

**PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016**

I. Administering Entity Oversight Process and Procedures

a. Description of its oversight process

The Committee has a subcommittee formed by three peer review committee members, the technical reviewer and the Coordinator to monitor compliance with the oversight policy. The cost of the oversight is covered through a fund created by charging the reviewer 5% of the amount billed to the firm on each review. The committee members, who are also reviewers, usually perform the oversights using the oversight program from the Oversight Manual. These committee members are paid a maximum of \$225 per oversight performed, plus mileage, if applicable. In some extraordinary cases, the person performing the oversight may be paid up to \$375, mainly due to the fact that the oversight took more than the normal time due to delays in the process due to a performance deficiency by the reviewer.

Oversight reports are kept on file for the AICPA oversight visits. Reports are not sent to the AICPA unless specifically required by them. The final report is prepared on the reviewer's letterhead and submitted to the Peer Review Committee for approval. Usually these oversight reports are presented to the Committee together with the related review working papers.

In addition, Committee members revise the progress of reviews scheduling and completion, periodically.

We believe the oversight process is very helpful to identify any misunderstanding and/or deficiency in the peer review process.

b. The procedures performed with respect to reviewed firms and peer reviewers

Oversight selection and procedures

Throughout the year, the Subcommittee together with the 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 Oversight Manual.

The selection of firms is based on a number of factors, including but not limited to the types of peer review reports the firm has previously received and whether the firm conducts engagements in high risk industries.

PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016

The selection of reviewers is based on various factors, including but not limited to the frequent submission of pass reports, conducting a significant number of reviews for firms with audits in high risk industries, performance of their first peer review, performing high volumes of reviews, performing reviews with deficiencies, such as issuance of inappropriate report, or not considering matters that turn out to be significant. In addition to these mentioned factors, our Committee decided, to perform one oversight to each reviewer. This will be performed throughout a five years period in order to cover all of the reviewers.

At a minimum, we perform oversight on 2% of all reviews performed every year, and within this 2% selected, there must be at least two of each type of peer review performed. We combine this requirement with the selection of reviews with “must select” engagements. In our society, we usually only perform one engagement review annually and no report reviews. Therefore, we select that only engagement review for oversight. Since we perform less than 100 reviews per year, in our annual plan of administration, the Peer Review Board approves for us a waiver from the minimum requirements. Normally, our oversights are performed on-site, except one or two that may be performed off-site.

The findings noted in the oversights performed are discussed and resolved with the reviewer. Should the reviewer be required to complete additional work, s/he performs it and the committee member performing the oversight reviews the work before completing the related oversight report. During 2016, all reviews were found to be performed in accordance with the AICPA peer review standards.

c. Administrative Oversight

In those years when there is no AICPA on-site oversight, our Committee performs an administrative oversight by an individual approved by them, usually a Committee member. These oversight reports are submitted to the Committee for approval and to the AICPA together with the annual Plan of Administration. The last administrative oversight was performed during December 2015. During 2016 we did not perform one because the AICPA was scheduled to perform the oversight during 2016. However, due to some circumstances, the AICPA could not perform it during this year; currently, the AICPA is coordinating with us to perform it during April-May 2017.

**PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016**

D. Annual Verification of Reviewers' Resumes

In accordance with the AICPA oversight enhancement No. 4, we verify on an annual basis, at least 33% of all reviewers' resumes. In this way, all reviewers' resumes are verified over a three-year period. We use the checklists provided in the Oversight Manual in order to verify information including, but not limited to, number of engagements they are specifically involved with and in what capacity, comparison of information with his firm's most recent background information to determine if he actually performed those engagements, determination of qualifications and experience related to engagements performed under the "must select" industries, CPE courses taken over a three-year period, compliance with requirements to perform Yellow Book audits and other applicable CPE requirements, the position in his firm and the type of report on its most recent peer review.

During 2016 we performed the resume verification for 8 reviewers. All differences were clarified, acted upon and resumes updated as required by the results of this verification procedure.

II. Summary of Peer Review Programs

a. Peer Review programs administered by our Society

Our Society administers two Peer Review Programs:

1. AICPA Peer Review Program

PRSCPA members that are also AICPA members and are in the public accounting practice are required to join the AICPA Peer Review Program, as per the AICPA bylaws. Our Society started the administration of this AICPA Program during 1988.

2. PRSCPA Peer Review Program

PRSCPA members that are currently in public accounting practice and are not AICPA members, can voluntarily join the Voluntary Society Peer Review Program. This Program has three sections one of which the member selects to participate in, as he becomes a Program member. While being a member of the Program, he can voluntarily change from one Peer Review Program section to another. The available sections are:

PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016

- a. Consulting Review
- b. Report Review
- c. System Review (operates the same as the AICPA Peer Review Program)

Usually members start in the Report Review Section and once it is performed, they upgrade to the System Review Section. The Consulting Review Section is an intermediary step between the Report Review Section and the System Review Section because it basically consists of a diagnostic review which helps the firm to prepare for a System Review.

Once the member completes the admission form, he selects the section in which he wants to participate in. In addition, the member also selects the review period. This review period must cover the year ended not more than six months before or after his entrance to the program. Consulting and Report Reviews are due within three months after the selected review period, System Reviews are due within six months after the selected review period. In any case, the least time that the member has to complete his peer review is either three months (for report and consulting reviews) or six months (for system reviews) after his admittance date to the Peer Review Program.

Once the member has performed a Consulting Review, a Report Review or a System Review, he can request in writing to change to have another type of review be performed to his practice. The member voluntarily chooses which type of Peer Review he wants to have performed to his practice.

Both programs have a Peer Review Committee responsible to approve the peer reviews and act upon the different administrative matters, such as granting extensions, and some others.

**PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016**

**b. Number of Enrolled Firms by Number of Professionals¹ as of
December 27, 2016**

| | AE Peer Review Program ² (System Review Section) | AICPA Peer Review Program ³ |
|-----------------------------|--|--|
| Sole Practitioners | 12 | 32 |
| 2 - 5 | 3 | 64 |
| 6 - 10 | 2 | 25 |
| 11 - 19 | 0 | 6 |
| 20 - 49 | 0 | 9 |
| 50 - 99 | 0 | 1 |
| 100+ | 0 | 3 |
| Total Enrolled Firms | 17 | 140 |

**i. Results of Peer Reviews Performed During the Year 2016
Results by Type of Peer Review and Report Issued**

| | AE Peer Review Program | AICPA Peer Review Program ⁴ |
|------------------------------|------------------------|--|
| System Reviews: | | |
| Pass | - | 16 |
| Pass with Deficiency(ies) | - | 3 |
| Fail | - | - |
| Subtotal – System | 0 | 19 |
| Engagement Reviews: | | |
| Pass | - | - |
| Pass with Deficiency(ies) | - | - |
| Fail | - | - |
| Subtotal – Engagement | - | 0 |
| Totals | 0 | 19 |

¹ Professionals are considered all personnel who perform professional services, for which the firm is responsible, whether or not they are CPAs.

² For this report purposes, we are only including the members in the system review section of the Program.

³ At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

⁴ Same as 3 above. In addition, this data reflects peer review results as of December 27, 2016. Approximately 7% of 2015 (yr) & 59% of 2016 (yr.) reviews are in process and their results are not included in the totals above.

**PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016**

ii. Number and Reasons for Report Modifications

The following list the reasons, summarized by element of quality control as defined by SQCS, for report modifications and show the number of firms that received modified reports from system reviews performed for 2016.

| Reasons for Report Modifications: | AE Peer Review Program | AICPA Peer Review Program ⁵ |
|---|------------------------|--|
| Leadership responsibilities for quality within the firm (“the tone at the top”) | - | - |
| Engagement Performance | - | 2 |
| Relevant Ethical Requirements | - | - |
| Acceptance & Continuance of Client Relationships and specific engagements | - | - |
| Human Resources | - | - |
| Monitoring | - | - |
| Totals | - | 2 |

Note: The above data reflects peer review results as of 12-27-2016. For the AICPA Peer Review Program and the AE Peer Review Program, approximately 100 % and 59% of 2015 reviews, respectively, are in process and their results are not included in the totals above.

iii. Number of Engagements Not Performed or Reported on in Accordance with Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as not performed or reported on in accordance with Professional Standards in all material respects. As per the Standards, these engagements are identified as such when deficiencies,

⁵ At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016

individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represent omission of a critical accounting, auditing or attestation procedure required by professional standards.

| Engagement Type | AE Peer Review Program | | AICPA Peer Review Program ⁶ | |
|----------------------------------|------------------------|---|--|---|
| | Number of Engagements | | Number of Engagements | |
| | Reviewed | Not performed in accordance with Professional Stds. | Reviewed | Not performed in accordance with Professional Stds. |
| Audits-SA Act (A-133) | - | - | 22 | 2 |
| Audits-Subject to GAS -All Other | - | - | 4 | 0 |
| Audits-ERISA | - | - | 7 | 1 |
| Audits-FDICIA | - | - | 0 | 0 |
| Audits-Other SAS | - | - | 26 | 0 |
| Reviews | - | - | 9 | 0 |
| Compilations with Discl | - | - | 16 | 0 |
| Compilations W/O Discl | - | - | 1 | 0 |
| Financial fcst & proj | - | - | 1 | 0 |
| Financial fcst & proj-Other | - | - | 0 | 0 |
| Agreed Upon Procedures | - | - | 6 | 0 |
| Other SSAES | - | - | 1 | 0 |
| Preparation eng w/ Discl | - | - | 1 | 0 |
| Totals | 0 | - | 92 | 3 |
| % Substandard | - | - | | 3.19% |

Note: The above data reflects peer review results as of 12-27-16. For the AICPA Peer Review Program and the AE Peer Review Program, approximately 100 % and 59% of 2016 reviews, respectively, are in process and their results are not included in the totals above.

iv. Summary of Required Follow-Up Actions

The following represents the type of follow-up actions required by the Peer Review Committee during 2016:

| Type of follow-up Action | AE Peer Review Program | AICPA Peer Review Program ⁷ |
|--------------------------|------------------------|--|
| Receiving Revised Report | - | 2 |
| Receiving revised LOR | - | 2 |
| Receiving revised SRM | - | 2 |

⁶ At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

⁷ At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

**PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016**

| | | |
|--------------------------------------|----------------------|-----------------------|
| Submit to TC review of sub eng w/wps | - | 1 |
| Clarification of one or more issues | - | 2 |
| Receipt of additional information | - | 1 |
| Resolution of open questions | - | 4 |
| Other=No follow up required | - | 1 |
| Join EBPAQC | - | 1 |
| Join GAQC | - | 1 |
| | | |
| Totals | -⁸ | 15⁹ |

III. Oversight Process
a. Oversight Results
i. Peer Reviews

| AE Peer Review Program ¹⁰ | | | AICPA Peer Review Program ¹¹ | | |
|--------------------------------------|---|-----------------|---|---|-----------------|
| Type of peer Review (Sys, Eng) | Must select engagement (ERISA, GAGAS, NONE) | Total Oversight | Type of peer Review (Sys, Eng) | Must select engagement (ERISA, GAGAS, NONE) | Total Oversight |
| - | N/A | - | System | GAGAS | 2 |
| - | - | - | System | ERISA | 2 |

ii. Verification of reviewer's resumes

| Total Number of Peer Reviewers | Total Number of Resume's Verified for year | % of Total Verified |
|--------------------------------|--|---------------------|
| 21 | 8 | 38% |
| | | |

⁸ For the AE PRP during 2016 no system reviews were performed.

⁹ At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

¹⁰ During 2016 for the AE PRP no oversight was performed.

¹¹ At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

**PUERTO RICO SOCIETY OF CPA (PRSCPA)
2016 ANNUAL REPORT ON OVERSIGHT
ISSUED ON DECEMBER 27, 2016**

iii. Administrative oversights

| | |
|---|-----------------------------------|
| Date of last administrative oversight performed by the Administering Entity | December-2015¹² |
| Date of last on-site oversight performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program) | October 2014¹³ |

¹² 2016 was the year during which the AICPA was to perform the AICPA Oversight and the Society did not have to perform the Administrative Oversight. However, since the AICPA postponed the 2016 AICPA oversight to be performed approximately during April-May 2017 (AICPA is currently coordinating the performance dates), we did not perform any administrative oversight.

¹³ As stated in 12 above, the next AICPA oversight is being coordinated by the AICPA to be performed approximately during April-May 2017, since due to some reasons the AICPA had to delay it to be performed during 2017.