliance with its oversight procedures.

Copies of the oversight report should be kept:

1. In the reviewer's file and purged according to the ICPAS reviewer file purge policy.
2. In the firm's file with the applicable current review working papers until such time as those documents are destroyed.