



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

**PROC MEETING  
 NOTICE & AGENDA**

Hilton North Los Angeles/Glendale  
 100 West Glenoaks Blvd.  
 Glendale, CA 91202  
 (818) 956-5466

**Friday, February 22, 2013  
 9:30 a.m. – 12:30 p.m.**

**PROC Purpose Statement**

*To provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.*

- I. Roll Call and Call to Order (**Nancy J. Corrigan, Chair**).
- II. Report of the Committee Chair (**Nancy J. Corrigan**).
  - A. Approval of the December 4, 2012 PROC Minutes.
  - B. Report on the January 24-25, 2013 CBA Meeting.
- III. Report on PROC Activities (**Nancy J. Corrigan**).
  - A. Report on the January 10, 2013 California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body (RAB) Meeting.
  - B. Report on the January 25, 2013 American Institute of Certified Public Accountants (AICPA) Peer Review Board Meeting.
  - C. Report on the January 29, 2013 CalCPA RAB Meeting.
  - D. Discussion of the 2013 Administrative Site Visit of CalCPA.
  - E. Discussion of CalCPA's Annual Report on Oversight.
  - F. Assignment of Future PROC Activities.
- IV. Reports and Status of Peer Review Program (**Julie Morrow, CBA Staff**).
  - A. Updates on Peer Review Reporting Forms Received and Correspondence to Licensees.
  - B. Status of PROC Roles and Responsibilities Activity Tracking.
- V. Report of the Enforcement Chief (**Rafael Ixta, Enforcement Chief**).
  - A. Approval of the 2012 Annual Report to the CBA.
  - B. FAQs to Address the Impact of Peer Review on Retirees, Dissolved Corporations and Partnerships, and Second Phase of Reporting.

- C. Review and Discussion of Comments Received From the Voluntary Peer Review Survey.
  - D. Discussion of AICPA Peer Reviews Conducted by Administering Entities Other than CalCPA and the National Peer Review Committee.
  - E. Discussion and Possible Action Regarding PROC's Response to the National Association of State Boards of Accountancy's Compliance Assurance Committee's October 18, 2012 Letter Regarding Oversight of the National Peer Review Committee.
  - F. Discussion and Possible Action Regarding Correspondence Received Regarding Peer Review's Impact on Small Businesses.
- VI. Future Agenda Items (**Julie Morrow**).
  - VII. Public Comment for Items Not on the Agenda.
  - VIII. 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 Julie Morrow at (916) 561-1762, or by email at [julie.morrow@cba.ca.gov](mailto:julie.morrow@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:

Julie Morrow, Peer Review Analyst  
(916) 561-1762 or [julie.morrow@cba.ca.gov](mailto:julie.morrow@cba.ca.gov)  
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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)**

**MINUTES OF THE  
 DECEMBER 4, 2012  
 PROC MEETING**

California Board of Accountancy  
 2000 Evergreen Street, Suite 250  
 Sacramento, CA 95818-3832  
 Telephone: (916) 263-3680

<u>PROC Members:</u>	<u>December 4, 2012</u>
Nancy Corrigan, Chair	10:00 a.m. – 11:50 a.m.
Robert Lee, Vice Chair	10:00 a.m. – 11:50 a.m.
Katherine Allanson	10:00 a.m. – 11:50 a.m.
Gary Bong	Absent
T. Ki Lam	10:00 a.m. – 11:50 a.m.
Sherry McCoy	10:00 a.m. – 11:50 a.m.
Seid M. Sadat	10:00 a.m. – 11:50 a.m.

Staff:

Rafael Ixta, Chief, Enforcement Division  
 April Freeman, Peer Review Analyst  
 Julie Morrow, Peer Review Analyst

Other Participants:

Linda McCrone, California Society of Certified Public Accountants (CalCPA)  
 Jeannie Tindel, CalCPA  
 Jason Fox, CalCPA

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 10:00 a.m.

II. Report of the Committee Chair.

A. Approval of October 19, 2012 Minutes.

Ms. Corrigan asked if members had any edits to the minutes of the October 19, 2012 PROC meeting. Sherry McCoy said that item III.A. on page 2 should be changed to read, "Ms. McCoy stated that the meeting included a discussion of the annual report, the improved procedure manuals and the PRISM system being updated." The annual report was not improved as stated in the minutes.

**It was motioned by Seid Sadat, seconded by Kathy Allanson, and unanimously carried by those present to accept the revision and adopt the revised minutes of the October 19, 2012 PROC meeting.**

B. Report on the November 15-16, 2012 CBA Meeting.

Ms. Corrigan was unable to attend the November CBA meeting. She stated that she submitted her report in writing to the CBA and Rafael Ixta presented it on her behalf. Her report included a status of the October 19, 2012 PROC meeting, review of the first draft of the PROC's 2012 Annual Report, oversight activities, coordinating the second on-site visit of CalCPA and onsite review procedures, approved working drafts of additional checklists to complete the checklist for oversight duties, live meetings versus remote meetings, and notification of today's meeting in Sacramento. Rafael Ixta stated that the CBA asked if there are currently sufficient peer reviewers at CalCPA. Linda McCrone, CalCPA, stated that she had replied that there are sufficient reviewers now in California. There is a directory of reviewers that is readily accessible to CPAs.

C. Resolution for PROC Member Gary Bong.

D. Resolution for PROC Member T. Ki Lam.

Ms. Corrigan presented the resolution for Ms. Lam. Mr. Bong was not present and his resolution will be sent to him. Ms. Corrigan also stated that the CBA wants to rotate members of the PROC. Member's can reapply to be on the PROC at a future date.

III. Report on PROC Activities.

A. Report on the November 15-16, 2012 CalCPA Peer Review Committee meeting.

Robert Lee and Kathy Allanson attended the meeting. Ms. Allanson attended a committee meeting discussing how the CalCPA is improving peer reviewers' performance. She said they keep a list of reviewers they want to discuss. They look at the reviewers critically and send monitoring or performance letters if they have not met standards. They conduct additional oversight of these reviewers to make sure they are doing a good job. The committee members have a huge workload to get ready for the Report Acceptance Body (RAB) meeting; each person had to know the details of about 70 peer reviewers to be ready for the RAB meeting.

Mr. Lee said that he was impressed that they take their job seriously and stayed on each peer review until it was fully discussed. He said that the American Institute of Certified Public Accountants (AICPA) was there to provide oversight and had glowing remarks.

Linda McCrone said that the number of peer review reports reviewed per RAB meeting has crept up and she wants to decrease the number to about 50, which is what they currently do in Texas.

Rafael Ixta reminded all PROC members that they need to fill out the checklist and turn them in to Julie Morrow. Ms. Corrigan recommended a turnaround time of 30 days.

B. Scheduling of the 2013 Administrative Site Visit of CalCPA.

Ms. Corrigan advised members that they need to talk about the timing of the 2013 administrative site visit of CalCPA. She said that last year they went in February, but that may not be the best time. Ms. McCrone said that late April or early May would be better. January is not a good month and they are flooded with peer reviews before tax season. Mr. Ixta recommended that it be done annually by June 30<sup>th</sup>. Members agreed that the site visit would be done on May 15-16, 2013. The engagement letter issued for the 2013 administrative site visit of CalCPA needs to be revised and discussed at the February PROC meeting.

C. Assignment of Future PROC Activities.

Ms. Corrigan made/confirmed the following assignments:

- December 11, 2012 CalCPA RAB Meeting – Remove from calendar.
- January 10, 2013 (originally February 20, 2013) – Kathy Allanson will be at the Glendale office at 10:00 a.m. to review work papers.
- January 25, 2013 AICPA Peer Review Board (PRB) Meeting (San Diego) – Nancy Corrigan, Kathy Allanson, & Seid Sadat.
- January 29, 2013 CalCPA RAB Meeting – Seid Sadat & Nancy Corrigan.
- April 18, 2013 CalCPA RAB Meeting needs to be reassigned. Can be done at the Northern California office.
- May 9-10, 2013 CalCPA Peer Review Committee (PRC) Meeting – Seid Sadat and one other person will go to San Diego. Ms. Corrigan will wait to see who else joins the PROC before deciding on a second person.

Nancy Corrigan directed staff to seek approval for three people to attend the AICPA PRB open session meeting on January 25, 2013 from 8:00 a.m. - 12:00 p.m. in San Diego.

IV. Reports and Status of Peer Review Program.

A. Updates on Peer Review Reporting Forms Received, Correspondence to Licensees, and Citations Issued to Licensees that Failed to Respond to CBA.

Julie Morrow reported that as of November 6, 2012, over 50,000 peer review reporting forms have been submitted to the CBA. The reporting forms are categorized as follows:

License Ending In	Reporting Deadline	Peer Review Required	Peer Review Not Required	Not Applicable (Non-firms)	Total	Licensees Still Needing to Report
01-33	7/1/11	2,435	4,247	15,591	22,273	749
34-66	7/1/12	1,746	3,797	12,466	18,009	2,457
67-00	7/1/13	611	1,942	7,439	9,992	10,962
		4,792	9,986	35,496	50,274	14,168

Ms. Morrow advised members that on October 18, 2012, enforcement staff sent 363 deficiency letters to licensees with a license in a delinquent status who were required to submit a Peer Review reporting form by July 1, 2011, but have not yet done so. She also told members that the enforcement staff is in the process of sending out citations to over 2,000 licensees who have not responded to the CBA.

Ms. Morrow gave the status of the citations as of November 6, 2012.

B. Status of PROC Roles and Responsibilities Activity Tracking.

Ms. Morrow stated that the activity tracking charts for 2012 and 2013 have been updated to capture recently attended activities and upcoming events as of November 6, 2012.

V. Report of the Enforcement Chief.

A. Development of the 2012 Annual Report to the CBA.

Rafael Ixta stated that the Message from the Committee Chair was added. The goal is to have a final draft ready for the February 22, 2013 PROC meeting. He asked if there are any revisions.

The following revisions were made:

- Page 4 – the Peer Review Reporting Forms matrix will be completed at the end of the year.
- Page 5 – Linda McCrone stated that she will have updates to the CalCPA data at the end of the year.
- Page 7 – Nancy Corrigan wrote and submitted reports to the CBA for the meetings she was unable to attend.
- Page 9 – The RAB meeting on December 11, 2012 was deleted and the November 15, 2012 (in person) RAB meeting was added.

Kathy Allanson inquired if PROC members should review the comments received with the Peer Review Voluntary survey. This item will be placed on the February 22, 2013 PROC agenda for review and discussion of the comments received.

B. Discussion and Possible Action Regarding the NASBA's Compliance Assurance Committee (CAC) Response to the PROC's August 31, 2012 Letter Regarding Oversight of the National Peer Review Committee (NPRC).

Mr. Ixta went through each of the requests addressed in the letter. He said that there are three options for providing oversight of the NPRC: (1) do it ourselves, (2) defer to CAC, and (3) defer to CAC and do some on our own. Robert Lee recommended that we calendar these items and discuss at future PROC meetings. Ms. Corrigan said that we are not yet ready to make a decision. Mr. Ixta recommended that we write a follow-up letter thanking the CAC for their information and for keeping the PROC in the loop. The PROC will write the letter and copy the CBA. This will be mentioned in the next annual report.

VI. Future Agenda Items.

Future agenda items include:

- Q&As on website for retirement status licensees
- PROC 2012 Annual Report to CBA
- PROC to review the survey comments
- CAC's response letter
- Response to letter from licensee regarding Peer Review's impact on small businesses
- Peer Review programs in other States
- CalCPA's Annual Report on Oversight

VII. Public Comment for Items Not on the Agenda.

Linda McCrone passed out the CalCPA Annual Report on Oversight for 2011. She said that the report covering the past three years will be posted on their website.

VIII. Adjournment.

There being no further business, the meeting was adjourned at 11:50 a.m.

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Nancy J. Corrigan, Chair

Julie Morrow, Peer Review Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-1762.



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**PROC Item III.E.**  
February 22, 2013

## **Discussion of CalCPA's Annual Report on Oversight**

**Presented by:** Nancy J. Corrigan, Peer Review Oversight Committee (PROC) Chair  
**Date:** February 7, 2013

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### **Purpose of the Item**

The purpose of this agenda item is to discuss the California Society of Certified Public Accountants' (CalCPA) Peer Review Program Annual Report on Oversight for Calendar Year 2011.

### **Action(s) Needed**

PROC members are requested to review the CalCPA's Peer Review Program Annual Report on Oversight.

### **Background**

At the December 4, 2012 meeting, the CalCPA provided the PROC members with its Peer Review Program Annual Report on Oversight for Calendar Year 2011 (**Attachment 1**).

### **Comments**

None

### **Fiscal/Economic Impact Considerations**

None

### **Recommendation**

None

### **Attachment**

1. CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2011, issued October 18, 2012.

**California Society of CPAs Peer Review Program  
Annual Report on Oversight for Calendar Year 2011  
Date Issued – October 18, 2012**

### **I. Summary of Peer Review Program**

The California Society of CPAs (CalCPA) serves as the administering entity for the AICPA Peer Review Program for the states of California, Arizona and Alaska. CalCPA also administers the Peer Review Program for firms in those states that are not enrolled in the AICPA Peer Review Program. These programs operate the same; however there is a distinction between the two programs in that at least one owner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program. AICPA bylaws require that members in a firm engaging in the practice of public accounting and issuing accounting and auditing reports have their firm enrolled in peer review.

The AICPA administers a peer review program through the National Peer Review Committee (NPRC) for firms required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB). The NPRC prepares a separate annual oversight report therefore their statistics are not included in this report. Also, the AICPA Peer Review Board prepares an annual report on the oversight of all administering entities on a national basis. This report is available in the peer review section of their web site.

California, Arizona, and Alaska Boards of Accountancy require firms who issue accounting and auditing reports to be peer reviewed. The AICPA Peer Review Program is a recognized peer review program provider. Effective January 1, 2010, the California Board of Accountancy requires peer review of firms that issue reports and has adopted a three-year phase in period. The Arizona Board of Accountancy requires peer review with an exception for firms that issue only compilations without disclosures reports. The Alaska Board of Accountancy requires peer review with an exception for firms that issue only compilation reports.

Peer review is a triennial systematic review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System reviews are designed for firms that perform audits or other similar engagements. Engagement reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail usually must perform follow up actions. Further explanation of peer review is available at <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/Pages/PeerReviewHome.aspx>.

### **II. CalCPA Administering Entity Oversight Process and Procedures**

The Peer Review Administrative Committee (PRAC) of the California Peer Review Committee monitors the oversight process. Each PRAC member has been approved by the Council of CalCPA and has current audit experience.

Using criteria outlined in the *AICPA Peer Review Program Oversight Handbook*, peer reviewers and/or firms are chosen. A minimum of 2% of reviews processed during the year are subjected to the oversight process. A peer review committee member or former peer review committee member performs the oversights. For system oversights, this committee member must have current audit experience. AICPA Peer Review Program Oversight Checklists are utilized on all oversights and oversight reports are prepared. The oversight reports are included in the report acceptance body process and all oversight reports are reviewed by the PRAC.

For engagement review oversights and limited system review oversights, the peer reviewer is notified after the peer review has been submitted to the administering entity of the engagements that have been selected for review. The peer reviewers then submit their work papers for review and the individual performing the oversight reviews the financial statements and any applicable firm work papers for the selected engagements.

Oversights of onsite system reviews are conducted at the reviewed firm's office while the peer reviewer is performing the peer review. The individual performing the oversight examines the peer reviewer's work papers, reviews a sample of engagements selected by the peer reviewer for review, and attends the exit conference.

Every year, one third of reviewer resumes and CPE are verified. All reviewers are verified over a three year period. Reviewers provide information about the number of engagements they are specifically involved with and in what capacity. The California Peer Review Program compares this information to the reviewer resume in the AICPA database and to the reviewer firm's most recent background information and most recent peer review.

Biennially, the AICPA Peer Review Board performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member from the AICPA Peer Review Board Oversight Task Force reviews files and interviews staff at the administrative office. In addition the member attends a peer review committee meeting and observes the report acceptance process of the committee members. A report is issued and approved by the AICPA Peer Review Board. This report is posted to the peer review section of the web site of CalCPA. In the year where the AICPA Peer Review Board is not performing oversight, a member of the California Peer Review Committee performs an administrative oversight.

NOTE: The data in the following tables (sections III through VII) reflects peer review results as of October 18, 2012. The following percentages of 2011 reviews are in process, and their results are not included in the totals below.

CA – There are no 2011 reviews in process

AZ – There are no 2011 reviews in process

AK – There are no 2011 reviews in process

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

III. Number of Enrolled Firms by Number of Professionals\*

Per State as of October 18, 2012

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	1071	861
2-5 Professionals	1118	689
6-10 Professionals	432	116
11-19 Professionals	179	19
20-49 Professionals	96	7
50+ Professionals	19	0
<b>Totals</b>	<b>2915</b>	<b>1692</b>

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	163	54
2-5 Professionals	190	42
6-10 Professionals	65	9
11-19 Professionals	19	3
20-49 Professionals	9	1
50+ Professionals	3	0
<b>Totals</b>	<b>449</b>	<b>109</b>

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	26	6
2-5 Professionals	36	2
6-10 Professionals	11	1
11-19 Professionals	8	0
20-49 Professionals	1	0
50+ Professionals	1	0
<b>Totals</b>	<b>83</b>	<b>9</b>

**IV. Results of Peer Reviews Performed During the Year 2011  
Results by Type of Peer Review and Report Issued**

California Firms	AICPA Peer Review Program	CalCPA Peer Review Program
<b>System Reviews:</b>		
Pass	347	97
Pass with Deficiencies	52	52
Fail	18	46
<b>Subtotal – System</b>	<b>417</b>	<b>195</b>
<b>Engagement Reviews:</b>		
Pass	458	361
Pass with Deficiencies	78	125
Fail	44	52
<b>Subtotal – Engagement</b>	<b>580</b>	<b>538</b>
<b>Totals</b>	<b>997</b>	<b>733</b>

Arizona Firms	AICPA Peer Review Program	CalCPA Peer Review Program
<b>System Reviews:</b>		
Pass	35	6
Pass with Deficiencies	6	2
Fail	0	1
<b>Subtotal – System</b>	<b>41</b>	<b>9</b>
<b>Engagement Reviews:</b>		
Pass	66	11
Pass with Deficiencies	11	3
Fail	1	1
<b>Subtotal – Engagement</b>	<b>78</b>	<b>15</b>
<b>Totals</b>	<b>119</b>	<b>24</b>

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
<b>System Reviews:</b>		
Pass	7	1
Pass with Deficiencies	0	0
Fail	0	0
<b>Subtotal – System</b>	<b>7</b>	<b>1</b>
<b>Engagement Reviews:</b>		
Pass	15	0
Pass with Deficiencies	2	0
Fail	1	0
<b>Subtotal – Engagement</b>	<b>18</b>	<b>0</b>
<b>Totals</b>	<b>25</b>	<b>1</b>

#### V. Number and Reasons for Report Modifications

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards, for report modifications (when a pass with deficiency or fail report is issued) from system reviews performed for 2011. A system review can have more than one reason for modification.

Reasons for Report Modifications California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	21	24
Relevant Ethical Requirements	1	0
Engagement Performance	60	82
Human Resources	9	15
Acceptance & Continuance of Clients & Engagements	3	10
Monitoring	30	70
<b>Totals</b>	<b>124</b>	<b>201</b>

Reasons for Report Modifications Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	1	0
Relevant Ethical Requirements	0	0
Engagement Performance	5	2
Human Resources	0	0
Acceptance & Continuance of Clients & Engagements	0	0
Monitoring	1	2
<b>Totals</b>	<b>7</b>	<b>4</b>

Reasons for Report Modifications Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	0	0
Relevant Ethical Requirements	0	0
Engagement Performance	0	0
Human Resources	0	0
Acceptance & Continuance of Clients & Engagements	0	0
Monitoring	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>

**VI. Number of Engagements Not Performed In Accordance with Professional Standards**

The following shows the total number of engagements reviewed and the number identified as "not performed in accordance with Professional Standards" from peer reviews performed during 2011. The Standards state that an engagement is ordinarily considered not performed in accordance with Professional Standards when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

California Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	157	15	27	17
Audits – GAS– All Others	101	17	32	17
Audits – ERISA	240	16	39	12
Audits – FDICIA	0	0	0	0
Audits – Other	458	43	222	88
Reviews	591	51	313	69
Compilations with Disclosures	425	30	189	51
Compilations without Disclosures	1046	164	816	194
SSAEs	91	6	25	3
<b>Totals</b>	<b>3109</b>	<b>342</b>	<b>1663</b>	<b>451</b>
<b>% Substandard</b>		<b>11.0%</b>		<b>27.1%</b>

Arizona Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	11	2	2	1
Audits – GAS – All Others	8	1	4	0
Audits – ERISA	20	1	3	1
Audits – FDICIA	0	0	0	0

Audits – Other	47	2	8	0
Reviews	67	0	14	0
Compilations with Disclosures	53	2	6	2
Compilations without Disclosures	134	17	15	6
SSAEs	13	0	1	0
<b>Totals</b>	<b>353</b>	<b>25</b>	<b>53</b>	<b>10</b>
<b>% Substandard</b>		<b>7.1%</b>		<b>18.9%</b>

Alaska Firms				
Engagement Type	AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	4	0	0	0
Audits – GAS – All Others	1	0	0	0
Audits – ERISA	1	0	0	0
Audits – FDICIA	0	0	0	0
Audits – Other	11	0	1	0
Reviews	25	1	1	0
Compilations with Disclosures	20	0	1	0
Compilations without Disclosures	22	2	0	0
SSAEs	1	0	0	0
<b>Totals</b>	<b>85</b>	<b>3</b>	<b>3</b>	<b>0</b>
<b>% Substandard</b>		<b>3.5%</b>		<b>0%</b>

**VII. Summary of Required Follow-up Actions**

The Peer Review Committee is authorized by the Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm’s peer review. During the report acceptance process, the peer review committee evaluates the

need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The peer review committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions. For 2011, the following represents the type of follow-up actions required.

(TC = Team Captain)

California Firms Type of Follow-up Action	^AICPA Peer Review Program	CaICPA Peer Review Program
Agree to hire consultant for preissuance reviews	0	1
Submit proof of CPE taken	138	192
Submit copy of monitoring report	20	23
Submit to TC revisit-general	18	24
Submit to TC review of sub engagements w/ workpapers	13	25
Agree to have accelerated review	5	2
Does not perform any audit engagements	3	13
<b>Totals</b>	<b>197</b>	<b>280</b>

Arizona Firms Type of Follow-up Action	^AICPA Peer Review Program	CaICPA Peer Review Program
Submit proof of CPE taken	13	4
Submit copy of monitoring report	2	2
Submit to TC revisit -- general	0	1
Submit to TC review of sub engagements w/ workpapers	2	0
<b>Totals</b>	<b>17</b>	<b>7</b>

Alaska Firms Type of Follow-up Action	^AICPA Peer Review Program	CaICPA Peer Review Program
Submit proof of CPE taken	3	0
<b>Totals</b>	<b>3</b>	<b>0</b>

VII. Oversight Process

Oversight Results  
Peer reviews

California Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 6	11	System	GAGAS - 1	2
	ERISA - 8			ERISA - 0	
Engagement		10	Engagement		2

Arizona Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 2	2	System	GAGAS-0	0
	ERISA - 1			ERISA-0	
Engagement		3	Engagement		0

Alaska Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 1	2	System	GAGAS-0	0
	ERISA - 0			ERISA-0	
Engagement		2	Engagement		0

**Verification of reviewer's resumes**

<b>State</b>	<b>Total Number of Peer Reviewers</b>	<b>Total Number of Resume's Verified for Year</b>	<b>% of Total Verified</b>
California	129	61	47%
Arizona	23	8	35%
Alaska	2	1	50%
Total	154	70	45%

**Administrative oversights**

<b>Date of Last Administrative Oversight Performed by the Administering Entity</b>	November 30, 2011
<b>Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)</b>	October 22, 2010



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**PROC Item III.F.**  
February 22, 2013

### **Assignment of Future PROC Activities**

**Presented by:** Nancy J. Corrigan, Peer Review Oversight Committee (PROC) Chair

**Date:** January 9, 2013

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#### **Purpose of the Item**

The purpose of this agenda item is to assign members to specific oversight activities.

#### **Action(s) Needed**

It is requested that all members bring their calendars to the meeting and be prepared to accept assignments.

#### **Background**

None

#### **Comments**

The PROC's 2013 Year-at-a-Glance calendar (**Attachment 1**) includes meetings and activities that are currently scheduled for the following:

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

#### **Fiscal/Economic Impact Considerations**

None

#### **Recommendation**

It is recommended that members continue to use the calendar as a resource when being assigned to participate in meetings and activities held by the AICPA and CalCPA.

#### **Attachment**

1. 2013 Year-at-a-Glance CBA PROC Calendar, updated January 9, 2013.

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
PEER REVIEW OVERSIGHT COMMITTEE (PROC)  
2013 Year-at-a-Glance Calendar**  
(as of January 9, 2013)

**JANUARY 2013**

S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	T-9am 9	T-9/2 10	11	12
13	14	15	16	17	18	19
20	21	22	23	SC 24	SD 25	26
27	T-2pm 28	T-9/2 29	30	31		

**FEBRUARY 2013**

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-9/2 20	T-2pm 21	SC 22	23
24	25	26	27	28		

**MARCH 2013**

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	T-9/2 19	20	NC 21	NC 22	23
24	25	26	27	28	29	30
31						

**APRIL 2013**

S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	T-9/2 18	19	20
21	22	23	24	25	26	27
28	29	30				

**MAY 2013**

S	M	T	W	Th	F	S
			1	2	3	4
5	6	T 7	8	SD 9	SD 10	11
12	13	14	15	16	17	18
19	20	21	22	SC 23	SC 24	25
26	27	28	29	30	31	

**JUNE 2013**

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	20	NC 21	22
23	24	25	26	27	28	29
30						

**JULY 2013**

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	20
21	22	23	24	NC 25	26	27
28	29	30	31			

**AUGUST 2013**

S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	T 14	15	16	17
18	19	20	21	22	SC 23	24
25	26	27	28	29	30	31

**SEPTEMBER 2013**

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	20	21
22	23	24	25	SC 26	SC 27	28
29	30					

**OCTOBER 2013**

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
20	21	22	23	24	25	26
27	28	29	30	31		

**NOVEMBER 2013**

S	M	T	W	Th	F	S
					NC 1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	NC 21	NC 22	23
24	25	26	27	28	29	30

**DECEMBER 2013**

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	20	21
22	23	24	25	26	27	28
29	30	31				

**COMMITTEE/TASK FORCE**  
**CBA** - California Board of Accountancy  
**PROC** - Peer Review Oversight Committee  
**AICPA** - American Institute of Certified Public Accountants  
**PRB** - Peer Review Board  
**CalCPA** - 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  
**T**-TELECONFERENCE  
**SD** - SAN DIEGO

**ON SHADED DATES CBA OFFICE IS CLOSED**  
**CBA MEETING**  
**PROC MEETING**  
**AICPA PRB MEETING**  
**CalCPA RAB MEETING**  
**CalCPA PRC MEETING**  
**PEER REVIEWER TRAINING**  
**ADMINISTRATIVE SITE VISIT**



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**PROC Item IV.**  
 February 22, 2013

### Reports and Status of Peer Review Program

**Presented by:** Julie Morrow, CBA Staff

**Date:** February 7, 2013

#### Purpose of the Item

The purpose of this agenda item is to provide a status of the peer review program and an overview of peer review statistics.

#### Action(s) Needed

No specific action is needed.

#### Background

None

#### Comments

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

As of January 15, 2013, 51,110 peer review reporting forms have been submitted to the California Board of Accountancy (CBA). The reporting forms are categorized as follows:

License Ending In	Reporting Deadline	Peer Review Required	Peer Review Not Required	Not Applicable (Non-firms)	Total	Licensees Still Needing to Report
01-33	7/1/11	2,454	4,254	15,628	22,336	717
34-66	7/1/12	1,801	3,837	12,577	18,215	1,953
67-00	7/1/13	704	2,076	7,779	10,559	10,395
		4,959	10,167	35,984	51,110	13,065

#### Correspondence to Licensees

In February 2013, enforcement staff will send approximately 10,000 letters to licensees who are required to submit a Peer Review Reporting Form by July 1, 2013, but have not yet done so.

Citations Issued to Licensees that Failed to Respond to CBA

In January and February 2013, Enforcement staff issued 1,799 citations to licensees who failed to respond to the CBA's requests for peer review information. Each citation included a \$250 administrative fine and an order of correction requiring the licensee to submit the Peer Review Reporting Form within thirty days. The breakdown of the citations is as follows:

Phase 1 Delinquent	280
Phase 1 Clear	29
Phase 2 COR/PAR	160
Phase 2 CPA	1330

B. Status of PROC Roles and Responsibilities Activity Tracking

The Roles and Responsibilities Activity Tracking chart has been updated to reflect 2012 activities that have been completed (**Attachment 1**). A new chart has been developed to begin tracking 2013 activities (**Attachment 2**).

**Fiscal/Economic Impact Considerations**

None

**Recommendation**

None

**Attachments**

1. PROC Roles and Responsibilities Activity Tracking 2012, as of December 31, 2012.
2. PROC Roles and Responsibilities Activity Tracking 2013, as of January 28, 2013.

**Peer Review Oversight Committee (PROC) Roles and Responsibilities**  
**Activity Tracking – 2012**  
 December 31, 2012

<b>Activity*</b>	<b>Notes</b>
<b>PROC MEETINGS</b> <ul style="list-style-type: none"> <li>Conduct four one-day meetings.</li> </ul>	<ul style="list-style-type: none"> <li>PROC Meetings Held: 2/10, 4/20, 6/15, 8/24, 10/19, 12/4</li> </ul>
<b>ADMINISTRATIVE SITE VISIT</b> <ul style="list-style-type: none"> <li>Conduct, at a minimum, an annual administrative site visit of the peer review program provider.</li> </ul>	<ul style="list-style-type: none"> <li>California Society of Certified Public Accountants (CalCPA) Administrative Site Visit: 2/16</li> </ul>
<b>PEER REVIEW COMMITTEE MEETING</b> <ul style="list-style-type: none"> <li>Attend all peer review program providers' Peer Review Committee (PRC) meetings.</li> <li>Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees.</li> <li>Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards.</li> </ul>	<ul style="list-style-type: none"> <li>Attended: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Meetings 1/20, 5/8, 8/8, 10/9</li> <li>Attended: CalCPA PRC Meeting 4/26, 11/15-16</li> </ul>
<b>PEER REVIEW SUBCOMMITTEE MEETING</b> <ul style="list-style-type: none"> <li>Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports.</li> <li>Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings.</li> <li>Ensure that peer reviews are being accepted in a consistent manner.</li> </ul>	<ul style="list-style-type: none"> <li>Attended: CalCPA Report Acceptance Body (RAB) Meetings 1/5, 1/24, 3/6, 5/17, 7/24</li> </ul>
<b>REVIEW SAMPLING OF PEER REVIEWS</b> <ul style="list-style-type: none"> <li>Perform sampling of peer review reports.</li> </ul>	<ul style="list-style-type: none"> <li>CalCPA Administrative Site Visit: 2/16</li> </ul>
<b>PEER REVIEWER TRAINING</b> <ul style="list-style-type: none"> <li>Ensure that peer reviewers are properly qualified.</li> </ul>	<ul style="list-style-type: none"> <li>Attended: CalCPA Peer Reviewer Trainings 5/23, 6/27-28</li> </ul>
<b>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</b> <ul style="list-style-type: none"> <li>Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers.</li> </ul>	<ul style="list-style-type: none"> <li>Pending receipt of application</li> </ul>
<b>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY</b> <ul style="list-style-type: none"> <li>Prepare an annual report to the CBA regarding the results of its</li> </ul>	<ul style="list-style-type: none"> <li>Scheduled: March 2013</li> </ul>

independent oversight of the Peer Review program.	
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\*Activities based on the November 9, 2010 PROC Agenda Item IV – Role of the PROC.

**Peer Review Oversight Committee (PROC) Roles and Responsibilities**  
**Activity Tracking – 2013**  
As of January 28, 2013

Activity*	Notes
<b>PROC MEETINGS</b> <ul style="list-style-type: none"> <li>Conduct four one-day meetings.</li> </ul>	<ul style="list-style-type: none"> <li>PROC Meetings Scheduled: 2/22, 6/21, 8/23, 11/1</li> </ul>
<b>ADMINISTRATIVE SITE VISIT</b> <ul style="list-style-type: none"> <li>Conduct, at a minimum, an annual administrative site visit of the peer review program provider.</li> </ul>	<ul style="list-style-type: none"> <li>California Society of Certified Public Accountants (CalCPA) Administrative Site Visit: 5/15-16</li> </ul>
<b>PEER REVIEW COMMITTEE MEETING</b> <ul style="list-style-type: none"> <li>Attend all peer review program providers' Peer Review Committee (PRC) meetings.</li> <li>Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees.</li> <li>Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards.</li> </ul>	<ul style="list-style-type: none"> <li>Attended: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Meeting 1/25</li> <li>Scheduled: CalCPA Peer Review Committee (PRC) Meeting 5/9-10</li> </ul>
<b>PEER REVIEW SUBCOMMITTEE MEETING</b> <ul style="list-style-type: none"> <li>Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports.</li> <li>Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings.</li> <li>Ensure that peer reviews are being accepted in a consistent manner.</li> </ul>	<ul style="list-style-type: none"> <li>Scheduled: CalCPA Report Acceptance Body (RAB) Meetings 3/19, 4/18</li> </ul>
<b>REVIEW SAMPLING OF PEER REVIEWS</b> <ul style="list-style-type: none"> <li>Perform sampling of peer review reports.</li> </ul>	<ul style="list-style-type: none"> <li>Scheduled: CalCPA Administrative Site Visit 5/15-16</li> </ul>
<b>PEER REVIEWER TRAINING</b> <ul style="list-style-type: none"> <li>Ensure that peer reviewers are properly qualified.</li> </ul>	<ul style="list-style-type: none"> <li>Not yet scheduled</li> </ul>
<b>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</b> <ul style="list-style-type: none"> <li>Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers.</li> </ul>	<ul style="list-style-type: none"> <li>Pending receipt of application</li> </ul>
<b>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY</b> <ul style="list-style-type: none"> <li>Prepare an annual report to the CBA regarding the results of its</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> </ul>

independent oversight of the Peer Review program.	
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\*Activities based on the November 9, 2010 PROC Agenda Item IV – Role of the PROC.



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**PROC Item V.A.**  
February 22, 2013

## **Approval of the 2012 Annual Report to the CBA**

**Presented by:** Rafael Ixta, Chief of Enforcement

**Date:** January 18, 2013

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with the 2012 Annual Report to the California Board of Accountancy (CBA).

### **Action(s) Needed**

It is requested that the PROC review and approve the 2012 Annual Report (**Attachment 1**).

### **Background**

At its August 24, 2012 meeting, PROC members directed staff to make updates to the 2011 Annual Report and provide a version with track changes for review at the PROC's October 19, 2012 meeting. At the PROC's October 19, 2012 and December 4, 2012 meetings, members made edits to the first draft of the report.

### **Comments**

The report will be presented to the CBA at its March 2013 meeting.

### **Fiscal/Economic Impact Considerations**

None

### **Recommendations**

It is recommended that the PROC members approve the 2012 Annual Report.

### **Attachment**

2012 PROC Annual Report to the CBA



CALIFORNIA BOARD OF ACCOUNTANCY  
PEER REVIEW OVERSIGHT COMMITTEE  
2012 Annual Report



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## **I. Message from the Committee Chair**

It is with pleasure that I present the 2012 Annual Report of the Peer Review Oversight Committee (PROC) as our second report to the California Board of Accountancy (CBA). The PROC has continued to make significant progress in establishing a peer review oversight process, with the goal of making recommendations to the CBA to ensure the effectiveness of mandatory peer review.

During our second year as a committee, I reported our activities to you at each CBA meeting. During the past year, the PROC has further developed its knowledge with respect to the administration of the peer review process, the various bodies involved with the process, including the program provider and administering entities, and its roles and responsibilities related thereto as a committee.

In 2012, members provided oversight at fifteen peer review events, including peer review board and committee meetings, report acceptance body meetings, peer reviewer training courses sponsored by the program provider, and performed an administrative site visit of the program provider's administering entity. In performing these oversight activities, we used checklists and other materials developed during our first year, along with checklists more recently adopted, that document our oversight procedures. Our goal is to continue to improve upon these processes going forward. All oversight activities were performed under the revised roles and responsibilities for the PROC pursuant to Section 5076.1 of the Business and Professions Code.

During 2012, the PROC also arranged for presentations by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC). These presentations assisted the PROC in understanding the extent of the AICPA and the CAC's processes for oversight of the NPRC. Once the PROC completes gathering information, it will make a determination on the best way to provide oversight of the California firms who peer review with the NPRC. We anticipate having an oversight process in place in 2013.

With the majority of our learning curve behind us, the PROC was able to concentrate on more oversight activities during 2012. Additionally, this enabled the PROC to reduce the number of committee meetings from six in 2012 to four in 2013.

To further strengthen the infrastructure of the PROC and allow for succession planning, the PROC appointed a Vice Chair position, rotated out two members as of December 31, 2012, and will be appointing two new members in early 2013. The staggered terms will enable the committee to maintain continuity of knowledge of peer review oversight activities into the future.

In closing, I want to thank the CBA members for their direction in supporting the PROC and its accomplishments in its second year. I also want to thank the PROC members for their continuing contributions to our Committee and our many accomplishments. I further appreciate the working relationship and continued support from the CBA staff in assisting the PROC with accomplishing its goals.

Nancy J. Corrigan, CPA  
*Committee Chair*

## II. Background

In 2009, the CBA sponsored Assembly Bill 138 (AB 138) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010, requiring all California licensed firms providing accounting and auditing services, including sole proprietorships, to undergo a peer review once every three years as a condition of license renewal.

Peer review is defined as the study of a firm's accounting and auditing practice by an independent Certified Public Accountant (CPA) using professional standards, the purpose of which is to promote quality in the accounting and auditing services provided by CPAs.

## III. PROC Responsibilities

The PROC derives its authority from Section 5076.1 of the Business and Professions Code (B&P). The PROC is comprised of seven CPAs who maintain a California license in good standing and who are authorized to practice public accountancy. The purpose of the PROC is 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 CBA, at its July 26, 2012 meeting, adopted the following revised roles and responsibilities for the PROC:

- Hold meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.
- Ensure that Board-recognized peer review program providers (Provider) administer peer reviews in accordance with the standards set forth in Title 16, California Code of Regulations (CCR) Section 48:
  - Conduct an annual administrative site visit.
  - Attend peer review board meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Attend peer review committee meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Attend meetings conducted for the purposes of accepting peer review reports, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Conduct reviews of peer review reports on a sample basis.
  - Attend, on a regular basis, peer reviewer training courses.
- Evaluate any *Application to Become A Board-recognized Peer Review Provider* and recommend approval or denial to the CBA.
- Refer to the CBA any Provider that fails to respond to any request.
- Collect and analyze statistical monitoring and reporting data from each Provider on an annual basis.
- Prepare an Annual Report to the CBA regarding the results of its oversight.

#### IV. Committee Members

The PROC is comprised of seven members, all of whom must possess and maintain a valid and active license to practice public accountancy issued by the CBA. Members are appointed to two-year terms and may serve a maximum of four consecutive terms.

<u>Current members:</u>	<u>Term Expiration Date:</u>
Nancy Corrigan, CPA, Chair	May 24, 2013
Robert Lee, CPA, Vice Chair	May 24, 2013
Katherine Allanson, CPA	May 24, 2013
Gary Bong, CPA	December 31, 2012
T. Ki Lam, CPA	December 31, 2012
Sherry McCoy, CPA	May 24, 2013
Seid Sadat, CPA	May 24, 2013

#### V. Regulations

On July 26, 2012, the CBA adopted regulations modifying Title 16, CCR, Sections 40 and 45. The proposed changes would replace the initial phase-in reporting dates with the requirement that licensees report specific peer review information on the Peer Review Reporting Form at the time of renewal. The proposed language also clarifies that any firm that performs specific services for the first time, whether it is newly licensed or simply new to performing those services, must complete a peer review within 18 months of the date it completes those services.

The rulemaking package is currently moving through the approval process. It is anticipated that the package will be provided to the Office of Administrative Law no later than July 2013 and once approved would become effective on January 1, 2014.

#### VI. Reporting Requirements

Pursuant to Business and Professions Code (B&P), Section 5076(n)(1), as amended on October 3, 2011 by Senate Bill 543, the CBA is required to provide the Legislature and Governor with a report regarding the peer review requirements that include, without limitation:

- The number of peer review reports completed to date and the number of substandard peer review reports which were submitted to the board.
- The number of enforcement actions that were initiated as a result of an investigation of a failed peer review report.
- The number of firms that were recommended to take corrective actions to improve their practice through the mandatory peer review process, and the number of firms that took corrective actions to improve their practice following recommendations resulting from the mandatory peer review process.
- The extent to which mandatory peer review of accounting firms enhances consumer protection.
- The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.
- A recommendation as to whether the mandatory peer review program should continue.

- The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
- The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.
- The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.
- A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

In keeping with its purpose, the PROC is available to assist the CBA in any way necessary in preparing the report that is due to the Legislature and Governor on January 1, 2015.

## VII. Statistics

The following statistics provide perspective on the size of the peer review program in California.

With the implementation of mandatory peer review, all licensees are required to submit a Peer Review Reporting Form (Form PR-1(1/10)) to the CBA. Licensees with a license number ending in 01-33 had a reporting date of July 1, 2011, licensees with a license number ending in 34-66 had a reporting date of July 1, 2012, and licensees with a license number ending in 67-00 have a reporting date of July 1, 2013.

Using information collected on the Peer Review Reporting Form, the following table illustrates the number of firms required to undergo a peer review, firms not required to undergo peer review, and licensees that do not operate as firms.

Peer Review Reporting Forms Received by the CBA*						
License Ends In	Reporting Date	Firms Requiring Peer Review	Firms Not Requiring Peer Review	Licensees Not Operating as a Firm	Total	Licensees That Have Not Reported
01-33	July 1, 2011	2,454	4,254	15,628	22,336	717
34-66	July 1, 2012	1,801	3,837	12,577	18,215	1,953
67-00	July 1, 2013	704	2,076	7,779	10,559	10,395
<b>Total</b>		<b>4,959</b>	<b>10,167</b>	<b>35,984</b>	<b>51,110</b>	<b>13,065</b>

\* Data as of January 15, 2013.

The data in the following table reflects the number of peer review reports accepted by the California Society of Certified Public Accountants (CalCPA) in 2010, 2011, and 2012.

Peer Review Reports Accepted by the CalCPA*				
Type of Review	2010	2011	2012	Total
System	413	406	648	1,467
Engagement	535	870	1,253	2,658
<b>Total</b>	<b>948</b>	<b>1,276</b>	<b>1,901</b>	<b>4,125</b>

\*Data received from CalCPA as of December 31, 2012.

### VIII. Peer Review Voluntary Survey

In order to gather information on the impact of mandatory peer review, the CBA developed a voluntary survey for firms to complete as they submit their Online Peer Review Reporting Form. The survey went live on the CBA website on December 9, 2010. The PROC will continue to use the results of this ongoing survey to ensure the effectiveness of mandatory peer review.

For the purpose of analysis, preliminary survey results (**Appendix A**) were divided into two groups: (1) firms that have not undergone a peer review in the past, and (2) firms that have previously been peer reviewed. Although not all licensees answered all the survey questions, between 1,817 and 2,030 responses were received for each question. In general, the results revealed:

- **CORRECTIVE ACTION ORDERED**  
Less than 20 percent of the firms were required to take corrective action, with the most common action being continuing professional education.
- **VOLUNTARY ACTION TAKEN**  
Approximately half of the firms responding made voluntary changes to improve their processes.
- **FEES**  
Fewer than 10 percent of the firms increased fees to offset the cost of undergoing a peer review. The average increase for firms that raised fees was 12 percent.
- **OTHER COMPREHENSIVE BASIS OF ACCOUNTING (OCBOA)**  
A large majority of the firms have workload consisting of 25 percent or less OCBOA engagements.
- **IMPROVED SERVICES**  
Approximately 70 percent of the firms believe that undergoing a peer review has helped improve service to clients.
- **CLIENT NOTIFICATION**  
Fifty percent of the firms intend to notify clients that they have undergone a peer review.
- **MARKETING**  
Thirty percent of the firms will use peer review as a marketing tool.
- **CESSATION OF SERVICES**  
Nine percent of the firms will cease providing accounting and auditing services to eliminate the need for a future peer review.

Of the 342 general comments received as part of the survey, 103 were supportive of mandatory peer review whereas 199 were not supportive, and 40 were neutral.

## **IX. Board-recognized Peer Review Program Providers**

### **a. American Institute of CPAs (AICPA)**

The AICPA is currently the only Board-recognized Peer Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in CCR Section 48. Further, the CBA accepts all AICPA-approved organizations authorized to administer the AICPA Peer Review Program. At present, there are 42 administering entities. The PROC has the authority to request information and materials from all organizations.

The AICPA's Peer Review Board (PRB) is responsible for maintaining, furthering and governing the activities of the AICPA's Peer Review Program, including the issuance of peer review standards, and peer review guidance, while being mindful of the profession's covenant to serve the public interest with integrity and objectivity.

The Peer Review Program provides for a triennial review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System reviews are designed for firms that perform audits or other similar engagements. Engagement reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

#### **i. California Society of CPAs (CalCPA)**

CalCPA administers the AICPA Peer Review Program in California. As the administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's *Standards*. The CalCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews. The PRC delegates a portion of the report acceptance function to Report Acceptance Bodies (RABs).

#### **ii. National Peer Review Committee (NPRC)**

The AICPA also administers a peer review program through the National Peer Review Committee for firms required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB) or perform audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB.

#### **iii. Other State Societies**

California-licensed accountancy firms with their main office located in another state are required to have their peer review administered by AICPA's administering entity for that state. In most cases, the administering entity is the state society in that state.

## **X. Activities and Accomplishments**

Following are the salient activities and accomplishments during the PROC's second year.

### **a. Administrative Functions**

#### **i. Committee Meetings**

The PROC holds meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.

The PROC held six meetings as follows:

- February 10, 2012 – Sacramento
- April 20, 2012 – Glendale
- June 15, 2012 – San Jose
- August 24, 2012 – Sacramento
- October 19, 2012 – Burbank
- December 4, 2012 – Sacramento

The PROC Chair summarized the PROC meetings in written reports that were presented at each CBA meeting.

#### **ii. PROC Procedures Manual**

The PROC updated its Procedures Manual which outlines specific procedures and processes to fulfill its duties. Updates include the PROC's revised roles and responsibilities, information regarding conflicts of interest, and newly created oversight checklists.

#### **iii. Oversight Checklists**

The PROC developed two additional oversight checklists which serve to document the members' findings and conclusions after specific oversight activity. Members submit the completed checklists to the CBA for future reference.

The following two checklists were created to track oversight activities:

- Summary of Peer Reviewer Training Course (**Appendix B**)
- Summary of Peer Review Board Meeting (**Appendix C**)

Checklists previously developed include:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit

The checklists are part of the PROC Procedures Manual. Additional checklists will be developed if deemed necessary.

#### **iv. Appointment of PROC Vice Chair**

At the request of the CBA, the PROC established a Vice Chair position to address concerns regarding succession planning. Robert Lee, CPA, was appointed Vice Chair by the CBA.

#### **v. Approval of Board-recognized Peer Review Program Providers**

At such time that the CBA receives an Application to Become a Board-recognized Peer Review Program Provider, the PROC will review the application and documentation and determine if the program meets the requirements outlined in Title 16, CCR Section 48. Based on the review, the PROC will provide a recommendation to the CBA that the application be approved or denied.

The PROC created a checklist to evaluate applications (**Appendix D**).

#### **vi. Withdrawal of Board Recognition of a Peer Review Program Provider**

The PROC has not made any recommendations to the CBA concerning the withdrawal of Board recognition of a peer review program provider.

### **b. Program Oversight**

The PROC is charged with providing oversight of all Board-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA.

During 2012, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities, the CalCPA and the NPRC.

#### **i. AICPA**

##### **A. AICPA Peer Review Board**

The AICPA PRB is responsible for maintaining, furthering and governing the activities of the Program, including the issuance of peer review standards, and peer review guidance, while being mindful of the profession's covenant to serve the public interest with integrity and objectivity. The PRB holds four meetings per year. PROC members observed each of the following PRB meetings via teleconference:

- January 20, 2012
- May 8, 2012
- August 8, 2012
- October 9, 2012

## ii. CalCPA

### A. Peer Review Committee

The CalCPA Peer Review Committee is responsible for ensuring that the peer review program is performed in accordance with the standards and guidance issued by the AICPA's PRB. The PRC meets in person twice a year. PROC members observe how the PRC executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the State of California.

PROC members attended each of the following PRC meetings:

- April 26, 2012 – San Mateo
- November 15-16, 2012 – Yountville

### B. Report Acceptance Body

The CalCPA holds multiple RAB meetings per year. The RAB meetings generally occur via conference call. RAB members review and present the peer review reports subject to discussion on a general call. PROC members observe how the RAB executes its duties in the meeting to determine whether the peer review process is operating effectively in the state of California.

PROC members observed each of the following RAB meetings via teleconference or in person:

- January 5, 2012 – teleconference
- January 24, 2012 – in person
- March 6, 2012 – teleconference
- May 17, 2012 – teleconference
- July 24, 2012 – teleconference
- November 15, 2012 – in person

### C. Administrative Site Visit

The PROC is charged with conducting, 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.

On February 16, 2012, the PROC reviewed the CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA *Standards for Performing and Reporting on Peer Reviews*, interpretations, and other guidance established by the board. The PROC's responsibility is to determine whether the peer review program complies with the Minimum Requirements for a Peer Review Program, pursuant to Title 16, CCR, Section 48.

The following procedures were performed as part of the PROC's responsibilities:

- Read correspondence and other available documentation from other oversight activities performed at CalCPA;
- Reviewed the Report Acceptance Body assignment binder;
- Used the PRISM system-generated reports provided by CalCPA to select a sample of peer review reports and associated files for review;
- Discussed peer reviewer qualifications process with CalCPA personnel and selected one peer reviewer for resume inspection;
- Obtained a listing of extensions to evaluate consistency of reasons for extension with policies of CalCPA.

Based on the results of the procedures performed, the PROC concluded that the CalCPA has complied with the Minimum Requirements for a Peer Review Program.

#### **D. Sample Reviews**

The PROC developed a system for sampling peer review reports. The first review was completed on February 16, 2012, in conjunction with the administrative site visit.

#### **E. Peer Reviewer Training**

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews.

The CalCPA Education Foundation offers two peer reviewer trainings per year. A two-day course for new peer reviewers and a one-day refresher course are each offered once a year. PROC members attended the one-day training course *AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers* on May 23, 2012, and the two-day training course *How to Conduct a Review Under the AICPA Practice-Monitoring Program* on June 27-28, 2012.

### **iii. NPRC**

#### **A. Annual Monitoring Report**

The PROC reviewed the NASBA CAC first annual monitoring report of the NPRC. This report is the product of an agreement between NASBA and the AICPA to provide a mechanism by which the operations of the NPRC could be monitored and reported on by the CAC.

#### **B. AICPA Presentation**

The PROC arranged a presentation by Jim Brackens, Vice President, Ethics & Practice Quality, AICPA, which included the various aspects of the AICPA's oversight of the NPRC.

### **C. CAC Presentation**

The PROC arranged a presentation by Janice Gray, Chair of NASBA's CAC, which included information on the CAC's oversight of the NPRC.

The PROC sent a letter to the CAC requesting information necessary for the PROC to better understand the CAC's oversight process of the NPRC. The PROC requested the following information:

- Copies of CAC oversight reports;
- Copies of third-party reviewer reports;
- Oversight statistics annually;
- A calendar of events to include CAC oversight activities, scheduling of third-party reviews and administrative site visits, report development activities, etc.

The PROC continues to work with the CAC to develop a process to provide adequate oversight to the NPRC.

### **IV. Other State Societies**

The PROC is aware that California-licensed firms are having their peer reviews performed by AICPA administering entities other than CalCPA and NPRC, and will be exploring options for monitoring and ensuring these administering entities are given sufficient oversight.

## **XI. Findings**

Based on PROC members' attendance at the various peer review bodies' meetings cited in this report, the PROC offers the following findings to the CBA.

### **AICPA**

The PROC found the AICPA PRB meetings to be informative, efficient and structured. PROC members were invited to ask questions at regular intervals throughout the meetings. The PRB was diligent with regard to their responsibility for the peer review process and ensuring that the process is integrated with changes to professional standards. The PRB appears devoted to the quality of peer reviewers and how the AICPA could enhance this quality for the overall good of CPA firms.

### **CalCPA**

PROC members were impressed with the CalCPA PRC members' technical expertise. The PRC deals with issues such as interpreting standards and applying consistency as the standards change and evolve. The PRC maintains a running list of recurring peer review deficiencies that they monitor and gauge, as well as monitoring the performance of peer reviewers.

Through participation in six RAB meetings, PROC members found RAB members professional and able to effectively discuss issues and arrive at well thought out conclusions.

PROC members found the peer reviewers courses to be informative and effective. The presenter had a practical approach and spent an ample amount of time going through specific cases and explaining why certain decisions were made. It was noted that, although the course is marketed to new peer reviewers, the course seemed to be designed for more experienced peer reviewers. Although the presenter used advanced terminology, she was always willing to answer questions and provide further explanation.

### **NPRC**

In 2012, PROC members began researching and developing an understanding of the NPRC, including the oversight provided by AICPA and NASBA's CAC. The PROC will continue to research oversight of the NPRC and development of an oversight plan in 2013.

## **XII. Conclusions**

Based on its oversight activities, the PROC concluded that the AICPA and its administering entities, CalCPA and NPRC, function effectively as a peer review program provider. The PROC recommends that the CBA continue to recognize the American Institute of Certified Public Accountants as a peer review program provider.



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**PROC Item V.B.**  
February 22, 2013

**FAQs to Address the Impact of Peer Review on Retirees,  
Dissolved Corporations and Partnerships, and Second Phase of Reporting**

**Presented by:** Rafael Ixta, Chief of Enforcement  
**Date:** January 25, 2013

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**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with current and proposed peer review frequently asked questions (FAQs).

**Action(s) Needed**

PROC members are requested to make any necessary edits to the FAQs.

**Background**

The California Board of Accountancy (CBA) posted peer review FAQs on its website when mandatory peer review was implemented in January 2010 (**Attachment 1**).

**Comments**

At the December 4, 2012 PROC meeting, members requested that new FAQs be developed to address whether peer reviews are required for dissolved corporations and partnerships, and for retired sole proprietors. They also requested FAQs to address the new peer review reporting requirements that will take effect in January 2014. Staff has prepared four new FAQs (**Attachment 2**). Upon approval, these FAQs will be added to the CBA website.

**Fiscal/Economic Impact Considerations**

None

**Recommendations**

None

**Attachment**

1. Current Peer Review FAQs
2. Proposed Additional Peer Review FAQs

## Current Peer Review FAQs

### What is peer review?

Peer review is a systematic review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards.

### Who is required to undergo peer review?

Peer review is required for all California-licensed firms, including sole proprietorships, that perform accounting and auditing services using the following professional standards:

- Statements on Auditing Standards (SAS)
- Statements on Standards for Accounting and Review Services (SSARS)
- Statements on Standards on Attestation Engagements (SSAE)
- Government Auditing Standards (Yellow Book)
- Audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB)

### If a firm performed only one accounting and auditing engagement, will it still be required to undergo a peer review?

Yes. There is no exclusion from the peer review requirement based solely on the number of engagements performed.

### Are there any exclusions from the peer review requirement?

There are two exclusions from the peer review requirement.

1. Any of a firm's engagements subject to inspection by the Public Company Accounting Oversight Board's inspection program.
2. A firm, which as their highest level of work, performs only compilations where no report is issued in accordance with the provisions of Statements on Standards for Accounting and Review Services (SSARS).

### Is a sole proprietorship considered a firm in California?

Yes. Section 5035.1 of the Business and Professions Code defines a firm to include a sole proprietorship.

### When does a firm have to report peer review information?

Firms will be phased into the reporting requirement over a three-year period. The following schedule will be used for the phase-in period:

- Firms with a license number ending in 01-33 will need to submit peer review information no later than July 1, 2011.
- Firms with a license number ending in 34-66 will need to submit peer review information no later than July 1, 2012.
- Firms with a license number ending in 67-00 will need to submit peer review information no later than July 1, 2013.

Firms will be required to report peer review information every three years thereafter. For licensees that operate as a sole proprietorship, the firm number will be the last two digits of the individual CPA license number.

### **Does a firm need to submit its peer review report?**

A firm that receives a peer review rating of pass or pass with deficiencies is not required to submit the peer review report. The firm will only need to complete the *Peer Review Reporting Form* and submit it to the CBA. A firm that receives a substandard peer review rating is required to submit the peer review report, along with any materials documenting prescription of remedial or corrective actions, within 45 days after the report is accepted by the Board-recognized peer review program provider.

### **What are Board-recognized peer review program providers?**

A Board-recognized peer review program provider is an organization that is recognized to administer peer reviews in California. Board-recognized peer review program providers will work with firms to ensure peer reviews are completed timely; firms select peer reviewers with a currency of knowledge of the professional standards to the type of practice to be reviewed; and review and accept the peer review report.

### **What organizations are presently recognized by the CBA to perform peer reviews?**

Presently, only the American Institute of Certified Public Accountants (AICPA) is recognized by the CBA to perform peer reviews. The AICPA uses several administering entities nationally, usually state certified public accountant societies, to administer its peer review program.

### **How does a firm select a peer reviewer?**

A firm is required to enroll in a Board-recognized peer review provider's program. Once enrolled, the provider will assist in a firm's selection of a qualified peer reviewer to ensure that the peer reviewer has a currency of knowledge of the professional standards related to the type of practice to be reviewed.

### **How can a firm receive an extension of time to undergo a peer review?**

Should an extension of time be needed to have a peer review report accepted by a Board-recognized peer review program, the firm shall submit the extension request to the Board-recognized peer review program provider with which the firm is enrolled. If the extension granted extends past the firm's reporting date, the firm shall notify the CBA of the extension and provide proof of the extension. The firm shall then report the results of the peer review to the CBA within 45 days of the peer review report being accepted by the Board-recognized peer review program.

### **I am not a sole proprietor. Do I need to report?**

Yes. Although not all Certified Public Accountants and Public Accountants are required to undergo peer review, ALL licensees must report. Since the CBA does not maintain a record of individual licensees who operate as sole proprietorships, you are required to respond even if only to report that you do not operate as a sole proprietorship.

### **My firm, as its highest level of work, performs only compilations where no report is issued in accordance with the provisions of Statements on Standards for Accounting and Review Services (SSARS). Do I need to report?**

Yes. Although not all firms are required to undergo peer review, ALL firms must report. Since the CBA does not maintain a record of services provided by firms, you are required to respond even if only to report that you are not performing any services that require you to undergo a peer review.

**Once I notify the CBA that I am not required to undergo a peer review, do I need to report again in the future?**

Yes. All firms and licensees will be required to report peer review information every three years even if they are not required to undergo a peer review.

**I had an engagement that subjects me to peer review in January 2010. I do not anticipate having any more engagements that subject me to peer review in the future. Do I have a peer review requirement?**

Yes. As of January 1, 2010, all firms operating or maintaining an accounting and auditing practice must undergo peer review once every three years in order to renew its license. Should your firm begin performing accounting and auditing services after January 1, 2010, it must have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

**Does a firm's Peer Review Reporting Form encompass all of the individual licensees employed at the firm?**

No. Individual licensees must submit an Online Peer Review Reporting Form for their individual license number. As the reporting date for their individual license number approaches, they will receive a unique PIN code for logging into the Online Peer Review Reporting Form. Individuals working for a firm, or that are shareholders or partners of a firm, are not subject to peer review, but must still complete the Peer Review Reporting Form.

**I received notification to report for my individual license number; however, I operate as a partnership. Do I need to report for my individual license and my partnership number?**

Yes. You must submit separate Online Peer Review Reporting Forms for your individual license and any corporation and/or partnership licenses you maintain. For your individual license, you will report that you are not operating as a firm. Your partnership will report it is operating as a firm.

**I maintain a CPA license in California, but practice in another state. Do I need to report?**

Yes. Peer Review is a condition of license renewal in California regardless of where you practice.

**I undergo peer review to maintain a license in another state. Can I report the out-of-state peer review to California?**

Yes. As long as the peer review report is accepted by a California Board-recognized peer review program, it will meet the peer review requirement for California. Currently, the AICPA is the only Board-recognized peer review program in California.

**My firm's reporting date is July 1, 2012. Our last peer review report was accepted in October 2008. Can the firm submit the Peer Review Reporting Form now?**

No. The firm's peer review report must be accepted by a Board-recognized peer review program within *36 months prior* to the reporting date. The firm will need to wait until its next peer review report is accepted to submit the Peer Review Reporting Form to the CBA.

**I submitted my Online Peer Review Reporting Form with incorrect information. How can I correct it?**

You must submit a hard copy Peer Review Reporting Form to the CBA for correction. The form must be clearly marked "Corrected Copy." The hard copy form can be found at <https://www.dca.ca.gov/cba/forms/prrfwinst.pdf>.

**Am I required to use the Online Peer Review Reporting Form?**

No. Although online reporting is quick and easy, you can submit a hard copy reporting form which can be downloaded from the CBA Web site. If you do not have access to the internet, you can request that a Peer Review Reporting Form be mailed to you.

**What will happen if I fail to report my peer review to the CBA?**

Failure to report your peer review status may result in nonrenewal of your license. Failure to report may also result in the CBA initiating enforcement action.

**How long does it take to undergo a peer review?**

Please contact the Board-recognized peer review program provider for timeframes. If undergoing a peer review for the first time, please allow sufficient time for the peer review engagement and acceptance by the Board-recognized administering entity.

**How much will a peer review cost?**

Please contact the Board-recognized peer review program provider for the cost to enroll in the peer review program. The fee for the peer review is negotiated between you and your peer reviewer.

**What other requirements do I have?**

If you receive a substandard peer review, you must notify the CBA within 45 days and submit a copy of the peer review report to the CBA at:

California Board of Accountancy  
Attn: Peer Review Analyst  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815-3832

You must also notify the CBA within 30 days if you are expelled by a Board-recognized peer review program and provide the name of the Board-recognized peer review program and the reason(s) given by the peer review program for the expulsion.

## Proposed Additional Peer Review FAQs

### **I submitted a Peer Review Reporting Form to the CBA during the three-year phase-in period. When do I need to report again?**

Presently, CBA Regulation Section 45 does not specify a reporting date beyond the initial three-year phase-in period. However, the reporting dates in Section 45 are being amended. As amended, beginning July 1, 2014, the CBA will require all licensees to report their specific peer review information at the time of license renewal. The proposed text is available on the CBA website at [http://www.dca.ca.gov/cba/laws\\_and\\_rules/pubpart.shtml](http://www.dca.ca.gov/cba/laws_and_rules/pubpart.shtml).

### **If I have to submit a Peer Review Reporting Form to the CBA every two years with my renewal, do I have to have a peer review every two years?**

No. Even though reporting will be done at the time of license renewal, peer reviews are still only required every three years. This means for some years you will report the same peer review results two renewal cycles in a row.

### **I am subject to peer review, but am planning on retiring and renewing my license inactive. Do I need to have a peer review?**

Effective January 1, 2013, only licensees renewing in an active status or converting to active status are required to have a peer review. If you renew in an inactive status, you do not need to have a peer review. However, you are required to report specific peer review information as required on Form PR-1 (1/10) to the CBA.

### **I am due to report my peer review on July 1, 2013, and my license expires on October 31, 2013, at which time I will be retiring and renewing in an inactive status. Do I need a peer review?**

Peer review is a condition of license renewal. If you are renewing your license in an inactive status, you are not required to have a peer review. However, you are required to report specific peer review information as required on Form PR-1 (1/10) to the CBA by the July 1, 2013, reporting deadline.

### **Do I need to have a peer review if I'm dissolving my corporation/partnership?**

No. Peer reviews are a condition of license renewal. A peer review would not be required if the corporation/partnership is dissolved, and the CBA is notified of the dissolution, prior to the renewal of the license.



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PROC Item V.D.  
 February 22, 2013

**Discussion of American Institute of Certified Public Accountants Peer Reviews Conducted by Administering Entities Other than the California Society of Certified Public Accountants and the National Peer Review Committee**

**Presented by:** Rafael Ixta, Enforcement Chief  
**Date:** January 29, 2013

**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with the number of peer reviews conducted by administering entities other than the California Society of Certified Public Accountants (CalCPA) and the National Peer Review Committee (NPRC).

**Action(s) Needed**

It is requested that PROC members review the number of peer reviews conducted by American Institute of Certified Public Accountants (AICPA) administering entities, other than CalCPA and the NPRC, and adopt oversight strategies for the administering entities.

**Background**

Most California-licensed firms use CalCPA or the NPRC to perform their peer reviews. There are some California-licensed firms that have their peer reviews performed by AICPA administering entities other than CalCPA and NPRC. Since the PROC has peer review oversight responsibility of the AICPA Board-recognized peer review program, the PROC needs to consider how it will provide such oversight for administering entities that are outside of California.

**Comments**

CBA staff identified 137 peer reviews that were performed by administering entities, other than CalCPA and the NPRC, as follows:

Alabama	1	Illinois	7	Montana	2	Oklahoma	2
Arkansas	1	Indiana	1	Nevada	27	Oregon	24
Colorado	6	Iowa	2	New England	2	Pennsylvania	1
Florida	3	Kansas	1	New Jersey	2	South Carolina	1
Georgia	2	Massachusetts	2	New Mexico	2	Tennessee	1
Hawaii	5	Michigan	1	New York	11	Texas	13
Idaho	8	Minnesota	1	Ohio	1	Washington	7

CBA staff has identified the following possible oversight strategies for PROC member consideration:

<b>Number of peer reviews conducted by out of state administrating entity</b>	<b>PROC's oversight strategies</b>
Low	<ol style="list-style-type: none"><li>1. Review AICPA Oversight Report of the administrating entity.</li></ol>
Medium	<ol style="list-style-type: none"><li>1. Review AICPA Oversight Report of the administrating entity.</li><li>2. Review state's PROC Activities.</li></ol>
High	<ol style="list-style-type: none"><li>1. Review AICPA Oversight Report of the administrating entity.</li><li>2. Review state's PROC Activities.</li><li>3. California PROC to conduct its own oversight activities, if warranted.</li></ol>

**Fiscal/Economic Impact Considerations**

None

**Recommendation**

Given the low number of peer reviews conducted by other administering entities, CBA staff recommend the PROC consider reviewing the AICPA Oversight Reports for the administering entity as its oversight strategy.

**Attachments**

None



DEPARTMENT OF CONSUMER AFFAIRS  
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PROC Item V.E.  
February 22, 2013

**Discussion and Possible Action Regarding PROC's Response to the National Association of State Boards of Accountancy's Compliance Assurance Committee's October 18, 2012 Letter Regarding Oversight of the National Peer Review Committee**

**Presented by:** Rafael Ixta, Enforcement Chief  
**Date:** January 28, 2013

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**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with correspondence responding to the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee's (CAC) response to the PROC's letter regarding oversight of the National Peer Review Committee (NPRC).

**Action(s) Needed**

It is requested that PROC members make any necessary revisions to the draft letter (**Attachment 1**).

**Background**

On August 31, 2012, the PROC sent a letter (**Attachment 2**) to the CAC requesting information necessary for the PROC to better understand the CAC's oversight process of the NPRC. The PROC requested the following information:

- Copies of CAC oversight reports;
- Copies of third-party reviewer reports;
- Oversight statistics annually;
- A calendar of events to include CAC oversight activities, scheduling of third-party reviews and administrative site visits, and report development activities.

On October 18, 2012, the California Board of Accountancy (CBA) received a written response from the CAC (**Attachment 3**). In summary, the CAC agreed to provide the PROC with a copy of its second Annual Oversight Report, the Annual Oversight Report on the AICPA Peer Review Program, the Annual Oversight Report on the AICPA Peer Review Program National Peer Review Committee (NPRC), and the third party administrative report for NPRC. The CAC is also exploring options for allowing PROC members to observe CAC meetings.

**Comments**

CBA staff will issue the final letter approved by the PROC, monitor responses from the CAC, and provide them to the PROC when they become available.

**Fiscal/Economic Impact Considerations**

None

**Recommendation**

Staff recommends approval of the letter to the CAC.

**Attachments**

1. Draft Letter to CAC
2. PROC Letter to CAC, dated August 31, 2012
3. CAC Letter to PROC, dated October 18, 2012

**DEPARTMENT OF CONSUMER AFFAIRS**

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**DATE**

Janice Gray, CPA, CVA, Chair  
Compliance Assurance Committee  
National Association of State Boards of Accountancy  
150 Fourth Avenue North, Suite 700  
Nashville, TN 37219-2417

Dear Ms. Gray:

Thank you for responding to the California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC) letter on October 18, 2012. We look forward to receiving the reports, statistics, and calendar of events to help the PROC effectively provide oversight of the National Peer Review Committee (NPRC).

When it is available, please provide us with an update regarding your decision about allowing the PROC to attend the Compliance Assurance Committee (CAC) teleconference meetings. We look forward to working closely with the CAC to continue to improve the effectiveness of peer review in California and nationwide.

If you have any questions or concerns, please contact Julie Morrow, Peer Review Analyst, at (916) 561-1762 or [julie.morrow@cba.ca.gov](mailto:julie.morrow@cba.ca.gov).

Sincerely,

Nancy J. Corrigan, CPA, Chair  
Peer Review Oversight Committee

c: Leslie LaManna, CPA, President, California Board of Accountancy  
Patti Bowers, Executive Officer, California Board of Accountancy

# DRAFT



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August 31, 2012

Janice Gray, CPA, CVA, Chair  
Compliance Assurance Committee  
National Association of State Boards of Accountancy  
150 Fourth Avenue North, Suite 700  
Nashville, TN 37219-2417

Dear Ms. Gray:

Thank you for attending the California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC) meeting on June 15, 2012. The information you shared regarding the Compliance Assurance Committee's (CAC) role in providing oversight of the National Peer Review Committee (NPRC) was very informative in understanding the history of the NPRC and the objectives that the CAC is carrying out.

As you are aware, the PROC is legislatively mandated to provide oversight to all Board-recognized peer review program providers in California. The American Institute of Certified Public Accountants (AICPA) is authorized to administer peer reviews in California. As an AICPA administering entity, the NPRC falls under the PROC's oversight authority.

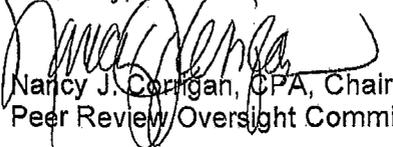
In order for the PROC to further understand the CAC's oversight process of the NPRC and in order for the PROC to make an informed decision on how best to provide oversight of the NPRC, the PROC is requesting the following information:

- Copies of CAC oversight reports;
- Copies of third-party reviewer reports;
- Oversight statistics annually;
- A calendar of events to include CAC oversight activities, scheduling of third-party reviews and administrative site visits, report development activities, etc.

The PROC would also like to attend the CAC's teleconference meetings on a regular basis. We look forward to working closely with the CAC to continue to improve the effectiveness of peer review in California and nationwide.

If you have any questions or concerns, please contact April Freeman, Peer Review Analyst, at (916) 561-1720 or [afreeman@cba.ca.gov](mailto:afreeman@cba.ca.gov).

Sincerely,

  
Nancy J. Corrigan, CPA, Chair  
Peer Review Oversight Committee

c: Marshal A. Oldman, Esq., President, California Board of Accountancy  
Patti Bowers, Executive Officer, California Board of Accountancy



National Association of State Boards of Accountancy

150 Fourth Avenue North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax 615/880-4290 ♦ Web [www.nasba.org](http://www.nasba.org)

October 18, 2012

California Board of Accountancy  
Peer Review Oversight Committee  
Nancy J. Corrigan, CPA, Chair  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815-3832

Dear Ms. Corrigan:

This correspondence is in response to your letter of August 31, 2012 to the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC).

I was pleased to attend the California Board of Accountancy Peer Review Oversight Committee (CBAPROC) and provide you with information on the history of the National Peer Review Committee (NPRC). As we discussed, this oversight process is still very much a work in progress. The process continues to be reviewed and changes made to make certain that it provides Boards of Accountancy assurance that oversight is being performed appropriately on the NPRC.

During the August 23, 2012 meeting of the CAC, a draft of your letter was reviewed by the Committee. I will address the five requests that the CBAPROC made, as follows:

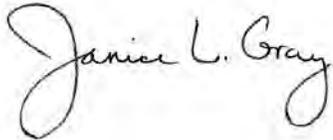
1. Copies of CAC oversight reports – The CAC will issue its second Annual Oversight Report sometime in the first quarter of 2013 and copies will be distributed to all jurisdictions in NASBA.
2. Copies of third-party reviewer reports – It is the intent of the CAC to distribute to all jurisdictions copies of the Annual Oversight Report on the American Institute of Certified Public Accountants (AICPA) Peer Review Program and the Annual Report on Oversight on the AICPA Peer Review Program National Peer Review Committee as soon as they are approved each year. These two reports for 2011 were approved at the Open session meeting of the Peer Review Board on October 9<sup>th</sup>, 2012. The third party administrative report for NPRC is in process and the report will be distributed as soon as it is made available.

3. Oversight statistics annually – The reports on oversight for the Peer Review Program and the NPRC program include numerous statistics. The CAC will also be including additional statistics in the report that will be issued in the first quarter of 2013 regarding the oversight that the two NASBA representatives perform as members of the NPRC.
4. A calendar of events to include oversight activities, scheduling of third-party reviews and administrative site visits, report development activities, etc. – The CAC does not have such a calendar. We meet telephonically 2-3 times annually and have one face to face meeting usually in August. Following are some of the projects that the Committee will be working on in the next year:
  - Recommending a strategy to promote consistency among the existing PROCs and continuing to promote the need for a mandatory program of compliance assurance to other Boards of Accountancy
  - Planning for the 2013 bi-annual PROC Summit (date not determined)
  - Reviewing responses from the 2012 Survey
  - Developing a checklist to be used by NASBA members attending NPRC meetings to provide appropriate feedback to the CAC for the preparation of the Annual Report
  - Providing a section on the NASBA website for the inclusion of appropriate PROC information
  - Exploring the possibility of having conference calls two times a year for PROC chairs for an open exchange of ideas.
5. We appreciate and understand CBAPROC's request to attend CAC teleconference meetings on a regular basis. NASBA has historically restricted its committee meetings to committee members and staff. We do, however, also recognize your oversight mandate, as well as that of other PROCs across the country. Because of this, we are exploring options with our leadership to hopefully allow the ability of the PROC to observe CAC meetings and will respond to you regarding this request upon completion of those discussions.

The CAC is committed to transparency, as evidenced above in our current initiatives. This includes the concept of periodic conference calls with PROCS. These calls will afford the opportunity for PROC chairs or other designees to ask additional questions of the CAC to fully understand its activities and deliberations and provide insight to the CAC. This would also provide a venue for information sharing amongst PROCs. And of course we are committed to continue holding our bi-annual summit for PROCs to allow for an even more in-depth exchange of best practices, as well as provide an opportunity to interact directly with the national peer review program providers and oversight bodies.

I hope this letter addresses the issues that were brought to the attention of the CAC by the CBAPROC. We will provide a further update regarding your request to observe CAC meetings in future correspondence. If we can be of further assistance, please let us know.

Sincerely,

A handwritten signature in cursive script that reads "Janice L. Gray". The signature is written in black ink and is positioned above the typed name and title.

Janice L. Gray, CPA, CVA, CFF  
Chair, NASBA Compliance Assurance Committee



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**PROC Item V.F.**  
February 22, 2013

**Discussion and Possible Action Regarding Correspondence Received  
Regarding Peer Review's Impact on Small Business**

**Presented by:** Rafael Ixta, Enforcement Chief

**Date:** January 28, 2013

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**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with correspondence between Joanne Schwarzer, CPA, and the California Board of Accountancy (CBA) so the PROC can discuss her concerns regarding the peer review program's impact on small businesses in California.

**Action(s) Needed**

Former CBA President referred the letter from Ms. Schwarzer's to the PROC for further consideration and study. After discussion, the PROC may identify any policy issues for consideration by the CBA members or may act on the recommendation made by staff.

**Background**

On October 16, 2012, the California Board of Accountancy (CBA) received a letter from Joanne Schwarzer (**Attachment 1**). In her letter, she addresses her concerns regarding the impact peer review will have on small businesses in California. On November 21, 2012, the CBA sent a letter (**Attachment 2**) to Ms. Schwarzer stating that the issues in her letter are being referred to the PROC for further consideration and study.

**Comments**

None

**Fiscal/Economic Impact Considerations**

None

**Recommendation**

Staff recommend the PROC to wait for the report due to the Legislature and Governor on the impacts of peer review on small firms. At this time it may be premature to recommend policy or legislative changes. The report is due by January 15, 2015.

**Attachments**

1. Letter from Joanne Schwarzer to CBA, dated October 16, 2012
2. Letter from CBA to Joanne Schwarzer, dated November 21, 2012

Joanne Schwarzer, CPA

41 E. Foothill Blvd., #201  
Arcadia, CA 91006

Telephone: (626) 445-8526  
Fax: (626) 737-8529

October 16, 2012

Mr. Marshal Oldman  
California Board of Accountancy  
2000 Evergreen St., Suite 250  
Sacramento, CA 95815-3832

RE: Peer review and the solo, small and part-time practitioner; request for a waiver

Dear Mr. Oldman,

This is an earnest request for reasonableness in looking at the big picture for solo, small and part-time practitioners. It feels our needs have been ignored in the wake of greed and the continuing Wall Street scandals.

Please, let's open dialogue about how you (those that monitor the CPA profession) can ease the burden on solo, small and part-time practitioners in California and elsewhere. There are some proposals out there to lighten the load, such as treating the preparation of financial statements as a nonattest function, unless a compilation engagement is agreed upon. There is much more that should be considered to lessen the demands on solo, small and part-time practitioners since the pendulum swayed towards excessive and impractical requirements that resulted from the missteps of public companies and the CPAs that serve them. Will you consider ways to minimize the regulatory requirements imposed on small practitioners, while still expecting quality service, so we can be cost effective for small businesses? This letter is requesting practicality and simplicity.

In speaking with other small CPA practitioners, they are AFRAID (and don't have time) to tell you how they are impacted by peer review, but some, sadly, just quit providing audit, review and compilation services. We should not have to FEAR being able to provide a service (and be profitable with that service) for our small clients due to unfit regulations brought about by a totally different facet of our profession. In reviewing the presentations that AICPA made to Congress, so little is focused on small businesses, yet, allegedly, it is a key component of the American economy. Statistics are given later in this letter from the Small Business Administration. I am awaiting statistics on how many small CPAs provide only tax services (more than likely because they fear all the red tape in dealing with attest functions.)

The problems that created the need for peer review are deeper than trying to "catch the thief" or at least make him/her responsible for his/her actions. Humans have insecurities that erroneously lead them to believe that "things and dollars" measure their self-worth. TV reflects a society that has rotted to "Real Housewives" hell. Relationships and responsibility are the true stuff of real business and real life. A lack of social responsibility, a focus on total efficiency and the not-so-almighty bottom line seems to be taking us on a path of being just another third world nation with have and have-nots. In a global environment, we will unlikely recapture our former sense of self unless we step back and look at the big picture. St. Francis had the intestinal fortitude to tell the most powerful man in the European world at that time that he was barking up the wrong tree. He changed the course of the Catholic Church to focus on relationships instead of gold orbs to parade with during mass. Unless humankind focuses on relationships, not money and stuff, the regulations imposed upon them will only cosmetically address the problems. The most wealthy who benefit from the indiscretions will be forgiven and all others will pay with more paperwork. How many people are in jail for not properly auditing or noting discrepancies in the mortgage records with false signatures that paved the way for the sub-prime mortgage debacle? I'm guessing none. The Ivy League graduates who came up with derivatives that separated the real asset from the mortgage and figured out how to sell them to the "savvy" investors are admired instead of being questioned as America's latest brand of charlatans. I assure you, there were no solo or small practitioners involved in the mortgage scandal. That is and was a big firm problem.

*Bottom Line: Peer review has robbed many small practitioners of part of their livelihoods and limited the offerings of many small practices.*

I will explain in detail below just one small scenario. The consequences play out in many ways, this is just my little story.

**First: Is it possible to get a waiver for a peer review and if so, may I request one?**

I run two small businesses:

- 1) a vocational school that teaches accounting
- 2) a very small, part-time CPA practice.

The CPA practice was started to fill in gaps when government funding was low for the vocational school.

I do a few tax returns and two audits:

- 1) a limited-scope 401(k) plan audit (net assets are under \$1,000,000)
- 2) a financial audit for a non-profit that has gross revenues under \$500,000 (No federal grants.)

Both, presumably, are using my services because I am cost effective and they like my services, as much as one can like an audit.

**Reason 1 for Request for a Waiver: Limited Exposure to Financial Mayhem**

Exposure is fairly limited in both of my audits, due to the size and nature of the entities. The transactions in the 401(k) plan are directed by the participants in the plan and the plan administrator would have to hack into their employees' access codes to gain access. Given that the plan is serviced by a large insurance company, it is likely there are many safeguards to prevent hacking. Yes, there are other considerations, such as timely deposit of contributions, etc., but we test for all of that as directed by the AICPA's Audit of 401(k) Plans (a very nice guide for such an audit.) We also have the Service Auditor's Report. I took two classes to be proficient in the 401(k) audit process, but also I had experience on two 401(k) audits earlier in my career at Arthur Andersen. I also took several courses in non-profit auditing and preparation of 990s to make sure my skills were current before I took on the non-profit financial audit.

**Reason 2 for Request for a Waiver: The Peer Review Cost Tallied**

Not too many peer reviewers do 401(k) peer reviews, but that may not affect the price in the grand scheme.

- 1) Cost of trying to find the peer reviewer, not a lot, but time is money.
- 2) Of the one willing and able to do the peer review, \$3000-\$4000 was quoted for peer review.
- 3) Optional: The eight-hour course on how to get ready for a peer review...time is money.
- 4) Cost to get ready/organize/present for the peer review...time is money.
- 5) Cost of the time you are not selling or billing for time spent on 1), 3) and 4).
- 6) Cost to the organization/entity that is required to have the audit. The more companies spend on audits, the less money they have to serve their mission or to produce their products or to serve their customers. Keeping the costs low matters to our small businesses.

I only charge \$11,500 in total for both audits annually. Here are some expenses to consider:

- 1) Continuing education
- 2) Audit tools
- 3) Staff time and training
- 4) Rent and other operating expenses (allocated based on audit time, granted, not a lot, this is more for drama)
- 5) Peer review
- 6) What's left?

**Who peer reviews affect:**

There are probably many stay-at-home parents and senior citizens that have audit backgrounds that may find doing small audits a good way to work out of their homes and produce income. Some tax practitioners may have audit backgrounds and could enhance their practices with attest work. **As mentioned, the peer review process HAS taken away work opportunities for the very small or part-time practitioner. Did you intend for this to happen?**

Additionally, the small businesses that need the attest services are impacted. They need to watch every penny.

**Is it time for those who monitor the industry to revisit or step up the pace on the concepts of risk assessment and materiality as it pertains to the industry? Is it time to step up the pace to have different rules for small firms who support small businesses and larger firms who support SEC clients?**

Small and sole practitioners do not generally contribute to the debacles that bring down the financial systems of the world. Small practitioners serve an entirely different world, which is supposedly a key component of the American economy per the following. It would seem practical that there should be some \$ threshold at which certain procedures and regulations do not apply. Is there a better balance between over-regulation and "buyer beware?"

#### **Small business statistics**

Per the US Small Business Administration, small businesses:

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.
- Generated 65 percent of net new jobs over the past 17 years.
- Create more than half of the nonfarm private GDP.
- Hire 43 percent of high tech workers ( scientists, engineers, computer programmers, and others).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.5 percent of all identified exporters and produced 31 percent of export value in FY 2008.
- Produce 13 times more patents per employee than large patenting firms.

While the cost of a peer review can be absorbed over many large clients in a large firm with a relatively small impact on pricing, they cannot in a small firm. It causes small firms to not take engagements they otherwise could handle. I feel that pleas from small practitioners for reasonableness are being ignored. Perhaps we are not vocal enough, we are compliant by nature.

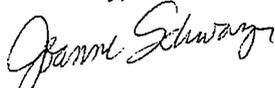
#### **Finally, the list of things California does (possibly, inadvertently) to discourage small business is comprehensive.**

I would be happy to talk with you regarding the diverse and multiple demands on small business owners in California. If peer review was all we had to address in our spare time, maybe it would be ok, but it is NOT all that is required of us. An example: at my office, two inches of paperwork has been generated from EDD for hiring a part-time employee. EDD wants to apply some of her unemployment claim against my company, since she was claiming unemployment benefits prior to me hiring her on a part-time basis. This paperwork requires me to report the hours worked by this employee and her last day of employment each time she is not working at my office for a time. There are a lot of stop/starts for which to account? Am I not able to hire a part time employee who happened to be on unemployment because of being laid off from a different job without all this extra paperwork? Was it worth it to be honest and treat her as an employee vs. independent contractor? NO. I haven't figured out how to turn off EDD's spigot. I responded over and over, but the reports kept/keep coming. The employee is allowed to draw unemployment as needed, but somehow I got wrapped up in EDD's work sharing concept and have not found a way out of this paperwork quagmire.

The hours spent to be licensed as a CPA and run a vocational school is enough to discourage most people from doing what I do. Sadly, it is probably just as hard for one person to go out and try to mow lawns in California, at least to do it legally. Please think about that last statement, because it embodies the challenges that the simplest (but not the least important) of professions faces trying to be self-employed in California.

Please let me know how I can help you and small practitioners find a reasonable compromise on regulatory requirements. Thank you for your consideration in this matter.

Sincerely,



Joanne Schwarzer

cc: Governor Jerry Brown  
Lieutenant Governor Gavin Newsom, (Organize for Success-thank you, we need this badly)  
Assemblymember Anthony Portantino  
Barry Melancon, President and CEO of AICPA  
Patti Bowers, California Board of Accountancy



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November 21, 2012

Attachment 2

Joanne Schwarzer, CPA  
41 E. Foothill Blvd, #201  
Arcadia, CA 91006

Dear Ms. Schwarzer:

Thank you for contacting the California Board of Accountancy (CBA) concerning your firm's peer review requirements. Specifically, you indicate that you are a small firm that performs two audits annually and request a waiver from the peer review requirement. Your justification for the waiver includes limited exposure to financial mayhem and the cost of peer review. Additionally, you requested the CBA's assistance regarding the mandatory peer review requirements for small CPA accounting firms.

Pursuant to Business and Professions (B&P) Code Section 5076, all firms are required to have a peer review of their accounting and auditing practice in order to renew their California CPA license. The only exclusions from peer review are specified in California Code of Regulations Section 42, and include any of a firm's engagements that are subject to inspection by the Public Company Accounting Oversight Board and firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provisions of the Statements on Standards for Accounting and Review Services (SSARS).

Based on the above information, your firm is required to undergo a peer review. If you have not already done so, you must enroll in the AICPA Peer Review Program. The California Society of Certified Public Accountants (CalCPA) and the National Peer Review Committee (NPRC) administer the AICPA Peer Review Program in California. Enrollment forms are available on CalCPA's website at [www.calcpa.org](http://www.calcpa.org) or AICPA's website at [www.aicpa.org](http://www.aicpa.org). The CalCPA can also be contacted by telephone at (650) 522-3094 or by e-mail at [peerreview@calcpa.org](mailto:peerreview@calcpa.org).

As I referenced in my October 22, 2012, acknowledgement letter, your concerns were forwarded to Marshal A. Oldman, Esq., President of the CBA. At his request, the issues identified in your letter are being referred to the CBA's Peer Review Oversight Committee (PROC) for further consideration and study.

Mandatory peer review is part of the CBA's commitment to consumer protection by enhancing the quality of accounting services in California. I would like to highlight that during the enactment of the peer review legislation (Assembly Bill 138), the California Legislature considered the effects of the peer review requirements on small business; both the accounting firms and their clients. In doing so, the Legislature requires the CBA to report to the Legislature and Governor by January 15, 2015 on the impacts of peer review on small firms. Specifically, the report will include the following:

- A recommendation as to whether the mandatory peer review program should continue.
- The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
- The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.
- The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.
- A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

Thank you for letter and for providing insight into the mandatory peer review requirements for small CPA accounting firms. As the PROC reviews your concerns we will contact you should additional information be needed. If you need any additional assistance regarding the process to complete peer review, please contact Julie Morrow, Peer Review Analyst, at (916) 561-1706 or [jmorrow@cba.ca.gov](mailto:jmorrow@cba.ca.gov).

Sincerely,



Patti Bowers  
Executive Officer

PB:af