



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



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

**PROC MEETING
 NOTICE & AGENDA**

**Friday, May 6, 2011
 9:00 a.m. – 3:00 p.m.**

Red Lion Hotel
 150 Hegenberger Road
 Oakland, CA 94621
 Telephone: (510) 635-5300
 FAX: (510) 635-9661

PROC Purpose Statement

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

- | | |
|-----------|---|
| 9:00-9:05 | I. Roll Call and Call to Order (Nancy Corrigan, Chair) . |
| 9:05-9:15 | II. Report of the Committee Chair (Nancy Corrigan) .
A. Approval of the March 4, 2011 PROC Minutes.
B. Report on the March 24-25, 2011 CBA Meeting.
C. Report on the May 3, 2011 American Institute of Certified Public Accountants' (AICPA) Peer Review Board Meeting. |
| 9:15-9:30 | III. Reports and Status of Peer Review Initial Implementation (Kathy Tejada, Enforcement Manager, and April Freeman, CBA Staff) .
A. Pending Regulations Regarding Board-Recognized Peer Review Program Reporting Responsibilities (Proposed Title 16 California Code of Regulations, Section 48.3).
B. Discussion Regarding Revised Proposed Legislative Language to Extend the Sunset Date on Mandatory Peer Review.
C. Statistics of Licensees who have reported their Peer Review Information to the CBA.
D. Status of Correspondence to Licensees Regarding Peer Review Reporting and Updates to License Renewal Application. |

- 9:30-10:30 IV. Presentation Regarding Peer Review Oversight Suggested Practices **(Janice Gray, Chair of the National Association of State Boards of Accountancy's Compliance Assurance Committee, and Jim Brackens, AICPA).**
- 10:30-11:30 V. Discussion Regarding the AICPA's Peer Review Procedures **(Jim Brackens).**
- 11:30-12:00 VI. Discussion Regarding the Summaries of AICPA's Peer Review Oversight Manual, Report Acceptance Body Handbook and Administrative Manual, and the Texas State Board of Accountancy's Oversight Checklists **(Katherine Allanson and Sherry McCoy, PROC Members).**
- 12:00-1:00 **LUNCH**
- 1:00-2:00 VII. Discussion Regarding the Roles and Responsibilities Portion of the PROC Procedure Manual **(Gary Bong and Seid Sadat, PROC Members).**
- 2:00-2:30 VIII. Discussion Regarding PROC Activities and Assignments **(Nancy Corrigan).**
- 2:30-2:45 IX. Discussion Regarding Possible PROC Conflict of Interest Issues **(Rafael Ixta, Enforcement Chief).**
- 2:45-2:50 X. Future PROC Agenda Items **(April Freeman).**
- 2:50-3:00 XI. Public Comment for Items Not on the Agenda.
- XII. 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>.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



PROC Agenda Item II.A.
May 6, 2011

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

**MINUTES OF THE
March 4, 2011
PROC MEETING**

Doubletree Hotel Ontario
222 North Vineyard Avenue
Ontario, CA 91764
Telephone: (909) 937-0900

PROC Members:

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

Staff and Legal Counsel:

Patti Bowers, Executive Officer
Rafael Ixta, Chief, Enforcement Division
Kristy Shellans, Senior Legal Counsel, Department of Consumer Affairs
Kathy Tejada, Manager, Enforcement Division
April Freeman, Peer Review Analyst

Other Participants:

Sally Anderson, President, California Board of Accountancy
Linda McCrone, California Society of Certified Public Accountants (CalCPA)

I. Roll Call and Call to Order.

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

II. Report of the Committee Chair.

A. Approval of January 20, 2011 Minutes.

Ms. Corrigan asked members if they had any changes or corrections to the January 20, 2011 PROC meeting minutes. No changes were necessary.

It was motioned by Robert Lee, seconded by Katherine Allanson, and unanimously carried by those present to adopt the minutes of the January 20, 2011 PROC meeting.

B. Report on the January 27-28, 2011 CBA Meeting

Nancy Corrigan summarized her report to the California Board of Accountancy (CBA) at its January 27-28, 2011 meeting.

Patti Bowers added that the CBA had a special meeting on February 27, 2011 to discuss the proposed merger of the CBA and the Professional Fiduciaries Bureau (PFB). She stated that both the CBA and PFB are scheduled for sunset hearings in March 2011 and that legislation may be introduced that would merge the two organizations. The CBA has unanimously opposed the merger based on the potential for consumer confusion and the negative consequences of co-mingling funds.

III. Reports and Status of Peer Review Initial Implementation.

Kathy Tejada informed members that the rulemaking package modifying Section 48.3 of the CBA Regulations is currently pending approval by the Department of Consumer Affairs.

Ms. Tejada advised members that the CBA has approved two versions of legislative language to extend the sunset date for the peer review program. The first version extends the legislative report date to 2016 and sunset date on the entire peer review program to 2017. The second version removes the sunset date from the entire program and instead focuses it only on the areas of concern to the Legislature regarding other comprehensive basis of accounting (OCBOA).

Ms. Bowers added that CBA has been in negotiations with Senator Darrel Steinberg's office and has come to a tentative agreement to extend the legislative reporting date to 2015 and the sunset date on the entire program to 2016. Additional information regarding the contents of the legislative report should also be available in the Sunset Review Bill.

Ms. Corrigan requested that the PROC be kept apprised of the status.

Ms. Tejada reported that as of February 16, 2011, 13,552 licensees had reported peer review information. The breakdown is as follows: 949 firms required to undergo peer review, 2,301 firms not required to undergo peer review, and 10,302 licensees not operating as a firm.

Rafael Ixta reminded members of the voluntary peer review survey that firms are being asked to complete after submitting their peer review reporting form online. The information gathered by the survey will assist the PROC and CBA in preparing the report to the Legislature. To date, 44 peer review surveys have been submitted.

IV. Discussion Regarding PROC Goals and Objectives for 2011.

Sherry McCoy discussed the process she used to begin preparing the PROC goals and objectives. Given the tremendous amount of materials to locate and review, Ms. McCoy focused on identifying the parties involved and the broad objectives. She attempted to

draw a correlation between the checklists and the PROC's objectives. After reviewing all of the AICPA materials, she began to integrate all the information into one document which will eventually become the PROC's procedure manual. She reviewed the document with members and requested feedback.

Ms. Bowers provided feedback related to the roles and responsibilities and suggested the first entry not be "advocate for the profession." She explained that as a regulatory body, the CBA advocates for consumers. She suggested that the item be moved toward the end of the list.

Gary Bong suggested that the PROC first identify what information will be contained in the report to the CBA and let that guide the objectives. Mr. Ixta responded that the report to the CBA would likely contain the PROC's accomplishments and peer review issues that need to be addressed. Ms. McCoy suggested the development of a framework for the CBA report.

It was motioned by Sherry McCoy, seconded by Robert Lee, and unanimously carried by those present to form a subcommittee, consisting of Seid Sadat and Gary Bong, to refine the roles and responsibilities portion of the procedural manual for review by the PROC at the May 6, 2011 meeting.

V. Discussion Regarding Peer Review Oversight Activities.

A. Discussion Regarding the January 21, 2011 American Institute of Certified Public Accountants' Peer Review Board Meeting.

Ms. Corrigan reported on the January 21, 2011 AICPA Peer Review Board meeting. She stated the meeting focused on the standards and felt that any questions she may have had would have been welcomed. She asked members and staff who participated in the teleconference to give their thoughts.

Katherine Allanson stated that she had no preconceived notions of the meeting and was unaware that people from all over the country would be participating. She also noticed that the meeting was very much focused on the rules.

Mr. Ixta was surprised at the level of detail and thought the discussion at the meeting was very specific and thorough.

Linda McCrone advised members that the AICPA Peer Review Board is made up of representatives from the Big 4 accounting firms in addition to small firm representatives, CEOs of state societies, instructors, and representatives from the National Association of State Boards of Accountancy (NASBA).

B. Discussion Regarding the February 23, 2011 California Society of Certified Public Accountants' Report Acceptance Body Meeting (RAB).

Ms. Corrigan reported on the February 23, 2011 CalCPA RAB meeting. She thought the meeting was very professional and had a real sense of fairness. She asked members who participated in the teleconference to give their thoughts.

Ms. McCoy was surprised at the number of reports that the RAB reviewed. She stated it was run very efficiently. She stated that she did not need the materials to understand the process.

Ms. Allanson stated the meeting was approached from an exception basis. She stated the RAB never named the firms being reviewed and the members talked about keeping the reviews consistent. She stated that if the PROC wanted to make sure that they agreed with the RAB's decisions, they would need the materials.

Linda McCrone clarified that the RABs are made up of four Peer Review Committee members. She added that all peer review reports have gone through a technical review prior to the RAB and that most reports that go to RAB are a result of differences of opinion between the peer reviewer and the firm being reviewed.

C. Discussion Regarding the California Society of Certified Public Accountants' Peer Review Program Procedures.

Ms. Corrigan reminded members that Mr. Lee drafted a letter on behalf of the PROC to CalCPA requesting information regarding their processes and procedures. CalCPA's response was provided for discussion.

Mr. Bong and Mr. Sadat felt the response from CalCPA lacked specificity in certain areas and requested a general flowchart and/or timeline of the entire peer review process from start to finish. Ms. McCrone explained that much of the information about their processes is contained in the various AICPA manuals.

Members discussed each item listed in the request letter to determine if they were adequately addressed in CalCPA's response. During the discussion, Mr. Ixta suggested that members familiarize themselves with Section 48 of the CBA Regulations which outlines the minimum requirements of a peer review program provider. He added that the minimum requirements can be modified through the regulatory process if the PROC determines they should be increased.

Ms. Corrigan asked if members were ready to begin work again on the oversight checklists. Members preferred to gain a better understanding of the procedure manuals available through AICPA before continuing work on the checklists.

It was motioned by Seid Sadat, seconded by Gary Bong, and unanimously carried by those present to form a subcommittee, consisting of Sherry McCoy and Katherine Allanson, to review and summarize the AICPA's peer review manuals and the Texas Board of Accountancy's oversight checklists.

VI. Discussion Regarding PROC Meeting Dates and Assignments.

Ms. Corrigan asked if any members wanted to attend the March 15, 2011 or April 20, 2011 RAB teleconferences, or the June 2-3, 2011 CalCPA Peer Review Committee meeting in Southern California. Members agreed that more work should be done prior to attending additional meetings.

Ms. Corrigan asked if any members or staff wanted to participate in the May 3, 2011 AICPA Peer Review Board teleconference. Those interested included Ms. Corrigan, Mr. Ixta, and Mr. Sadat.

Linda McCrone recommended that members attend the two-day "How to Conduct a Review Under the AICPA Practice-Monitoring Program" course scheduled for July 18-19, 2011 at the Los Angeles Airport or the one-day "AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers" course scheduled for May 24, 2011 in San Mateo. Those interested in the July course included Ms. Allanson, Ms. McCoy, Mr. Lee, and Mr. Sadat. Kristy Shellans cautioned members that more than four members in one setting may violate the open meetings act. Staff will seek legal counsel on this issue.

April Freeman informed members that NASBA's Peer Review Summit has been postponed, with no tentative date or location. Staff will continue to communicate with NASBA and provide additional information to members as it becomes available.

VII. Discussion Regarding PROC Conflict of Interest Issues.

Mr. Ixta advised members that there is a question as to whether individuals that serve as peer reviewers can be members of the PROC. This situation may present a conflict of interest if committee members have a financial stake in decisions they make while providing oversight of the peer review program. He acknowledged that this topic was not addressed when the PROC was formed and the CBA was appointing members. Mr. Ixta emphasized the importance of having experienced peer reviewers on the PROC.

Mr. Ixta went on to discuss the DCA Conflict of Interest regulations and advised members that they are required to complete a Form 700 (Statements of Economic Interests). This form must be submitted upon appointment, annually thereafter, and when leaving office.

Ms. Shellans stated that the state has very substantial conflict of interest rules, regulations and statutes governing when officials have to disqualify themselves because of a conflict of interest. She advised that Ethical Decision Making Training is available for the PROC, as well as Conflict of Interest Training through the DCA's Web site. Also available is a document on conflict of interest that covers everything you need to know about conflict of interest.

Ms. Shellans explained that the law presumes a conflict if an individual has any financial interest in the outcome of the decision they are making. The Attorney General has said that a public official has an economic interest in any source of income that is either received by or promised to the official; and, a conflict of interest results whenever either the amount or the source of the official's income is affected by a decision. For example, a decision that foreseeably will materially affect an official's income would necessitate disqualification even if the amount of income received by the official was not affected. So, if the decision would affect the official's income in either a positive or negative way, they are financially interested in the outcome and, therefore, required to disqualify themselves.

Ms. Shellans expressed concern with the fact that the PROC is charged with reviewing the AICPA's Peer Review Program, administered by CalCPA, which is the organization approved by CBA to authorize people to conduct peer reviews. If the PROC is charged with deciding whether to continue to approve or disapprove the AICPA, there may be a conflict if the members could lose or gain money based upon the recommendation given to

the CBA. Ms. Bowers clarified that AICPA does not pay the peer reviewer; the peer reviewer is paid by the firm under review. Ms. Shellans explained that it is by virtue of the relationship that they receive income; if they were not authorized by AICPA, they would not have the opportunity.

Sally Anderson, President, CBA, expressed concern. She stated that the CBA specifically searched for individuals with peer review experience to put the program together. She pointed out that as a licensed CPA, she makes decisions that affect her financially.

Ms. Shellans explained that the decisions the CBA makes impacts the entire profession equally; everyone shares in the benefit of the decision. However, not all CalCPA members are peer reviewers, which gives the appearance of influence.

In response to Ms. Anderson's question, Ms. Shellans confirmed that peer reviewers who sit on the CBA could not vote on peer review matters for the same reasons. Ms. Anderson clarified that the PROC is not making the final decisions; they are essentially a study-group. The conflict arises from the fact that the PROC actually does the work and makes recommendations to the CBA.

Ms. Bowers reminded everyone that a decision will not be made during this meeting. Staff will document the issue with the facts and submit it to the DCA Legal Office in writing and seek a written legal opinion. If it is determined that there is a conflict, staff would look for ways to mitigate those issues, including disclosure on the Form 700.

For purposes of determining how quickly this issue will need to be resolved, Ms. Bowers confirmed that no members are currently serving as peer reviewers, or will be serving within the next 90 days.

Ms. Shellans will take into consideration all questions raised during the meeting when preparing her analysis.

VIII. Discussion and Formation of Subcommittee to Review the AICPA's Exposure Draft on Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews.

Members discussed the Exposure Draft and agreed that it should be accepted in its entirety without forming a subcommittee.

It was motioned by Katherine Allanson, seconded by Seid Sadat, and unanimously carried by those present to accept the AICPA Exposure Draft and have staff work with the PROC Chair to draft a letter for consideration by the CBA.

IX. Discussion Regarding Reminder Letters to Licensees Who Have Not Reported Their Peer Review Information.

Ms. Freeman advised members that the reminder letters to licensees who are required to report peer review information by July 1, 2011 have been approved. Staff made revisions based on the PROC's recommendations that the letters be clearer and use stronger language. The letters are scheduled to be mailed toward the end of March.

X. Future Agenda Items and Meeting Dates.

Future agenda items include:

- Conflict of Interest
- PROC Roles and Responsibilities
- Summary of AICPA Manuals and Texas State Board of Accountancy Checklists

XI. Public Comment.

No comments were received.

XII. Adjournment.

There being no further business, the meeting was adjourned at 3:07 p.m.

Nancy Corrigan, Chair

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

Memorandum

PROC Agenda Item III.
May 6, 2011

To : PROC Members

Date : April 27, 2011
Telephone: (916) 561-1734
Facsimile : (916) 263-3673
E-mail : ktejada@cba.ca.gov

From : Kathy Tejada
Enforcement Manager

Subject : Reports and Status of Peer Review Initial Implementation

Pending Regulations – Section 48.3 Title 16 California Code of Regulations

The rulemaking package modifying Business and Professions Code section 48.3 was approved on April 25, 2011 and becomes effective on May 25, 2011. This section requires that Board-recognized Peer Review Program providers report substandard reports to the CBA within 60 days of their acceptance date.

Legislative Language to Extend the Sunset Date on Mandatory Peer Review

On February 17, 2011, Senator Curren Price introduced Senate Bill 542 which would extend mandatory Peer Reviews and the Peer Review Oversight Committee to January 1, 2016. The bill would also require the report to the Legislature and the Governor be submitted by January 1, 2015. The bill is set for hearing in the Senate Business, Professions and Economic Development Committee on May 2, 2011.

Statistics

As of April 27, 2011, 15,572 peer review reporting forms have been submitted to the CBA. The reporting forms are categorized as follows:

Peer Review Required (firms)	1,220
Peer Review Not Required (firms)	2,742
Peer Review Not Applicable (non-firms)	11,610

Status of Correspondence to Licensees Regarding Peer Review Reporting

On April 5, 2011, reminder letters were mailed to 9,223 licensees who are required to report peer review information by July 1, 2011, but have not yet reported.

Staff have finalized the notification letter that will be mailed to licensees who are required to report peer review information by July 1, 2012, and these letters are expected to be mailed in June. **Attachment 1** is the letter being sent to corporations and partnerships. The letter being sent to individual Certified Public Accountants is shown as **Attachment 2**.

Updates to License Renewal Application

The renewal forms for individual licensees, corporations, and partnerships are being revised to include language regarding peer review requirements. The forms will each include a statement notifying the licensee that by signing and submitting the renewal form, they are certifying that if they are subject to peer review requirements, they have had a peer review completed within the three years prior to the license renewal date. An insert with additional information about peer review requirements and reporting requirements will accompany the renewal forms.

Staff anticipates that these changes will be reflected on the renewal forms for licenses expiring on or after July 31, 2011.

Attachments



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



DATE

ATTACHMENT 1

Name
 Address
 City, State Zip

Dear Licensee:

License #:

PIN:

On January 1, 2010, mandatory peer review became effective for California-licensed firms which perform specified accounting and auditing services.

You are receiving this letter because the firm has a license number ending in 34 through 66 and is required to report peer review information to the California Board of Accountancy (CBA) by **July 1, 2012**. **Reporting peer review status is required even if the firm is not required to undergo peer review.**

Please use the following chart to determine the firm's peer review reporting requirement:

IF THE FIRM:	THEN IT IS:	AND IT MUST:	AND:
Operates under the umbrella of another partnership or corporation.	Not subject to peer review.	Report this information to the CBA by 7/1/12.	
Has not provided accounting and auditing services since 1/1/10.			
Provided accounting and auditing services since 1/1/10.	Subject to peer review.	Have a peer review report accepted by a Board-recognized peer review program subsequent to 7/1/09.	Report the peer review results to the CBA by 7/1/12.
Was licensed after 1/1/10 and has provided accounting and auditing services.		Have a peer review report accepted by a Board-recognized peer review program within 18 months of completion of the services.	Report the peer review results to the CBA within 45 days of acceptance.

The requirement to undergo a peer review applies to all California-licensed firms that perform one or more accounting and auditing service using any of 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).

Reporting is quick and easy with the *Online Peer Review Reporting Form* available on the CBA Web site at www.cba.ca.gov. By using the PIN number provided, you can log-in and fulfill your reporting requirements in just minutes. You can also download a hard copy of the *Peer Review Reporting Form* from the Web site or request it from the CBA by telephone or by e-mail listed below.

You will only be able to submit the reporting form one time, so it is important that you complete the reporting process in its entirety when you log-in. Reporting should require no more than 10 minutes of your time.

Firms that have received a substandard (fail) peer review rating are required to submit a copy of the peer review report to the CBA, along with any materials documenting prescription of and compliance with remedial or corrective actions, within 45 days after the report is accepted by the Board-recognized peer review program provider. Firms that have received a peer review rating of pass or pass with deficiencies are not required to submit a copy of the peer review report.

Presently, the only peer review program recognized by the CBA to perform peer reviews is the American Institute of Certified Public Accountants (AICPA). If you have any questions regarding the peer review process, please contact the California Society of Certified Public Accountants, the administering entity of the AICPA's peer review program in California, by telephone at (650) 522-3094 or by e-mail at peerreview@calcpa.org.

If you have any questions regarding your peer review reporting requirements, please contact the CBA by telephone at (916) 561-1706 or by e-mail at peereviewinfo@cba.ca.gov.

Sincerely,

Patti Bowers
Executive Officer



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



DATE

ATTACHMENT 2

Name
 Address
 City, State Zip

Dear Licensee:

License #:

PIN:

On January 1, 2010, mandatory peer review became effective for California-licensed firms, including sole proprietorships, which perform specified accounting and auditing services. A sole proprietorship is a business in which one person, operating in his or her own personal capacity, owns all the assets and owes all the liabilities (Black's Law Dictionary, 8th ed. 2004).

You are receiving this letter because you have a license number ending in 34 through 66 and are required to report peer review information to the California Board of Accountancy (CBA) by **July 1, 2012**. **Reporting peer review status is required even if you are not required to undergo peer review.**

Please use the following chart to determine your peer review reporting requirement:

IF YOU:	THEN YOU ARE:	AND YOU MUST:	AND:
Work for a firm (e.g. sole proprietor, partnership or corporation) as an employee, partner or shareholder.	Not subject to peer review.	Report this information to the CBA by 7/1/12.	
Are a sole proprietor and have not provided accounting and auditing services since 1/1/10.			
Are a sole proprietor licensed prior to 1/1/10 and have provided accounting and auditing services since 1/1/10.	Subject to peer review.	Have a peer review report accepted by a Board-recognized peer review program subsequent to 7/1/09.	Report the peer review results to the CBA by 7/1/12.
Are a sole proprietor licensed after 1/1/10 and have provided accounting and auditing services.		Have a peer review report accepted by a Board-recognized peer review program within 18 months of completion of the services.	Report the peer review results to the CBA within 45 days of acceptance.

The requirement to undergo a peer review applies to all California-licensed firms, including sole proprietorships, that perform one or more accounting and auditing service using any of 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).

Reporting is quick and easy with the *Online Peer Review Reporting Form* available on the CBA Web site at www.cba.ca.gov. By using the PIN number provided, you can log-in and fulfill your reporting requirements in just minutes. You can also download a hard copy of the *Peer Review Reporting Form* from the CBA Web site or request it from the CBA by telephone or by e-mail listed below.

You will only be able to submit the reporting form one time, so it is important that you complete the reporting process in its entirety when you log-in. Reporting should require no more than 10 minutes of your time.

Firms that receive a substandard (fail) peer review rating are required to submit a copy of the peer review report to the CBA, along with any materials documenting prescription of and compliance with remedial or corrective actions, within 45 days after the report is accepted by the Board-recognized peer review program provider. Firms that have received a peer review rating of pass or pass with deficiencies are not required to submit a copy of the peer review report.

Presently, the only peer review program recognized by the CBA to perform peer reviews is the American Institute of Certified Public Accountants (AICPA). If you have any questions regarding the peer review process, please contact the California Society of Certified Public Accountants, the administering entity of the AICPA's peer review program in California, by telephone at (650) 522-3094 or by e-mail at peerreview@calcpa.org.

If you have any questions regarding your peer review reporting requirements, please contact the CBA by telephone at (916) 561-1706 or by e-mail at peerreviewinfo@cba.ca.gov.

Sincerely,

Patti Bowers
Executive Officer



Peer Review Program

Peer Review Process

Janice L. Gray, CPA, OK BOA and NASBA CAC Chair

James W. Brackens, Jr., CPA, AICPA VP – Firm Quality and Practice Monitoring

What is Peer Review?

- **System Review** – an evaluation of a firm’s system of quality control and the firm’s compliance with its system
- **Engagement Review** – no evaluation of the firm’s system; report based only on engagements reviewed
- In both cases, value of the process to both the firm and the public interest is its remedial nature

Who Administers Peer Review

- **National Peer Review Committee**
- **State Societies (including New England Peer Review, Inc.)**

Types of Reports

- **Pass**
- **Pass with deficiencies**
- **Fail**

Types of Reports - Continued

- **Pass – firm’s system is suitably designed and firm has complied with its policy and procedures so that it has reasonable assurance of performing and reporting in conformity with applicable professional standards**

Types of Reports - Continued

- **Pass with deficiencies – system is suitably designed and the firm has complied except for a certain deficiency or deficiencies that are described in the report**

Types of Reports - Continued

■ Fail – system is not suitably designed or has not been complied with

- The firm does not have reasonable assurance of performing or reporting in conformity with professional standards in all material respects
- The peer reviewer would have found and reported “significant deficiencies”

Types of Reports - Continued

- **Deficiency** - indicates a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects

Types of Reports - Continued

■ Finding for Further Consideration Form (FFC) replaced “letter of comments”

- Used to document and communicate relatively minor infractions
- Includes suggestions for improvement
- Signed by firm and retained until after next peer review

Peer Review Process

- Firm enrolls with administering entity (AE)
- Firm selects peer reviewer
- Peer reviewer selection approved by AE
- Peer review performed by reviewer
- Draft report and workpapers submitted to AE
- Technical review performed
- Report acceptance body (RAB) reviews and accepts report
- Possible corrective actions

Performance of Review

- Evaluate firm's documented system of quality control (policies and procedures)
- Interview partners and staff
- Review CPE files
- Review engagements representative of firm's practice – must include (if applicable):
 - Yellow Book (including A-133)
 - Employee Benefit Plans
 - FDICIA
 - Carrying Broker-Dealers

Extensions

- **Extensions of due date only if requested in writing and for valid reasons**
- **Normally two months maximum**
- **Longer for medical or disaster**

Peer Reviewer Qualifications

■ Peer reviewers must be:

- AICPA member currently active at supervisory level in accounting or auditing
- Be associated with a firm that has received a peer review rating of pass
- Have at least five years experience

■ Team captains – all of above *plus*:

- Partner or equivalent
- Complete initial team captain training
- Complete additional ongoing CPE

Facilitated State Board Access

- **Facilitated State Board Access (FSBA) – a secure, limited access website where state boards of accountancy have access to the report (and letter of response), acceptance letter and corrective action letter**
 - Where peer review required for licensure/practice permits and BOAs not prohibited access by law
 - State boards have automatic access to firms with their main office in their state
 - Firms may request “expanded access” to other states

Facilitated State Board Access

■ States where firms cannot opt-out:

- California
- Louisiana
- Maryland
- Oklahoma
- Texas

Facilitated State Board Access

- **Ideal means for monitoring firms' compliance with required remediation**
- **Oklahoma system:**
 - PROC monitors FSBA
 - BOA staff sends notification to firms with Pass with Deficiency or Fail reports that their compliance with required remedial action is being monitored
 - If firms fail to perform in a timely manner, enforcement action would be opened

Oversight by Administering Entity

■ Peer review - observe conduct of review while review is being performed

- Includes evaluation of all aspects of review
- Reviews selected for oversight based on various risk criteria

■ Reviewer resume verification:

- At least every three years
- Reviewer required to:
 - Verify industry experience
 - Submit summary of CPE taken in the last three years

Oversight by AICPA

- Oversight of administering entities
- Oversight of peer reviews
- AICPA annual oversight report - available on www.aicpa.org
- Starting this year, administering entities will prepare annual oversight reports

Peer Review Oversight Committees

■ Guiding principles of oversight

- Ensure peer review program is effective and uniform
- Transparency increases understanding & confidence

■ UAA Article 7

- Rule 7-4 (b) “An Oversight Committee shall be appointed by the Board....and report to the Board...”
- Rule 7-5 - the Board shall have access to the reports

■ AICPA Oversight Handbook – Chapter 3

Peer Review Oversight Committees

■ PROC structure (AICPA suggestion)

- Three members
 - Two CPA members, ideally “team captain” qualified, but at least with extensive accounting and auditing experience at partner level
 - One public member, who has utilized public accounting services
- Confidentiality Agreement
- Attend meetings of peer review committee and RABs
- Reporting to Board of Accountancy

Peer Review Oversight Committees

■ Individual state considerations:

- Size of PROC
- Compensation/expense reimbursement of members
- Other functions of PROC
 - Monitoring of remedial action via FSBA
 - Recommendation of disciplinary action of those not in compliance (from information on FSBA)
 - Other

States with PROCs

Arizona

Massachusetts

Oregon

California

Minnesota

South Carolina

Idaho

Mississippi

Tennessee

Indiana

Missouri

Texas

Kansas

New Hampshire

Virginia

Kentucky

Ohio

Washington

Louisiana

Oklahoma

Wyoming

Maryland

AICPA Peer Review Web Resources

- **Peer review Standards**
- **Peer review Standards Interpretations**
- **Report Acceptance Body Handbook**
- **Peer Review Alerts**
- **System and Engagement review checklists**

Questions?

Memorandum

PROC Agenda Item V.
May 6, 2011

To : PROC Members

Date : April 27, 2011
Telephone : (916) 561-1731
Facsimile : (916) 263-3673
E-mail : rixta@cba.ca.gov

From : Rafael Ixta, Chief
Enforcement Division

Subject : AICPA's Peer Review Procedures

In response to questions raised at the March 4, 2011, PROC meeting, the California Society of Certified Public Accountants (CalCPA) submitted the below-listed documents regarding its administration of the American Institute of Certified Public Accountants' (AICPA) Peer Review Program:

- Attachment 1:** March 1, 2011, letter from AICPA summarizing the Oversight Visit Report, dated October 22, 2010
- Attachment 2:** CalCPA's Peer Review Program Annual Report on Oversight for Calendar Year 2009, dated March 15, 2011
- Attachment 3:** Statistics on California Completed System Reviews and California Completed Engagement Reviews

Jim Brackens, AICPA, and Linda McCrone, CalCPA, will attend the May 6, 2011, PROC meeting to answer questions you may have.

Attachments

March 1, 2011

Debbie Ask, Peer Review Committee Chair
California Society of CPAs
3416 American River Dr., Suite A
Sacramento, CA 95864

Dear Ms. Ask:

On January 28, 2011, the AICPA Peer Review Board Oversight Task Force accepted the report and letter of procedures and observations on the most recent oversight visit for the California Society of CPAs, the administering entity for the AICPA Peer Review Program, and the administering entity's response thereto. A copy of this acknowledgement, the two oversight visit documents, and your response will be posted to the AICPA Peer Review Program Web site.

The next state oversight visit will be in 2012.

The AICPA Peer Review Board appreciates your cooperation and efforts in making the peer review program a success.

Sincerely,

Randy Watson

Randy Watson, Chair
Oversight Task Force
AICPA Peer Review Board

cc: Loretta Doon, Executive Director, California Society of CPAs
Linda McCrone, Director of Technical Services, California Society of CPAs
Teresa Bordeaux, AICPA Peer Review Program Technical Manager

Oversight Visit Report

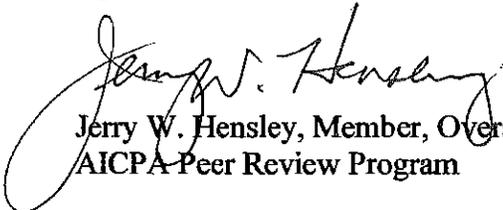
October 22, 2010

To the Peer Review Committee
California Society of Certified Public Accountants

We have reviewed California Society of Certified Public Accountants' administration of the AICPA Peer Review Program as part of our oversight program. Our procedures were conducted in conformity with the guidance established by the AICPA Peer Review Board (board) as contained in the *AICPA Peer Review Program Oversight Handbook*. The administering entity 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. Our responsibility is to determine whether (1) administering entities are complying with the administrative procedures established by the board as set forth in the *AICPA Peer Review Program Administrative Manual*, (2) the reviews are being conducted and reported upon in accordance with the standards, (3) the results of the reviews are being evaluated on a consistent basis by all administering entity peer review committees, and (4) information disseminated by administering entities is accurate and timely.

Based on the results of the procedures performed, we have concluded that the California Society of Certified Public Accountants has complied with the administrative procedures and standards in all material respects as established by the board.

As is customary, we have issued a letter of oversight visit procedures and observations that details the oversight procedures performed and sets forth recommendations that were not considered to be of sufficient significance to affect the conclusions expressed in this report.



Jerry W. Hensley, Member, Oversight Task Force
AICPA Peer Review Program

Peer Review Program

October 22, 2010

To The Peer Review Committee
California Society of Certified Public Accountants

We have reviewed the California Society of Certified Public Accountants' administration of the AICPA Peer Review Program as part of our oversight program and have issued our report thereon dated October 22, 2010. That report should be read in conjunction with the observations in this letter, which were considered in determining our conclusions. The observations described below were not considered to be of sufficient significance to affect the conclusions expressed in that report.

The oversight visit was conducted according to the procedures in the *AICPA Peer Review Program Oversight Handbook*. An oversight program is designed to improve the administering entity's administration of the AICPA Peer Review Program through feedback on its policies and procedures, and to provide resource assistance from an AICPA Peer Review Board Oversight Task Force member on both technical and administrative matters.

In conjunction with the oversight visit of the California Society of Certified Public Accountants, the administering entity for the program, conducted on October 20-22, 2010, the following observations are being communicated.

Administrative Procedures

On the morning of October 20, 2010, Laurel Gron, AICPA Technical Manager and I met with the Director of Technical Services and the Special Projects Coordinator to review the program's administration. We believe the administrative processes were being handled in a manner consistent with peer review standards.

We reviewed the files, which were still open due to follow-up actions, which had not yet been completed. I found that the follow-up actions were being effectively monitored for completion by the administrative staff and the peer review committee.

We also reviewed the policies and procedures for the granting of extensions. We found that the peer review staff handles short-term extension requests with discussion from the committee when the circumstances warrant.

We also reviewed the timeliness of the scheduling process, technical reviews, and the preparation of acceptance and follow-up letters. We found no problems in these areas.

The California Society of Certified Public Accountants has a back-up plan to support the program administration, should the staff become unable to serve in that capacity.

Web Site and Other Media Information

We reviewed the administering entity's procedures to determine if the information disseminated regarding the AICPA Peer Review Program by the administering entity on their Web site and other media information (if applicable) is accurate and timely.

We noted that the administering entity maintains current information as it relates to the peer review program. In addition, the administering entity has an individual who is responsible for maintaining the Web site and monitors the Web site to ensure peer review information is accurate and timely.

Working Paper Retention

We reviewed the completed working papers and found no instances of noncompliance with the working paper retention policies. We noted that team captains are receiving working paper retention policy memos when reviews are completed. This serves to remind the team captains of the Program's retention requirements.

Technical Review Procedures

We met with the technical reviewers, to discuss procedures. They perform all technical reviews and are experienced reviewers.

We reviewed the reports, letters of response, if applicable, and the working papers for 19 reviews on the RAB agendas. We believe that all review issues were addressed properly by the technical reviewers before reviews were presented to the committee. This helped the acceptance process to be effective and efficient.

Review Presentation

The peer review committee meets two times a year for an update on any changes to the program and orientation of new members. All three RABs meet at the full committee meeting. All other reviews are accepted via telephone conference calls by RABs comprised of a few committee members, along with the peer review staff.

On October 22, 2010, we participated with each of the three RABs at the full committee meeting. We observed each of the RAB's acceptance process and offered our comments at the close of discussions on selected peer reviews.

The meeting was very orderly. It was apparent that the committee members had reviewed the reports and working papers thoroughly prior to the meeting and had a good understanding of the program to reach an appropriate decision for each review.

Appropriate decisions were made in the acceptance process, appropriate follow-up actions were assigned and reviewers were being appropriately monitored. Reviews were being presented to the RAB on a timely basis.

Committee Procedures

We met with the full committee on October 22, 2010. We reviewed the minutes of the executive committee and the full committee prior meetings since the last oversight and noted that the meetings appeared to be comprehensive with appropriate and timely topics being covered.

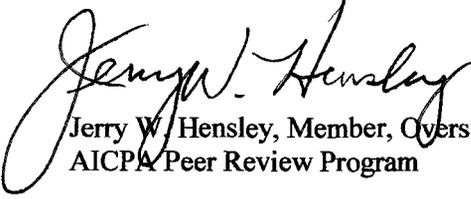
Oversight Program

The California Society of Certified Public Accountants' peer review committee has adopted a formal oversight program that is well documented. We reviewed the document and procedures performed and found it to be comprehensive.

We met with the peer review staff and discussed their procedures for disseminating the comments resulting from the AICPA working paper oversights to the appropriate individuals. It was determined the committee issued reviewer feedback when appropriate.

Summary

There are no further observations to be communicated to the California Society of Certified Public Accountants.



Jerry W. Hensley, Member, Oversight Task Force
AICPA Peer Review Program

January 13, 2011

Randy S. Watson, Chair
AICPA Peer Review Board
Oversight Task Force
Palladian I Corporate Center
220 Leigh Farm Road
Durham, NC 27707-8110

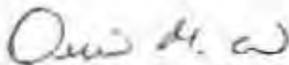
Re: Oversight Visit to California Society of Certified Public Accountants

Dear Mr. Watson:

This letter represents our response to the report and letter of procedures and observations issued in connection with the review of the California Society of Certified Public Accountants administration of the AICPA Peer Review Program performed on October 20-22, 2010. The oversight visit documents have been disseminated to all peer review program committee members, administrative staff, and technical reviewers. We are pleased to note there were no specific deficiencies or observations included in the oversight documents on which a written response was required. This letter represents our acknowledgement of the oversight visit.

We appreciate Mr. Jerry W. Hensley's review of our administration of the AICPA Peer Review Program.

Sincerely,



Debbie M. Ask, Chair
California Society of CPAs Peer Review Committee

c: Loretta Doon, CEO
Teresa Bordeaux, Technical Manager, AICPA

**California Society of CPAs Peer Review Program
Annual Report on Oversight for Calendar Year 2009
Date Issued – March 15, 2011**

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 (AICPA Peer Review Program). CalCPA administers the Peer Review Program for firms in those states that are not enrolled in the AICPA Peer Review Program (CalCPA 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) and for firms that elect to have their review administered by the NPRC. 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 a national basis. These reports are available on the AICPA 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 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 www.aicpa.org/prsummary.

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 at the beginning of each year. 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 oversight CPA reviews the financial statements and any applicable firm work papers for the selected engagements.

Onsite system reviews are conducted at the reviewed firm's office while the peer reviewer is performing the peer review. The oversight CPA 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 oversight on the California Peer Review Program. A member from the AICPA Peer Review Board Oversight Committee 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 administrative oversight.

Note: The data in the following tables (sections III through VII) reflects peer review results as of March 11, 2011. The following percentages are the 2009 reviews in process, and their results are not included in the totals below.

CA – 1.1%

AZ – 1.5%

AK – There are no 2009 review 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

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

Per State as of March 11, 2011

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	1074	209
2-5 Professionals	968	162
6-10 Professionals	359	34
11-19 Professionals	170	9
20-49 Professionals	97	3
50+ Professionals	17	0
Totals	2685	417

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	203	75
2-5 Professionals	192	44
6-10 Professionals	51	8
11-19 Professionals	21	1
20-49 Professionals	10	0
50+ Professionals	3	0
Totals	480	128

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	34	11
2-5 Professionals	32	1
6-10 Professionals	9	0
11-19 Professionals	7	0
20-49 Professionals	2	0
50+ Professionals	1	0
Totals	85	12

**IV. Results of Peer Reviews Performed During the Year 2009
Results by Type of Peer Review and Report Issued**

California Firms	[^] AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	325	10
Pass with Deficiencies	40	2
Fail	7	0
Subtotal – System	372	12
Engagement Reviews:		
Pass	435	2
Pass with Deficiencies	46	0
Fail	6	0
Subtotal – Engagement	487	2
Totals	859	14

Arizona Firms	[^] AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	53	12
Pass with Deficiencies	7	7
Fail	2	1
Subtotal – System	62	20
Engagement Reviews:		
Pass	105	46
Pass with Deficiencies	13	5
Fail	1	2
Subtotal – Engagement	119	53
Totals	181	73

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	16	1
Pass with Deficiencies	1	0
Fail	0	0
Subtotal – System	17	1
Engagement Reviews:		
Pass	8	4
Pass with Deficiencies	2	1
Fail	0	0
Subtotal – Engagement	10	5
Totals	27	6

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) and shows the number of firms that received pass with deficiency reports from system reviews performed for 2009. There can be two or more elements in a peer review report.

Reasons for Report Modifications California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	2	0
Relevant Ethical Requirements	1	0
Engagement Performance	37	2
Human Resources	8	0
Acceptance & Continuance of Clients & Engagements	1	0
Monitoring	16	2
Totals	65	4

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	7	7
Human Resources	2	0
Acceptance & Continuance of Clients & Engagements	1	0
Monitoring	2	1
Totals	13	8

Reasons for Report Modifications Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	0	0
Relevant Ethical Requirements		0
Engagement Performance	1	0
Human Resources	0	0
Acceptance & Continuance of Clients & Engagements	1	0
Monitoring	0	0
Totals	2	0

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 2009. 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)	161	16	5	0
Audits – Governmental – All Others	130	14	8	0
Audits – ERISA	186	15	1	0
Audits – FDICIA	4	1	0	0
Audits – Other	433	25	14	4
Reviews	570	14	11	0
Compilations with Disclosures	421	15	7	0
Compilations without Disclosures	1018	50	8	0
Financial Forecast & Projections	2	0	0	0
Other SSAEs	63	3	1	0
Totals	2988	153	55	4
% Not Performed in Accordance with Professional Standards		5.1%		7.3%

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)	28	4	2	0
Audits – Governmental – All Others	29	4	2	0
Audits – ERISA	31	2	5	0
Audits – FDICIA	0	0	0	0
Audits – Other	63	3	16	8
Reviews	97	5	42	1
Compilations with Disclosures	68	6	28	3
Compilations without Disclosures	251	12	66	3
Financial Forecast & Projections	0	0	0	0
Other SSAEs	19	0	3	0
Totals	586	36	164	15
% Not Performed in Accordance with Professional Standards		6.1%		9.1%

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)	12	1	0	0
Audits – Governmental – All Others	5	0	0	0
Audits – ERISA	3	0	0	0
Audits – FDICIA	0	0	0	0
Audits – Other	23	1	3	1
Reviews	27	2	5	0
Compilations with Disclosures	15	0	3	0
Compilations without Disclosures	22	1	2	0
Financial Forecast & Projections	0	0	0	0
Other SSAEs	4	0	1	1
Totals	111	5	14	2
% Not Performed in Accordance with Professional Standards		4.5%		14.3%

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 corrective in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions. For 2009, the following represents the type of follow-up actions required. (TC = Team Captain)

California Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Agree to hire consultant for preissuance reviews	3	0
Submit proof of CPE taken	57	0
Submit copy of monitoring report	10	0
Submit to TC revisit-general	7	1
Submit to TC review of sub engagements w/ workpapers	14	1
Agree to have accelerated review	3	0
Submit to TC review of sub engs w/o workpapers	1	0
Totals	95	2

Arizona Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	17	10
Submit copy of monitoring report	1	2
Submit to TC revisit -- general	4	1
Submit to TC review of sub engagements w/ workpapers	1	2
Submit to TC review of sub engs w/o workpapers	1	0
Totals	24	15

Alaska Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Agree to hire consultant for preissuance reviews	1	0
Submit proof of CPE taken	2	1
Totals	3	1

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 - 7	10	System	GAGAS	0
	ERISA - 4			ERISA	
Engagement		8	Engagement		1

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

Verification of reviewer’s resumes

State	Total Number of Peer Reviewers	Total Number of Resume’s Verified for Year	% of Total Verified
California	104	31	30%
Arizona	23	11	50%
Alaska	2	1	50%
Total	129	43	33%

Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	January 14, 2010
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	October 22-24, 2008

California Completed System Reviews

2009

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Pass	64	82%	113	84%	82	89%	41	91%	31	97%	331	87%
Pass w/deficiency	8	10%	18	13%	10	11%	2	4%	1	3%	39	10%
Fail	6	8%	4	3%	0	0%	2	4%	0	0%	12	3%
Total	78	100%	135	100%	92	100%	45	100%	32	100%	382	100%

2008

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	19	26%	51	33%	30	39%	23	52%	24	47%	147	37%
Unmod w/LOC	41	57%	88	56%	41	54%	20	45%	26	51%	216	54%
Modified	9	13%	16	10%	5	7%	1	2%	1	2%	32	8%
Adverse	3	4%	1	1%	0	0%	0	0%	0	0%	4	1%
Total	72	100%	156	100%	76	100%	44	100%	51	100%	399	100%

2007

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	38	33%	56	35%	34	44%	21	45%	15	47%	164	38%
Unmod w/LOC	49	42%	94	59%	39	50%	25	53%	17	53%	224	52%
Modified	26	22%	8	5%	5	6%	1	2%	0	0%	40	9%
Adverse	3	3%	1	1%	0	0%	0	0%	0	0%	4	1%
Total	116	100%	159	100%	78	100%	47	100%	32	100%	432	100%

2006

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	51	46%	75	38%	46	49%	19	45%	18	55%	210	44%
Unmod w/LOC	49	44%	104	51%	36	39%	19	45%	15	45%	223	46%
Modified	6	5%	15	8%	8	9%	4	10%	0	0%	33	7%
Adverse	5	5%	5	3%	3	3%	0	0%	0	0%	13	3%
Total	111	100%	199	100%	93	100%	42	100%	33	100%	479	100%

California Completed Engagement Reviews

2009

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Pass	241	86%	146	93%	38	95%	7	88%	2	100%	434	89%
Pass w/deficiency	32	11%	11	7%	2	5%	1	13%	0	0%	46	9%
Fail	6	2%	0	0%	0	0%	0	0%	0	0%	6	1%
Total	279	100%	157	100%	40	100%	8	100%	2	100%	486	100%

2008

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	47	31%	39	35%	9	45%	0	0%	0	0%	95	34%
Unmod w/LOC	90	60%	66	60%	9	45%	1	100%	1	100%	167	59%
Modified	13	9%	4	4%	2	10%	0	0%	0	0%	19	7%
Adverse	0	0%	1	1%	0	0%	0	0%	0	0%	1	0%
Total	150	100%	110	100%	20	100%	1	100%	1	100%	282	100%

2007

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	62	37%	39	36%	4	33%	2	50%	0	0%	107	37%
Unmod w/LOC	92	55%	60	56%	8	67%	1	25%	1	50%	162	55%
Modified	11	7%	8	7%	0	0%	1	25%	1	50%	21	7%
Adverse	1	1%	1	1%	0	0%	0	0%	0	0%	2	1%
Total	166	100%	108	100%	12	100%	4	100%	2	100%	292	100%

2006

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	72	38%	48	41%	4	27%	0	0%	0	0%	124	38%
Unmod w/LOC	98	52%	59	50%	11	73%	1	100%	1	100%	170	52%
Modified	17	9%	10	8%	0	0%	0	0%	0	0%	27	8%
Adverse	3	2%	1	1%	0	0%	0	0%	0	0%	4	1%
Total	190	100%	118	100%	15	100%	1	100%	1	100%	325	100%

State of California
Department of Consumer Affairs

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

Memorandum

PROC Agenda Item VI.
May 6, 2011

To : PROC Members

Date : April 27, 2011
Telephone : (916) 561-1731
Facsimile : (916) 263-3673
E-mail : rixta@cba.ca.gov

From : Rafael Ixta, Chief
Enforcement Division

Subject : Summaries of AICPA's Peer Review Oversight Handbook, Report Acceptance Body Handbook, Administrative Manual, and Peer Review Program Manual, and the Texas State Board of Accountancy's Oversight Checklists

Attached are summaries of the AICPA's Peer Review Oversight Handbook, Report Acceptance Body Handbook, Administrative Manual, and Peer Review Program Manual, and the Texas State Board of Accountancy's Oversight Checklists prepared by PROC Members Sherry McCoy and Kathy Allanson.

For each of the documents summarized, Ms. McCoy and Ms. Allanson identified portions of the documents that they recommend PROC members read for a better understanding of the peer review program. I strongly urge you to review the identified portions of these documents prior to the meeting to facilitate a productive discussion of the program.

Staff will be at the meeting to answer any questions PROC members might have.

SUMMARY INFORMATION FOR DOCUMENTS CONTAINING GUIDANCE FOR THE PEER REVIEW PROCESS

One of the activities undertaken by the Peer Review Oversight Committee (PROC) of the California Board of Accountancy has been the review of available documents that contain guidance for the various aspects of the peer review process. While all of these may be relevant to understanding the peer review process in California, the AICPA summaries below are outlined in the order of most closely aligned to least closely aligned with the specific duties of the California Board of Accountancy's Peer Review Oversight Committee. In addition, the materials obtained from the Peer Review Oversight Board of Texas provide an example from another state that has operationalized the oversight process (separate from the administering entity tasks) in its state peer review program. In addition to serving as an overview of the available guidance documents, the information below provides a concise review of content that may be developed by the California PROC for its own purposes in executing its role and responsibilities.

Document Overview:

AICPA

- A. *AICPA Peer Review Program Oversight Handbook* – serves as guidance and a reference tool related to the oversight procedures performed on the program. The manual is updated as necessary and made available to approved administering entities and located on the AICPA SharePoint extranet.
- B. *AICPA Peer Review Program Report Acceptance Body Handbook* – serves as a resource for committees, RABs, technical reviewers, and administrators in the administration, acceptance, and completion of peer reviews; this manual is updated as necessary and is included as section 3300 of the *AICPA Peer Review Program Manual*.
- C. *AICPA Peer Review Program Administrative Manual*– serves as guidance and a reference tool for those administering the program; this manual is updated as necessary and made available to approved administering entities and located on the AICPA SharePoint extranet.
- D. *AICPA Peer Review Program Manual* – contains the current standards, interpretations, guidelines, peer review checklists, and other guidance materials developed by the board for the administration, performance, and reporting the results of peer reviews. Portions of the manual are available online:
<http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/RESOURCES/PEERREVIEWPROGRAM/MANUAL/Pages/default.aspx>

TEXAS - Texas State Board of Public Accountancy, Peer Review Oversight Board Materials – serves as guide to performing the Board's oversight of the peer review function carried out in the state of Texas.

A. AICPA Peer Review Program Oversight Handbook

1. Table of contents
 - a) Chapter 1 – overview to the oversight process; contains over 20 sample letters and checklists for use by the Oversight Task Force (OTF) in performing its duties – much of this is planning stage sorts of communications, documentation and information gathering in nature.
 - b) Chapter 2 – the administering entities’ responsibilities in the oversight process; contains 30 sample letters and checklists for use by the administering entity as well as Oversight Task Force involvement matters – this section addresses the performance of oversight duties as well as the associated communications and reporting matters.
 - c) Chapter 3 – discussion of the relationship between the administering entity and its state board of accountancy.
2. Primary user – This handbook was prepared to provide guidance to the OTF which oversees the administration of the AICPA Peer Review Program.
3. Observations – Chapter 1 is recommended reading for each committee member because it outlines the objectives and procedures for the OTF, the role and responsibilities of which are parallel to that of the PROC; the discussion provides the tone and focus of the oversight and also address reporting matters such as statistics that should be provided to the OTF in the performance of its duties. The Exhibits to Chapter 1 also provide a roadmap for the OTF site visits to administering entities as well as indices to list the workpapers that are expected to be included in the peer reviewers’ files for both system and engagement reviews.

B. AICPA Peer Review Program Report Acceptance Body Handbook (included in section 3300 of the AICPA’s Peer Review Program Manual which is outlined below)

1. Table of contents
 - a) Chapter 1 – Formation, Qualifications and Responsibilities of the Administering Entity Peer Review Committee and Report Acceptance Bodies
 - b) Chapter 2 – Technical Reviewer Qualifications and Responsibilities
 - c) Chapter 3 – The Report Acceptance Process
 - d) Chapter 4 – Objectives, Overview of System Review Process and Evaluation and Acceptance of System Reviews
 - e) Chapter 5 - Objectives, Engagement Selection Process, Evaluation and Acceptance of an Engagement Review
 - f) Chapter 6 – Monitoring Corrective Actions and Implementation Plans
 - g) Chapter 7 – Consultations and Disagreements

- h) Chapter 8 – Review Performance
- 2. Primary user – This handbook, as evident from the title, is a reference tool to be used by report acceptance bodies. It contains important guidance for oversight committees as well.
- 3. Observations – As it relates to understanding key concepts in the topic of peer review programs and processes as well as providing technical guidance to oversight constituents, this handbook is equal in importance to the Oversight Handbook described in A. above. In addition to standardized checklists and correspondence, the exhibits contain very helpful implementation information and tools such as flowcharts.

C. AICPA Peer Review Program Administrative Manual

- 1. Table of contents
 - a) Chapter 1 – General information
 - b) Chapter 2 – Administering Peer Reviews
 - c) Chapter 3 – Enrollment, Reinstatements, Resignations and Terminations
 - d) Chapter 4 – Review Teams and Reviewer Qualifications
 - e) Chapter 5 – Training Courses, Instructor Information and Available Resources
 - f) Chapter 6 – Guidance for Association Involvement
 - g) Chapter 7 – Types and Timing of Reviews
 - h) Chapter 8 – Changes in Firm Structure
 - i) Chapter 9 – Scheduling of System Reviews
 - j) Chapter 10 – Scheduling Engagement Reviews
 - k) Chapter 11 – Monitoring Peer Review Status
 - l) Chapter 12 – Evaluation of Peer Review Documents
 - m) Chapter 13 – Working Paper Policies
 - n) Chapter 14 – Fees and Expenses
- 2. Primary user – This manual is a comprehensive resource for administering entities; however, the content is also helpful to other constituents in the peer review process in order to understand the various requirements and expectations for the program.
- 3. Observations – This manual has a significant number of exhibits to the chapters to provide standardized letters and other documents for use by the administering entity (including but not limited to correspondence of all types with firms being reviewed, peer reviewers). Chapter 1 is recommended reading for those new to the peer review process or wanting to understand the framework used by the AICPA; this chapter provides a history of practice monitoring program as well as an outline of the AICPA Peer Review Board responsibilities. Chapter 7 discusses the two types of reviews in some detail and also provides guidance for the timing and due dates of peer review procedures and reports. While sample letters and similar exhibits comprise a significant portion of this manual, there are very informative lists and narrative discussion throughout the

document for other administrative roles, objectives, key terms and definitions as well as expectations of reviewers and review teams.

D. *AICPA Peer Review Program Manual*

1. Table of contents
 - a) 1000 Peer Review Standards
 - b) 2000 Peer Review Standards Interpretations
 - c) 3000 Other Guidance
 - d) 3100 Supplemental Guidance
 - e) 3200 Peer Review Alerts
 - f) 3300 Report Acceptance Body (RAB) Handbook
 - g) 3600 Guidance for Writing Letters on Corrective Actions
 - h) 4300 Quality Control Policies & Procedures - Sole Practitioner
 - i) 4400 Quality Control Policies & Procedures - 2 or more personnel
 - j) 5000 System Reviews of Firms Closely Aligned With Non-CPA Owned Entities
 - k) 5200 Supplemental Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm
 - l) 7000 Associations
 - m) 7100 Guidance for Association Involvement
 - n) 10,000 Monitoring Guidance
2. Primary user – These documents provide the reference and implementation materials to all the parties involved in peer review process needed (oversight, administration, reviewers and those being reviewed).
3. Observations – as is evident from the table of contents listing above, this set of documents is comprehensive and updated annually with much of it being readily available on the AICPA's website. In addition to basic guidance, extensive samples and Questions & Answers resources are included in this manual. Highlights (not all sections discussed):
 - a) Sections 1000-2000 reflect basic core guidance for the peer review process and provide detailed information on roles, different types of reviews and similar technical information.
 - b) Section 3200 is similar to the AICPA's yearend alerts for general and industry information with highlights on new and emerging issues, new standards and similar key current practice issues.
 - c) Section 3300 is an important one to review for the oversight role as it details the report acceptance body (RAB) responsibilities and processes (California Society has a RAB which meets regularly as part of its administering entity process).

- d) Section 10000 provides a roadmap to the monitoring process required of firms and has examples that help smaller firms apply this important aspect of practice management to their operations (includes sample COMPLETED forms/checklists).

Texas State Board of Public Accountancy (TSBPA), Peer Review Oversight Board Materials

1. Table of contents
 - a) Criteria for sample selection
 - b) Checklist for system reviews
 - c) Checklist for engagement reviews
 - d) Form to document “summary of oversight visit administration”
 - e) Form to document “summary of oversight visit of sponsoring organization’s peer review committee meetings”
 - f) Sponsoring organization peer review program back-up plan and oversight procedures
2. Primary user – These documents and forms were prepared to provide guidance to TSBPA Peer Review Oversight Board when performing oversight of the peer reviews carried out in the state of Texas.
3. Observations – **Item a** is a list of (risk) factors to be considered with the TSBPA Peer Review Oversight Board selects the sample of peer reviews undergoing oversight. **Items b - e** are brief “check the box” forms, similar in format to an audit work program. **Item f** provides a brief description of the various committees and Boards involved in the peer review process. It provides a minimum number of reviews to be conducted annually and provides guidance on how to make a selection of targeted reviews based on various risk factors.

Memorandum

PROC Agenda Item VII.
May 6, 2011

To : PROC Members

Date : April 8, 2011
Telephone: (916) 561-1731
Facsimile : (916) 263-3673
E-mail : rixta@cba.ca.gov

From : Rafael Ixta, Chief
Enforcement Division

Subject : 2011 Year-at-a-Glance PROC Calendar

The attached 2011 Year-at-a-Glance California Board of Accountancy Peer Review Oversight Committee (PROC) Calendar has been updated since the March 4, 2011, PROC meeting.

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

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

Also included on the calendar is the two-day "How to Conduct a Review Under the AICPA Practice-Monitoring Program" course scheduled for July 18-19, 2011 at the Los Angeles Airport and the one-day "AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers" course scheduled for May 24, 2011 in San Mateo.

This calendar is provided to assist you in scheduling the annual administrative site visit of the CalCPA offices, in addition to assigning members to participate in meetings held by the AICPA and CalCPA.

Please bring your 2011 calendars to the meeting to facilitate the scheduling process.

Attachment