

California Board of Accountancy

Peer Review Oversight Committee (PROC) Meeting

November 1, 2013



10:00 a.m. – 1:00 p.m.

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, California 95815
(916) 263-3680



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

**PROC MEETING
NOTICE & AGENDA**

**Friday, November 1, 2013
10:00 a.m. – 1:00 p.m.**

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, California 95815
(916) 263-3680

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 Corrigan, Chair**).
 - II. Report of the Committee Chair (**Nancy Corrigan**).
 - A. Approval of the August 23, 2013 PROC Minutes.
 - B. Report on the September 26-27, 2013 CBA Meeting.
 - III. Report on PROC Activities (**Nancy Corrigan**).
 - A. Report on the September 24, 2013 Report Acceptance Body Meeting.
 - B. Assignment of Future PROC Activities.
 - IV. Reports and Status of Peer Review Program (**April Freeman, CBA Staff**).
 - A. Updates on Peer Review Reporting Forms Received and Correspondence to Licensees.
 - B. Status of PROC Roles and Responsibilities Activity Tracking.
- Break.**
- V. Report of the Enforcement Chief (**Rafael Ixta, Enforcement Chief**).
 - A. Development of the 2013 Annual Report to the CBA.
 - B. Discussion Regarding the PROC Oversight Checklist on Out-of-State Administering Entities.
 - C. Discussion of the PROC Letter to the American Institute of Certified Public Accountants Regarding the Oversight of Out-of-State Administering Entities.

- D. Discussion Regarding the Compliance Assurance Committee's Response to the PROC's September 24, 2013 Letter on the Oversight of the National Peer Review Committee.
- E. Discussion Regarding Materials from the July 10, 2013 National Association of State Boards of Accountancy PROC Summit.
- VI. Future Agenda Items (**April Freeman**).
- 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 April Freeman at (916) 561-1720, or by email at afreeman@cba.ca.gov, or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

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

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

Approval of the August 23, 2013 PROC Minutes

- Draft minutes of the August 23, 2013 PROC meeting.



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PROC Item II.A.
 November 1, 2013

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

**MINUTES OF THE
 AUGUST 23, 2013
 PROC MEETING**

Hyatt Place Ontario
 4760 E. Mills Circle
 Ontario, CA 91764

I. Roll Call and Call to Order.

PROC Chair Nancy Corrigan called the meeting to order at 9:32 a.m. on Friday, August 23, 2013. The meeting adjourned at 11:32 p.m.

PROC Members:

August 23, 2013

Nancy Corrigan, Chair	9:32 a.m. – 11:32 p.m.
Robert Lee, Vice Chair	9:32 a.m. – 11:32 p.m.
Katherine Allanson	9:32 a.m. – 11:32 p.m.
Jeffrey DeLyser	9:32 a.m. – 11:32 p.m.
Sherry McCoy	9:32 a.m. – 11:32 p.m.
Seid M. Sadat	9:32 a.m. – 11:32 p.m.

Staff:

Rafael Ixta, Chief, Enforcement Division
 Sara Narvaez, Enforcement Manager
 April Freeman, Peer Review Analyst
 Alice Tran, Peer Review Analyst

Other Participants:

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

II. Report of the Committee Chair.

A. Approval of June 21, 2013 Minutes.

Ms. Corrigan asked if members had any edits to the minutes of the June 21, 2013 PROC meeting. Robert Lee stated that Item E should read that the PROC “will be” able to obtain a copy of the American Institute of Certified Public Accountants’ (AICPA) oversight report. Ms. Corrigan requested that Item C should clarify that the PROC had not met since her last report to the CBA, and that Mr. Lee was appointed at the PROC’s Vice Chair at a previous CBA meeting. Several other minor edits were made.

It was motioned by Seid Sadat, seconded by Katherine Allanson, and unanimously carried by those present to accept the revisions and adopt the revised minutes of the June 21, 2013 PROC meeting.

B. Report on the July 25, 2013 CBA Meeting.

Ms. Corrigan stated that she and Mr. Lee attended the July 24, 2013 CBA meeting. She introduced Mr. Lee as the PROC's Vice Chair and Mr. Lee gave the PROC report to the CBA members. Mr. Lee advised members that his report to the CBA included oversight activities that had occurred since the PROC's previous report, recommendations from PROC Taskforce in response to comments from the voluntary peer review survey, the percentage of CPAs that were subject to peer review based on staff research, and future agenda items and projects.

Ms. Corrigan advised members that Sherry McCoy was appointed as the PROC's next Vice Chair, effective January 1, 2014. She added that the CBA is striving to further define the role of CBA member liaisons with all committees.

Mr. Ixta advised members that the CBA's Taskforce to Examine Experience for CPA Licensure is reviewing the present experience requirements and may make a possible recommendation regarding changes to the type of experience that is required.

III. Report on PROC Activities.

A. Report on the July 10, 2013 PROC Summit in Nashville, TN.

Mr. Lee stated that he observed the Summit via webcast as out-of-state travel was not authorized. He stated that questions submitted in advance were discussed during the webcast, but questions could not be submitted online during the meeting. Mr. Lee stated that one of the more important aspects of the Summit is the opportunity for networking.

Linda McCrone stated that she attended the Summit and would look into providing PROC members with the materials.

B. Report on the July 25, 2013 CalCPA Advanced Peer Review Class.

Mr. Sadat stated he attended the July 25, 2013 CPA Advanced Peer Review Class. He stated the instructor, Marsha Hein, has a wealth of knowledge. He added that the training was not as well attended as other courses he has attended, although he did see some very seasoned peer reviewers in attendance. Mr. Sadat stated that many peer reviewers are not aware that the CBA is reviewing all failed peer reviews reports.

Ms. McCrone stated that she will remind peer reviewers of the issue with failed peer reviews. She also stated that this year, the class was given in two locations, which may have contributed to the low attendance.

C. Report on the August 14, 2013 AICPA Peer Review Board (PRB) Meeting.

Mr. DeLyser stated that he attended the meeting via teleconference; however, it would have been easier to get a sense of what was going on had he attended in person. He

stated that the discussions were good. There was discussion on confidentiality and how it affects many aspects of peer review. There was also a discussion on having CPAs join an AICPA Quality Center as a corrective action, and whether that was self-serving of the AICPA. Ultimately, the AICPA Peer Review Board decided it was okay.

Ms. McCoy added that the perception was that joining the AICPA Quality Center was the only option for correction action, but there is also an option for CPAs to take additional continuing education. She believes the idea would be better received if there were research to show that joining the AICPA Quality Center was an effective means of improvement.

Ms. McCrone stated that this issue will be discussed at the November 2013 CalCPA Peer Review Committee (PRC) meeting, and added that most peer reviewers recommend that clients join an AICPA Quality Center.

D. Report on the August 21, 2013 CalCPA Report Acceptance Body (RAB) Meeting.

Mr. Sadat attended the August 21, 2013 CalCPA RAB meeting and stated it was the shortest RAB meeting he's ever attended. The meeting lasted 13 minutes and 15 reports were reviewed. He reiterated that the RAB members are very familiar with the individual peer reviewers.

E. Assignment of Future PROC Activities.

Ms. Corrigan confirmed the following assignments:

- September 24, 2013, 2:00 p.m. CalCPA RAB meeting – Nancy Corrigan & Katherine Allanson.
- September 26-27, 2013, CBA Meeting – Nancy Corrigan.
- November 21-22, 2013, CalCPA PRC Meeting – Robert Lee & Jeffrey DeLyser.
- November 21-22, 2013, CBA Meeting – Nancy Corrigan.

Ms. Allanson requested that staff advise PROC members of the date and time of Ms. Corrigan's report to the CBA.

F. Discussion Regarding Proposed PROC Meeting Dates for 2014.

After discussion, PROC members agreed to amend the proposed 2014 PROC meeting dates to be back-to-back with the Enforcement Advisory Committee (EAC) meetings since the committees have four members in common.

The revised 2014 PROC meeting dates are:

January 31, 2014 – Northern California
May 2, 2014 – Southern California
August 22, 2014 – Northern California
December 10, 2014 – San Diego (late start)

It was motioned by Katherine Allanson, seconded by Seid Sadat, and unanimously carried by those present to accept the 2014 PROC meeting dates as revised.

IV. Reports and Status of Peer Review Program.

A. Updates on Peer Review Reporting Forms Received and Correspondence to Licensees.

Ms. Freeman reported that as of as of July 24, 2013, 58,455 peer review reporting forms have been submitted to the CBA.

Ms. Freeman advised members of the status of licensees in phase one who have not yet reported, and that staff is reviewing each licensee to determine if further enforcement action is required.

Ms. Freeman also advised members that on September 1, 2013, 4,126 letters will be sent to licensees in phase three that did not report their peer review information to the CBA by July 1, 2013.

B. Status of PROC Roles and Responsibilities Activity Tracking.

Ms. Freeman stated that the activity tracking chart for 2013 has been updated to capture recently attended activities and upcoming events.

V. Report of the Enforcement Chief

A. Discussion Regarding the Creation of a PROC Oversight Checklist to Analyst Peer Reviews Accepted by Out-of-State Administering Entities.

Mr. Ixta stated that staff selected the four states that accepted more than ten peer reviews of California-license firms. Those states are Nevada, New York, Oregon, and Texas. CBA staff reviewed the AICPA's oversight reports for these four states and developed a checklist to provide oversight to out-of-state administering entities. Mr. Ixta requested feedback on the checklist.

Ms. McCoy offered several edits, including adding a space for comments on questions three through six, eleven, and twelve.

It was motioned by Seid Sadat, seconded by Robert Lee, and unanimously carried by those present to approve the Summary of Oversight of Out-of-State Peer Review Administering Entity Checklist with revisions.

Mr. Ixta suggested that the PROC Chair assign members to review out-of-state administering entities at the next PROC meeting. Ms. McCrone recommended that the PROC advise the AICPA of their plans to provide oversight of out-of-state administering entities.

Ms. Corrigan reiterated that although only a very small percentage of firms use out-of-state administering entities, the PROC needs to comply with its legislative mandate.

Members agreed that relying on AICPA and state-level oversight is sufficient to meet the PROC's oversight mandate.

It was motioned by Seid Sadat, seconded by Robert Lee, and unanimously carried by those present to make the final version of the Summary of Oversight of Out-of-State Peer Review Administering Entity checklist available at the next PROC meeting, along with a draft letter to the AICPA regarding oversight of out-of-state administering entities.

Mr. Lee requested that all of the oversight checklists be converted to a fillable format.

- B. Discussion of Letter to the Compliance Assurance Committee Regarding the Status of the Oversight of the National Peer Review Committee.

Mr. Ixta reviewed and requested feedback on the draft letter to the National Association of State Boards of Accountancy's Compliance Assurance Committee (CAC) regarding the status of the oversight of the National Peer Review Committee (NPRC).

Members did not have any revisions to the letter. Staff will finalize the letter and submit it to Ms. Corrigan for signature.

- C. Discussion on the Recommendations of the Task Force Created to Review the Voluntary Peer Review Survey.

Mr. Ixta advised members that in response to the Task Force's recommendation, staff created a simple flow chart of the peer review process and made proposed edits to two CBA publications.

In the Peer Review Brochure, several members stated that a peer review is designed to ensure that firms are in compliance with standards, but not necessarily to assist the firm in finding better ways to provide services. Mr. Lee suggested the language under the *Peer review promotes knowledge* paragraph be changed to read, "A peer review provides firms an opportunity to ensure that firms are in compliance with rules and regulations governing the services that are being provided."

Mr. Lee also suggested that the term "tax practice" be changed to read "a tax only practice."

In the Consumer Assistance Booklet, it was suggested that references to substandard peer review should include language stating, "also referred to as 'fail'."

On the flow chart, members recommended that a footnote be added to Statements on Standards for Accounting and Review Services (SSARS) to clarify that firms performing only compilations where no report is issued are not required to undergo peer review.

It was motioned by Katherine Allanson, seconded by Seid Sadat, and unanimously carried by those present to accept the *Are You Required to Get a Peer Review* flowchart, the Peer Review Brochure, and the Consumer Assistance Booklet, as revised, and post on the CBA website.

D. Discussion Regarding AICPA's Oversight Visit Report of CalCPA.

Mr. Ixta presented the AICPA's Oversight Visit Report of CalCPA. He requested comments from members. He added that there is a third page that was not in the meeting materials. The entire report will be emailed to all PROC members. If any members have comments, this item can be revisited at the next PROC meeting.

Ms. McCrone stated that AICPA report did not include any findings.

E. Discussion Regarding the Status of the Confidentiality Letter Signed by All PROC Members.

Mr. Ixta stated that all members, including new member Jeffrey DeLyser, have signed the confidentiality letter. A copy of the confidentiality letter is included in the PROC Procedures Manual.

F. Discussion and Revisions to the PROC Procedures Manual.

Mr. Ixta reviewed the revisions to the PROC Procedures Manual that were requested by members at the last PROC meeting. He gave a summary of the revisions and requested feedback from members.

The only additional edit was to remove the first sentence in Section I, paragraph E since it is duplicative of the last sentence in paragraph E.

Mr. Lee questioned whether changes were made to the Summary for Administrative Site Visit checklist to include the random samplings of peer review reports. Mr. Ixta stated that no changes were made to that checklist, but that he would check to see if revisions were requested. If revisions were requested, this issue can be addressed at the next meeting.

G. Discussion of Travel and Reimbursement Rates Effective July 1, 2013.

Mr. Ixta gave an overview of new lodging and per diem rates effective July 1, 2013. He emphasized that the rates for individual meals will change again on September 1, 2013.

VI. Future Agenda Items.

Future agenda items include:

- Draft 2013 PROC Annual Report
- Summary of Oversight of Out-of-State Peer Review Administering Entity and draft letter to AICPA
- Administrative Site Visit Checklist, if necessary

VII. Public Comment for Items Not on the Agenda.

Ms. McCrone advised that she received approval to hire another peer review administrator.

Mr. Ixta introduced Alice Tran, the new Peer Review Analyst. He also advised that the Enforcement Unit will be investigating two firms that were terminated from CalCPA's Peer Review Program for failing to comply with corrective actions.

VIII. Adjournment.

There being no further business, Ms. Corrigan adjourned the meeting at 11:32 a.m. on Friday, August 23, 2013.

Nancy J. Corrigan, CPA, Chair

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

Assignment of Future PROC Activities

- 2014 Year-at-a-Glance CBA PROC Calendar, updated October 10, 2013.



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PROC Item III.B.
November 1, 2013

Assignment of Future PROC Activities

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

Date: October 10, 2013

Purpose of the Item

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

Action(s) Needed

It is requested that all members bring their calendars to the November 1, 2013 PROC meeting and be prepared to accept assignments.

Background

None.

Comments

The PROC's 2014 Year-at-a-Glance calendar (**Attachment**) 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

In addition, the PROC chair will assign members to review the AICPA oversight report for New York, Nevada, Oregon, and Texas.

Fiscal/Economic Impact Considerations

None.

Recommendation

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

Assignment of Future PROC Activities

Page 2 of 2

Attachment

2014 Year-at-a-Glance CBA PROC Calendar, updated October 10, 2013.

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)
2014 Year-at-a-Glance Calendar**
(as of October 10, 2013)

JANUARY 2014

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 T-2pm	23 1-9/2 SC	24 SC	25
26	27 TC	28	29	30	31 NC	

FEBRUARY 2014

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 T-9/2	26 T-9am	27	28	

MARCH 2014

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

APRIL 2014

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 T-9/2	24	25	26
27	28	29	30			

MAY 2014

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

JUNE 2014

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					

JULY 2014

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 2014

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

SEPTEMBER 2014

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 SC	19 SC	20
21	22	23 DU	24	25	26	27
28	29	30				

OCTOBER 2014

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 2014

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 NC	22
23	24	25	26	27	28	29
30						

DECEMBER 2014

S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10 SD	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
 - LV** - LAS VEGAS
 - DE** - DENVER
 - DU** - DURHAM

- 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

Reports and Status of Peer Review Program

- PROC Roles and Responsibilities Activity Tracking 2013, as of September 25, 2013



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PROC Item IV.
 November 1, 2013

Reports and Status of Peer Review Program

Presented by: April Freeman, CBA Staff

Date: September 24, 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 September 24, 2013, 60,655 peer review reporting forms (PR-1) 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	2,580	4,298	15,734	22,612	326
34-66	7/1/12	2,103	3,997	13,071	19,171	997
67-00	7/1/13	1,829	3,728	13,315	18,872	1,991
		6,512	12,023	42,120	60,655	2,966

Reports and Status of Peer Review Program

Page 2 of 2

The breakdown of the 326 licensees in phase 1 who need to report is as follows:

- 61 Issued a citation in 2012
- 197 Issued a citation in 2013
- 64 Referred to Enforcement
 - 2 Peer review was done and a letter was sent to follow up on the PR-1
 - 2 Other

Peer review staff will review the above information and determine whether further enforcement action is required.

Correspondence to Licensees

Peer review staff mailed 4,146 letters to licensees who have not met their July 1, 2013 peer review reporting obligation. These licensees will have 30 days to file the required form. Licensees who fail to file the required peer review reporting form will be subject to a citation and fine.

The Licensing Division mailed a letter to 33,500 licensees the week of September 23, 2013. The letter addresses regulatory changes that take effect January 1, 2014. These changes include the new fingerprinting requirement, peer review reporting, and changes to the Fraud continuing education requirement.

B. Status of PROC Roles and Responsibilities Activity Tracking

The Roles and Responsibilities Activity Tracking chart has been updated to reflect 2013 activities (**Attachment**).

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachment

PROC Roles and Responsibilities Activity Tracking 2013, as of September 25, 2013.

Peer Review Oversight Committee (PROC) Roles and Responsibilities

Attachment

Activity Tracking – 2013

As of September 25, 2013

Activity*	Notes
<p>PROC MEETINGS</p> <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meeting Held: 2/22, 6/21, 8/23 PROC Meetings Scheduled: 11/1
<p>ADMINISTRATIVE SITE VISIT</p> <ul style="list-style-type: none"> Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	<ul style="list-style-type: none"> California Society of Certified Public Accountants (CalCPA) Administrative Site Visit Held: 5/15-16
<p>PEER REVIEW COMMITTEE MEETING</p> <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	<ul style="list-style-type: none"> Attended: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Meeting 1/25, 5/7, 8/14 Attended: CalCPA Peer Review Committee (PRC) Meeting 5/9-10 Scheduled: CalCPA PRC Meeting 11/21-22
<p>PEER REVIEW SUBCOMMITTEE MEETING</p> <ul style="list-style-type: none"> Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports. Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Attended: CalCPA Report Acceptance Body (RAB) Meetings 5/9, 8/21, 9/24 Scheduled: CalCPA RAB Meetings 11/22
<p>REVIEW SAMPLING OF PEER REVIEWS</p> <ul style="list-style-type: none"> Perform sampling of peer review reports. 	<ul style="list-style-type: none"> CalCPA Administrative Site Visit Held: 5/15-16
<p>PEER REVIEWER TRAINING</p> <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Attended: Advanced Training Course 5/8, 7/25
<p>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</p> <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	<ul style="list-style-type: none"> Pending receipt of application
<p>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY</p> <ul style="list-style-type: none"> Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program. 	<ul style="list-style-type: none"> Scheduled: November 1, 2013 (draft) Scheduled: March 20-21, 2014 (final)
<p>ADDITIONAL ACTIVITIES</p>	<ul style="list-style-type: none"> Attended NASBA PROC Summit (webcast): 7/10

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

Development of the 2013 Annual Report to the CBA

- Draft 2013 PROC Annual Report to the CBA



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PROC Item V.A.
November 1, 2013

Development of the 2013 Annual Report to the CBA

Presented by: Rafael Ixta, Chief of Enforcement

Date: September 27, 2013

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with a draft of the 2013 Annual Report to the California Board of Accountancy (CBA).

Action(s) Needed

It is requested that the PROC review the draft 2013 Annual Report (**Attachment**) and provide edits and/or direction to CBA staff.

Background

At its August 23, 2013 meeting, PROC members directed staff to make updates to the 2012 Annual Report and provide a version with track changes for review at the PROC's next meeting.

Comments

The PROC 2013 Annual Report will be presented to the CBA at its March 2014 meeting.

Fiscal/Economic Impact Considerations

None.

Recommendations

None.

Attachment

Draft 2013 PROC Annual Report to the CBA



CALIFORNIA BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT COMMITTEE
~~2012~~2013 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. ~~At the time the legislation passed, 41 other jurisdictions had already implemented a peer review requirement.~~

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 Business and Professions Code (BPC) section 5076.1. ~~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:~~

The ~~following~~ roles and responsibilities of the PROC are: ~~have been approved by the CBA:~~

- 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 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.

Five of the seven PROC members were reappointed to the PROC for their second term. In order to address succession planning concerns, to create varying member term expiration dates, and to all allow new members to be appointed to the PROC, two members were rotated off the PROC. Further, the position of the Vice Chair was created and Robert Lee was appointed. His term as the Vice Chair will expire on December 31, 2013. Sherry McCoy was appointed Vice Chair effective January 1, 2014. Nancy Corrigan was reappointed as the Chair for another year. Jeffery DeLyser was appointed to the PROC On March 21, 2013.

<u>Current members:</u>	<u>Term Expiration Date:</u>
Nancy Corrigan, CPA, Chair, <u>2nd</u>	May 24, <u>2013</u> <u>2015</u>
Robert Lee, CPA, Vice Chair, <u>2nd</u>	May 24, <u>2013</u> <u>2015</u>
Katherine Allanson, CPA, <u>2nd</u>	May 24, <u>2013</u> <u>2015</u>
Gary Bong, CPA	December 31, 2012
T. Ki Lam, CPA	December 31, 2012
<u>Jeffrey DeLyser, CPA, 1st</u>	<u>March 21, 2015</u>
Sherry McCoy, CPA, <u>2nd</u>	May 24, <u>2013</u> <u>2015</u>
Seid Sadat, CPA, <u>2nd</u>	May 24, <u>2013</u> <u>2015</u>
<u>Vacant</u>	

V. Legislation and Regulations

Effective January 1, 2013, BPC section 5076 was amended to allow licensees to renew their license into an inactive status without having a peer review. A peer review is required prior to the licensee converting or renewing back to an active status.

Effective January 1, 2014, On July 26, 2012, the CBA adopted regulations modifying Title 16, California Code of Regulations (CCR), Ssections 40 and 45 were revised to require- ~~The proposed changes would replace the initial phase in reporting dates with the requirement that~~ licensees to report specific peer review information on the Peer Review Reporting Form at the time of renewal. The revised 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 regulations will be approved by the Office of Administrative Law in June or July of 2013 and would become effective on January 1, 2014.~~

VI. Reporting Requirements

Pursuant to ~~B&P Code, S BPC~~ 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 willing 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/~~4012~~)) 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 had~~ 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					
34-66	July 1, 2012					
67-00	July 1, 2013					
Total						

* Data as of December 31, 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~~, and 2013.

Peer Review Reports Accepted by the CalCPA*				
Type of Review	2011	2012	2013	Total
System				
Engagement				
Total				

*Data received from CalCPA as of December 31, 2013.

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.~~ The PROC created a task force comprised of two PROC members to review the survey comments collected through September 18, 2012. The task force reviewed 339 comments submitted by peer review firms largely in response to the following survey questions:

- Do you believe that undergoing peer review has helped to improve your overall service to your clients?
- Do you, or will you, use peer review as a marketing tool to potential clients?
- To eliminate the need for future peer review, will you cease providing the services which trigger a mandatory peer review under the law?
- Do you have any additional comments on the peer review process?

Based on the review of the responses, the task force made the following recommendations:

1. Provide more education on the benefits of peer review.
2. Provide more education on the concept that a CPA's primary objective is to protect the public interest.
3. Provide a simple chart showing the chronology of the peer review process.
4. CalCPA should continue to remind peer reviewers about the best approach to the peer review process when working with firms.

The recommendations of the task force were implemented by revising CBA publications and creating an easy to follow flow chart of the peer review process to post to the CBA website.

~~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.~~

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 [CPA](#) society in that state.

X. Activities and Accomplishments

Following are the salient activities and accomplishments during the PROC's third 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~~ four 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~~
- February 22, 2013 – Glendale
- June 21, 2013 – Sacramento
- August 23, 2013 – Ontario
- November 1, 2013 – Sacramento

The PROC Chair attended six CBA meetings to report on PROC activities. In her absence, she prepared written reports that were presented to the CBA by the PROC Vice Chair Enforcement Chief.

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~~ procedures for providing oversight of other states' peer review programs, an updated copy of the AICPA's Glossary of Terms, Acronyms, and Abbreviations, a revised organizational chart, the removal of the Summary of Sample Reviews checklist, and the addition of the Summary of Oversight of Out-of-State Administering Entities checklist.

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 new checklists ~~were~~ was created to track oversight activities:

- Summary of Oversight of Out-of-State Administering Entities (Appendix A)
- ~~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
- Summary of Peer Reviewer Training Course (Appendix B)
- Summary of Peer Review Board Meeting (Appendix C)
- Peer Review Program Providers

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.iv. 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~~ has a checklist to evaluate applications ~~(Appendix D)~~.

~~vi.v. 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 2013, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, 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. One to two PROC members observed each of the following PRB meetings primarily via teleconference. However, the January 25, 2013 meeting was held in San Diego and it was attended in person:

- ~~January 20, 2012~~
- ~~May 8, 2012~~
- ~~August 8, 2012~~
- ~~October 9, 2012~~
- January 25, 2013
- May 7, 2013
- August 14, 2013

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.

Two PROC members attended each of the following PRC meetings:

- ~~April 26, 2012 – San Mateo~~
- ~~November 15-16, 2012 – Yountville~~
- May 9-10, 2013 – San Diego
- November 21-22, 2013 – 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.

One to two 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~~
- May 9, 2013 – in person
- August 21, 2013 – teleconference
- September 24, 2013 – teleconference
- November 22, 2013 – 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~~ May 15-16, 2013, 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 CCR, Title 16, section 48.

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

- Review policies and procedures utilized by CalCPA to govern its peer review program process;
- Read correspondence and other available documentation from other oversight activities performed at CalCPA;
- Review the Report Acceptance Body assignment binder;
- Select a sample of peer review reports and associated files for review;
- Discuss the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and select a sample for inspection of resumes and other documentation.
- ~~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~~ This oversight activity was completed ~~on in February 16, 2012~~ May 15-16, 2013, 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~~ each year.

PROC members attended the one-day training course *AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers* on May 8, 2013 and July 25, 2013, ~~and the two-day training course *How to Conduct a Review Under the AICPA Practice-Monitoring Program* on July 22-23, 2013.~~

F. CalCPA Annual Report on Oversight

The AICPA requires that each administering entity perform oversight of their peer review program every other year, alternating with the year that AICPA conducts its oversight visit. CalCPA's Peer Review Administrative Committee (PRAC) monitors the oversight process. Each member of the PRAC has been approved by the Council of CalCPA and has current audit experience.

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2011. The oversight report summarizes the results of the mandated oversight of 2% of all reviews processed during the year, and verification of the resumes and continuing professional education of one third of peer reviewers. For peer reviews conducted in 2011, 13 system reviews and 12 engagement reviews were subject to the oversight process. Sixty-one of 129 peer reviewer's resumes were verified by CalCPA.

G. AICPA Oversight Visit Report of CalCPA

The AICPA conducted an oversight visit of CalCPA on November 14-16, 2012. The AICPA Oversight Visit Report was issued on November 16, 2012, and accepted by the AICPA PRB Oversight Task Force on May 6, 2013. The next oversight visit will be conducted in 2014.

The PROC reviewed the report which concluded that CalCPA has complied with the administrative procedures and standards in all material respects as established by the board.

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.A. Compliance Assurance Committee (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 National Association of State Boards of Accountancy's (NASBA) CAC provides oversight of the NPRC.

The PROC has continued to work with the CAC to develop a process to provide oversight to the NPRC, including attendance at CAC teleconference meetings.

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 for the NPRC, and the third party administrative report for the NPRC. The CAC is also exploring options for allowing PROC members to observe CAC meetings. The PROC will review these reports once they are received from the CAC.

~~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.~~

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.~~

Most California-licensed firms use CalCPA or 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, meaning out-of-state CPA societies.

The PROC reviews the AICPA oversight report and the state PROC's annual report, if available, for a certain number of out-of-state administrative entities each year.

c. Other Activities

i. NASBA PROC Summit

The PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all Boards of Accountancy. The conference is intended to assist Boards in learning how to establish a new PROC and also share experiences among existing PROCs to help each Board be more effective with Peer Review Oversight. Sessions and content are formed based on the most requested information by Accountancy Board Members and PROC Members considering the goals and objectives of the CAC. The first PROC Summit was held in 2011.

The PROC requested authorization to attend NASBA's 2013 PROC Summit in Nashville, TN, on July 10, 2013. Although travel was not authorized, the PROC Vice Chair participated in the webcast. Additionally, the PROC submitted an issue paper on how failed peer reviews are treated by the CBA and submitted 13 questions for consideration and discussion by the CAC and participants of the Summit.

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.

Discussion Regarding the PROC Oversight Checklist on Out-of-State Administering Entities

- Summary of Oversight of Out-of-State Peer Review Administering Entity

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PROC Item V.B.
November 1, 2013

**Discussion Regarding the PROC Oversight Checklist on Out-of-State
Administering Entities**

Presented by: Rafael Ixta, Enforcement Chief

Date: September 24, 2013

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with the final draft of the Summary of Oversight of Out-of-State Administering Entities (AE) checklist.

Action(s) Needed

It is requested that PROC members adopt or make any necessary revisions to the checklist (**Attachment**).

Background

The American Institute of Certified Public Accountants (AICPA) is currently the only Board-recognized peer review program provider in California. The AICPA uses 41 state certified public accountant societies and the National Peer Review Committee (NPRC) as AEs to administer the AICPA Peer Review Program throughout the 55 licensing jurisdictions. As part of the AICPA's oversight of its peer review program, each AE is reviewed by the AICPA Peer Review Board Oversight Task Force at least once every other year. The objective of the review is to determine if the AE is administering peer reviews within the standards established by the AICPA.

At the June 21, 2013, PROC meeting, members discussed how to provide oversight for peer reviews administered by AEs other than the California Society of Certified Public Accountants (CalCPA) and the NPRC. It was determined that the PROC would create a task force to review AICPA oversight reports for a certain number of out-of-state AEs each year.

CBA staff obtained and reviewed AICPA oversight reports for the states of Nevada, New York, Oregon, and Texas. Staff used information contained in these materials to develop a checklist for out-of-state AEs. These states were selected for review since AEs in these states accepted more than 10 peer reviews of California licensees.

Final Review of the Summary of Oversight of Out-of-State Administering Entities Checklist

Page 2 of 2

Comments

At the August 23, 2013 PROC meeting, members adopted the draft checklist with minor revisions. CBA staff recommends additional revisions to the "Purpose" section to add clarity to the checklist. The staff also recommends elimination of the "Evaluation of the State's Peer Review Oversight Committee (or equivalent)" section of the checklist since the oversight for out-of-state PROCs may be based on laws and regulations that differ from California and may lead to inaccurate conclusions and recommendations. Staff suggests that the oversight of out-of-state AEs be limited to oversight reports issued by the AICPA. The proposed revisions are in strikeout and underlined text.

Fiscal/Economic Impact Considerations

None.

Recommendation

CBA staff recommends the PROC adopt the checklist, with the staff proposed changes.

Attachment

Summary of Oversight of Out-of-State Peer Review Administering Entity



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Peer Review Oversight Committee

Attachment

Summary of Oversight of Out-of-State Peer Review Administering Entity

Purpose: As part of its oversight activities, the Peer Review Oversight Committee (PROC) is entrusted to ensure that peer reviews are conducted in accordance with standards established by the California Board of Accountancy (CBA) and administered by the Board-recognized peer review program provider (Provider). Consistent with its legislative mandate, the PROC ~~is required to provide~~ oversight of the Provider’s out-of-state administering entities if those entities accept peer review reports ~~of California licensees pursuant to Business and Professional Code Section 5076 and CBA Regulations Sections 38-48.6. The objective of the oversight is to ensure that peer reviews conducted in other states adhere to standards established by the CBA.~~ In conducting its oversight, the PROC may review oversight reports prepared by the Provider ~~and the State’s PROC (or equivalent)~~. These matters are then summarized and reported to the CBA as part of the PROC reporting.

Date: _____

Name of State/Administering Entity: _____

Evaluation of Provider Oversight Report	YES	NO	N/A
1. Did the Provider perform an oversight visit toof the Administering Entity (AE) of this state? If so, what is the date of the oversight visit ?			
2. Was <u>Is</u> there a report available from the Provider?			
3. Were there any findings that are of concern? If yes, please list:			
4. Were there any recommendations from <u>the</u> Provider? If yes, please list:			
5. Did the AE disagree with any of the recommendations? If yes, please list:			
6. Were there any specific problems or issues? If yes, please list:			

Discussion of the PROC Letter to the American Institute of Certified Public Accountants Regarding the Oversight of Out- of-State Administering Entities

- Draft Letter to AICPA.



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PROC Item V.C.
November 1, 2013

Discussion of the PROC Letter to the American Institute of Certified Public Accountants Regarding the Oversight of Out-of-State Administering Entities

Presented by: Rafael Ixta, Enforcement Chief

Date: September 24, 2013

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with a draft letter advising the American Institute of Certified Public Accountants (AICPA) of the PROC's oversight of administering entities (AE), 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 make any necessary revisions to the draft letter (**Attachment**).

Background

On February 22, 2013, the PROC discussed oversight of peer reviews conducted by AEs other than CalCPA and NPRC, meaning out-of-state certified public accountant societies. At that time, there were approximately 137 peer reviews of California-licensed firms that were accepted by 28 different out-of-state AEs.

The PROC agreed that some level of oversight should be provided for out-of-state AEs depending on how many firms have peer reviews conducted in that state.

On June 21, 2013, the PROC Chair recommended a task force be created to review the AICPA Oversight Visit Reports of approximately 2-3 out-of-state AEs per year. Staff was directed to review AICPA Oversight Visit Reports for out-of-state AEs that accepted more than 10 peer review for California-licensed firms, and create an oversight checklist to use when reviewing reports for selected states.

Comments

At the August 23, 2013, PROC meeting, it was suggested that the PROC send a letter to the AICPA advising them of the PROC's plan to provide oversight to out-of-state AEs by reviewing various oversight reports.

Fiscal/Economic Impact Considerations

None.

**Discussion Regarding Draft Letter to AICPA Regarding
Out-of-State Administering Entities**

Page 2 of 2

Recommendation

CBA staff recommends approval of the letter.

Attachment

Draft Letter to AICPA.

**DEPARTMENT OF CONSUMER AFFAIRS**

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DATE

Attachment

Jim Brackens, Vice President
Ethics & Practice Quality
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Mr. Brackens:

The California Board of Accountancy's (CBA) Peer Review Oversight Committee (PROC) is legislatively mandated to ensure that all Board-recognized peer review program providers are administering peer reviews in accordance with the standards adopted by the CBA.

A California-licensed firm required to undergo peer review must enroll with a Board-recognized peer review program provider. The American Institute of Certified Public Accountants, Inc. (AICPA) Peer Review Program is authorized to administer peer review in California and uses various state certified public accountant societies to administer its peer review program. California-licensed firms may enroll with any of these administering entities (AEs) to be peer reviewed, including AEs that are located out-of-state.

In order to meet its legislative mandate to provide oversight of the AICPA's peer review program administered by out-of-state AEs, the PROC developed a checklist to document its oversight. The PROC oversight is based on a review of the AICPA Peer Review Program Oversight Visit Report. The PROC oversight is also based on the letter of oversight visit procedures and observations, which details the oversight procedures performed and recommendations customarily issued with the report.

Enclosed please find the Summary of Oversight of Out-of-State Peer Review Administering Entity checklist.

If you would like to discuss this issue further, you are welcome to submit a written response or attend one of the upcoming PROC meetings scheduled for January 31, 2014 or May 2, 2014.

If you have any questions, please contact Rafael Ixta, Enforcement Chief, at (916) 561-1731 or rixta@cba.ca.gov.

Sincerely,

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

Enclosure

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

DRAFT

Discussion Regarding Materials from the
July 10, 2013, National Association of State
Boards of Accountancy PROC Summit

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PROC Item V.E.
November 1, 2013

**Discussion Regarding Materials from the July 10, 2013,
National Association of State Boards of Accountancy PROC Summit**

Presented by: Rafael Ixta, Enforcement Chief

Date: October 3, 2013

Purpose of the Item

The purpose of this agenda item is to discuss the materials from the July 10, 2013, National Association of State Boards of Accountancy (NASBA) Peer Review Oversight Committee (PROC) Summit.

Action(s) Needed

It is requested that PROC members review the PROC Summit materials prior to the November 1, 2013 PROC meeting.

Background

The PROC Summit is a conference held by the NASBA Compliance Assurance Committee (CAC) every other year to support and promote Peer Review Oversight as a critical and valuable practice for all Boards of Accountancy. The conference is intended to assist Boards in learning how to establish a new PROC and also share experiences among existing PROCs to help each Board be more effective with Peer Review Oversight. The first PROC Summit was held in 2011.

The CBA requested authorization for a PROC member to attend NASBA's 2013 PROC Summit in Nashville, TN. Although travel was not authorized, the PROC Vice Chair viewed the webcast.

Comments

On September 27, 2013, CBA staff emailed PROC members a soft copy of materials from the PROC Summit received from Linda McCrone, CPA, Director of Technical Services, California Society of Certified Public Accountants. Members were also provided with the following link to view the materials online: http://nasba.org/files/2013/07/2013_PROC_Summit_eBinder.pdf.

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachment

None.