



DEPARTMENT OF CONSUMER AFFAIRS
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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
 PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

**PROC MEETING
 NOTICE & AGENDA**

**Thursday, October 27, 2011
 9:30 a.m. – 3:30 p.m.**

DoubleTree by Hilton San Jose
 2050 Gateway Place
 San Jose, CA 95110
 Telephone: (408) 453-4000
 FAX: (408) 437-2898

PROC Purpose Statement

To engender confidence in the California Peer Review Program by performing oversight of the program and providing recommendations to the CBA on the effectiveness and continued reliance of the Program.

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|-------------|--|
| 9:30-9:35 | I. Roll Call and Call to Order (Nancy Corrigan, Chair). |
| 9:35-10:00 | II. Report of the Committee Chair (Nancy Corrigan).
A. Approval of the August 30, 2011 PROC Minutes.
B. Report on the September 22, 2011 CBA Meeting.
C. Report on Conflicts of Interest Issue. |
| 10:00-10:30 | III. Report on PROC Activities (Nancy Corrigan).
A. Report on the October 20-21, 2011 California Society of CPAs' (CalCPA) Peer Review Committee Meeting.
B. Report on the September 20, 2011 CalCPA Report Acceptance Body Meeting.
C. Report on the October 6, 2011 American Institute of Certified Public Accountants' (AICPA) Peer Review Board Meeting. |
| 10:30-10:45 | IV. Reports and Status of Peer Review Initial Implementation (Kathy Tejada, Enforcement Manager, and April Freeman, CBA Staff).
A. Status of Senate Bill 543. |

- B. Statistics of Licensees Who Have Reported Their Peer Review Information to the CBA.
- C. Status of Correspondence to Licensees Regarding Peer Review Reporting.
- 10:45-11:00 V. Status of PROC Roles and Responsibilities Activity Tracking (**April Freeman**).
- 11:00-12:00 VI. Discussion of Materials from the August 16, 2011, National Association of State Boards of Accountancy's (NASBA) Peer Review Oversight Committee Summit (**Nancy Corrigan**).
- 12:00-1:00 **LUNCH**
- 1:00-1:15 VII. Discussion Regarding PROC Procedures Manual (**Rafael Ixta, Enforcement Chief**).
- 1:15-1:30 VIII. Discussion of the AICPA's Exposure Draft on Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, August 22, 2011 (**Nancy Corrigan/Katherine Allanson, Member**).
- 1:30-1:45 IX. Discussion Regarding the PROC's Annual Report to the CBA (**Rafael Ixta**).
- 1:45-2:15 X. Discussion Regarding Procedures for Oversight Checklists (**Rafael Ixta**).
- 2:15-2:45 XI. Discussion Regarding Peer Review Program Statistics Available from CalCPA (**Linda McCrone, CalCPA**).
- 2:45-3:00 XII. Discussion Regarding PROC Assignments (**Nancy Corrigan**).
- 3:15-3:20 XIII. Future Agenda Items (**April Freeman**).
- 3:20-3:30 XIV. Public Comment for Items Not on the Agenda.
- XV. Adjournment.

Please note: Action may be taken on any item on the agenda. All times are approximate. In accordance with the Bagley-Keene Open Meetings Act, all meetings of the PROC are open to the public. Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the PROC prior to the PROC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the PROC, but the PROC Chair may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the PROC to discuss items not on the agenda; however, the PROC can neither discuss nor take official action on these items at the time of the same meeting. (Government Code sections 11125, 11125.7(a).) CBA members who are not members of the PROC may be attending the meeting. However, if a majority of members of the full board are present at the PROC meeting, members who are not members of the PROC may attend the meeting only as observers.

The meeting is accessible to individuals with physical disabilities. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting April Freeman at (916) 561-1720, or by email at afreeman@cba.ca.gov, or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

April Freeman, Peer Review Analyst
 (916) 561-1720 or afreeman@cba.ca.gov
 California Board of Accountancy
 2000 Evergreen Street, Suite 250
 Sacramento, CA 95815

An electronic copy of this agenda can be found at <http://www.dca.ca.gov/cba/calendar.shtml>.



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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

**PROC Item II.A.
October 27, 2011**

**MINUTES OF THE
August 30, 2011
PROC MEETING**

Crowne Plaza LAX
5985 West Century Boulevard
Los Angeles, CA 90045-5463
Telephone: (310) 642-7500

PROC Members:

Nancy Corrigan, Chair
Katherine Allanson
Gary Bong
T. Ki Lam - Absent
Sherry McCoy
Robert Lee
Seid M. Sadat

Staff and Legal Counsel:

Rafael Ixta, Chief, Enforcement Division
Kathy Tejada, Manager, Enforcement Division
April Freeman, Peer Review Analyst

Other Participants:

Linda McCrone, California Society of Certified Public Accountants (CalCPA)

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 10:05 a.m.

II. Report of the Committee Chair.

A. Approval of July 8, 2011 Minutes.

Ms. Corrigan asked members if they had any changes or corrections to the minutes of July 8, 2011, PROC meeting. Ms. Corrigan requested that the second paragraph of Item II.B. be revised to clarify that PROC members requested that, by the August 30th PROC meeting, they be provided with a date when an opinion regarding conflict of interest would be issued.

Rafael Ixta reported that the opinion has been forwarded to CBA Executive Officer Patti Bowers. In summary, PROC members are not prohibited from performing peer reviews as long as certain disclosures are made.

It was motioned by Robert Lee, seconded by Seid Sadat, and unanimously carried by those present to adopt the minutes of the July 8, PROC meeting as revised.

B. Report on the July 21, 2011 CBA Meeting

Ms. Corrigan summarized her report to the California Board of Accountancy (CBA) at its July 21, 2011 meeting. Her report included information on the PROC procedures manual, the annual report which is slated for the March 2012 CBA meeting, and the conflict of interest issue. She also advised the CBA that, although NASBA awarded a scholarship covering all reasonable travel expenses, the Department of Consumer Affairs did not approve the trip to South Carolina to attend the August 16, 2011 NASBA PROC Summit.

C. Report on the August 16, 2011 NASBA PROC Summit

Linda McCrone attended the NASBA PROC Summit on August 16, 2011 in Charleston, South Carolina. She gave a brief overview of the discussion among the states concerning peer review oversight. She expects to receive additional materials from NASBA which she will forward to the PROC. Ms. Corrigan suggested reviewing all of the materials from the Summit to determine if they could be used to enhance our own materials.

Ms. McCrone stated that many states are still new to the oversight process. She added that the Summit attendees were impressed with the checklists developed by the PROC.

Robert Lee suggested obtaining a copy of the Minnesota's Annual Report. Ms. Corrigan added that she would request a copy of Texas' Annual Report.

Mr. Ixta thanked Ms. McCrone for her feedback on the Summit and felt the PROC could gain valuable insight from her participation in future Summits. He further suggested that future Summits have a teleconference component or be webcast so that the PROC could participate. Staff will provide these suggestions directly to NASBA.

III. Report on PROC Activities

A. Report on the August 10, 2011 American Institute of Certified Public Accountants' (AICPA) Peer Review Board Meeting.

Ms. Corrigan requested feedback from PROC members that attended the AICPA Peer Review Board Meeting. Gary Bong stated that the meeting was interesting and valuable. He also stated the meeting was very structured and the members had their act together. Seid Sadat was very impressed with the technical discussions, although he feels that more time spent with the materials would enhance future meetings.

Ms. Corrigan reminded members that they can download the meeting materials from the AICPA Web site.

B. Report on CalCPA Report Acceptance Body (RAB) Meetings.

- i. June 26, 2011 RAB. Sherry McCoy and Katherine Allanson attended the meeting at the CalCPA Glendale office. They reported that approximately 60 reports were reviewed. Because they attended at a CalCPA office, they had access to materials such as checklists, summary review memos, Matters for Further Consideration, and all documents from the peer reviewer.
- ii. August 25, 2011 RAB. Ms. McCoy attended the meeting at the CalCPA Glendale office. She was pleased that the meeting materials were provided electronically.

Ms. Allanson, Ms. McCoy and Mr. Lee attended CalCPA's "How To Conduct A Review Under the AICPA" peer reviewer training in Los Angeles on July 18-19, 2011. Ms. Allanson commented that the presenter had a very practical approach; however, she used a lot of advanced terms. Ms. Allanson suggested that the course be designed more for beginner peer reviewers. She did add that the instructor was more than willing to explain terms when asked. Ms. Allanson was impressed with the amount of time spent going through cases and explaining why certain decisions were made.

Mr. Lee agreed that there appeared to be an assumption of knowledge on the part of the presenter, but thought it might have been brought about because many of the attendees were experienced peer reviewers.

Ms. McCoy commented that the course was very well coordinated.

Ms. McCrone stated she would pass these comments on to the course presenter.

Mr. Lee suggested the possibility of CalCPA offering a mentoring program. Ms. McCrone responded that they have attempted to offer mentoring; however, it is a very complicated program to develop. Ms. Allanson thought, at a minimum, CalCPA could flag new peer reviewers to make sure they are performing adequately. Ms. McCrone explained that length of experience is something CalCPA takes into consideration when selecting which peer reviewers to oversight.

Ms. Corrigan requested that a discussion of which documents/checklists need to be submitted to CBA staff following oversight activities by PROC members be added to the next PROC agenda.

IV. Reports and Status of Peer Review Initial Implementation.

A. Update on Proposed Legislative Language to Extend the Sunset Date on Mandatory Peer Review.

Ms. Tejada advised members that Senate Bill 543 has passed all committees and is pending a vote in the full Assembly.

B. Statistics of Licensees who have Reported their Peer Review Information to the CBA.

Ms. Tejada reported that as of August 16, 2011, 25,956 licensees have reported peer review information. The breakdown is as follows: 2,174 firms required to undergo peer review, 5,032 firms not required to undergo peer review, and 18,750 licensees not operating as a firm.

C. Status of Correspondence to Licensees Regarding Peer Review Reporting and Updates to License Renewal Application.

Ms. Freeman stated that on July 22, 2011, just over 20,000 notification letters were sent to licensees who are required to submit the reporting form by July 1, 2012.

Staff is currently preparing deficiency letters to be mailed to approximately 3,800 licensees who were required to, but did not, report by the July 1, 2011 deadline. These letters are expected to be mailed in early September.

V. Discussion Regarding PROC Procedures Manual.

Mr. Ixta explained that staff incorporated work done by PROC members into the format of other CBA committee manuals to prepare the draft PROC Procedures Manual. He requested feedback from members.

Mr. Lee suggested that under Section IV.A.4 – Sample Reviews, the first sentence be revised to read, “The PROC shall conduct reviews of peer reviews accepted by a Provider on a sample basis.” He also suggested that the title of the section be revised.

Mr. Lee further suggested language that would clarify Section IV.A.6. – Statistics, to include adding statistics for delinquent peer reviews and licensees who have been expelled from the peer review program. Ms. McCrone responded that she would determine if those statistics are available. Ms. Corrigan requested that the PROC discuss the availability of statistics at the next PROC meeting.

Ms. Corrigan suggested expanding the Membership section to include the qualification requirements to be appointed to the PROC. She also suggested reviewing procedure manuals from other states’ PROCs. Regarding the membership qualifications, Mr. Sadat suggested mirroring the information in the presentation provided by the Oklahoma State Board of Accountancy at the NASBA Summit. Mr. Ixta added that membership qualifications could be pulled from the regulations or the February 2008 CBA memorandum.

Mr. Ixta suggested that the PROC discuss developing additional oversight checklists for attending peer reviewer training courses and for conducting sample reviews.

Mr. Ixta questioned if the last sentence of the first paragraph in Section IV.A.3. – Peer Review Subcommittee Meeting, is correct and appropriate. Members believed that it would be appropriate for the PROC to monitor the appropriateness and consistency of remedial or corrective actions prescribed by the CalCPA.

VI. Status of PROC Roles and Responsibilities.

A. PROC Roles & Responsibilities.

Mr. Ixta gave an overview of the PROC activity tracking sheet and stated that the PROC is on track. He went over the tasks that are still outstanding, which include performing an administrative site visit, preparing the annual report to the CBA, developing policies for new peer review providers, and performing random samplings of peer review reports.

B. Administrative Site Visit Checklist.

Mr. Ixta explained that the Administrative Site Visit Checklist is based on the minimum requirements for peer review program providers as outlined in Section 48 of the CBA Regulations.

Ms. Allanson inquired if AICPA has a checklist for administrative site visits. Ms. McCrone responded that there is a checklist in the Oversight Handbook. Mr. Ixta clarified that the checklist is designed to be used for all current and future program providers, and therefore, should only cover minimum requirements.

Ms. Corrigan suggested a space be added to indicate the name of the provider being visited. Staff will also ensure consistency with other oversight checklists.

VII. Discussion Regarding PROC Assignments.

Ms. Corrigan stated that she will be selecting one PROC member to join her on a visit to the CalCPA offices to discuss procedures and random sampling of peer reviews. The meeting is expected to take place the week of October 3rd or October 10th.

Ms. Corrigan confirmed/assigned the following events:

- September 20, 2011 RAB Meeting – Seid Sadat and Katherine Allanson at the CalCPA Glendale office.
- October 6, 2011 AICPA PRB – Katherine Allanson and Robert Lee
- October 20-21, 2011 CalCPA PRB – Nancy Corrigan and Seid Sadat
- December 13, 2011 CalCPA RAB – Gary Bong at the San Mateo office.

VIII. Future Agenda Items.

Agenda items for future PROC meetings:

- Review of NASBA PROC Summit Materials
- Discussion of Document to be Submitted and Retained after Oversight Activities
- Discussion of Statistics Available from Peer Review Program Providers

IX. Public Comment for Items Not on the Agenda.

No public comment.

X. Adjournment.

There being no further business, the meeting was adjourned at 1:00 p.m.

Nancy Corrigan, Chair

April Freeman, Peer Review Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-1720.



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PROC Item II.C
October 27, 2011

Conflicts of Interest Involving Members of the PROC

Presented by: Nancy Corrigan, Chair PROC

Date: October 17, 2011

Purpose of the Item

To inform Peer Review Oversight Committee (PROC) members of the resolution of conflicts of interest issues involving members of the PROC.

Action(s) Needed

No specific action is required on this agenda item.

Background

At the March 4, 2011 PROC meeting, members deliberated the issue of potential “conflicts of interest” arising through PROC members performing peer reviews or being associated with firms or organizations involved in performing peer reviews. Such “conflict” might be evidenced in a member reviewing, or providing oversight on, a peer review he or she had performed. Additionally, members of the PROC are responsible for providing oversight to the American Institute of Certified Public Accountants’ (AICPA) Peer Review Program – basically, providing oversight to the very same organization that authorizes PROC members to be peer reviewers in the first place, as well as provides them with peer review training.

CBA staff was directed to seek guidance from the Department of Consumer Affairs’ (DCA) Legal Office. The specific questions posed to the DCA Legal Office are noted below along with the legal counsel’s responses (**Attachment 1**):

1. Q: Can a PROC member also be a member of the AICPA/California Society of CPAs (CalCPA)?
A: Yes. A PROC member can be a member of AICPA and/or CalCPA.
2. Q: Can a PROC member conduct peer reviews as a self-employed/sole proprietor?
A: Yes. However, if any decisions involving a peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.
3. Q: Can a PROC member conduct peer reviews as an employee of a firm that conducts peer reviews?

A: Yes. However, if any decisions involving the employee's firm or peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.

4. Q: Can a PROC member be an owner/partner of a firm that conducts peer reviews, but the PROC member does not conduct peer reviews?

A: Yes. A PROC member may be an owner and/or partner of an accounting firm that conducts peer reviews when the PROC member does not conduct peer reviews. However, if any decisions involving this firm come before the PROC, the PROC member would have to disqualify himself/herself from all of these issues/decisions before the PROC.

5. Q: Does Form 700 – Statement of Economic Interests (Schedule C: Income, Loans, & Business Positions) – serve as a means to disclosure and mitigate any potential conflicts?

A: To some extent, the Form 700 serves as a means of disclosure and mitigation of financial conflicts of interest. The Form 700 identifies when there is a financial conflict of interest such that disqualification in regards to a specific decision would be required.

Comments

The attached DCA Legal Office memorandum considered the Political Reform Act, Conflicts of Interest in Contracts, Common Law Doctrine Against Conflict of Interest, and Incompatible Work Activities in arriving at the responses to the questions posed.

Recommendations

It is recommended that PROC members adhere to the guidance provided by the DCA Legal Office in carrying out their duties to avoid any potential conflict of interest situations.

Attachment

1. Memorandum from Michael R. Santiago, Senior Staff Counsel, dated August 30, 2011.



**ATTORNEY-CLIENT PRIVILEGED COMMUNICATION
ATTORNEY WORK PRODUCT**

MEMORANDUM	
DATE	August 30, 2011
TO	Patty Bowers, Executive Officer Board of Accountancy
FROM	 Michael R. Santiago, Senior Staff Counsel Department of Consumer Affairs, Legal Office
SUBJECT	Conflicts of Interest Involving Members of the Peer Review Oversight Committee

I. QUESTIONS

You have asked the following questions regarding members of the Board of Accountancy's ("Board") Peer Review Oversight Committee ("PROC"):

- (1) Can a PROC member also be a member of the American Institute of Certified Public Accountants ("AICPA") and/or the California Society of Certified Public Accountants ("CalCPA")?
- (2) Can a PROC member conduct peer reviews as a self-employed individual?
- (3) Can a PROC member conduct peer reviews as an employee of a firm that conducts peer reviews?
- (4) Can a PROC member be an owner and/or partner reviews, but the PROC member does not conduct peer reviews?
- (5) Does the Form 700 – Statement of Economic Interests (Schedule C: Income, Loans, & Business Positions) serve as a means of disclosure and mitigation of any potential conflicts?

II. SHORT ANSWERS

- (1) Yes. A PROC member can be a member of AICPA and/or CalCPA.
- (2) Yes. A PROC member can conduct peer reviews as a self-employed individual. However, if any decisions involving the peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.
- (3) Yes. A PROC member can conduct peer reviews as an employee of a firm that conducts peer reviews. However, if any decisions involving the employee's firm or peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.
- (4) Yes. A PROC member may be an owner and/or partner of an accounting firm that conducts peer reviews when the PROC member does not conduct peer reviews. However, if any decisions involving this firm come before the PROC, the PROC member would have to disqualify himself/herself from all of these issues/decisions before the PROC.
- (5) To some extent, the Form 700 serves as a means of disclosure and mitigation of financial conflicts of interest. The Form 700 identifies when there is a financial conflict of interest such that disqualification in regards to a specific decision would be required.

III. BACKGROUND

The California Board of Accountancy regulates the accounting profession for the public interest by establishing and maintaining entry standards of qualification and conduct within the accounting profession. The Board requires specified licensees to have a "peer review" of its accounting and auditing practices done every three years prior to renewal. A licensee's peer review may only be conducted by a "board recognized peer review program." (Business & Professions Code § 5076.) The AICPA Peer Review Program is the only Board-recognized program provider in California. The Board may rescind its recognition of AICPA if the Peer Review Program no longer meets certain standards. (See 16 CCR §§ 48.1, 48.5.).

The AICPA Peer Review Program is a national program and AICPA engages accounting societies in various states to administer their peer review program. Founded in 1887, AICPA is a non-profit association (IRC section 501(c)(6) – "business league") for certified public accountants. AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations,

federal, state and local governments. AICPA is recognized by the Board as meeting the minimum peer review programs requirements and is authorized to administer peer reviews in California. These peer reviews are conducted via CalCPA.

CalCPA is a non-profit membership organization whose purpose is to advance the profession of accountancy in the state of California. CalCPA provides its members with general and technical resources through its chapters and committees and administers the Peer Review Program on behalf of AICPA in California, Arizona, and Alaska.

The PROC is composed of not more than seven licensees who are required to maintain a valid and active license to practice public accounting in California issued by the Board. The PROC's main duty is to review and recommend to the Board for approval, peer review program provider applications, and to provide recommendations to the Board to ensure the effectiveness of mandatory peer review. (Business and Professions Code §5076.1; 16 CCR § 47.). The PROC is also charged with the following:

- Developing policies and procedures for reviewing and recommending approval to the Board for new peer review program providers.
- Preparing an annual report to the Board regarding the results of its independent oversight of the Peer Review Program.
- Striving for consistency among peer review programs.
- Performing random sampling of peer review reports to assess the effectiveness of the Peer Review Program.

Although the PROC may view a random sampling of peer review reports or observe actual peer reviews for informational purposes related to the PROC's oversight of peer review program providers, the PROC does not receive, review, or approve any peer reviews. AICPA and CalCPA have committees called Report Acceptance Bodies ("RAB") that review peer reviews for acceptance or rejection. PROC members may attend selected RAB meetings. AICPA and CalCPA also have technical peer review committees that review the peer review reports and contact the peer reviewer to clarify any questions or issues with the peer review reports. Once the peer review committee is satisfied with the peer review report, it then goes to the RAB for approval. If a "failed" peer review report is issued, a copy is provided to the Board, but not to the PROC.

A person who qualifies to become a peer reviewer is paid by the accounting firm that is subject to the peer review, and not by AICPA or CalCPA.

IV. ANALYSIS

(1) AICPA and CalCPA Membership.

(A) Political Reform Act

There is no statute or regulation that prohibits a Board or committee member from being affiliated in any manner with a professional association or organization. The conflict of interest analysis begins with considering the financial or economic interests of the public official and whether the governmental decisions made by the public official have any effect on his or her financial interests. Government Code Section 87100 of the Political Reform Act ("Act") prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. When a qualifying conflict of interest exists, the Act requires that the disqualified official abstain from participating in every aspect of the decision-making process. (See Govt. Code § 87105; *Hamilton v. Town of Los Gatos* (1989) 213 Cal.App.3d 1050, 1058-1059.)

Section 87103 of the Act specifies various types of disqualifying financial interests:

A public official has a financial interest in a decision within the meaning of section 87100 if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of his or her immediate family, or on any of the following:

- (a) Any business entity in which the public official has a direct or indirect investment worth two thousand dollars (\$2,000) or more.
- (b) Any real property in which the public official has a direct or indirect interest worth two thousand dollars (\$2,000) or more.
- (c) Any source of income, except gifts or loans by a commercial lending institution made in the regular course of business on terms available to the public without regard to official status, aggregating five hundred dollars (\$500) or more in value provided or promised to, received by, the public official within 12 months prior to the time when the decision is made.
- (d) Any business entity in which the public official is a director, officer, partner, trustee, employee, or holds any position of management.

- (e) Any donor of, or any intermediary or agent for a donor of, a gift or gifts aggregating two hundred fifty dollars (\$250) or more in value provided to, received by, or promised to the public official within 12 months prior to the time when the decision is made. The amount of the value of the gifts specified by this subdivision shall be adjusted biennially by the commission to equal the same amount determined by the commission pursuant to subdivision (f) of Section 89503 [currently \$420].

For purposes of this section, indirect investment or interest means any investment or interest owned by the spouse or dependent child of a public official, by an agent on behalf of a public official, or by a business entity or trust in which the official, the official's agents, spouse, and dependent children own directly, indirectly, or beneficially a 10-percent interest or greater.

No facts were presented that any PROC members have any financial interests in either AICPA or CalCPA, thus, there would be no violation of the Act. Current PROC members are noted to be merely members of these two organizations and none currently hold any type of director or officer position. Section 87103 of the Act states, in part, that a public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect on any "business entity in which the public official is a director, officer, partner, trustee, employee, or holds any position of management." However, AICPA and CalCPA are non-profit organizations, and are not considered business entities under Government Code section 82005, which limits the definition of a "business entity" to for-profit entities. (See Govt. Code § 82005 defining a "business entity" as "any organization or enterprise operated for profit....") Thus, even if a PROC member was also a director or officer of either AICPA or CalCPA, such a position would not be considered a financial interest and there would be no violation of the Act.

(B) Conflicts of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member refrains from participating in any of the steps involved in making the contract. (*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members who have any financial interest in any contract between the PROC and AICPA or CalCPA. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

The common-law doctrine against conflicts of interest applies to situations that do not involve financial or pecuniary interests. Public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. (*Clark v. City of Hermosa Beach* (1996) 48 Cal.App.4th 1152.)

While common law conflicts may sometimes arise in the absence of any financial interests, there still must be some personal advantage or disadvantage at stake for the public officer/employee. (*Id.* at 1172.) Where a conflict of interest exists, the interested official is disqualified from participating in any discussions or votes concerning the particular transaction in which he or she has the conflicting interest.

No specific facts were provided that would suggest or indicate any impropriety on any PROC members' part or that any PROC member is placing his or her interests with AICPA or CalCPA above or in conflict with the duties of being a PROC member. There could be cause for concern that since PROC members make recommendations to the Board about peer review program provider applications, a PROC member who is also a member of AICPA might be biased towards AICPA and not be fair or impartial in the evaluation of another peer review program provider's application. However, there does not appear to be any current personal stake on the part of any PROC member in simply being a member of AICPA that would somehow influence the duty of a PROC member when reviewing a peer review program application for possible approval by the Board; thus, there is no common law conflict of interest.

(D) Incompatible Work Activities

There is a prohibition against state officers and employees engaging in any activity or enterprise that is clearly inconsistent, incompatible, in conflict with, or inimical to their duties as state officers or employees. (Govt. Code §19990). Some examples are: using the prestige or influence of the State for the officer's private gain or advantage; using confidential information for private gain or advantage; or receiving money from anyone other than the state for the performance of his or her duties as a state officer or employee.

Section 19990, subdivision (d) prohibits a state officer or employee from "performance of an act in other than his or her capacity as a state officer or employee knowing that the act may later be subject, directly or indirectly to the control, inspection, review, audit, or enforcement by the officer or employee."

AICPA and CalCPA via its association with AICPA, are subject to the Board's standards for peer reviewers and if such standards are not met, the Board may rescind AICPA's authorization to administer peer reviews in California. There is concern that being a member of AICPA is an incompatible work activity for a PROC member since AICPA is regulated by the Board. However, AICPA is not regulated by the PROC and simply

being a member of AICPA would not in and of itself be considered an incompatible work activity since membership in AICPA is not something that would come under inspection, review, or audit of the PROC. Unless the PROC member who is also an AICPA member engages in activity within AICPA that would be subject to the inspection, review, or audit of the PROC, simply being a member of AICPA would not be considered an incompatible work activity of being a member of the PROC.

(2) PROC Member conducting peer reviews as a self-employed individual.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. When a PROC member conducts peer reviews as a self-proprietor/self-employed individual, payment is received from the firm that is subject to the peer review process. The PROC does not exercise any regulatory control or authority over peer reviews or the firms that are subject to the peer review process. Further, the PROC member who is conducting peer reviews as a self-employed individual would not have any financial interests in any governmental decisions involving his peer review since neither the peer review report nor the firm that is subject to the peer review process come before the PROC. Thus, there is no violation of the Act.

(B) Conflict of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, unenforceable even if the financially interested member of a particular body or board refrains from participating in any of the steps involved in making the contract. (*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members that conduct peer reviews as a self-employed individual who have any financial interest in any contract involving the PROC. In fact, the PROC does not currently have any outstanding contracts with any person or entity. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member conducting peer reviews as a self-employed individual could possibly have his peer review report viewed by the PROC. If that were to occur, the PROC member would have to recuse himself from viewing his own work to avoid any common-

law conflicts of interest. However, no facts were presented that indicate any PROC member who might be conducting peer reviews as a self-employed individual was reviewing his own peer review report in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest. A PROC member who conducts peer reviews must ensure that he does not view any of his own peer review reports.

(D) Incompatible Work Activities

According to section 19990 of the Government Code, a state officer or employee is prohibited from engaging in any activity wherein such activity may later be subject, directly or indirectly, to the control, inspection, review, audit, or enforcement by the state officer or employee.

A PROC member who conducts peer reviews as a self-employed individual could have his/her peer review or peer review report viewed by certain members of the PROC. However, the actual review of the peer review report for final acceptance is not the responsibility of the PROC or any of the PROC members. The PROC does not inspect, review, or audit peer review reports for accuracy or acceptance; thus, a PROC member conducting peer reviews as a self-employed individual would not be engaging in an incompatible work activity so long as the peer review is not subject to the PROC or that PROC member's inspection or audit. As previously stated, certain PROC members might have the opportunity to view a peer review report for informational purposes related to the PROC's oversight of peer review program providers. Thus, the PROC member conducting peer reviews must ensure that he does not view any of his own peer review reports.

(3) PROC Member conducting peer reviews as an employee of a firm that conducts peer reviews.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. When a PROC member conducts peer reviews as an employee of a firm that conducts peer reviews, the peer reviewer's firm receives payment from the firm that is subject to the peer review process. The PROC does not exercise any regulatory control or authority over peer reviews, the firms that hire peer reviewers, or the firms that are subject to the peer review process. Thus, there would be no violation of the Act since the PROC member who is conducting peer reviews as an employee of a firm that conducts peer reviews would not have any financial interests in any governmental decisions involving his peer review as the peer review report, the firm that hired the peer reviewer, and the firm that is subject to the peer review process do not appear before the PROC.

(B) Conflict of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member of a particular body or board refrains from participating in any of the steps involved in making the contract.

(*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members who conduct peer reviews as an employee of a firm that conducts peer reviews who have any financial interest in any contract involving the PROC. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member conducting peer reviews as an employee of a firm conducting peer reviews could possibly have his peer review report viewed by the PROC. If that were to occur, the PROC member would have to recuse himself from viewing his own work to avoid any common-law conflicts of interest. However, no facts were presented that indicate any PROC member who might be conducting peer reviews as an employee of a firm conducting peer reviews was viewing his own peer review report in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest so long as the PROC member conducting peer reviews as an employee of a firm conducting peer reviews does not view any of his own peer review reports.

(D) Incompatible Work Activities

According to section 19990 of the Government Code, a state officer or employee is prohibited from engaging in any activity wherein such activity may later be subject, directly or indirectly to the control, inspection, review, audit, or enforcement by the state officer or employee.

A PROC member who conducts peer reviews as an employee of a firm that conducts peer reviews could have his/her peer review or peer review report viewed by certain members of the PROC. However, the actual review of the peer review report for final acceptance is not the responsibility of the PROC or any of the PROC members. The PROC does not inspect, review, or audit peer review reports or the firm's work for accuracy or acceptance, nor does the PROC regulate firms conducting peer reviews. Thus, a PROC member conducting peer reviews as an employee of a firm that conducts peer reviews would not be engaging in an incompatible work activity so long as the peer review is not subject to the PROC or that PROC member's inspection or audit. As

previously stated, certain PROC members might have the opportunity to view a peer review report for informational purposes related to the PROC's oversight of peer review program providers. Thus, the PROC member conducting peer reviews must ensure that he does not view any of his own peer review reports or any peer review reports associated with the firm for which he works.

(4) PROC Member who is an owner and/or partner of a firm that conducts peer reviews, but the PROC Member does not conduct peer reviews.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. It is undisputed that a PROC member who is an owner and/or partner of a firm that conducts peer reviews but is not a peer reviewer, has a financial interest in the firm, which is subject to regulation by the Board. However, since firms that conduct peer reviews are not subject to any sort of regulation by the PROC, nor is any peer review associated with the firm, there is no opportunity for the firm to have to come before the PROC in any regulatory matters. Thus, there would be no violation of the Act since there would be no governmental decisions that the PROC would engage in when it comes to the PROC member's firm of which he is an owner and/or partner. No facts were presented to suggest that any PROC member has any financial interests in any governmental decisions that come before the PROC as it relates to a firm conducting peer reviews of which the PROC member is an owner and/or partner.

(B) Conflict of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member of a particular body or board refrains from participating in any of the steps involved in making the contract. (*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members that own or are a partner in a firm that conducts peer reviews who have any financial interest in any contract involving the PROC. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member who is an owner and/or partner of a firm that conducts peer reviews, but

who does not himself conduct peer reviews would not have any peer review report reviewed or audited by the PROC since the PROC is not charged with reviewing peer reports for final acceptance. However, this PROC member might have the opportunity to view a peer review conducted by a peer reviewer associated with the firm wherein he is an owner and/or partner. To avoid any common law conflicts of interest, this PROC member should not view any peer reviews from the firm in which he is an owner and/or partner. However, no facts were presented that indicate any PROC member who is an owner and/or partner of a firm that conducts peer reviews, but who does himself conduct peer reviews, viewed any peer review report from his firm in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest.

(D) Incompatible Work Activities

According to section 19990 of the Government Code, a state officer or employee is prohibited from engaging in any activity wherein such activity may later be subject, directly or indirectly to the control, inspection, review, audit, or enforcement by the state officer or employee.

When a PROC member is an owner and/or partner of a firm that conducts peer reviews, but is not a peer reviewer for the firm, the peer reviews or peer review reports conducted by those associated with the firm may still be viewed by certain members of the PROC. However, the actual review of the peer review report for final acceptance is not the responsibility of the PROC or any of the PROC members. The PROC does not inspect, review, or audit peer review reports or the firm's work for accuracy or acceptance, nor does the PROC regulate firms conducting peer reviews; thus, a PROC member who is an owner and/or partner of a firm that conducts peer reviews, but is not a peer reviewer of the firm would not be engaging in an incompatible work activity so long as the peer review that is associated with the firm is not subject to the PROC or PROC member's inspection or audit. As previously stated, certain PROC members might have the opportunity to view a peer review report for informational purposes related to the PROC's oversight of peer review program providers. Thus, this PROC member must ensure that he does not view any peer review reports associated with the firm in which the PROC member is an owner and/or partner.

(5) Form 700 and Conflicts.

The Act requires most state and local government officials and employees to publicly disclose their personal assets and income. They must also disqualify themselves from participating in decisions which may affect their personal economic interests. The Fair Political Practices Commission's Form 700 is used to file statements of economic interests. The Department of Consumer Affairs' Conflict of Interest Code lists designated individuals who must file, along with the types of disclosure required.

Members of the PROC are designated as Disclosure Category 4, which means that they must report:

All interests in real property and investments and business positions in, and any income, including gifts, loans and travel payments from, a business entity, professional association or individual where the business entity, professional association or individual's profession is regulated by or offers programs or courses qualifying for licensing or continuing education credit by the official's or employee's licensing agency.

If any PROC member receives any income, gifts, loans, or travel payments from any person or entity (as defined by the Act) regulated by the Board, he or she must disclose the financial interest on the Form 700. This would be true even if such person or entity is not regulated in any manner by the PROC since Disclosure Category 4 requires disclosure when the regulation stems from the "official's or employee's licensing agency." A PROC member would be deemed to have a financial interest in a decision if certain financial limits are met. Thus, it would be correct to state that the Form 700 serves as a means of disclosure and mitigation of potential conflicts involving specified financial interests.

V. CONCLUSION

Based on the foregoing, PROC members might be prohibited from engaging in certain activities based on possible violations of the PRA, common-law doctrine against conflicts of interest, and/or the Incompatible Work Activities Policy. This analysis would of course be subject to change should any new facts be presented.



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PROC Item IV.
October 27, 2011

Reports and Status of Peer Review Initial Implementation

Presented by: Kathy Tejada, Enforcement Manager

Date: October 3, 2011

Purpose of the Item

This is a summary of the status of peer review implementation and overview of peer review statistics.

Action(s) Needed

No specific action is needed.

Background

None

Comments

A. Status of Senate Bill 543

Senate Bill 543 was passed and has been signed by Governor. The bill extends the peer review program and the Peer Review Oversight Committee indefinitely. The bill also requires a report, to include certain additional information and recommendations, to the Legislature by January 1, 2015.

B. Statistics of Licensees Who Have Reported Their Peer Review Information to the CBA

As of September 27, 2011, 29,141 peer review reporting forms have been submitted to the CBA. This is an increase of 3,185 since the August meeting. The reporting forms are categorized as follows:

Peer Review Required	2,508
Peer Review Not Required (firms)	5,642
Peer Review Not Applicable (non-firms)	20,991

C. Status of Correspondence to Licensees Regarding Peer Review Reporting

On July 12, 2011, the CBA sent letters to approximately 3,800 licensees who were required to report peer review information by July 1, 2011, but have not yet done so.

Staff is currently preparing reminder letters to be mailed to licensees who are required to report peer review information by July 1, 2012. It is anticipated that the letters will be sent in early January 2012.

Recommendations

None

Attachment

None



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PROC Item V.
October 27, 2011

Status of PROC Roles and Responsibilities Activity Tracking

Presented by: April Freeman, CBA Staff

Date: October 18, 2011

Purpose of the Item

The purpose of PROC Roles and Responsibilities Activity Tracking checklist (**Attachment 1**) is to ensure that all oversight duties are completed by the PROC.

Action(s) Needed

No specific action is required on this agenda item.

Background

At its February 25, 2008 meeting, the California Board of Accountancy (CBA) was presented with *Continued Consideration of Key Policy Issues Related to Mandatory Peer Review* which included PROC responsibilities as adopted by the CBA in January 2008. These responsibilities, in addition to duties specified in the CBA Regulations Section 47, have been listed on the PROC Roles and Responsibilities Activity Tracking checklist.

Comments

The checklist has been reformatted so that individual roles and responsibilities correspond directly to oversight duties listed in the PROC Procedures Manual.

Recommendations

It is recommended that the PROC members continue to monitor oversight activities to ensure that all responsibilities are met.

Attachment

1. PROC Roles and Responsibilities Activity Tracking, updated October 18, 2011.

**PROC Roles and Responsibilities
Activity Tracking – 2010/2011**

As of October 18, 2011

Activity	Notes
PROC MEETINGS <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meetings: 11/9, 1/20, 3/4, 5/6, 7/8, 8/30
ADMINISTRATIVE SITE VISIT <ul style="list-style-type: none"> Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	
PEER REVIEW COMMITTEE MEETING <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committee. Ensure peer review program provider is adhering to CBA standards. 	<ul style="list-style-type: none"> Attended CalCPA PRC: 6/2–3 Attended AICPA PRB: 1/21, 5/3, 8/10, 10/6
PEER REVIEW SUBCOMMITTEE MEETING <ul style="list-style-type: none"> Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports. Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Attended CalCPA RAB: 2/2, 6/15, 7/7, 7/26, 9/20
REVIEW SAMPLING OF PEER REVIEWS <ul style="list-style-type: none"> Perform sampling of peer review reports. 	
PEER REVIEWER TRAINING <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Attended CalCPA Peer Reviewer Training: 7/18-19
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY <ul style="list-style-type: none"> Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program. 	

*Activities based on the November 9, 2010 PROC Agenda Item IV – Role of the PROC.



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PROC Item VI.
October 27, 2011

Discussion of Materials from the August 16, 2011 National Association of State Boards of Accountancy's Peer Review Oversight Committee Summit

Presented by: Nancy Corrigan, Chair, PROC
Date: October 18, 2011

Purpose of the Item

This item provides Peer Review Oversight Committee (PROC) members with additional information that was distributed at the August 16, 2011 National Association of State Boards of Accountancy's (NASBA) PROC Summit.

Action(s) Needed

- Members should bring the Agenda Item II.C. materials from the August 30, 2011, meeting packet to the upcoming meeting.
- Members should review the materials and identify strategies and techniques used by other state PROCs that would benefit the CBA PROC.

Background

NASBA's PROC Summit was held on August 16, 2011 in Charleston, South Carolina, and provided representatives from various states with a forum to discuss and share information concerning the functions of their PROCs.

Comments

Attached are additional documents from the Summit that are believed to be relevant and beneficial to continued growth of the CBA's PROC (**Attachment 1**).

Also attached is an article entitled "Strengthening Peer Review Oversight" from the September 2011 issue of the NASBA State Board Report (**Attachment 2**).

Recommendations

None

Attachments

1. Additional materials received by NASBA PROC Summit
2. "Strengthening Peer Review Oversight," September 2011, NASBA State Board Report

MISSISSIPPI STATE BOARD OF PUBLIC ACCOUNTANCY

BOARD OVERSIGHT COMMITTEE

Information on a Sampled Peer Review

Oversight Committee Member
performing this review _____
Date performed _____

I. Information on the reviewed firm:

A. Reviewed firm's name

B. Review number

C. Exit conference date

D. Type of review: On-Site review _____ Off-Site review _____

II. Information on the technical reviewer:

A. Technical reviewer's name

B. Date review completed

III. Information on the report acceptance body:

A. Name of the report acceptance body

B. Acceptance date

IV. Information communicated to the team captain by the report acceptance body or technical reviewer (attach a copy of the team captain's feedback form if one was issued.)

V. Issues, if any, that should be considered by the Board Oversight Committee:

MISSISSIPPI STATE BOARD OF PUBLIC ACCOUNTANCY

BOARD OVERSIGHT COMMITTEE

Summary of Oversight Visit - Administrative

Oversight Committee Member

performing this review _____

Date performed _____

1. Obtain the following from the State Board staff before visiting the MSCPA:
 - A. Prior annual reports.
 - B. Other information pertinent to the oversight visit: e.g. statistical reports, correspondence and records of conversations with the Peer Review Committee.
2. Contact MSCPA to obtain arrange visit to office and review of administrative records.
3. Meet with the person(s) responsible for the MSCPA Peer Review Program, discuss and document the:
 - A. Review process and procedures.
 - B. Committee acceptance process and the educational and remedial philosophy of the Peer Review Program.
 - C. The percentage of reviews scheduled and the follow-up on firms that do not respond to scheduling requests.
 - D. Monitoring of reviews through completion.
 - E. Receipt of review documents on a timely basis.

4. Please list program staff interviewed as part of the oversight visit:

Name _____

Title _____

Name _____

Title _____

5. Do MSCPA administrative personnel appear knowledgeable about their Peer Review Program manuals?

Peer Review Program Manual

Peer Review Administrative Manual

Peer Review Computer System User Manual

Yes

No

Summary of Oversight Visit - Administrative

Date _____

Page 2

6. Are actions taken to monitor the completion of follow-up actions?
Yes _____ No _____
7. Are program letters generated to advise reviewers of poor performance or tardiness when warranted?
Yes _____ No _____
8. Are acceptance letters being sent in a timely manner? Yes _____ No _____
9. Does the administrative staff require any additional assistance from program support staff?
Yes _____ No _____
10. Please rate the administrative staff's knowledge of administrative and computer procedures:
_____ Poor
_____ Adequate; needs some improvement
_____ Excellent

11. In what areas does the administrative staff need improvement or training?

12. Were any specific solutions to problems discussed?

13. Has the administrative staff demonstrated improvement from any prior oversight visit?
Yes _____ No _____

Comments:

MISSISSIPPI STATE BOARD OF PUBLIC ACCOUNTANCY

BOARD OVERSIGHT COMMITTEE

Summary of Oversight Visit - Peer Review Committee

Oversight Committee Member
performing this review _____
Date performed _____

1. Are technical reviews being performed within a reasonable time period after review documents are submitted to the Peer Review Program?
Yes _____ No _____
2. Do technical reviewers appear knowledgeable about their function?
Yes _____ No _____
3. Do the technical reviewers resolve inconsistencies and disagreements before accepting the CPA reports?
Yes _____ No _____
4. Do the technical reviewers make the Committee aware of matters needed to properly evaluate the review?
Yes _____ No _____
5. Is the technical reviewer available during the meeting to answer questions that arise?
Yes _____ No _____
6. Are technical reviewers knowledgeable about the treatment of :

	Yes	No
Substandard engagements?	_____	_____
Inspection issues?	_____	_____
Governmental issues?	_____	_____
Review scope?	_____	_____
Appropriate format for report, letter of comments, letter of response?	_____	_____
Revisions to review documents?	_____	_____
Corrective or monitoring actions?	_____	_____

Date _____

Page 2

7. Were any specific solutions to problems discussed? Yes _____ No _____

8. Have the technical reviewers agreed to take any action on problems?
Yes _____ No _____

9. Do technical reviewers believe sufficient guidance is provided by their program?

10. Have the technical reviewers demonstrated improvement from any prior oversight visit report? Yes _____ No _____

11. Inspect files on selected firms. Complete the oversight checklist entitled *Information on a Sampled Peer Review* for each firm selected. Do the files appear complete?

Yes _____ No _____

12. Select from the review files unqualified and qualified or adverse opinions on-site reviews and off-site reviews completed within the last ninety (90) days.

Assess:

A. The quality of the technical review.

B. Appropriateness of procedures.

C. The reasonableness of the Committee's decision on the reviews.

13. Were the working paper retention policies followed? Yes _____ No _____

14. Form preliminary conclusions on the acceptance decisions that should be made.

15. Attend the program's Peer Review Committee meeting as an observer. Do not make comments or raise questions until the Committee is ready to vote on a specific review.

16. In what areas do Committee members believe additional guidance is needed?

Summary of Oversight Visit - Peer Review Committee

Date _____

Page 3

17. Were the following manuals available during the meeting?

	Yes	No
Peer Review Program Manual	_____	_____
Peer Review Administrative Manual	_____	_____
Handbook	_____	_____

18. Is the meeting Committee comprised of at least three members?

Yes _____ No _____

19. Does the extent of the Committee's review appear appropriate?

Yes _____ No _____

20. Were appropriate decisions made regarding:

	Yes	No
Substandard engagements	_____	_____
Inspection issues	_____	_____
Governmental issues	_____	_____
Review scope	_____	_____
Revisions to review documents	_____	_____
Corrective or monitoring actions	_____	_____
The issuance of team captain feedback forms	_____	_____
Requests for extensions	_____	_____
Handling problem reviews	_____	_____

21. Were any specific solutions to problems discussed?

Yes _____ No _____

22. Has the Committee agreed to take any action on problems?

Yes _____ No _____

Summary of Oversight Visit - Peer Review Committee

Date _____

Page 4

23. Do the Committee members believe sufficient guidance is provided by the program?

Yes _____ No _____

24. In what areas do Committee members believe additional guidance is needed?

25. Does the Committee consider technical reviewers' recommendations and then come to its own decision? Yes _____ No _____

26. Has the Committee demonstrated improvement from any prior oversight visit report? Yes _____ No _____

27. Please rate the Committee's knowledge of acceptance procedures and corrective/monitoring actions:

- _____ Poor
- _____ Adequate; needs some improvement
- _____ Excellent

28. At the conclusion of the meeting, discuss your findings with the MSCPA Peer Review Committee Chair.

Comments:

MISSISSIPPI STATE BOARD OF PUBLIC ACCOUNTANCY

BOARD OVERSIGHT COMMITTEE

Objective:

To provide the Mississippi State Board of Public Accountancy an independent means to evaluate and monitor the Peer Review Program managed by the Mississippi Society of Certified Public Accountants(Society) for the purpose of relying on the system and in accordance with the *Operating Agreement Between the Mississippi State Board of Public Accountancy and the Mississippi Society of Certified Public Accountants for State Oversight of the Peer Review Program*.

Goals:

- ✦ Provide continuous monitoring of the Society Peer Review Committee and Peer Review Program to provide reasonable assurance that peer reviews are being conducted and reported on in accordance with standards of the American Institute of Certified Public Accountants Peer Review Program.
- ✦ Provide annual reports to the Board on conclusion(s) reached and provide recommendations including an opinion on the continued reliance on the program as reason for excluding CPAs from undergoing Board initiated reviews.

Guidelines:

- ✦ Review, understand, and evaluate the Society and AICPA policies, procedures, standards and similar documents for operating the Peer Review Program. Interview administrative personnel and committee members as necessary.
- ✦ Review the minutes and notes from the Peer Committee meetings.

Guidelines (Continued):

- 4. Meet with the Society's Peer Review Committee during each meeting and/or telephone conference call wherein the Committee considers/discusses peer review documents.
- 4. Review the Committee's application of procedures, sampling techniques, review and follow-up/monitoring of CPAs' reviewed.
- 4. Using professional judgement and random sampling techniques, annually select a sample of Peer reviews (on-site and off-site) obtaining the following information for analysis on each sampled item: Peer review report, letter of comments, CPA letter of response, summary review memorandums, team captain checklists, Peer review acceptance letters, and related documentation (work papers, correspondence, notes, schedules).
- 4. Evaluate documentation for evidence of appropriate AICPA standards, acceptance, corrective action, and monitoring.
- 4. Compile statistics as to the acceptability or deficiency of the sampled reviews to be included in the written report to the State Board without revealing specific licensees, firms or reviewers.
- 4. Expand the review if significant deficiencies are encountered.

Based on the procedures, form an overall Oversight Committee opinion and provide a written report for each year ended June 30 within ninety days after the year end. In addition the opinion on the continued reliance on the program the report should disclose methods used to reach the opinion, such as scope of the Oversight Committee's review, procedures utilized, statistical data on the review of sampled items of (on-site and off-site reviews) and the acceptability or deficiency of the sampled items.

Report of Oversight

Date: June 10, 2004

Mark B. West, CPA

Board of Accountancy Peer Review Oversight Board Member

The purpose of this memo is to summarize the procedures performed and the findings reached during my oversight of three Report Acceptance Body meetings during 2003 and 2004 and my oversight visit to the Kansas Society of CPA's on June 10, 2004. The names of the persons attending the oversight visit at the Society's office were T. C. Anderson and Teresa Keating from the KSCPA, and myself. During the oversight I reviewed procedures covering administration of the program, qualifications of the technical reviewer and the report acceptance body, minutes of the report acceptance bodies and various correspondence files. No findings were noted from my review.

Specific areas reviewed:

I. Administration

- A. Procedures used to monitor team captain qualifications
No findings in this area
- B. Procedures used to monitor follow up actions
No findings in this area
- C. Procedures used to monitor the completion of reviews
No findings in this area
- D. Problem reviewer procedures
No findings in this area
- E. Procedures on file content, retention, and quality
No findings in this area

II. Technical reviewer

- A. Quality of reviewer
No findings in this area
- B. Experience of reviewer
No findings in this area
- C. Documentation of review
No findings in this area
- D. Training of the reviewer
No findings in this area

III. Report Acceptance Body

- A. Qualifications of the RAB
No findings in this area
- B. Use of proper manuals

- No findings in this area
- C. Adequate review
No findings in this area
- D. Proper acceptance procedures
No findings in this area
- E. Proper corrective action and follow up
No findings in this area

IV. Findings- None

V. Specific areas reviewed

- A. Three Report Acceptance Body meetings covering 67 firms
- B. Review of minutes of all Report Acceptance Body meetings,
Peer Review meetings and Oversight Committee meetings
- C. Administration files on follow up and report acceptance.
- D. Committee membership lists and minutes

SAMPLE

Minnesota State Board of Accountancy
Quality Review Oversight Committee

Final Report:
Quality Review Process

For Year Ended December 15, 2005



Minnesota State Board of Accountancy
Quality Review Oversight Committee

April 19, 2006

Mr. Robert Hyde, Chair
Minnesota State Board of Accountancy
85 East Seventh Place
Suite 125
Saint Paul, Minnesota 55101-2143

Dear Chair Hyde:

Pursuant to Minnesota Rules 1105.4300, item B(3), the Quality Review Oversight Committee submits its final report on the quality review process for the year ended December 15, 2005. A roster of committee members is shown on the next page.

The committee submitted a preliminary report to you on December 30, 2005 to convey the intended scope of our review and our draft work program. I met with members of the State Board Firm Credential and Quality Review Committee on January 20, 2006 to discuss the preliminary report and our planned work program. The committee has since completed the work program, including attending a meeting of the two approved report acceptance bodies and testing a sample of reports accepted by those bodies. We received the full cooperation of both report acceptance bodies during our review.

We are pleased to inform you that the committee concluded that the two approved report acceptance bodies were effective for the year ended December 15, 2005. We do offer some recommended improvements for each report acceptance body and State Board processes. In addition, we have provided the State Board with several matters for further consideration regarding its quality review program. We suggest that it would be fruitful to initiate a dialogue with representatives from the two report acceptance bodies if the State Board decides to pursue any of these matters further.

I will be available to discuss this final report with you or other members of the State Board at your April 19, 2006, as you may wish. Thank you.

Sincerely,

John Asmussen, Chair
Quality Review Oversight Committee

Cc: Neil Lapidus, Chair
Firm Credential & Quality Review Committee
Minnesota State Board of Accountancy



**Minnesota State Board of Accountancy
Quality Review Oversight Committee
2005 Member Roster**

<u>Name & Telephone</u>	<u>Mailing Address</u>	<u>Term Expires</u>	<u>Email Address</u>
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Staff			
Doreen Johnson Frost Executive Director Office 651-297-3096 Fax 651-297-5310	Board of Accountancy 85 E Seventh Place Ste 125 St. Paul, MN 55101		doreen.johnson-frost@state.mn.us
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I. Background

Firms that provide attestation or compilation services as part of their public accounting practice in the State of Minnesota are subject to the quality review process of the Minnesota State Board of Accountancy. As such, these firms must be enrolled in one of the following practice monitoring programs:

- Center for Public Company Audit Firms (CPCAF) Peer Review Program which has the American Institute of Certified Public Accountants (AICPA) as its report acceptance body,
- AICPA Peer Review Program which has designated the Minnesota Society of Certified Public Accountants (MNCPA) as one of approximately 40 state or regional organizations to serve as report acceptance bodies, or
- Minnesota Association of Public Accountants (MAPA) Quality Review Committee Practice Monitoring Program.

In addition, firms that are enrolled in the CPCAF Peer Review Program and have clients that are public registrants are subject to inspection by the Public Company Accounting Oversight Board (PCAOB).

The various programs identified above have report acceptance bodies that approve the peer review reports issued for firms enrolled in their practice monitoring program. The AICPA and PCAOB are approved report acceptance bodies by Minnesota Rules 1105.5300, item A. Minnesota Rules 1105.5300, item B, allows that "The Minnesota Association of Public Accountants, the Minnesota Society of Certified Public Accountants, other state accountancy boards, and any other organization able to demonstrate that it will fulfill its responsibilities in accordance with the recognized review standards may apply to the board to be considered a report acceptance body." For the year ended December 15, 2005, the State Board had approved applications from the MAPA and MNCPA to serve as report acceptance bodies under this provision.

Minnesota Rules 1105.4700, item B, stipulates that applicants approved to serve as report acceptance bodies must provide a statement prior to April 1 each year which details all significant differences between the quality review standards followed by the report acceptance body and AICPA Professional Standards for Performing and Reporting on Peer Reviews and Statements of Quality Control Standards. Neither the MAPA nor the MNCPA¹ notified the State Board of any such differences in their quality review standards for the year ended December 15, 2005.

Minnesota Rules 1105.4900 allows a firm to be exempted from the quality review requirement, "if it annually represents to the board that it has not issued attest or compilation reports, that it does not intend to engage in such practices during the following year, and that it shall immediately notify the board in writing if it engages in such practices." If a firm that is subject to the quality review requirement wishes to use a report acceptance body that has not been approved by the State Board, Minnesota Rules 1105.4700, item B, requires the firm to notify the State Board and obtain permission prior to having the review conducted (See footnote 2 on page 2).

¹ Because the MNCPA has been designated as an administering entity for the AICPA Peer Review Program, it is obligated to abide by the AICPA Peer Review Standards and Quality Control Statements.

II. Scope of the Review

Minnesota Rules 1105.4300, item B, establishes the Quality Review Oversight Committee and grants it full access to relevant records. The committee is required to maintain the confidentiality of information obtained, except for three reports due to the State Board of Accountancy:

1. By December 31 each year, an assessment of the effectiveness of the report acceptance bodies designated in Minnesota Rules 1105.5300, item B, and the quality review process,
2. The names of those licensees and firms that have undergone a quality review and had an acceptance letter issued during the year ending December 15 by the report acceptance bodies designated in Minnesota Rules 1105.5300, item B, and
3. By August 1 each year, a written report from each report acceptance body designated in Minnesota Rules 1105.5300, item B, of the procedures used to ensure that the continuing professional education programs that they sponsored, respectively, met the applicable standards set forth in the Statement on Standards for Continuing Professional Education (CPE) programs and the committee's evaluation the report.

The scope of this review was intended to generate the assessment required in the first report. Because this review was the inaugural effort for the committee, the State Board of Accountancy graciously extended the reporting deadline for the report. The committee did, however, submit a preliminary report to the State Board on December 31, 2005 and met with representatives of the State Board Firm Credential and Quality Review Committee on January 20, 2006 to discuss our work program.

The review focused primarily on the effectiveness of the two report acceptance bodies approved by the State Board pursuant to Minnesota Rules 1105.5300, item B, -- the Minnesota Association of Public Accountants and the Minnesota Society of Certified Public Accountants. The work program for the committee was submitted with our preliminary report to the State Board. It included activities such as observing a meeting of each report acceptance body, testing a sample of accepted reports, and examining the qualifications of report acceptance committee members and reviewers.

The report population for this review was based on listings of accepted reports submitted by each report acceptance body:

- The Minnesota Association of Public Accountants submitted a listing of 50 reports that it had accepted for the year ending December 15, 2005. Section III of this report provides the committee's conclusions regarding the Minnesota Association of Public Accountants.
- The Minnesota Society of Certified Public Accountants submitted a listing of 212 reports accepted during that time period. Section IV of this report provides the committee's conclusions regarding the Minnesota Society of Certified Public Accountants.

The committee did not assess the effectiveness of either the AICPA or PCAOB as a report acceptance body. Minnesota Rules accept the role of those two organizations as

report acceptance bodies and did not direct the committee to assess their effectiveness. The committee also did not assess the effectiveness of any other organization that may serve as a report acceptance body for a firm granted a permit to practice public accounting in the State of Minnesota. The committee understands that the State Board has not received applications from any other organizations to serve as a report acceptance body for the State Board².

The committee has gained an understanding of the role of the State Board staff in processing peer review reports submitted by firms. Staff play an important role in ensuring that firms submit acceptable peer review reports timely and resolve any noted deficiencies. The committee did not, however, as part of this review, verify that internal processes were working as intended. In future reviews, it will consider whether to add steps to the work program related to internal State Board processes. In Section V, the committee, though, offers some observations or suggestions for improving internal board processes.

Finally, the committee considered the national context for peer reviews of public accounting firms. As a result, in Section VI, the committee raises some emerging issues that the State Board may wish to consider in the future. We suggest that it would be fruitful to initiate a dialogue with representatives from the two report acceptance bodies if the State Board decides to pursue any of these matters further.

² In conversations with the State Board staff, though, it appears that some firms from outside Minnesota may have used other report acceptance bodies. Limitations of the existing data system, however, did not allow State Board staff to determine the number of firms in this situation.

III. Minnesota Association of Public Accountants

The Minnesota Association of Public Accountants (MAPA) has served as a quality review report acceptance body for the Minnesota State Board of Accountancy for many years. MAPA voluntarily adheres to the Standards for Performing and Reporting on Peer Reviews and Statements on Quality Control Standards that are contained in American Institute of Certified Public Accountants (AICPA) Professional Standards.

A nine member Quality Review Committee is responsible for administering the MAPA program. In 2005, the committee met on five occasions to consider peer review reports for acceptance. As a result of these efforts, the MAPA reported that the committee had accepted 50 peer review reports for the year ended December 15, 2005.

Oversight Methodology & Conclusions

The Quality Review Oversight Committee (QROC) performed several activities to assess the effectiveness of the MAPA as a report acceptance body. A committee member attended and observed an MAPA Quality Review Committee meeting; the committee sought evidence about the qualifications of peer reviewers, technical reviewers, and Quality Review Committee members; and tested the supporting documentation for a sample of reports accepted during 2005.

Based on its oversight activities, the Quality Review Oversight Committee concluded that the Minnesota Association of Public Accountants functions effectively as a report acceptance body. The committee offers two recommendations, though, to improve the program and facilitate future oversight efforts:

1. **Peer Reviewer Qualifications** –The MAPA has a list of 22 peer reviewers that have been approved by its Quality Review Committee. MAPA will provide a list of approved peer reviewers to any firm that is considering a review. It does not, however, publish the credentials of the reviewers. The AICPA has a public web site that shows the credentials of all peer reviewers approved for its program. Because many peer reviewers serve more than one report acceptance body, the credentials for 15 of the 22 MAPA-approved peer reviewers are available to the general public on the AICPA web site. The QROC requested that MAPA verify the credentials of two reviewers who were not listed on the AICPA public web site. These two reviewers had performed reviews that were selected as part of the QROC sample. The MAPA Executive Director was able to determine that the two reviewers had applied for and were accepted as reviewers by the MAPA Quality Review Committee in the mid-1990s. Although MAPA provided evidence that these two reviewers continue to meet the requirements for serving as reviewers, it did not have a process to recertify reviewers and ensure that their qualifications remained up-to-date.

QROC Recommendation

The MAPA Peer Review Committee should take action to verify or recertify the qualifications of its approved peer reviewers periodically.

MAPA Response

We agree with this recommendation regarding the verification and recertification of reviewers. From an administrative perspective, the committee is in the process of establishing policies and procedures to reconfirm that reviewers have obtained the requisite training pertaining both to conduct of reviews and to affirm that they have received the required hours of continuing professional education in auditing and accounting. Our committee will initiate the following actions: 1). Confirm the reviewers continuing involvement with clients in any specialized industries identified. 2). Confirm that the reviewer is licensed by the Minnesota State Board of Accountancy, and that he or she will continue in a level within their firm that demonstrates supervisory responsibility. 3). Request a copy of the reviewer firm's most recent unmodified report on either their system review or on their engagement review, as appropriate.

The anticipated completion date for reassessment of all reviewers is September 30, 2006. Subsequent to that initial reassessment, we will request updated information at least every 2 years to insure that our list of peer reviewers meets the standards established by MAPA.

2. **Quality Review Committee Member Qualifications** – The MAPA submitted evidence that five of the nine members of the MAPA Quality Review Committee met the requirements for committee membership cited in the MAPA Quality Review Committee Practice Monitoring Program Manual. Two of the other members, however, have never attended a peer review training course. Attendance at such a course is cited as a committee member requirement in the MAPA manual. No evidence was provided on the qualifications of the final two committee members.

OROC Recommendation

The MAPA should take action to verify periodically that members of its Quality Review Committee meet the committee member qualifications of the MAPA Quality Review Committee Practice Monitoring Program Manual.

MAPA Response

We agree with this recommendation regarding the qualifications of the MAPA Quality Review Committee. We agree that some members of the committee who have served on the committee may not meet the qualifications established by MAPA as stated in the current Practice Monitoring Program Manual. We recognize a need to expand the number of quality review members and to delete those members who are no longer active or willing to continue as committee members.

The importance of contributing to the furtherance of quality improvement will be emphasized to our membership. One of the ways members can contribute is by service on the Quality Review Committee. As relates to existing committee members, we will confirm their continued qualifications. This will include that they are an active member at a supervisory level in a firm enrolled in a practice

monitoring program, and that the firm has received an unmodified report in its most recent system or engagement review. We will confirm that the committee member has completed a peer review training course within the last three years. Committee member will also be requested to submit proof of CPE in auditing and accounting of at least 32 hours every three years and a minimum of 8 hours each year.

We will continue our policy of having at least one member who meets the qualifications required of a system reviewer team captain present and participating when a system review has been presented for acceptance. We will also continue our conflict of interest policy that prohibits participation or voting on any review performed by the committee member or by their firm, or when a review of their firm is under consideration.

We will complete the reaffirmation of all committee members qualifications no later than September 30, 2006.

Future Considerations

For its 2006 oversight review, the Quality Review Oversight Committee intends to request that the MAPA provide additional information about the reports accepted for the year ended December 15, 2006. This additional information will be used to facilitate completion of the oversight work program. Information to be requested includes type of review conducted, peer reviewer, technical reviewer, peer review results, date of acceptance, required corrective actions, and date correction actions were cleared. The committee will develop a template for the MAPA to use when compiling this information.

The Quality Review Oversight Committee appreciates the respect, cooperation and assistance offered by the MAPA for aiding in the completion of this project.

IV. Minnesota Society of Certified Public Accountants

The Minnesota Society of Certified Public Accountants (MNCPA) has served as a quality review report acceptance body for the Minnesota State Board of Accountancy for many years. The American Institute of Certified Public Accountants (AICPA) also recognizes the MNCPA as an administering entity for the AICPA peer review program.

Accordingly, the MNCPA adheres to the Standards for Performing and Reporting on Peer Reviews and Statements on Quality Control Standards that are contained in AICPA Professional Standards.

A sixteen member Peer Review Committee is responsible for administering the AICPA program for the MNCPA. In 2005, the committee met on nine occasions to consider peer review reports for acceptance. As a result of these efforts, the MNCPA reported that the committee had accepted 212 peer review reports for the year ended December 15, 2005.

Oversight Methodology & Conclusions

The Quality Review Oversight Committee performed several activities to assess the effectiveness of the MNCPA as a report acceptance body. Committee members attended and observed an MNCPA Peer Review Committee meeting; sought evidence about the qualifications of peer reviewers, technical reviewers, and peer review committee members; and tested the supporting documentation for a sample of reports accepted during 2005.

Based on its oversight activities, the Quality Review Oversight Committee concluded that the Minnesota Society of Certified Public Accountants functions effectively as a report acceptance body. The committee offers two recommendations, though, to improve the program and facilitate future oversight efforts:

1. **Records Retention**— The MNCPA purges copies of supporting documentation, such as reviewer checklists, summary review memorandums, etc., 90 days after a report is accepted and completed. As a result the oversight committee was able to review this documentation and verify the adequacy of the peer review sample sizes for only 4 of 12 files selected for the oversight review. Interpretation 10 of the AICPA Standards for Performing and Reporting on Peer Reviews requires that the supporting documentation be retained for a minimum of 90 days after a review has been completed (completion means that the committee has accepted a report and decided that any corrective actions have been performed satisfactorily). Interpretation 10 further allows that the MNCPA Peer Review Committee “may indicate that any or all materials should be retained for a longer period of time, because, for example, the review has been selected for oversight.”

QROC Recommendation

The MNCPA Peer Review Committee should take action to retain copies of supporting documentation for completed peer reviews until the Quality Review Oversight Committee has completed its testing for the year in which the report was completed.

MNCPA Response

Background

The MNCPA currently has a 90-day record retention policy based on standards and interpretations established by the AICPA. The policy states that 90 days after a review has been accepted by the MNCPA Report Acceptance Body, the MNCPA will purge the peer review file of the working papers and retain only the acceptance letter, letter specifying any follow-up actions (if applicable), the report, letter of comments (if applicable) and letter of response (if applicable). During the oversight visit to the MNCPA, the Quality Review Oversight Committee (QROC) was able to review the full file, including working papers, for only four of the 12 files selected for review from the 12 month period ending on December 15th; the remaining eight files contained only the acceptance letter and other documents listed above since the working papers had been purged in accordance with policy.

Discussion

We presented the question of extending the retention of files to the AICPA, and received a response from Gary Freundlich, Director of Peer Review at the AICPA. His response, in part, was as follows:

"The AICPA PRB [Peer Review Board] fully supports state board oversight but it also needs to work within our standards/interpretations where it's reasonable to do so. Many other state boards perform oversight of the societies, as does the AICPA, within the framework of the working paper retention structure (otherwise we would have no structure). I cannot support any change to the working paper destruction policy of this magnitude without a change to the Interpretations. It does not seem necessary to make such a change for one state when there are alternate solutions available to them and you. This could include getting a list of accepted or completed reviews (maybe monthly, maybe after each meeting or some other reasonable time frame) and the BOA making prompt selections throughout the year (so that the 90 days hasn't expired). Other state boards attend one or more peer review committee meetings and they perform their oversight then and you don't run into the working paper destruction issue.

If a review is selected for oversight, the documents can be kept beyond the 90 days but just for a reasonable amount of time, not one year. The intent of the Interpretation is to allow for oversight, not for an administering entity to keep the documents on every review for one year because a review may be selected. Reviews should be selected for oversight so that the 90-day period has not expired. That is how other state boards and the AICPA performs oversight and there are different ways to accomplish this, some of which I have listed."

MNCPA Response

MNCPA is committed to meeting the needs of the state oversight body and also to following the policies established by the AICPA. We propose sending to QROC on a monthly basis a list of the peer reviews accepted during that period. QROC would make any desired selections and notify us prior to the end of the 90-day

retention period if any have been selected for oversight review. As allowed by the AICPA, MNCPA could retain those working papers for selected files for a longer period of time, but not as long as one year. By increasing the number of QROC oversight visits for the purpose of file review from one per year to two or three shorter visits, the needs of all parties could be met.

2. **Peer Review Committee Member Qualifications** – According to records publicly available through the AICPA, 11 of the 16 members of the MNCPA Peer Review Committee met the committee member qualifications of the AICPA Standards for Performing and Reporting on Peer Reviews. Information cited for one member, though, showed that the member had not attended a peer review training course since 1996. Attendance at such a course is a committee member requirement of the AICPA Standards for Performing and Reporting on Peer Reviews. Section 128c of the standards states, that committee members shall be, “Trained in the Standards and guidance of the Program by completing a course that meets the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee.” In addition four of the sixteen committee members were not listed as quality reviewers on the AICPA public web site; thus, the Quality Review Oversight Committee had no evidence that these members met the committee member qualifications.

QROC Recommendation

The MNCPA should take action to verify periodically that members of its Peer Review Committee meet the committee member qualifications of the AICPA Standards for Performing and Reporting on Peer Reviews.

MNCPA Response

Background

The qualifications for peer review committee members are outlined in the AICPA Standards sections 128-130, which state that (128) “Each member of the committee charged with the responsibility for acceptance of reviews should be: (a) currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program as a partner of the firm or as a manager or person with equivalent supervisory responsibilities. (b) Associated with a firm that has received an unmodified report on its most recently accepted system or engagement review (if a committee member’s firm’s most recent peer review was a report review, then the member is not eligible to be charged with the responsibility for acceptance of any peer reviews.). (c) Trained in the Standards and guidance of the Program by completing a course that meets the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee.”

In addition to those qualifications that apply to each member, the Standards state that (129) “a majority of the committee members and the chairperson charged

with the responsibility for acceptance of reviews should possess the qualifications required of a system review team captain. (130) A majority of the committee members and the chairperson charged with the responsibility for administering the Program within the administering entity must also possess the qualifications required of a system review team captain."

Discussion

Our review of the committee members shows that all of them met the three criteria specified under AICPA Standards Section 128 and 129 listed above. It is our understanding that QROC is questioning only the third (item (c)) criteria above. We believe that even QROC's findings also showed that each committee member had at some point prior to the end of their first year on the committee completed the required training.

We agree with QROC that some committee members had not taken the training required to qualify as a system review team captain within the past three years. However, the AICPA standards require only a majority of the committee members to have had that training. Eleven out of sixteen of our committee members were qualified on this level.

MNCPA Response

We believe we are in compliance with existing requirements. We agree that continued monitoring of compliance is important. Our process includes a requirement that potential committee members complete a profile sheet that requires the individual to provide information about meeting the three listed requirements. If they have not completed the required training, they must do so prior to the end of their first year on the committee. On an ongoing basis, we can verify through our own records that the first two individual qualifications continue to be met by committee members, and we also ask the members to affirm in writing that they continue to meet the qualifications. To ensure that a majority of the committee members meet the system review team captain requirements, we will ask the members at the beginning of each year to inform us of the most recent year in which they took such training.

Future Considerations

For its 2006 oversight review, the Quality Review Oversight Committee intends to request that the MNCPA provide additional information about the reports accepted for the year ended December 15, 2006. This additional information will be used to facilitate completion of the oversight work program. Information to be requested includes type of review conducted, peer reviewer, technical reviewer, peer review results, date of acceptance, required corrective actions, and date correction actions were cleared. The committee will develop a template for the MNCPA to use when compiling this information.

The Quality Review Oversight Committee appreciates the respect, cooperation and assistance offered by the MNCPA for aiding in the completion of this project.

V. State Board Quality Review Activities

Although the scope of this review did not include verifying internal State Board processes for the quality review program, the committee identified some opportunities for improvement.

1. **Outdated database** – The State Board database for tracking firms is outdated. As a result State Board staff were not able to provide the committee with a comprehensive statistical abstract of the peer review statuses of firms permitted in Minnesota.
2. **RAB Application process** – The MSBA rules require that any organization interested in serving as a report acceptance body (RAB) must submit an application. In 2005, the two long-standing Minnesota RABs each submitted a letter expressing their interest and were approved for service by the MSBA. A more rigorous periodic application process, perhaps once every three years, would be an opportunity to affirm the qualifications of the RABs and verify their intentions of adhering to the AICPA quality review standards. Other states, such as Washington, have a more comprehensive RAB application process that could be considered by the MSBA.
3. **Clearing corrective actions** – When a peer review requires follow-up action as a condition of report acceptance, both the RAB and the MSBA must undertake independent follow-up actions. Although follow-up actions are infrequent (required in 3 of 22 files tested by the QROC), the duplication of effort could be avoided if the MSBA developed a process for coordinating its effort with the RABs.
4. **Out-of-state firms** – Out-of-state firms that apply for a practice permit in Minnesota have been allowed to submit evidence of a peer review conducted by organizations other than one of the two RABs approved by the MSBA. The MSBA may have confidence in the reviews conducted by the AICPA and the PCAOB, but it would have no basis for reliance on reviews conducted by other organizations. The State Board could work with other states to coordinate oversight of RABs for multi-state firms.
5. **Accelerating peer review schedules** – Certain conditions may warrant accelerating the standard three-year cycle for firms to undergo peer reviews. Minn. Rules 1105.500, Subpart 4 establishes a three year cycle for firms to undergo a peer review. Minn. Rules 1105.5100 (B) provides that when existing firms merge into a new firm, that the next quality review should be conducted in “the latest of the constituent firms’ cycles.” When corrective action has been cited in a peer review of one of the constituent firms, however, scheduling an earlier peer review or a focused follow-up may be warranted. Other conditions also may justified an accelerated peer review schedule, however, State Board rules do not anticipate that possibility.

VI. Emerging Issues for Further Consideration

On February 9, 2006, the AICPA Board of Directors Peer Review Task Force issued a report entitled, Recommendations for Enhancing the AICPA Peer Review Programs in a Transparent Environment. The report provided an excellent analysis of several important issues that the State Board may wish to consider further.

1. **Transparency of peer review results** – An eternal issue associated with the peer review process is the question about whether the results should be transparent or readily available to the general public. The AICPA currently makes peer review reports publicly available for firms that audit publicly traded companies, governmental entities, or employee benefit plans. The AICPA website provides access to peer review reports for 133 firms that list Minnesota as their primary address. Peer review reports for several multi-state firms that are permitted in Minnesota also are available on the AICPA web site. Peer review reports accepted by the two Minnesota RABs are not readily available to the public. Minn. Rules 1105.550 allows the State Board to make these reports available to the public, but it has not taken that action to date.

The February 2006 AICPA report concluded that, “greater transparency is absolutely the right direction for the profession, but recognized that in order to gain the support of a majority of AICPA members the Institute needs to address member concerns about the peer review process (p.4).” The report further recommends, however, that “the state boards of accountancy explore their options to expand access to the peer review results of its licensees” (p.11).

2. **Limited pool of peer reviewer expertise** – The February 2006 AICPA report also cited a concern about the aging and shrinking of the peer review population. Our work at the MNCPA and MAPA suggest that this is a valid concern for Minnesota. We noted a small circle of peer review experts and much overlap between RAB peer review committee memberships and qualified reviewers. The AICPA web site shows 54 qualified reviewers in Minnesota and MAPA has 22 qualified reviewers. Because these two programs both list 15 of the same reviewers, a pool of 61 qualified reviewers exists in Minnesota. The overlap between qualified reviewers and members of RAB quality review committees resulted in 20 of the 22 files sampled by the QROC showing that a member of the RAB committee had to be excused due to a potential conflict.

Because of the impact of these two issues on the report acceptance bodies, we suggest that the State Board include representatives of the Minnesota Association of Public Accountants and the Minnesota Society of Certified Public Accountants in any consideration of them.

IV. Administrative Oversight Program

The peer review committee should establish an administrative oversight program to ensure that the AICPA Peer Review Program is being administered in accordance with guidance as issued by the PRB. At a minimum, a committee member or a subcommittee of the administering entity's peer review committee should perform the administrative oversight in those years when there is no PRB oversight. When conducting an administrative oversight, ascertain the following:

1. Working paper retention policies are being followed.
2. Team captains are receiving letters regarding working paper retention along with acceptance letters from the peer review committee to the reviewed firm.
3. The appropriate acceptance and "provided that" letters are being issued.
4. Committee members meet the requirements to serve on committees.
5. Technical reviewers are participating in a peer review every year and have appropriate CPE as related to reviewer training.
6. Peer review documents have a technical review and are presented to the peer review committee within 120 days (45 days for report reviews that do not require committee consideration) of receipt of the required documents from the reviewing firm.
7. Feedback forms are being properly issued and a file is maintained.
8. Peer review information is being entered into the computer correctly and timely.
9. The status of pending follow-up actions is being appropriately monitored.
10. Old reviews are being followed up by the administering entity's staff, and reviewed at least quarterly to determine the actions to be taken in order to close out old reviews, including those with corrective or monitoring actions.
11. Peer reviewer performance deficiency letters are being properly issued, followed up by the administering entity's staff, and a file is being maintained for those letters.
12. The peer reviewer Monitoring Report submitted to the administering entities by AICPA staff is being reviewed, and revisions are being submitted back to the AICPA.

13. The Plan of Administration is accurate and filed timely with the AICPA on an annual basis.
14. The AICPA is made aware of personnel changes such as the peer review committee chair, executive director, and peer review program contacts.
15. Administrative back up plan is in place.
16. Reviewers' CPE is appropriately monitored and periodically tested.
17. Information contained on reviewers' resumes is being verified and all resumes are verified over a three year period.
18. Contents of web sites as it relates to the peer review program are accurate and timely.
19. Whether the goals, duties and accountabilities of the technical reviewers are clearly defined. Do the technical reviewers understand these matters, and are there any areas where additional guidance is necessary from the administering Entity's peer review committee?
20. Whether the goals, duties and accountabilities of the administrators are clearly defined. Do the administrators understand these matters, and are there any areas where additional guidance is necessary from the administering entity's peer review committee?
21. Whether the RAB acceptance process is consistent with regard to follow-up actions that are deemed appropriate based on the facts and circumstances of the peer review. Are appropriate follow-up actions being requested of firms that:
 - a. Receive a modified report or an adverse report on its initial review?
 - b. Receive a modified report and/or an adverse report on two or more consecutive reviews?
 - c. Receive an unmodified report when the letter of comments addresses a deficiency that was repeated from the prior review, in those situations where the prior peer review report was unmodified, modified, or adverse?

Peer Review Oversight Report

Firm/Practitioner: «NAME»

DPH Name: «FIRSTNAME» «LASTNAME»

Firm ID: «FIRMID»

Peer Review Date: «QRDATE» **Report Type:** System ___ Report ___ Engagement ___

Findings:

Society Recommendations:

Prior Findings/date:

CPE Records:

Recommendation:

Next review due: _____

By: _____
Oversight Committee

Date: _____

Peer Review Oversight Report

Firm/Practitioner: [redacted] CPA & Associates PC
DCH Name: [redacted] Permitted Since: 1/1/19[redacted]

Firm ID: [redacted]

Peer Review Date: 6/30/2010 Report Type: System ___ Engagement X

Findings: Pass with Deficiencies – Based on the Peer Reviewer's Report, however it isn't specifically stated as such. From the Report: "I noted the following deficiency during my review:

1. Deficiency – On the engagements reviewed, I noted that the accompanying accountant's reports were not appropriately modified. The firm had failed to disclose the following departure from professional standards in the accompanying report: a. In one of the reports, the firm failed to disclose departures relating to (1) valuing an asset at F M V, (2) incorrectly classifying another asset as comprehensive income, (3) omission of a reconciliation of net income to cash provided by operations in the Cash Flow Statement prepared using the Direct Method, and (4) not including the included supporting schedule in the report."

"I recommend that the firm (1) establish a means of ensuring the financial statements present and disclose matters in accordance with professional standards, and (2) make sure the engagements financial statements conform to these standards prior to issuance."

Society Recommendations: Comply with Reviewer's recommendations. Society accepted.

Prior Findings/date:

CPE Records: Audit documents for 2006-2008 attached. Otherwise, the only CPE documentation on file is Ms. [redacted]'s online renewal form indicating: 48.5 in 2008; 65 in 2009; and 84 in 2010.

Recommendation:

Next review due: 6/30/2013

By: _____ Date: _____
Oversight Committee

Jeremiah W. (Jay) Nixon
Governor
State of Missouri

Jane A. Rackers, Division Director
DIVISION OF PROFESSIONAL REGISTRATION

Department of Insurance
Financial Institutions
and Professional Registration
John M. Huff, Director

MISSOURI STATE BOARD OF ACCOUNTANCY
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573-751-0890 FAX
800-735-2966 TTY Relay Missouri
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www.pr.mo.gov/accountancy.asp

Pamela Ives Hill, CPA
Executive Director

Missouri State Board of Accountancy
Peer Review Oversight Board Report

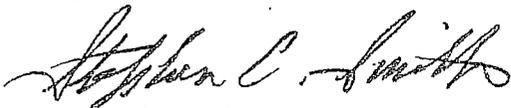
January 21, 2011

The Missouri State Board of Accountancy Peer Review Oversight Board (the "PROB") met on January 21, 2011, 10:30 a.m. via conference call.

The following members were in attendance, Stephen C. Smith, Chairperson, Edwin "Eddie" Cato, Chester "Ed" Pratt, and Tom Mechsner. The following board staff members were in attendance, Pamela Ives Hill, Executive Director, Thomas DeGroot, Senior Auditor Investigator, and Rhonda Robinett-Fogle, Executive I.

The PROB wishes to report that the Missouri Society of CPA's peer review program has complied with the administrative procedures and Standards for Performing and Reporting on Peer Reviews of the AICPA Peer Review Board as attested by the AICPA Peer Review Program Oversight Task Force in its opinion dated November 16, 2011. In addition, the listing of the firms participating in an approved peer review program is satisfactory to the PROB, and as of January 21, 2011 includes two firms that are out of compliance with the Peer Review Standards. MOSBA staff is working with the two firms to bring them into compliance.

Respectfully submitted,



Stephen C. Smith
Peer Review Oversight Board, Chairperson



STATE OF OKLAHOMA
OKLAHOMA ACCOUNTANCY BOARD
PEER REVIEW OVERSIGHT COMMITTEE

Annual Report for 2010 on the Continuing Oversight of Sponsoring
Organizations Approved to Administer Peer Reviews to Oklahoma Registrants

Pursuant to the Oklahoma Accountancy Act (The Act), §15.30, the Oklahoma Accountancy Board (OAB) establishes a peer review program to monitor firms' compliance with applicable accounting and auditing standards adopted by generally recognized standard setting bodies, the program emphasizes education, including appropriate remedial procedures, which may be recommended or required when financial statement reports do not comply with professional standards. In the event a firm does not comply with established professional standards, or a firm's professional work is so inadequate as to warrant disciplinary actions, the OAB shall take appropriate action to protect the public interest.

The OAB, pursuant to Title 10 of the Oklahoma Administrative Code; Subchapter 33; Section 10:15-33-3 adopts the "Standards for Performing and Reporting on Peer Reviews," as promulgated by the American Institute of Certified Public Accountants (AICPA) or other standards approved by the OAB as its minimum standards for peer review of registrants.

Oversight of the minimum standards for peer review of registrants is established through the OAB's Peer Review Oversight Committee (PROC) which is provided for in 10:15-33-7 of the Oklahoma Administrative Code.

The purpose of the PROC is to monitor Sponsoring Organizations and provide the OAB with a reasonable assurance that peer reviews are being conducted and reporting on in accordance with the OAB's minimum standards for peer review, review the policies and procedures of sponsoring organization applicants as to their conformity with the peer review minimum standards, and report to the OAB on the conclusions and recommendations reached as a result of performing the aforementioned functions.

Thus, the PROC operating statement is:

"To evaluate and monitor the Peer Review Program established by the Oklahoma Accountancy Board to provide reasonable assurance that the American Institute of Certified Public Accountant's Peer Review Program Standards are being properly administered in the State of Oklahoma making referrals to the Oklahoma Accountancy Board as needed for further action as needed."

Oversight procedures have been established to ensure that the peer reviews being administered to OAB registrants are being conducted and reported in accordance with peer review minimum standards (PROC Operating Summary attached). The procedures include:

- A. At least one PROC member is scheduled to attend in person, all Oklahoma Society of Certified Public Accountant's (OSCPA) Peer Review Committee meetings to consider the acceptance bodies' deliberations in accepting peer reviews (PROC Oversight Visit Checklist attached);
- B. On an annual basis, the PROC reviews the qualifications of each entity approved by the OAB to administer peer reviews;

- C. A detailed review of all Adverse, Modified, Pass with Deficiency and Fail peer review reports are performed by the PROC. When necessary, prescribe actions designed to assure correction of the deficiencies in the reviewed firm's system of quality control;
- D. Monitor remedial and corrective actions as prescribed by the PROC and/or the administering entity to determine compliance by the firm;
- E. Accept all unmodified and pass system and engagement peer review reports submitted to the OAB; and
- F. As deemed appropriate, refer firms to the OAB's Enforcement Committee for failing to comply with the OAB's peer review program or performing work that is so inadequate as to warrant disciplinary action..

Based on the aforementioned procedures, the following is a summary of the PROC activity during fiscal year 2010.

At least one PROC member attended the following OSCP A Peer Review Committee meetings during fiscal year 2010:

Thursday, August 13, 2009
Thursday, October 22, 2009
Thursday, February 11, 2010

As of October 1, 2010, there were 109 Sole Proprietorships and 472 firms which have reported to the OAB the performance of engagements requiring peer review. Statistics on peer reviews completed during the past three fiscal years are attached. The disparity illustrated in peer reviews submitted during fiscal years 2008 and 2009 between those submitted in 2010 can be attributed to the timing of when the OAB peer review rules became effective July 1, 2004, and the increase in numbers of firms requiring peer since that effective date.

Note that since peer reviews are required every three years there has been a pattern of increased peer review activity beginning in 2004, again in 2007, and again in 2010. Despite the discrepancies, the PROC has concluded that for fiscal year 2010:

1. Technical reviews are being reviewed in a timely manner by the OSCP A;
2. Technical reviewers appear knowledgeable about their function;
3. Technical reviewers resolve inconsistencies and disagreements before accepting reports;
4. Technical reviewers make the OSCP A Peer Review Committee aware of matters needed to properly evaluate the review.
5. The technical reviewers are available during the meetings to answer questions; and
6. During its oversight of the OSCP A Report Acceptance Bodies (RAB), the PROC specifically noted the various RABs consistently held open and thorough discussions of reviews. While attending nearly all fiscal year 2010 meetings, the PROC also observed the RABs address every issue with purpose and in a thoughtful and meaningful discussion. Finally, the PROC concludes the vast knowledge collectively shared by RAB members regarding acceptance procedures and corrective or monitoring actions to be excellent.

The PROC made four referrals to the Enforcement Committee in fiscal year 2008, five in 2009, and three in 2010. This does not include firms voluntarily discontinuing performance of engagements requiring a peer review because of deficient peer review results.

OAB staff, with the approval of the PROC, has two recommendations to better meet its objectives and the OAB's peer review requirements. Staff has discussed with AICPA Vice

President Jim Brackens, the need for the AICPA to include both the Peer Review Enrollment Letters and Peer Review Extension Letters on the Facilitated State Board Secure Access Website.

At June 30, 2010, the following entities' AICPA Oversight Reports were reviewed and approved by the PROC and the OAB:

- AICPA Center For Public Company Audit Firms
- Alabama Society of Certified Public Accountants
- Arkansas Society of Certified Public Accountants
- California Society of Certified Public Accountants
- Colorado Society of Certified Public Accountants
- Florida Institute of Certified Public Accountants
- Georgia Society of Certified Public Accountants
- Illinois Society of Certified Public Accountants
- Indiana Certified Public Accountant Society
- Kansas Society of Certified Public Accountants
- Montana Society of Certified Public Accountants
- National Peer Review Committee
- Nevada Society of Certified Public Accountants
- New York State Society of Certified Public Accountants
- Oklahoma Society of Certified Public Accountants
- Tennessee Society of Certified Public Accountants
- Texas Society of Certified Public Accountants;

Although the other 16 sponsoring organizations were not evaluated by the PROC to the degree the OSCP's Peer Review Program had been, nothing came to the PROC's attention that would lead them to believe that during their review, these 16 administering entities were not administering peer reviews in accordance with "*Standards for Performing and Reporting on Peer Reviews*," as promulgated by the AICPA.

Finally, the PROC concludes that peer reviews administered by the OSCP are being performed for Oklahoma registrants in accordance with the "*Standards for Performing and Reporting on Peer Reviews*," as promulgated by the AICPA.

Oklahoma Accountancy Board Peer Review Oversight Committee

Jim Williamson, CPA, PROC Chair

Ann Fields, CPA

Thomas C. McGuire, CPA

Oklahoma Accountancy Board
Peer Review Oversight Committee
Operating Summary

Purpose

To evaluate and monitor the peer review program established by the Board to provide reasonable assurance that the AICPA Peer Review Program standards are being properly administered in the state of Oklahoma making referrals to the Board for further action as needed. (10:15-33-7)

Objectives and Procedures

Ensure that peer reviews are conducted in accordance with AICPA Standards for Performing and Reporting on Peer Reviews. (10:15-33-7e3)

- Review applications from entities requesting approval as a sponsoring organization (10:15-33-7a2)
- Annually obtain and review most recent sponsoring organization AICPA oversight report (10:15-33-7a1)
- At least one member of the PROC attend each OSCPA Peer Review Committee meeting (10:15-33-7e3)
- Annually recommend sponsoring organizations to the Board for approval (10:15-33-7d)

Ensure firms undergo peer reviews as required and recommend appropriate remedial actions if necessary. (10:15-33-4 and 10:15-33-7e2)

- Ensure firms submit required reports (10:15-33-6)
- Accept all Pass reports submitted to the Board without review by PROC (10:15-33-7e4)
- Review and discuss all Pass with Deficiencies and Fail reports (10:15-33-7e4)
- Assess remedial action prescribed by the sponsoring organization for appropriateness and prescribe additional remedial action if deemed necessary (10:15-33-7e1)
- Monitor firm compliance with prescribed remedial action (10:15-33-7e2)
- Refer firms to Enforcement Committee as deemed appropriate: (10:15-37-1a)
 - Firms not submitting required reports (10:15-33-6)
 - Firms requiring continued oversight following deficient reports as described in 10:15-33-5
 - Others as deemed appropriate by the PROC

Regularly communicate results of PROC operations. (10:15-33-7a3)

- PROC will meet and report activities to the Board at least quarterly (10:15-33-7e4)
- Annually report conclusions and recommendations regarding evaluation and monitoring of peer review program to Board (10:15-33-7a3)
- Communicate problems encountered to sponsoring organizations as needed (10:15-33-7e5)

Oklahoma Accountancy Board

BOARD OVERSIGHT COMMITTEE

Summary of Oversight Visit - Peer Review Committee

Oversight Committee Member
Performing This Review

Date Performed

1. Are technical reviews being performed within a reasonable time period after review documents are submitted to the Peer Review Program?

Yes _____ No _____

2. Do technical reviewers appear knowledgeable about their function?

Yes _____ No _____

3. Do the technical reviewers resolve inconsistencies and disagreements before accepting the CPA reports?

Yes _____ No _____

4. Do the technical reviewers make the Committee aware of matters needed to properly evaluate the review?

Yes _____ No _____

5. Is the technical reviewer available during the meeting to answer questions that arise?

Yes _____ No _____

6. Are the technical reviewers knowledgeable about the treatment of:

Substandard engagements? Yes _____ No _____

Inspection issues? Yes _____ No _____

Governmental issues? Yes _____ No _____

Review scope? Yes _____ No _____

Appropriate format for report, letter of comments, letter of response? Yes _____ No _____

Revisions to review documents? Yes _____ No _____

Corrective of monitoring actions? Yes _____ No _____

Summary of Oversight Visit - Peer Review Committee

Date _____

Page 2

7. Were any specific solutions to problems discussed?
Yes _____ No _____

8. Have the technical reviewers agreed to take any action on problems?
Yes _____ No _____

9. Do technical reviewers believe sufficient guidance is provided by their program?
Yes _____ No _____

10. Have the technical reviewers demonstrated improvement from any prior oversight visit report?
Yes _____ No _____

11. Attend the program's Peer Review Committee meeting as an observer. Do not make comments or raise questions until the Committee is ready to vote on a specific review.

12. Were the following manuals available during the meeting:

Peer Review Program Manual?	Yes _____	No _____
Peer Review Administrative Manual?	Yes _____	No _____
Handbook?	Yes _____	No _____

13. Is the meeting Committee comprised of at least three members?
Yes _____ No _____

14. Does the extent of the Committee's review appear appropriate?
Yes _____ No _____

Summary of Oversight Visit - Peer Review Committee

Date _____

Page 3

15. Were the appropriate decisions made regarding:

Substandard engagements?	Yes _____	No _____
Inspection issues?	Yes _____	No _____
Governmental issues?	Yes _____	No _____
Review scope?	Yes _____	No _____
Revisions to review documents?		
The issuance of team captain feedback forms?	Yes _____	No _____
Requests for extensions?	Yes _____	No _____
Handling problem reviews?	Yes _____	No _____

16. Were any specific solutions to problems discussed?

Yes _____ No _____

17. Has the Committee agreed to take any action on problems?

Yes _____ No _____

18. Do the Committee members believe sufficient guidance is provided by the program?

Yes _____ No _____

19. Does the Committee consider technical reviewers' recommendations and then come to its own decision?

Yes _____ No _____

20. Has the Committee demonstrated improvement from any prior oversight visit report?

Yes _____ No _____

21. Please rate the Committee's knowledge of acceptance procedures and corrective/monitoring actions?

_____ Poor
_____ Adequate; needs some improvement
_____ Excellent

**PEER REVIEW OVERSIGHT ADVISORY COMMITTEE
REVIEWER CHECKLIST**

Firm Name: ABC ACCOUNTING, firm No. xxxx-C

Partner: Tom Smith

1 st Review	2 nd Review	3 rd Review

- 1) Final Acceptance Letter
- 2) Reviewer's Report
- 3) Letter of Comment (LOC) (if any)
- 4) Corrective Action
- 5) Letter of Response (LOR) (if any)

First Reviewers Name: _____ Date: _____

Recommendation: Compliance Request Additional Information Refer to Board for
Uncorrected Deficiencies

Additional Comments: _____

Second Reviewers Name: _____ Date: _____

Recommendation: Compliance Request Additional Information Refer to Board for
Uncorrected Deficiencies

Additional Comments: _____

Third Reviewers Name: _____ Date: _____

Recommendation: Compliance Request Additional Information Refer to Board for
Uncorrected Deficiencies

Additional Comments: _____

SAMPLE

Minnesota State Board of Accountancy
Quality Review Oversight Committee
Work Program for Peer Review Process
December 2005

Objective:

To assist the Minnesota State Board of Accountancy with its oversight of the quality review program by assessing the effectiveness of the approved report acceptance bodies and offering suggestions to improve the program.

I. Procedures – Determine Scope of Committee Work	Responsibility	Date
1. Meet with the Chair of the State Board of Accountancy and review state laws and rules related to the quality review process.		
2. Review AICPA Standards for Performing and Reporting on Peer Reviews and AICPA Audit and Accounting Practice Aid: Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice.		
3. Review quality review materials gathered from other state boards of accountancy, including materials from the states of Washington, California, New Jersey, South Dakota, Texas, Ohio, and Idaho.		
4. Review statistical information maintained by the Minnesota State Board of Accountancy on public accounting firms that have been granted permits to practice in the state of Minnesota for calendar year 2005.		
5. Reach a consensus on the appropriate role and scope of responsibility for the Quality Review Oversight Committee for the 2005 review period.		

Minnesota State Board of Accountancy
Quality Review Oversight Committee
Work Program for Peer Review Process
DRAFT -- December 21, 2005

II. Procedures – Review Report Acceptance Bodies	Responsibility	Date
1. Determine the report acceptance bodies that have been approved by Minnesota State Board of Accountancy: <ul style="list-style-type: none"> • Minnesota Association of Public Accountants (approved 6/25/2004) • Minnesota Society of Certified Public Accountants (approved 12/9/2005) 		
2. Request basic information from the two report acceptance bodies on their operating procedures, committee rosters, and meeting schedules.		
3. Request additional information from each report acceptance body: <ul style="list-style-type: none"> • Listing of firms that received peer reviews through each report acceptance body for the year ended December 15, 2005, • Qualifications of peer review committee members, and • Qualifications of technical reviewers. 		
4. By reviewing resumes and bios, determine if peer review committee members and technical reviewers meet the qualification standards established by the AICPA.		
5. Conduct an on-site visit at each report acceptance body: <ul style="list-style-type: none"> • Observe the proceedings of a peer review committee meeting. • Interview each peer review committee chair, technical reviewer and administrative staff to gain an understanding of key operating procedures and the process for updating procedures. • Review any other evidence that demonstrates that the report acceptance body has complied with applicable AICPA standards, such as any reports from the AICPA Oversight Task Force, • Determine the location and retention schedule for peer reviewer working papers and reports. • Review the minutes of the report acceptance meetings held during 2005. 		
6. From the listing of peer reviews conducted for the year ended December 15, 2005, select a sample of peer review engagements and test to: <ul style="list-style-type: none"> • Determine if the individuals performing the peer review engagement met the qualification requirements. • Determine if the peer review engagement was properly supervised and reviewed. • Verify that the proper type of peer review was conducted, e.g., system, report, or engagement review. • Review the peer review report issued and determine if the opinion is properly supported by the workpapers, e.g, summary review memorandum. • If warranted, extend procedures to review the workpaper documentation to verify the peer review was conducted in accordance with the AICPA Peer Review Standards. (Reviewer checklists, etc.) 		
7. Review the results of steps 4 – 6 and reach a consensus on the effectiveness of each report acceptance body.		
8. Identify any other quality review matters that merit further consideration by the Minnesota State Board of Accountancy.		

Minnesota State Board of Accountancy
 Quality Review Oversight Committee
 Work Program for Peer Review Process
 DRAFT – December 21, 2005

III. Procedures – Report Results	Responsibility	Date
1. Obtain approval to extend 2005 reporting deadline to March 31, 2006		
2. Prepare a preliminary report that cites the draft committee work program and scope of work and submit it to the Minnesota State Board of Accountancy.		
3. Submit to the Minnesota State Board of Accountancy the listing of firms that obtained peer reviews through each report acceptance body for the year ended December 15, 2005.		
4. Meet with members of the Minnesota State Board of Accountancy and obtain feedback on draft committee work plan and scope of work.		
5. Determine contents of final report based on steps I.6., II.7, II.8., and III.4.		
6. Draft final report and reach consensus on its contents and presentation.		
7. Submit final report to the Minnesota State Board of Accountancy		
8. Meet with Minnesota State Board of Accountancy, present final report, and answer questions.		

Minnesota State Board of Accountancy
Quality Review Oversight Committee
Work Program for Peer Review Process 2006
 November 20, 2006

Attachment L-2

Objective:

To assist the Minnesota State Board of Accountancy with its oversight of the quality review program by assessing the effectiveness of the approved report acceptance bodies and offering suggestions to improve the program.

I. Procedures – Determine Scope of Committee Work	Responsibility	Date
1. Review any changes in AICPA Standards for Performing and Reporting on Peer Reviews, AICPA Audit and Accounting Practice Aid: Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice, or other guidance.		
2. Review any changes in processes or information systems used by the Minnesota State Board of Accountancy for public accounting firms that have been granted permits to practice in the state of Minnesota for calendar year 2006. Obtain a copy of any available statistical summary of peer review activity expected or reported for calendar year 2006.		
3. Follow-up on the status of Quality Review Oversight Committee 2005 report comments related to activities of the Minnesota State Board of Accountancy.		
4. Reach a consensus the scope of work to be conducted by the Quality Review Oversight Committee for the 2006 review period.		

Minnesota State Board of Accountancy
Quality Review Oversight Committee
Work Program for Peer Review Process
DRAFT – December 21, 2005

II. Procedures – Review Report Acceptance Bodies	Responsibility	Date
1. Request basic information from the two report acceptance bodies on any changes in operating procedures, committee rosters, and meeting schedules for calendar year 2006.		
2. Make arrangements with each report acceptance body to obtain a listing of firms that received peer reviews through each report acceptance body for the year ended December 15, 2006, including information on the peer reviewer, technical reviewer, type of review conducted, and report issued [Note that the MNCPA has been submitting this information to the QROC chair throughout the year.]		
3. By reviewing resumes and bios, determine if peer review committee members and technical reviewers meet the qualification standards established by the AICPA.		
4. Consider the need to conduct an on-site visit at each report acceptance body and whether the following steps are necessary for 2006: <ul style="list-style-type: none"> • Observe the proceedings of a peer review committee meeting. • Interview each peer review committee chair, technical reviewer and administrative staff to gain an understanding of key operating procedures and the process for updating procedures. • Review any other evidence that demonstrates that the report acceptance body has complied with applicable AICPA standards, such as any reports from the AICPA Oversight Task Force, • Determine the location and retention schedule for peer reviewer working papers and reports. • Review the minutes of the report acceptance meetings held during 2006. 		
5. From the listing of peer reviews conducted for the year ended December 15, 2006, select a sample of peer review engagements [Note that the QROC chair has selected some engagements from the MNCPA reviews conducted in early calendar year 2006 and asked the MNCPA to retain the workpapers for those reviews] and test to: <ul style="list-style-type: none"> • Determine if the individuals performing the peer review engagement met the qualification requirements. • Determine if the peer review engagement was properly supervised and reviewed. • Verify that the proper type of peer review was conducted, e.g., system, report, or engagement review. • Review the peer review report issued and determine if the opinion is properly supported by the workpapers, e.g, summary review memorandum. • If warranted, extend procedures to review the workpaper documentation to verify the peer review was conducted in accordance with the AICPA Peer Review Standards. (Reviewer checklists, etc.) 		
6. Follow-up on the status of Quality Review Oversight Committee 2005 report comments related to activities of each report acceptance body.		

**Minnesota State Board of Accountancy
Quality Review Oversight Committee
Work Program for Peer Review Process
DRAFT – December 21, 2005**

7. Obtain a representation letter from each report acceptance body regarding compliance with AICPA Standards for Performing and Reporting on Peer Reviews.		
8. Review the results of procedures II, steps 1 – 6 and reach a consensus on the effectiveness of each report acceptance body.		

Minnesota State Board of Accountancy
 Quality Review Oversight Committee
 Work Program for Peer Review Process
 DRAFT – December 21, 2005

III. Procedures – Report Results	Responsibility	Date
1. Review the results of procedures I, steps 1-3 and reach a consensus on whether there are report comments that should be directed to the Minnesota State Board of Accountancy operations.	Committee	
2. Review the results of procedures II, steps 1-7 and reach a consensus on whether there are report comments that should be directed to either report acceptance body.	Committee	
3. Draft any report comments from Procedures III, steps 1-2.	Committee	
4. Submit any draft comments to report acceptance bodies or Minnesota State Board of Accountancy and request a written response	Committee Chair	
5. Consider comments obtained in Procedure III, step 4 and reach consensus on final report content.	Committee	
6. Prepare final report and submit it to the Minnesota State Board of Accountancy	Committee Chair	
7. Meet with Minnesota State Board of Accountancy, present final report, and answer questions.	Committee Chair	

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
PEER REVIEW OVERSIGHT BOARD

Checklist - System Reviews

Performed by
PROB - Member _____

Administering Entity _____

Firm Name _____

Date _____

Firm Number _____

Technical Reviewer of
Administering Entity _____

Review Number _____

Review Captain _____

Report Type Current _____

Report Type Prior _____

DATES:

Exit Conference _____

Review Period _____

Technical Review _____

PRC _____

I. Technical Reviewer's Checklist

- A. Have all questions and comments raised by the technical reviewer been resolved?
- B. Is the technical reviewer's checklist complete?
- C. Has the reviewer identified the significant issues in the peer review?
- D. Do you agree with the technical reviewer's:
 - 1. Conclusions?
 - 2. Recommendations?

II. Peer Review Workpapers

- A. Are all required documents submitted by the reviewing Firm complete?
- B. Summary Review Memorandum
 - 1. Does the review team have experience in those industries served by the Firm under review?
 - 2. Is the scope of the review sufficient to provide adequate coverage of the Firm's practice and the Partner and management level personnel?

YES	NO	N/A	COMMENTS *

* If more space is needed, attach additional pages.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
PEER REVIEW OVERSIGHT BOARD - 4

Checklist - System Reviews

VII. Conclusions (Con't.)

- C. 1. Has the reviewer been evaluated?
- 2. Based upon your review, do you agree with the evaluation?
- 3. Do you feel that the reviewer needs additional training?

VIII. Has the review been processed timely?

If not, why?

YES	NO	N/A	COMMENTS *

GENERAL COMMENTS:

**TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
PEER REVIEW OVERSIGHT BOARD**

Checklist - Engagement Reviews

Performed by
PROB - Member _____

Administering Entity _____

Date _____

Firm Name _____

Technical Reviewer of
Administering Entity _____

Firm Number _____

Review Captain _____

Review Number _____

DATES:

Report Type Current _____

Engagement Review
Completion _____

Report Type Prior _____

Technical Review _____

Review Period _____

PRC _____

I. Technical Review

A. Have all questions and comments raised by the technical reviewer been resolved?

B. Is the technical reviewer's checklist complete?

C. Are the conclusions of the technical reviewer appropriate?

D. 1. Is the performance of the technical staff in conformity with the administering entities guidelines?

2. Is the performance of the technical staff appropriate given the circumstances?
(Comment if "No")

II. Engagement Review Workpapers

A. Is the Review Completion Form completed?

B. Is the Engagement Statistics Data Sheet completed?

C. Is the scope adequate?

D. Are the workpapers complete (contain all forms and checklists)?

YES	NO	N/A	COMMENTS *

* If more space is needed, attach additional pages.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
PEER REVIEW OVERSIGHT BOARD - 2

Checklist Engagement Reviews

	YES	NO	N/A	COMMENTS *
E. Reviewer's Checklists				
1. Are all items completed?				
2. Are all issues resolved?				
3. Were matters noted in the review included on an MFC form?				
4. Were all MFC's included in the DMFC form?				
5. Was the disposition of each MFC appropriate (included in the report, or the FFC form, discussed with Firm or cleared)?				
II. Engagement Review Workpapers (Con't.)				
E. Reviewer's checklists (Con't.)				
6. Did the Review Captain properly distinguish and categorize matters, findings, deficiencies and significant deficiencies?				
7. Are the findings contained in the FFC form written in a manner such that the Firm can appropriately respond?				
III. Report				
A. Based upon your reading of the matters included in the MFC's, does the report appear appropriate?				
B. Read the Firm's prior reports, LOC's, or FFC's -				
1. Did prior LOC's or FFC's contain similar findings as those noted in the current review?				
2. Are any of the findings a repeat?				
3. If there is a repeat finding, has it been identified in the MFC, FFC or report?				

* If more space is needed, attach additional pages.

PEER REVIEW OVERSIGHT BOARD OF THE TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Summary of Periodic Oversight Visits of Sponsoring Organization's
Peer Review Committee Meetings for 2009

Oversight Board Members Performing Visit _____
Date of Visit _____

- | | | | |
|---|-----------|----------|-----------|
| 1. Are technical reviews being performed within a reasonable time period after review documents are Submitted to the Peer Review Program? | Yes _____ | No _____ | N/A _____ |
| 2. Do technical reviewers appear knowledgeable about their responsibilities? | Yes _____ | No _____ | N/A _____ |
| 3. Do the technical reviewers resolve inconsistencies and disagreements before accepting the CPA reports? | Yes _____ | No _____ | N/A _____ |
| 4. Is the technical reviewer available during the meeting to answer questions that arise? | Yes _____ | No _____ | N/A _____ |
| 5. Are technical reviewers knowledgeable about: | | | |
| The differences in the bases for performing systems and engagement reviews. | Yes _____ | No _____ | N/A _____ |
| Monitoring issues. | Yes _____ | No _____ | N/A _____ |
| Engagements requiring industry specific knowledge i.e. engagements subject to ERISA, Governmental Standards/Regulations, etc. | Yes _____ | No _____ | N/A _____ |
| Assessment of peer review risk in determining the scope of the review. | Yes _____ | No _____ | N/A _____ |
| The interrelationship of MFC's, FFC's, DMFC's. | Yes _____ | No _____ | N/A _____ |
| The differences in matters, findings, deficiencies and significant deficiencies. | Yes _____ | No _____ | N/A _____ |
| Appropriate types of reports. | Yes _____ | No _____ | N/A _____ |
| Circumstances for requiring revisions to review documents. | Yes _____ | No _____ | N/A _____ |
| Appropriateness of recommended corrective or monitoring actions. | Yes _____ | No _____ | N/A _____ |

6. Have the technical reviewers raised any specific issues? Yes _____ No _____ N/A _____
7. Have the technical reviewers presented solutions to the specific issues? Yes _____ No _____ N/A _____
8. Do technical reviewers believe sufficient guidance is provided by their programs? Yes _____ No _____ N/A _____
9. Have the technical staff demonstrated improvement from any prior oversight visit report? Yes _____ No _____ N/A _____
10. Based upon the criteria established by the PROB, make a selection of engagements to be presented at the RAB meeting, as well as those accepted by the technical review staff during the period since the previous RAB meeting, and perform tests of those reviews using the system and engagement checklists developed by the PROB. Yes _____ No _____ N/A _____
11. Attend the sponsor's Peer Review Committee Report Acceptance meetings and observe their deliberations in the acceptance process of the reports on the peer reviews presented and assess the reasonableness of the reasonableness of the Committee's discussions and their conclusions on the reviews presented. Yes _____ No _____ N/A _____
12. In what areas do committee members believe additional guidance is needed?
- _____
- _____
- _____
13. Were following manuals available during the meeting?
- Peer Review Program Manual Yes _____ No _____ N/A _____
- Peer Review Administrative Manual Yes _____ No _____ N/A _____
- Handbook Yes _____ No _____ N/A _____
14. Is there a required minimum number of committee Members present? Yes _____ No _____ N/A _____

15. Were appropriate decisions made regarding:

- | | | | | | | |
|--|-----|-------|----|-------|-----|-------|
| Monitoring issues. | Yes | _____ | No | _____ | N/A | _____ |
| Scope of the review. | Yes | _____ | No | _____ | N/A | _____ |
| Revisions to review documents. | Yes | _____ | No | _____ | N/A | _____ |
| Corrective or monitoring actions. | Yes | _____ | No | _____ | N/A | _____ |
| The issuance of team captain feedback forms. | Yes | _____ | No | _____ | N/A | _____ |
| Requests for extensions. | Yes | _____ | No | _____ | N/A | _____ |
| Conclusions on problem reviews. | Yes | _____ | No | _____ | N/A | _____ |

16. Were any specific problems or issues discussed? Yes _____ No _____ N/A _____

17. Has the Committee agreed to take any action on the problems or issues raised? Yes _____ No _____ N/A _____

18. Do the Committee members believe sufficient guidance is provided by the program? Yes _____ No _____ N/A _____

19. In what areas do Committee members believe additional guidance is needed:

20. Does the Committee consider technical reviewers' recommendations and then come to its own decision? Yes _____ No _____ N/A _____

21. Has the Committee demonstrated improvement from any prior oversight visit report? Yes _____ No _____ N/A _____

22. Please rate the Committee's knowledge of acceptance procedures and corrective/monitoring actions:

_____ Poor

_____ Adequate; needs some improvement

_____ Excellent

23. At the conclusion of the meeting discuss your findings with the organization's Peer Review Committee Chair and Program Director.

Comments:

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Summary of Oversight Visits Administrative for 2009

Oversight Board Members Performing Visit _____
Date of Visit _____

1. List program staff interviewed as part of the oversight visits:

Name	Title
_____	_____
_____	_____
_____	_____

2. Are workpaper retention policies properly followed?

Peer Review Program Manual	Yes	_____	No	_____	N/A	_____
Peer Review Administrative Manual	Yes	_____	No	_____	N/A	_____
Peer Review Computer System User Manual	Yes	_____	No	_____	N/A	_____

3. Are actions taken to monitor the completion of the follow-up actions required by the Peer Review Committee?

Yes _____ No _____ N/A _____

4. Are program letters generated to advise reviewers of poor performance or tardiness when warranted?

Yes _____ No _____ N/A _____

5. Are acceptance letters sent in a timely manner?

Yes _____ No _____ N/A _____

6. Does the administrative staff require any additional assistance from program support staff?

Yes _____ No _____ N/A _____

7. Based upon a walkthrough, rate the administrative staff's knowledge and computer procedures:

_____ Poor
_____ Adequate; needs improvement
_____ Very good
_____ Excellent

8. In what areas does the administrative staff need improvement or training?

9. Were any specific issues identified and discussed?

10. Has the administrative staff demonstrated improvement from any prior oversight visit?

Yes _____ No _____ N/A _____

11. Prior oversight conclusion was

Comments:

**Washington State Board of Accountancy
Peer Review Program Provider
Application Review Checklist**

Objective: To determine if the peer review program submitted to the Board for approval meets the AICPA Peer Review Standards and the requirements of Board Policy 2000-3.

Procedures For Review of Application

- A. Review the detailed summary explanation submitted by the organization with their application explaining how the peer review program complies with Board Policy 2000-3 and the AICPA Peer Review Standards for System & Engagement Reviews:
1. What types of peer review are offered under the program (System Review, Engagement Review, Report Review)?
 2. Is the described administration and oversight of the program adequate?
 3. Are the timing of reviews and the engagement selection requirements adequate?
 4. Are there appropriate reviewer qualifications established?
 5. Are there adequate working paper requirements?
 6. Is there a review of the working papers?
 7. Is the working paper retention policy adequate?
 8. What peer review documentation is issued to the firm (peer review report, letter of comments)?
 9. Are the controls over the issuance of peer review reports adequate?
 10. Is the retention policy for copies of the peer review reports adequate?
 11. Is there a central storage location for the retention of all working papers and peer review report copies?
 12. Are the fees for the program in alignment with the contract?
 13. Is the process for reviewing and updating the program adequate?

B. Review the detailed description submitted by the organization with their application explaining how the program implements the AICPA Peer Review Guidelines:

1. Is there adequate information and guidance given to firms participating in the peer review?
2. Is there adequate guidance given to reviewers concerning the standards for performing and reporting on peer reviews?
3. Is there adequate guidance given to reviewers concerning interpretations of the peer review standards?
4. Is there adequate guidance given to reviewers for performing and reporting on peer reviews?
5. Are engagement checklists used?
6. Is there adequate guidance given to reviewers for writing a peer review report?
7. Is there adequate guidance given to reviewers for writing a letter of comments?
8. Is there adequate guidance given to reviewers for writing letters on monitoring?
9. Does the guidance given to firms and reviewers explain that for multi-state firms, a review of the Washington state office must be included in order for the Board to accept the peer review report.

Summary & Conclusion

Recommendation to the Executive Director

Signature/Title _____

Date _____

**Washington State Board of Accountancy
Independent Peer Review Program
Oversight Audit Program**

Objectives:

To determine if the approved independent peer review program is effectively and efficiently operating as designed.

Audit Procedures – Program Administration

Through observation and interviews, perform the following program administration audit procedures:

Audit Procedure	Workpaper Ref.	Initials	Date
1. Review the composition and operations of the organization's Peer Review Committee. <ul style="list-style-type: none"> • Determine if the Committee appointments and the assignment of reports to members is appropriate. • Review the minutes of the report acceptance meetings. 			
2. Obtain a list of all CPA firms reviewed in the current peer review program cycle, including the type of peer review performed, and the individuals who conducted the peer review.			
3. Determine if the CPA firms selected for participation in the current peer review program cycle is appropriate (timing of reviews).			
4. Determine if the individuals who conducted the peer reviews (administrative staff, peer review board members, and reviewers) meet the qualification requirements.			
5. Verify that CPA firms receiving a report review were informed that the Washington State Board of Accountancy does not accept this level of peer review report.			
6. Determine if the working papers and peer review reports are retained in a central location and are retained for the appropriate amount of time.			
7. Determine if the program fee charged agrees to the approved amount in the organization's current agreement or amendment to the agreement.			
8. Determine if the peer review program has been reviewed and updated as required by the AICPA standards and/or Board policy.			

Audit Procedures – Examination of Individual Peer Review Engagements

Perform the following audit procedures by examining selected documentation.

Audit Procedure	Workpaper Ref	Initials	Date
1. Select a sample of peer review engagements performed during the current peer review cycle. Sample size is to be determined by the Executive Director.			
2. Determine if the individuals performing the peer review engagement met the qualification requirements.			
3. Determine if the peer review engagement was properly supervised and reviewed.			
4. Review the methodology used by the reviewer to select the firm engagements included in the peer review.			
<p>5. Verify the proper type of peer review was conducted. AICPA standards require:</p> <ul style="list-style-type: none"> • A system review is required for all firms that perform engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs). • An engagement review is available to firms that do not perform engagements under Statements on Auditing Standards (SASs) or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) but that do provide other types of services listed in the definition of an accounting and auditing practice for peer review purposes as defined in paragraph 4 of the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100.04). Paragraph 4 states: "An accounting and auditing practice for the purposes of these standards is defined as all engagements covered by Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARS), Statements on Standards for Attestation Engagements (SSAEs) and Government Auditing Standards (the Yellow Book), issued by the U.S. General Accounting Office (GAO). • A report review is available to firms that only perform compilations under Statements on Standards for Accounting and Review Services (SSARS) where the firm has compiled financial statements that omit substantially all disclosures. However, those firms that issue compilation reports under SSARS where "Selected Information – Substantially All Disclosures Required are Not Included" (as discussed in SSARS) are required to have an engagement review. 			
6. Review the workpaper documentation to verify the peer review was conducted in accordance with the AICPA Peer Review Standards. (Reviewer checklists, etc.)			

7. Review the peer review report issued and determine if the opinion is properly supported by the workpapers.			
8. Make recommendations relative to the operations of the program.			

**Washington State Board of Accountancy
Independent Peer Review Program
Oversight Audit Program**

Objectives:

To determine if the approved independent peer review program is operating as designed.

Audit Procedures – Program Administration:

Through observation and interviews, perform the following program administration audit procedures:

Audit Procedure	Workpaper Ref.	Initials	Date
1. Review the composition and operations of the organization's Peer Review Committee. <ul style="list-style-type: none"> • Determine if the Committee appointments and the assignment of reports to members is appropriate. • Review the minutes of the report acceptance meetings. 			
2. Obtain a list of all CPA firms reviewed in the current peer review program cycle, including the type of peer review performed, and the individuals who conducted the peer review.			
3. Determine if the CPA firms selected for participation in the current peer review program cycle is appropriate (timing of reviews).			
4. Determine if the individuals who conducted the peer reviews (administrative staff, peer review board members, and reviewers) meet the qualification requirements.			
5. Verify that CPA firms receiving a report review were informed that the Washington State Board of Accountancy does not accept this level of peer review report.			
6. Determine if the working papers and peer review reports are retained in a central location and are retained for the appropriate amount of time.			
7. Determine if the program fee charged agrees to the approved amount in the organization's current agreement or amendment to the agreement.			
8. Determine if the peer review program has been reviewed and updated as required by the AICPA standards and/or Board policy.			

Audit Procedures – Examination of Individual Peer Review Engagements

Perform the following audit procedures by examining selected documentation.

Audit Procedure	Workpaper Ref	Initials	Date
1. Select a sample of peer review engagements performed during the current peer review cycle. Sample size is to be determined by the Executive Director.			
2. Determine if the individuals performing the peer review engagement met the qualification requirements.			
3. Determine if the peer review engagement was properly supervised and reviewed.			
4. Review the methodology used by the reviewer to select the firm engagements included in the peer review.			
<p>5. Verify the proper type of peer review was conducted. AICPA standards require:</p> <ul style="list-style-type: none"> • A system review is required for all firms that perform engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs). • An engagement review is available to firms that do not perform engagements under Statements on Auditing Standards (SASs) or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) but that do provide other types of services listed in the definition of an accounting and auditing practice for peer review purposes as defined in paragraph 4 of the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100.04). Paragraph 4 states: "An accounting and auditing practice for the purposes of these standards is defined as all engagements covered by Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARS), Statements on Standards for Attestation Engagements (SSAEs) and Government Auditing Standards (the Yellow Book), issued by the U.S. General Accounting Office (GAO). 			
6. Review the workpaper documentation to verify the peer review was conducted in accordance with the AICPA Peer Review Standards. (Reviewer checklists, etc.)			
7. Review the peer review report issued and determine if the opinion is properly supported by the workpapers.			
8. Make recommendations relative to the operations of the program.			

Strengthening Peer Review Oversight

NASBA's 2011 Peer Review Oversight Committee Summit, held August 16 in Charleston, SC, has resulted in the production of an invaluable reference tool for Boards ready to start a Peer Review Oversight Committee (PROC). Compliance Assurance Committee Chair Janice Gray (OK) says Boards will have available a jump drive that will contain: guidance on how to get a PROC started; a sample PROC mission statement; confidentiality agreements for PROC members to sign; checklists for PROC members to use; and reporting mechanisms for communicating findings with State Boards. Ms. Gray explained these sample materials were gathered from those Boards that had PROCs already established prior to the meeting. Previously, when a Board came to the Committee for assistance, the Committee would route the inquiring Board to either the Texas or Mississippi Board for information on their successful PROC programs. Now if the Committee or NASBA is asked how to begin, the Board will be provided the jump drive.

"About seven years ago, when the Oklahoma Board decided to begin its PROC, we gathered information from the Texas and Mississippi Boards, as they were the ones with the most seasoned programs. We used information graciously provided by those programs to develop what we now have in Oklahoma," she said.

While three years ago, when the PROC Summit was last held, only about a dozen states were represented; this year 21 Boards were there. Ms. Gray said the increase evidences more active State Board participation, but states still have vastly different oversight

programs in place. Only about half have developed any forms for the PROC members' use. The jump drive will be distributed to all states represented at the conference in hopes of gaining more uniformity. Some states do have budget issues, and State Board staff is involved in monitoring compliance with peer review report deficiencies, and some State Boards are restricted in their ability to receive Peer Review reports, but Ms. Gray is hopeful that all Boards can establish strong programs.

This year state societies as well as State Boards were represented among the 60 Summit attendees. NASBA's Compliance Assurance Committee decided to open this year's Summit to state societies in order to let them hear firsthand what the State Boards need, Ms. Gray reported. None of the Boards at the meeting complained of problems in getting information from the professional associations, Ms. Gray said. She maintains the societies and the Boards all want the same results: CPAs who follow standards and issue reports with appropriate documentation.

"We will concentrate this year on continuing to provide Boards with assistance in developing PROCs. We've talked to the Boards about designing their own PROC questionnaires. At some point we will probably cull out best practices – but we are not there yet," Ms. Gray said. "We're talking about the next PROC Summit having both general and more breakout sessions, to allow those with established PROCs to exchange experiences. But that will not be for another 18-24 months." ♦

IAESB Proposes Experience Changes

Rather than requiring a minimum of three years of practical experience as a qualification for professional accountants, the International Accounting Education Standards Board has released proposed changes to International Education Standard (IES) 5, *Practical Experience Requirements for Aspiring Professional Accountants*, that allows its member bodies (such as the AICPA) to take other approaches to measurement of experience. With the revised IES 5, each IFAC member organization would establish its own preferred approach to measuring practical experience using one of three approaches: output-based, input-based, or a combination of input-based and output-based.

The IAESB's release explains, "This view is consistent with the Framework (2002), which recognizes that a mix of input, process, and output measures is often adopted in measuring the effectiveness of professional accounting education to develop competence." Charles Calhoun (FL), chairman of the IAESB Consultative Advisory Group (CAG), commented that he believes this is "a giant step to get the U.S. in compliance with international standards" (as the Uniform Accountancy Act calls for only a year of experience). However, the process is not yet completed, he noted: "We have got to get it through." The comment period concludes on October 8, 2011. Dr. Calhoun, who serves as NASBA's representative on the CAG, credited this proposed change to the work of Karen Pincus, IAESB Deputy Chair, and Dennis Reigle, AICPA Special Projects Business Adviser. Dr. Calhoun and Mr. Reigle spoke at NASBA's 4th International Forum in Vancouver.

Also included in the revisions is a provision that would allow

others besides members of IFAC bodies to supervise experience. The IAESB "supports the role of the mentor, but proposes that supervisors can also direct the practical experience of the aspiring professional accountant, provided that both the mentor and the supervisor are professional accountants. In expanding this responsibility, the IAESB is recognizing that mentors or supervisors are an important link between aspiring professional accountants and IFAC member bodies."

Dr. Calhoun will retire as CAG chair at the end of 2011. Raymond Johnson (OR) has been selected to replace him as NASBA's representative to the CAG. NASBA is an associate member of IFAC, as it is an association of regulating boards. ♦

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seeking to do business in New York," the NY Board's Executive Secretary Daniel Dustin observed. "It assures public protection by enhancing jurisdiction in all the states with mobility. It is good for the public and business in New York." At the end of the day, the legislation was a collaborative effort of all of the major stakeholders in the accountancy profession, including the Accountants Coalition, NY State Society of CPAs, NY Board, NY State Education Department, NASBA and AICPA, he noted.

Emergency regulations will be prepared by October 18, with the implementation date set at November 15. Prior to that time, New York's temporary practice permits will continue to be available to those CPAs who need to come in to work in the state. The temporary practice law will be repealed as of November 15. ♦



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PROC Item VII.
October 27, 2011

Discussion Regarding PROC Procedures Manual

Presented by: Rafael Ixta, Chief of Enforcement

Date: October 18, 2011

Purpose of the Item

The purpose of this item is to provide PROC members with the final draft of the PROC Procedures Manual.

Action(s) Needed

It is requested that the PROC vote to adopt the following recommendation.

Background

Using information developed by PROC members, and keeping with the format of other California Board of Accountancy (CBA) committee manuals, staff drafted a PROC Procedures Manual.

At its August 30, 2011 meeting, PROC members discussed the draft procedures manual and made recommendations for additions and revisions. Staff incorporated the recommendations, using underline and strikeout, into the final draft (**Attachment 1**).

Comments

The information added to Section IV.E. concerning documentation of oversight activities will be discussed separately under Agenda Item X.

The appendices have been omitted since they have either already been adopted by the PROC or are still being developed. Once the procedures manual is adopted, a final copy with appendices will be provided to all PROC members.

Recommendations

It is requested that the PROC adopt the PROC Procedures Manual.

Attachment

1. PROC Procedures Manual

CALIFORNIA BOARD OF ACCOUNTANCY

PEER REVIEW OVERSIGHT COMMITTEE
PROCEDURES MANUAL



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SECTION I - INTRODUCTION

This procedure manual contains guidance assembled by the California Board of Accountancy's (CBA) Peer Review Oversight Committee (PROC) to be used by the PROC and the CBA in its peer review oversight roles and responsibilities as described herein. The peer review process utilizes a significant number of terms and acronyms which have been presented in a glossary (APPENDIX A) ~~as an Appendix to this procedure manual~~. In addition, to provide a visual aid for the PROC's place in the peer review process, an organizational structure chart is included (APPENDIX B) ~~as an Appendix to this procedure manual~~.

A. AUTHORITY

The PROC derives its authority from Section 5076.1 of the Business and Professions Code (B&P) as follows: The CBA shall appoint a peer review oversight committee of certified public accountants of this state who maintain a license in good standing and who are authorized to practice public accountancy to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The composition and function of the PROC is further defined in Title 16 California Code of Regulations (CCR) Section 47.

B. PURPOSE

The purpose of the PROC is to engender confidence in the California Peer Review Program (Program) by performing oversight of the program and providing recommendations to the CBA on the effectiveness and continued reliance of the Program. (B&P §5076.1)

C. MEMBERSHIP

The PROC shall be comprised of not more than seven (7) licensees. The licensees shall maintain a valid and active license to practice public accounting in California issued by the CBA. No member of the committee shall be a current member or employee of the CBA. (B&P §5076.1(a), CCR §47)

All members of the PROC, at a minimum, must:

- Be a California-licensed CPA with an active license to practice in good standing in this state, with the authority to sign attest reports.
- Be currently active in the practice of public accounting in the accounting and auditing function of a firm enrolled in the AICPA Peer Review Program as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities.
- Regularly sign attest reports and have extensive experience in performing accounting and auditing engagements.
- Have completed the 24-hour Accounting and Auditing and eight-hour Fraud continuing education requirements for license renewal, as prescribed by Section 87 of the Accountancy Regulations.
- Be associated with a firm, or all firms if associated with multiple firms, that received a report with the peer review rating of pass for its most recent peer review.

- Have extensive knowledge of the AICPA's Standards for Performing and Reporting on Peer Reviews.

D. TENURE

PROC members shall be appointed to two-year terms and may serve a maximum of four (4) consecutive terms. (B&P §5076.1)

E. CONFIDENTIALITY

All PROC members shall sign a confidentiality letter.

Any information obtained by the PROC in conjunction with its review of peer review program providers shall not be a public record, and shall be exempt from public disclosure, provided, however, this information may be disclosed under any of the following circumstances:

- In connection with disciplinary proceedings of the CBA
- In connection with legal proceedings in which the CBA is a party
- In response to an official inquiry by a federal or state governmental regulatory agency
- In compliance with a subpoena or summons enforceable by court order
- As otherwise specifically required by law

F. CONFLICTS OF INTEREST

PROC members shall not participate in any discussions with respect to a reviewed firm when the member lacks independence as defined by Title 16 California Code of Regulations Section 65 or has a conflict of interest.

G. TRAVEL REIMBURSEMENT

Each PROC member shall be reimbursed for traveling and other reasonable expenses necessarily incurred in the performance of duties. (B&P §103)

General guidelines for travel reimbursement will be provided at the time of appointment.

H. COMPENSATION

Each PROC member shall receive a per diem of one hundred dollars (\$100) for each day actually spent in the discharge of official duties. (B&P §103)

SECTION II – GENERAL COMMITTEE MEETING INFORMATION

A. MEETINGS

The PROC shall hold meetings as necessary in order to conduct business and shall report to the CBA regarding the effectiveness of mandatory peer review. This shall include the PROC Chair attending CBA meetings to report on the activities of the PROC. The PROC shall also prepare an annual report to the CBA regarding the results of its oversight, and shall include the scope of work, findings, and conclusions regarding its oversight. (CCR §47(c))

B. OPEN/CLOSED SESSION

PROC meetings may include both open and closed sessions.

C. QUORUM

Before any action may be taken on agenda items, a quorum must be present at the meeting. Therefore, attendance by PROC members is critical. A majority of the PROC membership shall constitute a quorum.

D. ATTENDANCE BY MEMBERS

PROC members are expected to attend all regularly scheduled meetings of the PROC as well as assigned meetings of peer review program providers. A member who is absent from two consecutive PROC meetings will be subject to review by the Chair. Upon recommendation to the CBA, the member may be dismissed.

E. ATTENDANCE BY OTHERS

PROC meetings may be attended by CBA members as well as the general public. Members of the general public are only allowed to attend the open session portion of the meeting.

To ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full California Board of Accountancy (CBA) are present at a committee meeting, members who are not members of that committee may attend the meeting only as observers. CBA members who are not committee members may not sit at the table with the committee, and they may not participate in the meeting by making statements or by asking questions of any committee members.

SECTION III – ROLES AND RESPONSIBILITIES

A. ROLES & RESPONSIBILITIES

The PROC shall evaluate the responsibilities adopted for the PROC by the CBA to determine if the responsibilities are sufficient for the PROC to fulfill its purpose. Any recommendations for changes to the PROC's responsibilities shall be presented to the CBA for consideration and approval. Broadly stated, the PROC shall have the following roles and responsibilities (the specific oversight duty(ies) used to accomplish these goals are listed below each item):

- Oversee the activities of Board-recognized peer review program providers (Provider) related to how peer reviews are processed and evaluated
 - Administrative Site Visits
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Ensure the Provider is administering peer reviews in accordance with the standards adopted by the CBA
 - Administrative Site Visits
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Ensure that peer reviewers are properly qualified
 - Administrative Site Visits
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
 - Peer Reviewer Training
- Ensure that peer reviews are being accepted in a consistent manner by the Provider
 - Peer Review Subcommittee Meetings
- Conduct site visits of the Provider and their peer review committees
 - Administrative Site Visit
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Review sampling of peer review reports
 - Review Sampling of Peer Reviews
- Represent the CBA at Provider's peer review meetings
 - Administrative Site Visit
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Evaluate organizations outside the AICPA structure that desire to administer peer reviews in California.
 - Evaluation of Board-Recognized Peer Review Program Providers

The PROC shall develop a more detailed plan for performing and completing the above roles and responsibilities as outlined in the manual. This plan shall be reviewed with the

CBA on a routine basis and updated as appropriate to enable the PROC to fulfill its purpose. Documents resulting from the PROC's program shall be considered drafts until approved as final by the PROC and the CBA. Final documents shall be subject to the retention schedule in place at the CBA.

DRAFT

SECTION IV – PROC FUNCTIONS

The PROC oversight duties will include the following.

A. OVERSIGHT OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS

1. Administrative Site Visits

The PROC shall conduct, at a minimum, an annual administrative site visit of all Providers. The visit will be to determine if the Provider is administering peer reviews in accordance with the standards adopted by the CBA.

Each PROC member performing an administrative site visit shall complete a “Summary of Administrative Site Visit” checklist (APPENDIX C) and submit to the CBA office within thirty (30) days of the administrative site visit.

2. Peer Review Committee Meetings

The PROC shall attend all peer review committee meetings conducted by a Provider to monitor that the Provider is adhering to the minimum standards set forth by the CBA.

Each PROC member attending a peer review committee meeting shall complete a “Summary of Peer Review Committee Meeting” checklist (APPENDIX D) and submit to the CBA office within thirty (30) days of the peer review committee meeting.

3. Peer Review Subcommittee Meetings

The PROC shall attend at least four meetings per year of any peer review subcommittee created by a Provider for the purposes of accepting peer review reports. The PROC will monitor to ensure that peer reviews are performed and reported on in accordance with the Provider's established standards. ~~The PROC will monitor whether the prescribed remedial or corrective actions designed to assure correction of the deficiencies are appropriate and consistent.~~

Each PROC member attending a subcommittee meeting shall complete a “Summary of Report Acceptance Body Meeting” checklist (APPENDIX E) and submit to the CBA office within thirty (30) days of the peer review subcommittee meeting.

4. ~~Sample Reviews~~ Review Sampling of Peer Reviews

The PROC shall conduct ~~sample~~ reviews of peer reviews accepted by a Provider on a sample basis. The review may include, but is not limited to, the peer review report; reviewers' working papers prepared or reviewed by the Provider's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.

Sample reviews may be conducted during the Administrative Site Visit.

Each PROC member conducting a sample review of peer reviews shall complete a “Summary of Random Sample of Peer Reviews” checklist (APPENDIX F) and submit to the CBA office within thirty (30) days of the completion of the review.

5. Peer Reviewer Training

The PROC shall attend, on a regular basis, peer review training courses offered by a Provider. The PROC shall monitor the Provider’s training program to ensure that the program is designed to maintain or increase peer reviewer’s currency of knowledge related to performing and reporting on peer reviews.

Each PROC member attending a subcommittee meeting shall complete a “Summary of Peer Reviewer Training” checklist (APPENDIX G) and submit to the CBA office within thirty (30) days of the peer reviewer training course.

6. Statistics

The PROC shall collect statistical monitoring and reporting data on a regular basis; such data should be in a mutually agreed upon format to be prepared by the Provider, and shall include, but not be limited to, the following:

- Types (system vs. engagement) and numbers of reviews in process
- Types (system vs. engagement) and numbers of reviews completed by month, and cumulatively for the annual reporting period
- Types (system vs. engagement) and numbers of reviews receiving a pass, pass with deficiencies, or fail rating
- Extensions requested and status (granted, or denied, and completed)
- Corrective action matters (various types: overdue peer review reports, disagreements pending resolution, etc.)
- Delinquent reviews
- Firms expelled from the program

If not included in the statistical data reports, the PROC shall obtain a written outline of the administering entity’s risk assessment process in conducting its peer review program activities.

B. APPROVAL EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS

The PROC shall review any *Application to Become A Board-Recognized Peer Review Program Provider (01/10)* (APPENDIX H) received by the CBA. The PROC shall recommend approval or denial to the CBA based on the applicant’s evidence that its peer review program is comprised of a set of standards for performing, reporting on, and administering peer reviews and contain all the components outlined in Title 16, California Code of Regulations Section 48.

C. WITHDRAWAL OF BOARD RECOGNITION

The PROC is authorized to request from a Provider those materials necessary to perform its review. The PROC shall refer to the CBA any Board-recognized peer review program provider that fails to respond to any request.

D. ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY

The PROC shall report to the CBA regarding the effectiveness of mandatory peer review. This shall include an annual report to the CBA regarding the results of its oversight, and shall include the scope of work, findings, and conclusions regarding its oversight.

E. DOCUMENTATION OF OVERSIGHT ACTIVITIES

All PROC members shall document their attendance at or participation in peer review oversight activities using the following checklists:

1. Summary of Administrative Site Visit
2. Summary of Peer Review Committee Meeting
3. Summary of Report Acceptance Body Meeting
4. Summary of Random Sampling of Peer Reviews
5. Summary of Peer Reviewer Training

All checklists should be signed by the PROC member and submitted to the CBA office within thirty (30) days of the oversight activity.

Checklists will be maintained by the CBA office in accordance with the Records Retention Policy.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
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PROC Item VIII.
October 27, 2011

**Proposed Changes to the AICPA Standards for
Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of
Quality Control Materials**

Presented by: Nancy Corrigan, Chair and Katherine Allanson, PROC
Date: October 18, 2011

Purpose of the Item

At the September 22, 2011 California Board of Accountancy meeting, the CBA assigned the PROC to review the American Institute of Certified Public Accountants' (AICPA) Exposure Draft on Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, August 22, 2011 (**Attachment 1**).

Further, the CBA requested that a new letter be brought to the November 17th & 18th CBA meeting should the PROC identify additional changes to the letter in support of the exposure draft.

Action Needed

- PROC members should discuss if changes are needed to the letter in support of the exposure draft.
- If changes are needed, PROC members need to provide direction to CBA staff to draft a letter to submit to the CBA at the November 17th & 18th meeting.

Background

The AICPA Peer Review Board (Board) released a new exposure draft on administering and performing Quality Control Material (QCM) reviews. During the process of finalizing the changes based on the June 1, 2010 exposure draft, the Board recognized a need to provide additional guidance on administering QCM reviews, and performing and evaluating QCM review results. This new guidance was not addressed in the June 1, 2010 exposure draft. As a result, the Board issued a new exposure draft with proposed changes for peer reviewer qualifications, planning and performing QCM reviews, QCM provider and reviewer cooperation, and publicizing QCM review information.

Prior exposure drafts affecting peer reviews have been assigned to the Peer Review Oversight Committee (PROC) for analysis. Since the PROC is not meeting until October 27, 2011, and the exposure draft comment period ended on September 20, 2011, CBA staff conducted a cursory review of the exposure draft and prepared a letter in support of the exposure draft.

It should be noted CBA staff contacted the Board seeking an extension until November to provide comments to the exposure draft. CBA staff was informed that the Board would take action on the exposure draft in October and to submit comments prior to October.

The revisions to the Standards adopted as final will be effective for all reviews commencing on or after January 1, 2012.

The CBA was supportive of the changes in the June 1, 2010 exposure draft, believing that the changes would increase consumer protection through enhanced independence and objectivity for those performing peer reviews.

Comments

This exposure draft makes the following changes:

- Adds a minimum requirement that the reviewer be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of *pass*.
- Clarifies which materials are subject to the scope of review, identifying risk assessment considerations, how to evaluate if the materials are reliable aids, and identifying matters, findings, deficiencies, and significant deficiencies.
- Addresses the provider's and the reviewer's cooperation during a QCM review, including the impact of non-cooperation on the provider's independence and the reviewer's ability to gain approval to perform future QCM reviews or peer reviews.
- Addresses publicizing the results of QCM reviews, including posting the results on the AICPA's website after review acceptance.

Recommendations

Staff recommend that PROC members deliberate this exposure draft and determine if the attached letter that was sent in support of the exposure draft is a sufficient response on behalf of the CBA (**Attachment 2**).

Attachments

1. Exposure Draft: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, August 22, 2011
2. Letter to the AICPA on behalf of the CBA

EXPOSURE DRAFT

**PROPOSED CHANGES TO THE
AICPA STANDARDS FOR PERFORMING
AND REPORTING ON PEER REVIEWS:
Performing and Reporting on Reviews of
Quality Control Materials**

August 22, 2011

Comments are requested by September 20, 2011

Prepared by the AICPA Peer Review Board for comment from persons interested in the
AICPA Peer Review Program

Comments should be received by September 20, 2011 and addressed to
LaShaun King, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110
or PR_expdraft@aicpa.org

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Exposure Draft

Proposed Revisions to the AICPA Standards for Performing and Reporting on Reviews of Quality Control Materials (QCM) 6

August 22, 2011

The AICPA Peer Review Board approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the *Standards for Performing and Reporting on Peer Reviews* ("Standards").

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 20, 2011. Electronic submissions of comments or suggestions in Microsoft Word should be sent to PR_expdraft@aicpa.org by September 20, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after October 20, 2011 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* are struck through, and new items are underlined).

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,



Daniel J. Hevia
Chair
AICPA Peer Review Board

**AICPA Peer Review Board
2010 – 2011**

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2010 – 2011**

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AICPA Peer Review Program

Frances McClintock
Senior Technical Manager
AICPA Peer Review Program

LaShaun King
Technical Manager
AICPA Peer Review Program

Explanatory Memorandum

Introduction

This memorandum provides explanatory information for the proposed changes to the AICPA Standards for Performing and Reporting on Peer Reviews ("Standards") issued by the AICPA Peer Review Board ("the Board"). The proposed changes would:

- Amend the peer reviewer qualifications in paragraph 31
- Replace paragraphs 167 – 170 with new paragraphs 167 – 189 on planning and performing QCM reviews (other paragraphs re-numbered as appropriate)
- Add new paragraphs 198 – 202 addressing QCM reviewer and provider cooperation
- Add new paragraphs 203 – 204 addressing publicizing QCM review information
- Amend and add new interpretations that further address the above changes

Background

Reviews of quality control materials (QCM) have continued to be an area of interest. The current guidance in the Standards refers QCM reviewers to other sections of the Standards for additional information on planning, performing, and administering QCM reviews. While there are some similarities between the process and procedures for reviewing a firm's system of quality control and reviewing both a provider's system of quality control and the resultant materials, there are also many differences not adequately addressed in the Standards. In response to questions and feedback from both QCM reviewers and providers of QCM, the Peer Review Board (PRB) clarified aspects of performing and administering QCM reviews through the proposed revisions.

Comment Period

The comment period for this exposure draft ends on September 20, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after October 20, 2011, for a period of one year.

Explanation of Proposed Changes

Amendments to Existing Standards

Paragraph 31 addresses the minimum requirements necessary for a reviewer on a System or Engagement Review. The proposed change to paragraph 31 adds a requirement that the reviewer is associated with a provider firm or affiliated entity (if applicable) that has received a QCM report with a review rating of *pass*. If a reviewer is from a firm that is either a provider of QCM or is affiliated with a provider of QCM that received a QCM report with a review rating of *pass with deficiencies* or *fail* on its most recent review, the reviewer would not be qualified to serve as a reviewer on the System or Engagement Review of another firm.

Paragraphs 166 – 188 revises and enhances the current guidance on planning and performing QCM reviews by clarifying which materials are subject to the scope of the review, identifying risk assessment considerations, how to evaluate if the materials are reliable aids, and identifying matters, findings, deficiencies, and significant deficiencies.

Additions to the Standards

Paragraphs 198 – 202 address the provider's and the reviewer's cooperation during a QCM review, including the impact of non-cooperation on the provider's independence and the reviewer's ability to gain approval to perform future QCM reviews or peer reviews.

Paragraphs 203 – 204 address publicizing the results of QCM reviews, including posting the results on the AICPA's website after review acceptance.

Amendments and Additions to the Interpretations

The Board is not required to expose changes to the Peer Review Standards Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed amendments and additions to the Standards.

The proposed changes re-numbers Interpretation 169-1 to Interpretation 175-1 to reflect the updated numbering in the changes to the Standards. The interpretation also provides additional guidance on assessing whether QCM are reliable aids.

The proposed changes also include new Interpretations 174-1, 199-1 and 199-2 that further explain the revised guidance in the related paragraphs.

The proposed changes strike existing Interpretation 169-2.

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 20, 2011. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by September 20, 2011.

Effective Date

Revisions to the *Standards* adopted as final by the Peer Review Board will be effective for all reviews commencing on or after January 1, 2012.

Proposed Revisions to the Peer Review Standards

Qualifying for Service as a Peer Reviewer

System and Engagement Reviewers

.31 Performing and reporting on a peer review requires the exercise of professional judgment by peers (see paragraphs 147–153 for a discussion of a reviewer’s responsibilities when performing a peer review). Accordingly, an individual serving as a reviewer on a System or Engagement Review should at a minimum:

g. If the reviewer is from a firm that is a provider of quality control materials (QCM) or is affiliated with a provider of quality control materials and is required to have a QCM review under these standards, be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of pass for its most recent QCM Review that was submitted timely, ordinarily within six months of the provider’s year-end.

Peer Reviewers’ Performance and Cooperation

.150 Any condition imposed on a reviewer will generally apply to the individual’s service as a team captain, review captain, ~~or a team member~~, or QCM reviewer unless the condition is specific to the individual’s service as only a team captain, review captain, ~~or team member~~, or QCM reviewer.

~~Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs~~

~~Procedures for Planning and Performing QCM or CPE Reviews~~

~~.167~~ A QCM review should include procedures to plan and perform the review. The provider should identify the specific materials subject to the QCM review that will be opined upon in the report. Procedures to test the provider’s system of quality control should be determined based on the specific materials included in the scope of the review.

~~.167.168~~ Once materials are identified for review purposes, they cannot be subsequently excluded from the scope of the review without resulting in a scope limitation. If the QCM review is required because the provider firm plans to peer review user firms, ordinarily all of the provider firm’s materials should be included in the scope of the QCM review. If specific materials are excluded from the scope of the QCM review, then the provider firm will not be independent of firms that use those specific materials excluded from the scope of the QCM review. The provider should identify the materials, whether QCM or CPE program materials, to be reviewed and on which an opinion is to be expressed. A QCM or CPE review should include a study and evaluation of the system for the development and maintenance of the QCM or CPE program that have been identified and a review of the materials themselves. Where not

~~otherwise addressed in the following list, the peer reviewer should refer to the guidance for performing and reporting on System Reviews (see paragraphs 36–101) and accepting System and Engagement Reviews (see paragraphs 132–140) for additional guidance on performing, reporting on, and accepting QCM and CPE reviews.~~

Planning Considerations

.169 The team captain should obtain the prior QCM report, the letter of response (if applicable), and the acceptance letter from the provider. The team captain should also obtain the prior FFC forms (if applicable) from the National PRC. The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review, and evaluate the provider's actions in response to the prior report.

.170 In addition, the review team should assess the risk associated with QCM reviews. This is the risk that the review team:

- a. Fails to identify significant weaknesses in the provider's system of quality control for the development and maintenance of its quality control materials, its lack of compliance with that system, or a combination thereof.
- b. Fails to identify significant weaknesses in the materials.
- c. Issues an inappropriate opinion on the provider's system of quality control for the development and maintenance of its quality control materials, its compliance with that system, or a combination thereof.
- d. Issues an inappropriate opinion on the materials.
- e. Reaches an inappropriate decision about the matters to be included in, or excluded from, the report.

.171 QCM review risk consists of:

- a. The risk (consisting of *inherent risk* and *control risk*) that the quality control materials are not reliable aids, that the provider's system of quality control will not prevent such failure, or both.
- b. The risk (*detection risk*) that the review team will fail to detect and report on design and/or compliance deficiencies or significant deficiencies in the provider's system of quality control or in the resultant materials.

.172 In planning the review, the QCM review team should assess and document the relevant inherent and control risk factors, and how the combined risks impact detection risk and, therefore, the scope of review procedures. This assessment should include but is not limited to consideration of the nature and environment of the provider (including economic and competitive pressures), experience with developing and maintaining QCM, the level of risk, complexity and change inherent in the industries and professional standards covered by the QCM, prior findings on previously-issued materials and the disposition of those findings, and any investigations, allegations, or restrictions on authors and technical reviewers (including outside and guest authors and/or technical reviewers).

Understanding the Provider's System of Quality Control

~~168.173~~ A provider's system of quality control for the development and maintenance of the materials normally should include:

a. A requirement that the provider's system of quality control be documented.

b. A requirement that the provider perform on-going monitoring of its system of quality control.

ac. A requirement that the materials be developed and maintained by individuals qualified in the subject matter.

bd. A requirement that the materials be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass.

e. Procedures to ensure that the individuals that develop, maintain, and/or review the materials for technical accuracy are appropriately qualified in the subject matter.

ef. Procedures to ensure the currency and relevancy of the materials that the materials are current and address the relevant professional standards and industry guidance.

eg. Procedures for soliciting and evaluating feedback from users of the materials.

eh. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials.

fi. Procedures and the provider's policy, (if any,) regarding the issuance of updates to the materials and, if a policy exists, the method of updating; if the provider's policy is not to provide updates to the materials between versions, then the procedures for communicating this policy to users.

fi. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

k. Procedures for ensuring that the system of quality control as designed is operating effectively.

~~169.174~~ A study and evaluation of the system for the development and maintenance of the materials normally should include the following procedures:

a. Reviewing and evaluating the procedures established for monitoring the system of quality control, and assessing how any findings or issues were resolved.

ab. Reviewing and evaluating the procedures established for developing and maintaining the materials.

bc. Reviewing and evaluating the procedures established for updating (including distributing) the materials to ensure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials (and for communicating any relevant changes in professional standards to program participants if new professional standards are issued prior to updating the CPE programs).

ed. Reviewing the technical competence of the developer(s) ~~or~~ and updaters(s) (if applicable) of the materials.

de. Obtaining evidence that the materials were reviewed for technical accuracy by qualified person(s) other than the developer(s) or updaters(s).

ef. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's ~~intention to~~ policy regarding update-updating the materials.

fg. Reviewing the system developed for soliciting and evaluating feedback from users of the materials.

Performing Tests of the Materials

.170.175 The scope of the QCM review includes all of the materials identified by the provider and covered in the opinion (see paragraph 167). The extent to which individual manuals, guides, checklists, practice aids, etc. are reviewed is subject to the QCM review team's judgment and should be documented in the risk assessment (see interpretations). For QCM reviews of provider firms, all materials should be within the scope of the review. ~~A QCM or CPE review team should review the resultant materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass.~~

.176 For all of the materials tested, the QCM review team should assess whether or not the materials are reliable aids. This includes evaluating whether the materials can assist users in conforming with all those components which are integral to the professional standards that the materials purport to encompass. The QCM review team performs this evaluation by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate (see interpretations).

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.177 In evaluating the provider's system of quality control, the QCM review team may note that the system is not appropriately designed or complied with. Similarly, the tests of the provider's materials may uncover that design weaknesses or lack of compliance with the system resulted in one or more materials that do not reach the threshold of reliable aids. With any of these items, the QCM review team has available a set of definitions to assist in classifying the condition noted.

.178 Determining the relative importance of matters noted during the QCM review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow are intended to assist in aggregating and evaluating the QCM review results, concluding on them, and determining the nature of the QCM review report to issue:

a. A matter is noted as a result of

- i. the QCM reviewer's evaluation of the design of and compliance with the provider's system of quality control. Matters can be one or more "No" answers to questions in QCM review

questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a provider's system of quality control.

- ii. the QCM reviewer's evaluation of whether the materials submitted for review are reliable aids. Matters can arise from either the reviewer's comments based on tests of the materials, or one or more "No" answers to questions in QCM review questionnaire(s) that the reviewer concludes warrants further consideration by the provider in the evaluation of the materials.

A matter is documented on a Matter for Further Consideration (MFC) form.

b. A finding is one or more matters that result from

- i. a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop and/or maintain reliable aids, and/or
- ii. the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass.

A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the QCM reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.

c. A deficiency is one or more findings that

- i. the QCM reviewer has concluded, due to the nature, causes, pattern, or pervasiveness, could create a situation in which the provider would not have reasonable assurance of developing and/or maintaining reliable aids, and/or
- ii. impacts the reliability of one or more of the materials tested, such that one or more of the materials do not encompass the components which are integral to the professional standards that the materials purported to encompass.

This includes the relative importance of the finding to either the provider's system of quality control taken as a whole, or any of the materials tested (individually or collectively). It is not a significant deficiency if the QCM reviewer has concluded that except for the deficiency or deficiencies the provider has reasonable assurance of developing and maintaining reliable aids, or the nature of the deficiency or deficiencies is limited to a small number of the total materials reviewed. Such deficiencies are communicated in a report with a QCM review rating of *pass with deficiencies*.

d. A significant deficiency is one or more deficiencies that the QCM reviewer has concluded results from a condition in the provider's system of quality control where the system taken as a whole does not provide reasonable assurance of developing and/or maintaining reliable aids, and has impacted the reliability of one or more of the materials reviewed.

Such deficiencies are communicated in a report with a QCM rating of *fail*.

Aggregating and Evaluating Matters in the Provider's System

.179 The review team must aggregate matters noted during the review of the provider's system to develop and maintain the materials in order to conclude on the opinion over the provider's system. This entails determining whether any matters noted were the result of the design of the provider's system of quality control or the failure of its personnel to comply with the provider's quality control policies and procedures. The review team should consider their relative importance to both the provider's system of quality control as a whole and the impact on the materials (individually and collectively), and their nature, causes, pattern, and pervasiveness.

.180 The use of professional judgment is essential in determining whether matters should be aggregated as findings, and whether one or more findings is a deficiency or significant deficiency.

Design Matters

.181 A design matter in a QCM review exists when the provider's system of quality control is missing a quality control policy or procedure, or the provider's existing quality control policies and procedures (even if fully complied with) would not result in the development and/or maintenance of reliable aids in one or more respects. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the provider with reasonable assurance of developing and maintaining reliable aids should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with. To make this determination, the review team should consider the implications of the evidence obtained during its evaluation of the system of quality control and its tests of compliance, including its review of the materials.

.182 The relative importance of design matters noted in the provider's quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, etc. For example, a matter noted during the review of a quality control policy or procedure may be partially or wholly offset by another policy or procedure. In this circumstance, the review team should consider the interrelationships among the elements of quality and weigh the matters noted against compensating policies and procedures to determine whether a finding exists and its relative importance.

.183 There may be circumstances in which the reviewer finds few findings in the materials developed and maintained by the provider, yet may conclude that the design of the provider's system of quality control needs to be improved. For example, a provider that has a rapidly growing customer base may not have appropriately revised its policies and procedures to solicit user feedback. However, this type of finding may not result in less than reasonable assurance of developing and/or maintaining reliable aids. The reviewer would ordinarily conclude that the matter should be addressed in an FFC as a finding rather than result in a report with a QCM review rating of *pass with deficiencies or fail*.

Compliance Matters

.184 A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the provider to comply with it. Since a

variance in individual performance will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the provider with its prescribed quality control policies and procedures should be adequate to give the provider reasonable assurance of developing and maintaining reliable aids.

.185 In assessing whether the degree of compliance was adequate to provide the required assurance, the review team should consider the nature, causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the provider's system of quality control as a whole, as well as their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, etc.

.186 To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the provider is more critical to the provider obtaining reasonable assurance of developing and maintaining reliable aids. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in materials that are not reliable aids. The more direct the relationship between a specific quality control policy or procedure and the reliability of the aids, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.

Aggregating and Evaluating Matters in the Provider's Materials

.187 The review team must also aggregate matters noted during the QCM review in order to conclude on the separate opinion on the reliability of the materials. Any design or compliance matters will usually be addressed in the consideration of the provider's system. However, all matters that impact the system also have to be evaluated for their impact and relative importance on the individual materials reviewed and opined upon in the report. The use of professional judgment is essential in determining whether matters should be aggregated as findings, and whether one or more findings is a deficiency. One or more deficiencies in the materials is indicative of a deficiency or significant deficiency in the provider's system of quality control.

.188 The review team should consider whether design matters noted in the review of the provider's quality control system, individually and in the aggregate, impact the reliability of the materials. For example, a provider may not specify in its policies and procedures that authors must have a certain level of professional experience and/or expertise. In this circumstance, the review team should consider whether this design matter resulted in a potentially inexperienced or otherwise unqualified author writing portions of the materials, and whether those portions of the materials are technically accurate, to determine the impact on the reliability of the materials, and whether a finding or deficiency exists with respect to the materials.

.189 Similarly, the review team should consider whether compliance matters noted in either the review of the provider's quality control system or in the tests of the materials impact the reliability of the aids. For example, personnel that performed technical review on a particular industry manual may not have obtained the appropriate type or amount of CPE for that industry in compliance with the provider's policies and procedures. In this circumstance, the review team should consider if this compliance matter resulted in a failure to include new or recent changes in professional standards or industry guidance, or other omissions, to determine whether a finding or deficiency exists with respect to the materials.

Cooperating in a QCM Review

.198 Providers that undertake to have a QCM review under these standards have a responsibility to cooperate with the QCM reviewer, National PRC, and the board in all matters related to the QCM review.

.199 If a provider firm fails to cooperate during the course of a QCM review, the provider firm's independence with respect to user firms may be impaired (see interpretations).

QCM Reviewers' Performance and Cooperation

.200 A QCM reviewer has a responsibility to perform a QCM review in a timely, professional manner. This relates not only to the initial submission of the report and materials on the review, but also to the timely completion of any additional actions necessary to complete the review, such as resolving questions raised by the National PRC, as well as the board and AICPA staff.

.201 In considering QCM review documents for acceptance, the National PRC evaluates the reviewer's performance on the QCM review. In addition to the National PRC's evaluation, the board and AICPA staff also evaluate and track reviewers' performance on both peer reviews and QCM reviews.

.202 If weaknesses in a QCM reviewer's performance are noted on a particular QCM review (e.g. submitting incomplete review documentation, not performing sufficient review procedures, a failure to resolve questions raised by the committee or technical reviewer, etc.), or if the QCM reviewer refuses to cooperate with the National PRC at any time during the review process, the reviewer will be required to comply with the actions described in paragraphs 148 – 153. In addition, the National PRC has the discretion to no longer approve that individual to perform future QCM reviews, or other peer reviews.

Publicizing QCM Review Information

.203 The provider should not publicize the results of the review or distribute copies of the QCM report to its personnel, users, or others until it has been advised that the report has been accepted by the National PRC.

.204 Providers that elect or are required to have a QCM review under these standards agree that the National PRC and the AICPA may disclose the following information to allow peer reviewers of user firms to easily obtain this information for consideration during the user firm's peer review:

a. The provider's name

b. The results of the QCM review (i.e. report, LOR (if applicable), etc)

c. The date of acceptance and the year covered by the provider's most recently accepted QCM review

Independent QCM Reviews

174-1 Question—In a QCM review, the standards note the review team determines and documents the extent to which individual manuals, guides, checklists, practice aids, etc. are reviewed. What should the QCM reviewer consider when making this judgment?

Interpretation—Because the QCM review report opines on both the quality control system and the specific materials or aids listed in the report, all of those materials or aids listed must be tested to some extent in order to support the opinion. However, the QCM reviewer can judgmentally determine the extent of testing or review procedures necessary on each aid. Considerations include areas within the materials or aids that address new guidance or changes in professional standards, areas that address procedures that rely heavily on judgment, or areas that contain methodology unique to the materials reviewed or unique interpretations of professional standards or other guidance. The assessment of the provider's system, including the review and editorial process, update and revision procedures, etc. should also factor into the reviewer's judgment. The reviewer's considerations for determining the extent of testing necessary for the materials or aids should be documented in the risk assessment. In addition, the QCM review working papers should document the actual testing or review procedures performed for each aid.

169-1175-1 Question—Paragraph 169.175 of the standards discusses the objectives of peer reviewers performing peer reviews of quality control materials (QCM), including references to "reliable aids." QCM review team's assessment of whether or not the materials are reliable aids by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate. What constitutes "reliable aids"? What other information is available to further explain these considerations?

Interpretation— Many firms place a high degree of reliance on QCM, based on the nature and use of such materials. There is an implied high degree of reliance by firms on QCM. Because of this reliance, including ~~the~~ there are expectations that the materials are stand-alone aids, and use of the materials as designed, by a professional with an appropriate level of experience and expertise, will result in provides reasonable assurance of assisting users in performing an audit or attest engagements performed in accordance with professional standards. Accordingly, the QCM review team should assess and document how the materials address each of these considerations in order to be reliable aids:

~~should include a sufficient level of instructions and explanatory guidance to be considered reliable aids.~~

a.—Instructions should include (but are not limited to) the aid's applicability for different firms or clients (e.g., based on size, industry or engagement complexity, levels of experience or knowledge, etc.), a reminder for the need to tailor the materials as appropriate, and use of professional judgment in the application of the materials based on the facts and circumstances of each engagement. The instructions should also address SAS 103 documentation considerations, and specifically discuss whether completion of the aids will assist users with fulfilling SAS 103 requirements.

a. _____

b.—Guidance should be sufficient and technically accurate to assist users with conforming with the components that are integral to the professional standards that the materials purport to

~~encompass conforming to the professional standards that the aids purport to encompass, regardless of whether such standards are encompassed explicitly or implicitly. Explanatory guidance ranges from specific cross-references to professional standards or directly quoting the standards, to explanations of the standards or integrating the verbiage of the standards into audit checklists or programs. QCM limited to audit program steps without explanatory guidance or specific reference to applicable professional standards would be considered insufficient, and do not constitute reliable aids. In addition, materials that are industry-specific should appropriately address the relevant professional standards and industry guidance from a completeness standpoint (e.g. an aid that purports to assist users with performing risk assessment procedures for an ERISA engagement should include SAS 107 considerations tailored to the industry; the reviewer should question if SAS 107 considerations are omitted).~~

~~b.~~

~~e.~~ Methodology inherent in the materials (if applicable), including the provider's stance on the application of professional standards or alternative procedures, should be evaluated to determine if methodology provides reasonable assurance to users of performing an engagement performed in conformity with the components which are integral to the applicable professional standards the materials purport to encompass. This is especially important when the methodology addresses the treatment of unique transactions or accounts, contains unique interpretations of professional standards, incorporates elements of widely recognized and accepted industry practice where higher levels of guidance are not available, or suggests departures from professional standards in certain circumstances.

~~d.c.~~

Reviewers should refer to section 3100 *Supplemental Guidance* for additional illustrative guidance for reliable aids.

~~QCM may be tailored to practitioners whose clients do not engage in complex transactions or accounting issues. Accordingly, there may be areas or topics that are not covered by the QCM, which by default makes guidance for those areas unnecessary (e.g., derivative activities or hedge transactions). In such cases, the instructions should alert the user that those areas are not covered by the materials, and instruct the practitioner to refer to professional standards or other guidance material in the event such transactions are encountered.~~

~~Peer reviewers of QCM are expected to evaluate the aids and determine whether they contain an appropriate level of instruction and guidance. Aids either lacking or containing an insufficient level of instructions and/or guidance, or that contain inappropriate methodology, should be further evaluated by the review team to determine if the aids are reliable. The review team should also evaluate the impact on the provider's indicate a deficiency in the system of quality control for the development and maintenance of the aids (and in some cases an indication of a significant deficiency). If an aid is deemed to not be a reliable aid, This-this should be reflected in a peer review report with a rating of *pass with deficiencies* or *fail*, respectively, for the QCM, depending on the underlying cause of the issue.~~

Note that the intent of QCM is to assist in providing firms and practitioners with reasonable assurance of complying with professional standards as a part of their overall system of quality control. The peer

independent review of such materials does not provide firms or practitioners with absolute assurance of compliance solely through reliance on the materials, nor is it intended to.

169-2 *Question*—Is there more guidance regarding the extent of guidance that would customarily be present for QCM to constitute reliable aids?

Interpretation—Peer reviewers should refer to illustrative guidance on QCM included in section 3100 Supplemental Guidance.

199-1 *Question*—Paragraph .199 of the standards states that if a provider refuses to cooperate during the course of a QCM review or if a provider receives a report rating other than *pass*, the provider firm's independence with respect to user firms may be impaired. Under what circumstances would the provider's independence with respect to user firms be impaired due to non-cooperation?

Interpretation—If the required QCM review documents are not submitted by the due date due to the provider's non-cooperation, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed (see Interpretation 25-2).

Once all of the required QCM review documents have been submitted timely but before the report has been accepted, the National PRC may make whatever inquiries or initiate whatever actions of the provider or the review team it considers necessary under the circumstances. The National PRC will set a date by which responses to inquiries and evidence of completion of required actions must be received. If, as a result of non-cooperation by the provider, inquiries and/ or required actions remain unresolved as of the due date established by the National PRC, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed.

199-2 *Question*—Under what circumstances would the provider's independence with respect to user firms be impaired due to receiving a report rating other than *pass*?

Interpretation—If the provider receives a report with a rating of *pass with deficiencies*, then the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms starting on the date that the QCM review is submitted. After accepting the report, the National PRC will identify a corrective action which will be communicated to the provider. While the corrective action falls outside of the reporting and acceptance process for reviews of QCM, it affords the provider an opportunity to maintain their independence with respect to users by remediating the deficiency identified in the report. The National PRC will set a date by which evidence of completion of the corrective action should be received. If evidence of completion of the corrective action is submitted by the date set by the National PRC, upon acceptance of the corrective action by the National PRC the provider's independence with respect to user firms will no longer be impaired. If evidence of completion of the corrective action is not submitted by the date set by the National PRC, the provider's independence with respect to user firms will be impaired until the completion of the provider's subsequent QCM review.

If the provider receives a report with a rating of *fail*, then the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer

reviews of user firms starting on the date the QCM review is submitted. The provider's independence with respect to user firms will remain impaired until the completion of the provider's next QCM review.



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Attachment 2

September 26, 2011

LaShaun King, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Peer Review Exposure Draft, August 22, 2011

Dear Ms. King:

On behalf of the California Board of Accountancy (CBA), I am pleased to support the American Institute of Certified Public Accountants' (AICPA) Exposure Draft titled "Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Quality Control Materials."

These comments, however, are based on a cursory review by CBA staff since the AICPA's comment period did not allow sufficient time for a more in-depth review by members of the Peer Review Oversight Committee (PROC). Given this important topic, my desire is to assign all exposure drafts affecting peer reviews to the PROC for analysis. The PROC will review this exposure draft at the October 27 meeting and the CBA may consider changes to this letter at the November 17 & 18 meeting.

Thank you for giving the CBA the opportunity to respond to this exposure draft. I would like to request that in the future the comment period be extended to 90 days to give the CBA sufficient time to respond.

Sincerely,

Sarah Anderson, CPA, President

c: Members, California Board of Accountancy



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PROC Item IX.
October 27, 2011

Discussion Regarding the PROC's Annual Report to the CBA

Presented by: Rafael Ixta, Chief of Enforcement

Date: October 3, 2011

Purpose of the Item

The purpose of this item is to provide the PROC members with a framework to begin drafting the Annual Report to the California Board of Accountancy (CBA).

Action(s) Needed

It is requested that the PROC review the draft Table of Contents (**Attachment 1**) and provide guidance to CBA staff concerning the focus and content of the report.

Background

At its July 8, 2011 meeting, PROC members adopted the draft Table of Contents as a tool to discuss the contents and layout of the first Annual Report to the CBA.

Comments

Based on the direction provided by the PROC members at the October 27, 2011 meeting, staff will prepare a first draft of the report and present it to the PROC for review at the December 9, 2011 meeting. The report will be presented to the CBA at its March 2012 meeting.

Recommendations

None

Attachment

1. Draft Table of Contents of the PROC Annual Report to the CBA

Peer Review Oversight Committee
Annual Report of Accomplishments & Activities
January 1, 2011 through December 31, 2011

Table of Contents

- I. Message from the Committee Chair
- II. Background
- III. Goals & Objectives
- IV. Committee Members & Staff
- V. Legislation & Regulation
- VI. Strategic Plan Accomplishments
- VII. Statistics
 - a. Peer Review Reporting Forms
 - b. Substandard Peer Review Reports
- VIII. Oversight Activities
 - a. Scope of Work
 - i. Meetings
 - A. Peer Review Oversight Committee
 - B. AICPA Peer Review Board
 - C. CalCPA Peer Review Committee
 - D. CalCPA Report Acceptance Body
 - ii. Administrative Site Visit
 - iii. Peer Reviewer Training
 - iv. Sample Reviews
 - v. Approval of Board-recognized Peer Review Program Providers
 - vi. Withdrawal of Board Recognition
 - b. Findings
 - c. Conclusion
- IX. Preliminary Summary of Peer Review Survey Results
- X. Public Affairs & Outreach
 - a. Letters to Licensees
 - b. CBA website
 - c. Publications
- XI. Peer Review Reporting Database
- XII. Future Considerations
 - a. Projects
 - b. Issues Pending
 - c. Changes to Future Implementation Activities



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PROC Item X.
October 27, 2011

Discussion Regarding Procedures for Oversight Checklists

Presented by: Rafael Ixta, Chief of Enforcement

Date: October 17, 2011

Purpose of the Item

The purpose of this item is to establish procedures for submitting and retaining PROC oversight checklists.

Action(s) Needed

It is requested that the PROC deliberate this issue and vote on the following recommendation.

Background

The PROC has developed several checklists to document their oversight activities of Board-recognized peer review program providers. The following procedures will be included in Section VI.E. of the PROC Procedure Manual to establish a consistent method for submitting and maintaining the checklists:

DOCUMENTATION OF OVERSIGHT ACTIVITIES

All PROC members shall document their attendance at or participation in peer review oversight activities using the following checklists:

1. Summary of Administrative Site Visit
2. Summary of Peer Review Committee Meeting
3. Summary of Report Acceptance Body Meeting
4. Summary of Random Sampling of Peer Reviews
5. Summary of Peer Reviewer Training

All checklists should be signed by the PROC member and submitted to the CBA office within thirty (30) days of the oversight activity.

Checklists will be maintained by the CBA office in accordance with the Records Retention Policy.

Comments

None

Recommendations

It is requested that the PROC adopt the procedures for documenting its oversight activities for inclusion in the PROC Procedure Manual.

Attachment

None



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PROC Item XII.
October 27, 2011

Discussion Regarding PROC Assignments

Presented by: Nancy Corrigan, PROC Chair

Date: October 3, 2011

Purpose of the Item

The purpose of this item is to provide PROC members with the 2011 Year-at-a-Glance California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC) Calendar (**Attachment 1**).

Action(s) Needed

No specific action is required on this agenda item. It is requested that all PROC members bring their calendars to the meeting.

Background

None

Comments

The calendar includes meetings that are currently scheduled for the following bodies:

- CBA
- CBA PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board
- California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body
- CalCPA Peer Review Committee

Recommendations

It is recommended that PROC members continue to use the calendar as a tool for assigning members to participate in meetings held by the AICPA and CalCPA.

Attachment

1. 2011 Year-at-a-Glance CBA PROC Calendar, updated September 28, 2011.

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)
2011 MEETING DATES/LOCATIONS**
(as of September 28, 2011)

JANUARY 2011

S	M	T	W	Th	F	S
						1
2	3	4	5	T-9am	7	8
9	10	11	12	13	14	15
16	17	18	19	SJ	FL	21
23	24	25	T-2pm	SC	28	29
30	31					

FEBRUARY 2011

S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	T-2pm	11	12
13	14	15	16	17	18	19
20	21	22	T-9am	24	25	26
27	28					

MARCH 2011

S	M	T	W	Th	F	S
		1	2	3	ONT	5
6	7	8	9	10	11	12
13	14	T-2pm	16	17	18	19
20	21	22	23	SC	SC	26
27	28	29	30	31		

APRIL 2011

S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	T-9am	21	22	23
24	25	26	27	28	29	30

MAY 2011

S	M	T	W	Th	F	S
1	2	T-2pm	4	5	OAK	7
8	9	NCar	11	12	13	14
15	16	17	18	19	NC	21
22	23	24	25	26	27	28
29	30	SM	31			

JUNE 2011

S	M	T	W	Th	F	S
			1	SC	SC	4
5	6	7	8	9	10	11
12	13	14	T-2pm	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

JULY 2011

S	M	T	W	Th	F	S
					1	2
3	4	5	6	T-9am	SAC	9
10	11	12	13	14	15	16
17	LA	LA	19	SC	22	23
24	25	T-2pm	27	28	29	30
31						

AUGUST 2011

S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	OR	11	12	13
14	15	SCar	17	18	19	20
21	22	23	24	T-9am	26	27
28	29	LA	31			

SEPTEMBER 2011

S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	T-2pm	21	NC	23	24
25	26	27	28	29	30	

OCTOBER 2011

S	M	T	W	Th	F	S
					1	2
3	4	5	6	T	8	9
10	11	12	13	14	15	16
17	18	19	20	PS	PS	22
23	24	25	26	27	28	29
30	31			SJ		

NOVEMBER 2011

S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	T-9am	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	NC	NC	26
27	28	29	T-2pm	30		

DECEMBER 2011

S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	T-9am	14	15	SC	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

 10-day Meeting Notice Date
 Deadline for Exec Surname

COMMITTEE/TASK FORCE

CBA - California Board of Accountancy
PROC - Peer Review Oversight Committee
AICPA - American Institute of Certified Public Accountants
PRB - Peer Review Board
CaICPA - California Society of Certified Public Accountants
RAB - Report Acceptance Body
PRC - Peer Review Committee
NASBA - National Assoc. of State Boards of Accountancy

GENERAL LOCATION

NC-NORTHERN CALIFORNIA
SC-SOUTHERN CALIFORNIA
SJ-SAN JOSE
SD - SAN DIEGO
SM - SAN MATEO
ONT - ONTARIO
PS - PALM SPRINGS
SAC - SACRAMENTO
OAK - OAKLAND
LA - LOS ANGELES
SCar - SOUTH CAROLINA
FL-FLORIDA
T-TELECONFERENCE

 ON SHADED DATES CBA OFFICE IS CLOSED
 CBA MEETING
 PROC MEETING
 AICPA PRB MEETING
 CaICPA RAB MEETING
 CaICPA PRC MEETING
 PEER REVIEWER CPE
 NASBA PROC SUMMIT