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

**PROC MEETING
NOTICE & AGENDA**

**Friday, April 20, 2012
9:30 a.m. – 3:30 p.m.**

Hilton Los Angeles North/Glendale
100 W. Glenoaks Boulevard
Glendale, CA 91202
(818) 551-4005

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 February 10, 2012 PROC Minutes.
 - B. Report on the March 22-23, 2012 CBA Meeting.
 - C. Report on Conflicts of Interest Issue.
- III. Reports and Status of Peer Review Program (**April Freeman, CBA Staff**).
 - A. Statistics of Licensees Who Have Reported Their Peer Review Information to the CBA.
 - B. Status of Correspondence to Licensees Regarding Peer Review Reporting.
 - C. Status of PROC Roles and Responsibilities Activity Tracking.
 - D. Discussion of UPDATE Articles Regarding Peer Review.
 - E. Discussion Regarding Appeals Received by Licensees Cited for Failing to Respond to Peer Review Notification Letters.
- IV. Discussion of the National Peer Review Committee (NPRC).
 - A. Discussion Regarding the National Association of State Boards of Accountancy's Report on Oversight of the NPRC (**Rafael Ixta, Enforcement Chief**).
 - B. Presentation by American Institute of Certified Public Accountants (AICPA) Regarding the NPRC (**Jim Brackens, AICPA**).

LUNCH

- V. PROC Activities (**Nancy Corrigan**).
 - A. Report on the February 16, 2012 Administrative Site Visit at the California Society of Certified Public Accountants (CalCPA).
 - B. Report on CalCPA Report Acceptance Body (RAB) Meetings:
 - 1. January 24, 2012
 - 2. February 15, 2012
 - 3. March 6, 2012
 - 4. April 4, 2012
 - C. Assignment of Future PROC Activities.
- VI. Discussion Regarding Possible Changes to the PROC's Roles and Responsibilities (**Nancy Corrigan**).
- VII. Discussion of Title 16 California Code of Regulations Section 40(b) Regarding Peer Review Due Dates (**Rafael Ixta**).
- VIII. Future Agenda Items (**April Freeman**).
- IX. Public Comment for Items Not on the Agenda.
- X. Adjournment.

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

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

For further information regarding this meeting, please contact:

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

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



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PROC Item II.A.
April 20, 2012

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

**MINUTES OF THE
February 10, 2012
PROC MEETING**

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

PROC Members:

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

Staff and Legal Counsel:

Rafael Ixta, Chief, Enforcement Division
Kathy Tejada, Manager, Enforcement Division
April Freeman, Peer Review Analyst
Deanne Pearce, Assistant Executive Officer

Other Participants:

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

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 9:03 a.m.

II. Report of the Committee Chair.

A. Approval of December 9, 2011 Minutes.

Ms. Corrigan asked members if they had any changes or corrections to the minutes of the December 9, 2011 PROC meeting. No changes were made.

It was motioned by Robert Lee, seconded by Seid Sadat, and unanimously carried by those present to adopt the minutes of the December 9, 2011 PROC meeting.

B. Report on the January 26-27, 2012 CBA Meeting.

Ms. Corrigan stated that due to illness, she was unable to attend the CBA meeting. Rafael Ixta, Chief of Enforcement, reported to the CBA on her behalf.

Mr. Ixta stated that he reported on the PROC's recent activity and that the report was well-received by the CBA. He advised that CBA leadership has requested that the role of various committees be revisited. The CBA will discuss the role of the PROC at its July 2012 meeting.

Mr. Ixta stated that the CBA requested staff conduct outreach efforts concerning peer review pitfalls and recruitment of peer reviewers. Subsequently, articles on those issues will be published in the next issue of UPDATE. The CBA has also asked staff to verify the accuracy of information provided on peer review reporting forms and requested that licensees be made aware that there is no escape from peer review. This information will appear in a future UPDATE publication.

April Freeman discussed the proposed regulatory changes that were presented to the Committee on Professional Conduct (CPC). Ms. Freeman stated that the proposed regulations revise the peer review reporting requirements to align the reporting date with the license renewal period. The Peer Review Reporting Form is also being revised for clarity. These regulations would be effective January 1, 2014. The CBA approved the regulatory language and directed staff to begin the rulemaking process.

In response to questions, Mr. Ixta explained that the goal is to incorporate peer review reporting with the new automated renewal system. The CBA is scheduled to begin using the new automated system in 2014.

C. Report on Conflicts of Interest Involving Members of the PROC.

Mr. Ixta reported that the Department of Consumer Affairs has not yet prepared a response to the PROC's questions. He anticipates having a response by the April 2012 PROC meeting.

III. Report on PROC Activities.

A. Report on the January 20, 2012 American Institute of Certified Public Accountants' (AICPA) Peer Review Board Meeting.

Sherry McCoy reported that the AICPA Peer Review Board discussed the 2012 Annual Report on Oversight. The Board also discussed the peer reviews for SSAE 16 engagements and broker dealers.

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

Gary Bong attended the December 13, 2011 RAB meeting, but was not present to report.

Seid Sadat attended the January 5, 2012 RAB meeting. He was unable to go to the CalCPA office in Glendale, so he did not have meeting materials to reference. He stated the meeting went smoothly and that the Chair, Mike Hurley, was very professional. Mr. Sadat noticed that RAB members are very familiar with certain peer reviewers.

T. Ki Lam also attended the January 5, 2012 RAB, but was not present to report.

Robert Lee reported on the January 24, 2012 RAB meeting. He stated that the meeting was well run, effective and efficient.

IV. Reports and Status of Peer Review Initial Implementation.

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

Kathy Tejada reported that as of January 13, 2012, 30,568 peer review reporting forms have been submitted to the CBA from licensees in the first two groups of the phase-in period. The reporting forms are categorized as follows:

Licenses Ending in 01-33

Peer Review Required	2,102
Peer Review Not Required (firms)	4,106
Peer Review Not Applicable (non-firms)	15,019

Licenses Ending in 34-66

Peer Review Required	597
Peer Review Not Required (firms)	1,861
Peer Review Not Applicable (non-firms)	6,883

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

Ms. Freeman advised members that on January 27, 2012, 10,545 reminder letters were mailed to licensees who are required to report peer review information by July 1, 2012.

C. Status of PROC Roles and Responsibilities Activity Tracking.

Ms. Corrigan explained that the purpose of the activity tracking chart was to make sure that the PROC met all of the expectations set by the CBA.

Ms. Freeman stated that the chart has been updated to capture 2012 activities. She stated that all activities were completed in 2011 with the exception of developing policies and procedures for evaluating applications of new program providers because none were received. Ms. Freeman went over the chart and highlighted upcoming activities.

In response to questions, members were reminded that PROC roles and responsibilities will be revisited at the July 2012 CBA meeting.

D. Discussion of UPDATE Articles Regarding Peer Review Tips and Recruitment of Peer Reviewers.

Ms. Freeman explained that two articles were written for the next edition of UPDATE. The first article encourages licensees to consider becoming peer reviewers and provides a link to the AICPA web page that outlines the requirements for becoming a peer reviewer. The second article covers peer review pitfalls and includes hyperlinks to articles on the CalCPA website. The next UPDATE will be available online on March 5, 2012.

E. Discussion Regarding Verification of Peer Review Reporting Forms.

Ms. Freeman advised that the CBA requested that staff verify the accuracy of information provided on peer review reporting forms. The first group of forms to be reviewed is those in which licensees indicate they are operating as a firm, but do not need a peer review. Staff will utilize several methods of verifying the information, with the chief method being review of their renewal form to determine if they indicated a need for accounting and auditing continuing education. Staff will also be reviewing information on the internet. The sample will include 5% of corporations and partnerships and 2% of Certified Public Accountants from the first phase of reporters.

Mr. Ixta added that the CBA will be issuing citations to licensees from the first phase that did not submit peer review information. On February 3, 2012, the first 100 citations were issued.

F. Discussion Regarding Consumer Feedback on Peer Review Program Provider.

Mr. Ixta advised members that the CBA has received feedback from consumers concerning the peer review program. Specifically, they feel it is a burden, especially to small firms and sole proprietors. Staff can explain how the program came about and listen to their grievances, but are unable to fully resolve the complaints. Mr. Ixta explained that he brought the issues to the PROC because they provide oversight to the program.

Mr. Ixta added that the CBA has recently received numerous calls from licensees concerned about CalCPA's \$150 annual registration fee, in addition to two complaints regarding CalCPA's response time. The latter two complaints were sent to Linda McCrone and resolved.

V. Discussion Regarding Peer Review Survey Results.

Ms. Freeman gave an overview of the preliminary results of the voluntary peer review survey which has been online since December 2010. The summary of the survey results were based on questions that were answered by approximately 1,000 licensees.

Members discussed the results and were pleased by the number of firms that believe that peer review is beneficial and will use their peer review report as a marketing tool.

VI. Discussion Regarding the PROC's Annual Report to the CBA.

Mr. Ixta reminded members that the Annual Report is in its final draft stage. He suggested members go through the report section by section to make final comments and edits.

Mr. Ixta stated that during review the issue was raised that the report includes more information than required by Title 16, California Code of Regulations (CCR), Section 47. Section 47 states the report regarding the results of the PROC's oversight shall include the scope of work, findings, and conclusions regarding its oversight. Consequently, it was suggested that the report only include items beginning with Section X. Mr. Ixta asked whether members believe the report should include only what is required in regulation. Members responded that the report should include all the sections currently in the final draft.

Mr. Ixta guided the members through each section and requested comments and edits. Ms. Corrigan requested that comments thanking CBA staff be returned to the Message from the Committee Chair. Members continued to discuss the report and made edits to clarify language.

During the course of the discussion, Katherine Allanson requested that the PROC further discuss their oversight role as it relates to enforcement actions taken on peer review issues.

It was motioned by Sherry McCoy, seconded by Seid Sadat, and unanimously carried by those present to adopt the 2011 Peer Review Oversight Committee Annual Report to the CBA as revised, and delegate Nancy Corrigan and Robert Lee to approve the final report for presentation to the CBA at its March 22-23, 2012 meeting.

VII. Discussion Regarding PROC Member Reappointment.

Mr. Ixta explained that a copy of the committee member reappointment form is available in the meeting packet. This form captures members' interest in being reappointed to the PROC. He asked that all members complete the form and return to the CBA. Once the forms are completed, staff will prepare commitment documents for reappointments at a future CBA meeting.

VIII. Discussion Regarding PROC Assignments.

Ms. Corrigan made the following assignments:

March 6, 2012 RAB meeting – T. Ki Lam
April 26, 2012 CalCPA PRC meeting – Sherry McCoy & Nancy Corrigan
May 17, 2012 - 2 p.m. RAB meeting – Seid Sadat (Glendale)
May 23, 2012 Peer Reviewer Training – Katherine Allanson
June 27-28, 2012 Peer Reviewer Training – Seid Sadat
July 24, 2012 - 2 p.m. RAB meeting – Katherine Allanson (Glendale)

Ms. Corrigan reminded members to submit their completed checklists within 30 days after attending an oversight activity.

IX. Future Agenda Items.

Agenda items for future meetings:

- PROC's role in enforcement actions on peer review issues
- Oversight of the National Peer Review Committee
- Revisit PROC's roles and responsibilities
- Discussion regarding peer review due dates (18 month rule)
- Discussion regarding AICPA rules regarding change in firm structure

X. Public Comment for Items Not on the Agenda.

Linda McCrone highlighted the difference between the AICPA rules for dissolutions and incorporations of accounting firms versus the CBA's regulations concerning when a peer review is due. Ms. McCrone distributed copies of the AICPA rules and regulatory language utilized by other states that allow them to follow the AICPA rules. She requested that this issue be discussed at a future PROC meeting.

Ms. McCrone further inquired about the way the CBA calculates the 18-month period referenced in CCR Section 40.

Ms. McCrone distributed the latest RAB schedule and informed the PROC that, due to the volume of reports to be reviewed, the CalCPA is now holding two RAB sessions in one day.

XI. Adjournment.

There being no further business, the meeting was adjourned at 1:20 p.m.

Nancy J. Corrigan, Chair

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



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PROC Item II.C
April 20, 2012

Report on Conflicts of Interest Issue

Presented by: Nancy J. Corrigan, Chair

Date: March 19, 2012

Purpose of the Item

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

Action(s) Needed

No specific action is required on this agenda item.

Background

At the October 27, 2011 PROC meeting, members were provided with a legal opinion from the Department of Consumer Affairs' (DCA) Legal Office in response to questions concerning potential "conflicts of interest" arising through PROC members performing peer reviews or being associated with firms or organizations involved in performing peer reviews.

Following a discussion of the opinion rendered, CBA staff was directed to seek additional guidance from the DCA Legal Office. The specific questions posed are noted below along with the legal counsel's responses (**Attachment**):

1. Q: Can a PROC member be an owner/partner of a firm that conducts peer reviews, and the PROC member also conduct peer reviews for that firm?

A: Yes. A PROC member can be an owner/partner of a firm that conducts peer reviews, and the PROC member may also conduct peer reviews for that firm.

2. Q: Can a PROC member be an owner/partner in a firm that audits CalCPA?

A: Yes. A PROC member can be a partner in a firm that audits CalCPA.

Comments

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

Recommendations

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

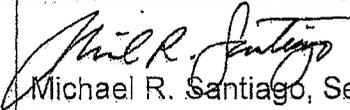
Attachment

1. Memorandum from Michael R. Santiago, Senior Staff Counsel, dated March 12, 2012.



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MEMORANDUM	
DATE	March 12, 2012
TO	Patty Bowers, Executive Officer Board of Accountancy
FROM	 Michael R. Santiago, Senior Staff Counsel Department of Consumer Affairs, Legal Office
SUBJECT	Conflicts of Interest Involving Members of the Peer Review Oversight Committee

This memo is a continuation of the memo dated August 30, 2011. Because the additional questions in this memo have the same facts and background information from the previous memo, the August 30, 2011 memo is attached for reference.

I. QUESTIONS

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

- (6) Can a PROC member be an owner/partner of a firm that conducts peer reviews, and the PROC member also conducts peer reviews for that firm?
- (7) Can a PROC member be an owner/partner in a firm that audits CalCPA?

II. SHORT ANSWERS

- (6) Yes. A PROC member can be an owner/partner of a firm that conducts peer reviews, and also conduct peer reviews for that firm.
- (7) Yes. A PROC member can be a partner in a firm that audits CalCPA.

III. BACKGROUND

Please see Background from the August 30, 2011 memo.

IV. ANALYSIS

(6) PROC Member who is an owner and/or partner of a firm that conducts peer reviews, and the PROC Member also conducts peer reviews.

(A) Political Reform Act

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

(B) Conflict of Interest in Contracts

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

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member who is an owner and/or partner of a firm that conducts peer reviews, and also conducts peer reviews for that firm would not have any peer review report reviewed or audited by the PROC since the PROC is not charged with reviewing peer reports for final acceptance. However, this PROC member might have the opportunity to view a peer review conducted by a peer reviewer associated with the firm wherein he is an owner and/or partner. To avoid any common law conflicts of interest, this PROC

member should not view any peer reviews from the firm in which he is an owner/partner. No facts were presented to indicate that any PROC member who is an owner and/or partner of a firm that conducts peer reviews, and who also conducts peer reviews, viewed any peer review report from his firm in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest. A PROC member who conducts peer reviews for the firm in which he is an owner/partner must ensure that he does not view any of his own peer review reports.

(D) Incompatible Work Activities

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

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

(7) PROC member who is an owner/partner of a firm that audits CalCPA.

As stated in the August 30, 2011 memo, CalCPA is the entity that administers the AICPA peer review program in California. CalCPA is not under the jurisdiction of either the Board or the PROC. However, the accounting firms that provide accounting and auditing services to CalCPA are licensees subject to the Board's jurisdiction. CalCPA routinely contracts with an accounting firm to provide accounting and auditing services. As a quality assurance measure, the accounting firm retained by CalCPA reviews and audits CalCPA's financial statements to ensure they materially and fairly represent the financial standing of the organization. Such financial statements are made available to CalCPA's board of directors and members.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. It is undisputed that a PROC member who is an owner and/or partner of a firm that audits CalCPA has a financial interest in the firm, which is subject to regulation by the Board. However, since firms that conduct audits of CalCPA are not subject to any sort of regulation by the PROC, there is no opportunity for the firm to have to come before the PROC in any regulatory matters. Thus, there would be no violation of the Act since there would be no governmental decisions that the PROC would engage in when it comes to the PROC member's firm of which he is an owner and/or partner. No facts were presented to suggest that any PROC member has any financial interests in any governmental decisions that come before the PROC as it relates to a firm conducting audits of CalCPA.

(B) Conflict of Interest in Contracts

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

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member who is an owner/partner of a firm that audits CalCPA would not appear to have any type of personal conflict with their official duties as a PROC member since the financial audits of CalCPA are not reviewed in any manner by the PROC. No other facts were presented to suggest that any personal interests would lead to any conflicts of interest. Thus, there would be no violation of the common law doctrine against conflicts of interest.

(D) Incompatible Work Activities

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

When a PROC member is an owner and/or partner of a firm that audits CalCPA, the financial audits or reports on CalCPA do not come before the PROC for inspection or review. The PROC does not inspect, review, or audit the firm's work for accuracy or acceptance, nor does the PROC regulate firms conducting audits of CalCPA; thus, a PROC member who is an owner and/or partner of a firm that audits CalCPA would not be engaging in an incompatible work activity so long as the audit that is associated with the firm or the PROC member is not subject to the PROC or PROC member's inspection or audit.

V. CONCLUSION

Based on the foregoing, there would be no violation of any laws when a PROC member is an owner/partner of a firm that conducts peer reviews, and also conducts peer reviews for that firm. Additionally, it would not be a violation of any laws when a PROC member is an owner/partner of a firm that audits CalCPA.

This analysis would of course be subject to change should any new facts be presented.

I hope that the foregoing is of assistance.

Sincerely,

DOREATHEA JOHNSON
Deputy Director
Legal Affairs

By: MICHAEL R. SANTIAGO
Senior Staff Counsel



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PROC Item III.
 April 20, 2012

Reports and Status of Peer Review Program

Presented by: April Freeman, CBA Staff

Date: March 28, 2012

Purpose of the Item

This item provides 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 March 27, 2012, 34,562 peer review reporting forms have been submitted to the California Board of Accountancy (CBA). This is an increase of 3,994 since the February 2012 Peer Review Oversight Committee (PROC) meeting. The reporting forms are categorized as follows:

Licenses Ending in 01-33

Peer Review Required	2,210
Peer Review Not Required (firms)	4,206
Peer Review Not Applicable (non-firms)	15,377

Licenses Ending in 34-66

Peer Review Required	896
Peer Review Not Required (firms)	2,527
Peer Review Not Applicable (non-firms)	9,346

B. Status of Correspondence to Licensees Regarding Peer Review Reporting

On January 30, 2012, staff sent 10,545 reminder letters to licensees who are required to report peer review information by July 1, 2012.

C. Status of PROC Roles and Responsibilities Activity Tracking

The Roles and Responsibilities Activity Tracking chart has been updated to reflect 2012 activities (**Attachment 1**).

D. Discussion of UPDATE Articles Regarding Peer Review

In response to a request from CBA members, staff has prepared four articles for the Spring 2012 edition of UPDATE. The articles include:

- *Peer Review: No Escape* advising licensees that Peer Review Reporting Forms are being reviewed for accuracy;
- *Peer Review: Citations* notifying licensees of the 872 citations issued for failing to respond to CBA letters;
- *Peer Review: How to Avoid the Back Pages!* reminding licensees that reading UPDATE articles is important; and,
- *Consumers & Peer Review* describing the benefits of peer review for consumers and advising consumers to request a copy of the peer review from their CPA.

E. Discussion Regarding Appeals Received from Licensees Cited for Failing to Respond to Peer Review Notification Letters

As of March 27, 2012, the CBA has received 503 requests for appeal in response to the 872 citations issued in February 2012. This represents a 57% appeal rate.

The basis of the majority of appeals is evenly split among:

- The licensee didn't know the requirement applied to them because they are not practicing or are not subject to peer review;
- The licensee didn't receive the notification, reminder or deficiency letters;
- The licensee thought they were complying by getting the peer review done and thought CalCPA would report to CBA; and,
- The licensee confused their CPA license with their firm's (COR/PAR) license.

Staff has done a preliminary review of the appeals and anticipates rendering decisions and notifying licensees by the end of April.

Recommendations

None

Attachments

1. PROC Roles and Responsibilities Activity Tracking 2012

**PROC Roles and Responsibilities
Activity Tracking – 2012**

As of March 27, 2012

Activity	Notes
<p>PROC MEETINGS</p> <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meetings Held: 2/10 PROC Meetings Scheduled: 4/20, 6/15, 8/24, 10/19, 12/4
<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"> CalCPA Visit: 2/16
<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 CBA standards. 	<ul style="list-style-type: none"> Attended AICPA PRB: 1/20 Scheduled CalCPA PRC: 4/26
<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 RAB: 1/5, 1/24, 3/6
<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 Visit: 2/16
<p>PEER REVIEWER TRAINING</p> <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Scheduled: 5/23, 6/27-28
<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. 	TBD
<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"> 2011 Report Submitted to CBA: 3/23

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



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PROC Item IV.A.
April 20, 2012

**Discussion Regarding the National Association of
State Boards of Accountancy's Report on Oversight of the NPRC**

Presented by: Rafael Ixta, Enforcement Chief

Date: April 10, 2012

Purpose of the Item

The purpose of this item is to provide members with the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee's (CAC) Report on the American Institute of Certified Public Accountants' (AICPA) National Peer Review Committee (NPRC) (**Attachment 1**).

Action(s) Needed

No specific action is required.

Background

At its December 9, 2011 meeting, the PROC requested additional information concerning the oversight process for the NPRC.

Comments

The attached CAC report explains the process NASBA and AICPA use to monitor and report on the activities of the NPRC. The PROC may want to consider the process outlined in the report and determine if additional oversight by the PROC is warranted.

Recommendations

None

Attachment

1. NASBA Compliance Assurance Committee Report on the AICPA National Peer Review Committee, with February 23, 2012 cover letter from Janice Gray, Chair.

NASBA

National Association of State Boards of Accountancy

150 Fourth Avenue North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615.880-4200 ♦ Fax 615.880-4200 ♦ www.nasba.org

February 23, 2012

Dear Members of the 55 State Boards of Accountancy and
the respective Peer Review Oversight Committees:

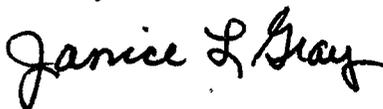
Enclosed is the first annual monitoring report of the National Peer Review Committee (NPRC) of the American Institute of CPAs (AICPA) by the NASBA Compliance Assurance Committee (CAC).

In 2009, an agreement was reached 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. We are pleased to provide you with our first report.

For more information about the NPRC, refer to the NPRC website at <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/COMMUNITY/NATIONALPRC/Pages/NationalPeerReviewCommittee.aspx>. This site includes the 2010 Oversight Report, which was approved by the NPRC in September 2011.

I am happy to discuss this matter further with you. I can be reached at (405) 360-5533.

Sincerely,



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

NASBA Compliance Assurance Committee Report on the AICPA National Peer Review Committee

The American Institute of CPAs (AICPA) National Peer Review Committee (NPRC) administers peer reviews for (i) all firms who serve SEC issuer clients and, accordingly, are required to be registered with and inspected by the Public Company Accounting Oversight Board, and (ii) other firms who elect to have their peer review administered by the NPRC. The NPRC has firms that are located in every state. These are firms that provide audit services and assurance services. To provide transparency in the operations of the NPRC such that individual state boards of accountancy and their peer review oversight committees (PROCs) may rely on the effectiveness of the NPRC, NASBA and the AICPA developed a process by which the activities of the NPRC may be monitored and reports issued.

By agreement, two spots on the NPRC are designated to be filled by NASBA representatives. Currently two former state board members sit in these positions on the NPRC. The members are selected from a list of qualified individuals recommended by NASBA. The individuals serve on the NPRC as fully-participating members with full voting rights and the same responsibilities as other NPRC members.

Those NPRC members representing NASBA report periodically to NASBA's Compliance Assurance Committee (CAC) as to whether:

- The NPRC is complying with the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) and other Guidance issued by the AICPA Peer Review Board and the NPRC;
- The NPRC has an appropriate oversight process in place for the reviews it administers and its peer reviewers;
- Results of the oversight process are transparent;
- Reviews are being conducted and reported upon in accordance with the Standards;
- Results of reviews are being evaluated on a consistent basis;
- The AICPA Peer Review Program is achieving its objectives based on the administration by the NPRC; and
- Comments, suggestions and other input from these two members are given full consideration as other such matters would be from any NPRC members.

Based on our discussions with our representatives on the NPRC, as well as reviewing the comprehensive oversight report prepared by the NPRC and the administrative oversight report issued by a third party, we are satisfied and can report that the NPRC has operated appropriately for the period of November 1, 2010 – October 31, 2011.

Janice L. Gray, CPA, CVA, CFF
Chair, NASBA Compliance Assurance Committee
February 25, 2012



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PROC Item V.C.
April 20, 2012

Assignment of Future PROC Activities

Presented by: Nancy J. Corrigan, PROC Chair

Date: March 19, 2012

Purpose of the Item

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

Action(s) Needed

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

Background

None

Comments

The PROC's 2012 Year-at-a-Glance calendar (**Attachment 1**) includes meetings and activities that are currently scheduled for the following:

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

Recommendations

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

Attachment

1. 2012 Year-at-a-Glance CBA PROC Calendar, updated March 15, 2012.

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)
2012 Year-at-a-Glance Calendar**
(as of March 15, 2012)

JANUARY 2012

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

FEBRUARY 2012

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

MARCH 2012

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

APRIL 2012

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

MAY 2012

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

JUNE 2012

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

JULY 2012

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 T-9/2	25	26 NC	27 NC	28
29	30	31				

AUGUST 2012

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 SC	25
26	27	28	29	30	31	

SEPTEMBER 2012

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

OCTOBER 2012

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

NOVEMBER 2012

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

DECEMBER 2012

S	M	T	W	Th	F	S
						1
2	3	4 SC	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					

 10-day Meeting Notice Date
 Deadline for Exec Surname

COMMITTEE/TASK FORCE

CBA - California Board of Accountancy
PROC - Peer Review Oversight Committee
AICPA - American Institute of Certified Public Accountants
PRB - Peer Review Board
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
SJ-SAN JOSE
SM - SAN MATEO
ONT - ONTARIO
PS - PALM SPRINGS
SAC - SACRAMENTO
OAK - OAKLAND
LA - LOS ANGELES
T-TELECONFERENCE

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



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PROC Item VI.
April 20, 2012

Discussion Regarding Proposed Changes to the PROC's Roles and Responsibilities

Presented by: Nancy J. Corrigan, Chair
Date: March 30, 2012

Purpose of the Item

The purpose of this agenda item is to revisit the roles and responsibilities of the Peer Review Oversight Committee (PROC) as recommended by the California Board of Accountancy (CBA) at its November 17-18, 2011 meeting.

Action(s) Needed

Deliberate the current and future functions of the PROC for recommendation to the CBA at its July 26-27, 2012 meeting.

Background

In February 2008, the CBA adopted the framework for the PROC as outlined in the *Continued Consideration of Key Policy Issues Related to Mandatory Peer Review (Attachment 1)*, including the following roles and responsibilities:

- Oversee the activities of sponsoring organizations related to how peer reviews are processed and evaluated.
- Ensure the sponsoring organizations are adhering to the American Institute of Certified Public Accountants (AICPA) *Standards for Performing and Reporting on Peer Reviews* (Standards).
- Ensure that peer reviewers are properly qualified.
- Ensure that peer reviews are being accepted in a consistent manner by the sponsoring organization's report acceptance body.
- Conduct sight visits of sponsoring organizations and their peer review committees.
- Perform random sampling of peer review reports.
- Represent the Board at the AICPA's Peer Review Board meetings.
- Evaluate organizations outside the AICPA structure that desire to administer peer reviews in California.

Using the above roles and responsibilities as a foundation, the PROC further developed its roles and responsibilities which are included in the PROC Procedure Manual (**Attachment 2**).

Comments

Pursuant to Business and Professions Code (B&P) Section 5076.1 and Title 16, California Code of Regulations (CCR) Section 47 (**Attachment 3**), the PROC was established to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

CBA staff has drafted the following new PROC roles and responsibilities. The roles and responsibilities are based on and consistent with the peer review code sections and regulations.

- Ensure that Board-recognized peer review program providers (Provider) administers peer review in accordance with the standards set forth in CCR Section 48 by:
 - Conducting an annual administrative site visit of each Provider.
 - Attending all peer review board and committee meetings conducted by each Provider.
 - Attending at least four peer review subcommittee meetings conducted by each Provider for the purposes of accepting peer review reports.
 - Conducting reviews of peer review reports accepted by each Provider on a sample basis.
 - Attending, on a regular basis, peer reviewer training courses offered by each Provider.
- 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.

Please note that as the PROC gains experience in conducting various oversight activities, they may choose to add or remove tasks from the PROC Manual providing they have CBA approval and those tasks conform to statutes and regulations.

Recommendations

None

Attachments

1. Continued Consideration of Key Policy Issues Related to Mandatory Peer Review
2. PROC Procedures Manual (relevant pages 5-9)
3. B&P Code Section 5076.1 and CCR Section 47



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CONTINUED CONSIDERATION OF KEY POLICY ISSUES RELATED TO MANDATORY PEER REVIEW

INTRODUCTION

At the January 2008 Board meeting, the Board adopted the Committee on Professional Conduct's (CPC) recommendation to create a Peer Review Oversight Committee (PROC) to independently oversee California's Peer Review Program. As part of the recommendation, staff outlined possible responsibilities for the PROC; however, the composition of the PROC and the number of meetings the committee would hold each year were deferred for deliberation until the special February 2008 Board meeting.

Below are the PROC responsibilities as adopted by the Board at the January Board meeting:

- Oversee the activities of sponsoring organizations related to how peer reviews are processed and evaluated.
- Ensure the sponsoring organizations are adhering to the American Institute of Certified Public Accountants (AICPA) *Standards for Performing and Reporting on Peer Reviews* (Standards).
- Ensure that peer reviewers are properly qualified.
- Ensure that peer reviews are being accepted in a consistent manner by the sponsoring organization's report acceptance body.
- Conduct sight visits of sponsoring organizations and their peer review committees.
- Perform random sampling of peer review reports.
- Represent the Board at the AICPA's Peer Review Board meetings.
- Evaluate organizations outside the AICPA structure that desire to administer peer reviews in California.

Provided that enabling legislation is signed in 2009, the PROC will be established in 2010, with the peer review requirement becoming operative for firms beginning January 1, 2011. It is anticipated that during the PROC's first year of existence (2010), committee members will be responsible for drafting forms, checklists, procedures for performing random samples of peer review reports, and policies and procedures for performing oversight responsibilities including the reviewing of organizations applying to administer a peer review program (other than the AICPA).

This issue paper is provided to assist the Board in its deliberations, and outlines the following in relation to the PROC: (1) purpose of the PROC; (2) oversight of the California Society of Certified Public Accountants' (CalCPA) Peer Review Program; (3) oversight of organizations not affiliated with the AICPA's program; (4) representing the Board at the AICPA's Peer Review Board meetings; (5) conducting meetings and reporting to the Board; and (6) committee composition.

1. *Purpose of the PROC*

- The PROC is intended to engender confidence in the California Peer Review Program from the profession and consumers by performing oversight of the program and providing recommended actions to the Board on the effectiveness and continued reliance of the program.

The above-stated purpose, as well as the authority of the PROC, will be defined in statute.¹ Specifically, related to its authority, the PROC will be authorized to request information from any Board-approved organization involved in California's Peer Review Program. Should an organization not provide the necessary information or materials upon request by the PROC, the PROC will refer the matter to the Board for further action, which could include restrictions relative to administering peer reviews in California or even termination as an administering organization.

The type of documentation the PROC may request would be identified in regulation. It is anticipated that, at a minimum, organizations would be required to make the following materials/information available to the PROC upon request:

- Standards, procedures, guidelines, training materials, and similar documents prepared for the use of reviewers, reviewed firms, and administering organizations.
- Information concerning the extent to which an administering organization has reviewed the quality of reviewers' working papers in connection with the acceptance of reviews.
- Statistical data concerning the results of the reviews in California including number and type of corrective actions required and the number, nature, and extent of the monitoring procedures applied.
- Information concerning the extent to which an administering organization has reviewed the qualifications of its reviewers.
- Sufficient documents to conduct sample reviews of peer reviews accepted by the administering organization. These may include the report; Matter for Further Consideration Form; Finding for Further Consideration Form; reviewed firm's letter of response; firm-wide summary review memorandum; team captain checklist; work papers, notes, or other documentation – including reviewer working papers prepared or reviewed by the administering organization's peer

¹ Previously, staff had indicated that the PROC would be identified in regulation; however, it is now believed that its purpose and authority should be codified in statute, and the specifics relative to carrying out its purpose and authority should be drafted in regulation.

review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required corrective actions, the monitoring procedures applied, and the results.

- Meeting minutes of all meetings conducted by an administering organization related to its administering the program and any meetings during which peer review reports are considered.

Staff believe that if the Board establishes a PROC with the purpose and authority outlined in this section, the Board will provide the PROC with the tools necessary to offer recommendations to the Board related to the effectiveness of, and the continued reliance on, the California Peer Review Program.

2. Oversight of CalCPA's Peer Review Program

At the January 2008 Board meeting, the Board adopted the CPC recommendation to incorporate by reference the AICPA's Standards as the minimum standards for administering a peer review program. In adopting this recommendation, the Board accepts all AICPA-approved organizations authorized to administer the AICPA Peer Review Program. This constitutes, at present, 41 organizations. The PROC will have the authority to request information and materials from all organizations; however, its primary oversight responsibilities will focus on CalCPA. As such, staff have identified those duties that, at a minimum, are fundamental in order for the PROC to fulfill its charge of ensuring that CalCPA adheres to the AICPA Standards.

Staff have outlined the minimum number of meetings and reviews that the PROC will perform relative to its oversight of CalCPA. These are designed to ensure that the PROC will be able to perform the responsibilities outlined in the Introduction.

- Attend all CalCPA Peer Review Committee (PRC) meetings.²
- Attend four CalCPA Report Acceptance Body (RAB) meetings.
- Conduct, at a minimum, an annual administrative site visit of CalCPA's Peer Review Program. This visit will be to gauge the knowledge of CalCPA's professional staff relative to its administration of the AICPA's Peer Review Program.
- Perform, at a minimum, an annual review of CalCPA's Peer Review Committee.
- Perform, at a minimum, four annual reviews of CalCPA's Report Acceptance Body. This is designed to ensure that reviews and acceptance of peer review reports are done consistently and in accordance with AICPA Standards.

Using the above-stated activities as minimum functions, the PROC will need to evaluate if these are sufficient to accommodate an effective oversight of CalCPA. Should the PROC select, it could increase these activities. Additionally, as more firms are required to undergo peer reviews and the program expands, the PROC will need to assess the need to increase its oversight activities.

² At this time, CalCPA holds two two-day PRC meetings annually.

3. Oversight of Organizations not Affiliated with the AICPA's Program

In addition to the decision to allow the AICPA to administer the California Peer Review Program, the Board also indicated that it will allow for other organizations to administer a peer review program. Further, the Board adopted the CPC's recommendation to require that the PROC serve as the evaluation body for any organization desiring to administer a program in California.

It is anticipated that during its first year, the PROC will hold meetings to discuss drafting regulations, and develop policies and procedures for reviewing and recommending approval to the Board relative to these organizations. Furthermore, it is anticipated that the PROC will be required to attend a similar number of meetings and perform a similar number of reviews of these organizations, as needed relative to its oversight of CalCPA.

4. Representing the Board at the AICPA's Peer Review Board Meetings

The PROC will attend all of the public-session AICPA Peer Review Board (PRB) meetings – generally, four per year. This will allow the PROC to better understand any key issues before the AICPA PRB, as well as provide an opportunity for the PROC to ask questions, provide feedback, and voice concerns relative to the program. The PROC will report to the Board related to the future direction of the AICPA Peer Review Program.

5. Conducting Meetings and Reporting to the Board

The PROC will be responsible for conducting four one-day meetings each year. The meetings will be public and held quarterly. At the meetings, the PROC will discuss, within the parameters of members' confidentiality stipulations, business matters related to information obtained as part of its oversight. Further, similar to the Administrative and Qualifications Committees, the PROC Chair would appear before the Board to report on activities undertaken by the PROC. As part of the appearance, the Chair would provide recommendations and present reports to the Board for action on any matters on which it is authorized to act. This would include the annual report to the Board regarding the results of its independent oversight of the California Peer Review Program.³

6. Committee Composition

Staff recommend that the Board consider staffing the PROC with five to seven voluntary committee members, who would be appointed to one-year terms, with a maximum of eight consecutive terms – consistent with the term limits of the Administrative and Qualifications Committees.

³ The report will include the PROC's scope of work, findings, and conclusions. The Board will use the report as a basis for determining continued confidence in the peer review program.

Below are staff-proposed minimum qualifications for an individual seeking appointment as a member of the PROC. Staff drew from multiple sources to identify the proposed qualifications. Specifically, staff looked at qualifications for appointment on the Board's Qualifications Committee, the AICPA *Standards for Performing and Reporting on Peer Reviews*, and a document provided by NASBA outlining a proposed compliance assurance oversight committee (**Attachment 1**).⁴

Qualifications

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

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

Additionally, no member of the PROC may be a current member of the Board, an employee of the Board, an employee of CalCPA, other program administrator or sponsoring organization, or a member of the ethics committee of the AICPA or CalCPA.

If the Board were to consider appointing a public member to the PROC, an alternate set of qualifications would need to be developed. Specifically, the Board would need to identify those attributes that would be required of an individual to sit as a public member on the PROC.

It should be noted that whenever the Board establishes a committee, a staff member is needed in order to coordinate various tasks associated with a committee. Generally, these include, but are not limited to, maintaining the committee roster, compiling meeting minutes, contracting venues for meetings, calendaring committee events, and providing the necessary materials for committee review. The Board's current staffing situation would be unable to absorb the tasks outlined above; therefore, it is anticipated

⁴ This NASBA document was Attachment 2 of the January 2008 issue paper on mandatory peer review.

that an additional staff member would need to be obtained through a Budget Change Proposal in order to perform these functions.

CONCLUSION

Provided the Board reaches a final decision at the February 2008 Board meeting related to the PROC's oversight of the California Peer Review Program, all known critical policy issues related to mandatory peer review will have been decided. Staff will then incorporate the PROC into the materials being provided to the Board for the May 2008 meeting. These materials will include the following: draft report to the Legislature, conceptual California Peer Review Program – including draft statutes and regulations, fiscal impact, and staffing needs. At the May 2008 CPC and Board meetings, the Board will have the opportunity to provide comments and feedback related to the material so all can be finalized and presented for approval at the July 2008 CPC and Board meetings. The final report will be submitted to the Legislature no later than September 1, 2008.

SECTION III – ROLES AND RESPONSIBILITIES**A. ROLES & RESPONSIBILITIES**

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

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

The PROC shall develop a more detailed plan for performing and completing the above roles and responsibilities as outlined in the manual. This plan shall be reviewed with the CBA on a routine basis and updated as appropriate to enable the PROC to fulfill its purpose. Documents resulting from the PROC's program shall be considered drafts until approved as final by the PROC and the CBA. Final documents shall be subject to the retention schedule in place at the CBA.

SECTION IV – PROC FUNCTIONS

The PROC oversight duties will include the following.

A. OVERSIGHT OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS

1. Administrative Site Visits

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

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

2. Peer Review Committee Meetings

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

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

3. Peer Review Subcommittee Meetings (Report Acceptance Bodies)

The PROC shall attend at least four meetings per year of any peer review subcommittee created by a Provider for the purposes of accepting peer review reports. These meetings are commonly referred to as “Report Acceptance Body (RAB)” meetings. The PROC will monitor to ensure that peer reviews are performed and reported on in accordance with the Provider’s established standards.

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

4. Sample Reviews

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

Sample reviews may be conducted during the Administrative Site Visit.

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

5. Peer Reviewer Training

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

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

6. Statistics

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

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

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

B. EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS

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

C. WITHDRAWAL OF BOARD RECOGNITION OF A PEER REVIEW PROGRAM PROVIDER

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

D. ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY

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

E. DOCUMENTATION OF OVERSIGHT ACTIVITIES

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

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

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

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

BUSINESS AND PROFESSIONS CODE
Section 5076.1

(a) The board shall appoint a peer review oversight committee of certified public accountants of this state who maintain a license in good standing and who are authorized to practice public accountancy to provide recommendations to the board on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

(b) The committee may request any information from a board-recognized peer review program provider deemed necessary to ensure the provider is administering peer reviews in accordance with the standards adopted by the board in regulations. Failure of a board-recognized peer review program provider to respond to the committee shall result in referral by the committee of the provider to the board for further action. Any information obtained by the board, its representatives, or the peer review oversight committee in conjunction with its review of peer review program providers shall not be a public record, and shall be exempt from public disclosure, provided, however, this information may be disclosed under any of the following circumstances:

- (1) In connection with disciplinary proceedings of the board.
- (2) In connection with legal proceedings in which the board is a party.
- (3) In response to an official inquiry by a federal or state governmental regulatory agency.
- (4) In compliance with a subpoena or summons enforceable by court order.
- (5) As otherwise specifically required by law.

(c) The members of the committee shall be appointed to two-year terms and may serve a maximum of four consecutive terms.

(d) The board may adopt, as necessary, regulations further defining the minimum qualifications for appointment as a committee member and additional administrative elements designed to ensure the effectiveness of mandatory peer review.

(e) This section shall remain in effect only until January 1, 2014, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2014, deletes or extends that date.

CALIFORNIA CODE OF REGULATIONS
TITLE 16. Professional and Vocational Regulations
DIVISION 1. Board of Accountancy Regulations
ARTICLE 6. Peer Review

47. Peer Review Oversight Committee.

(a) The Peer Review Oversight Committee shall be comprised of not more than seven licensees. The licensees shall maintain a valid and active license to practice public accounting in California issued by the Board.

(b) No member of the committee shall be a current member or employee of the Board.

(c) The committee shall hold meetings as necessary in order to conduct business and shall report to the Board regarding the effectiveness of mandatory peer review. This shall include an annual report to the Board regarding the results of its oversight, and shall include the scope of work, findings, and conclusions regarding its oversight.

(d) The committee is authorized to request from a Board-recognized peer review program provider those materials necessary to perform its review.

(e) Should a Board-recognized peer review program provider fail to respond to any request, the committee shall refer the matter to the Board.

(f) The committee shall review and recommend to the Board for approval of peer review program provider applications for recognition by the Board.



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PROC Item VII.
April 20, 2012

Discussion of Title 16 California Code of Regulations
Section 40(b) Regarding Peer Review Due Dates

Presented by: Rafael Ixta, Enforcement Chief
Date: March 28, 2012

Purpose of the Item

The purpose of this item is to provide members with educational information on Title 16, California Code of Regulations (CCR) Section 40(b) regarding when a firm is required to have a peer review.

Action Needed

No specific action is necessary.

Background

Business and Professions Code, Section 5076(a) requires that a firm have a peer review report of its accounting and auditing practice by a Board-recognized peer review program every three years in order to renew its registration.

Currently, Title 16, California Code of Regulations (CCR), Section 40(b) requires that each firm licensed after January 1, 2010, that has an accounting and auditing practice, have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of services (**Attachment 1**).

At its January 26-27, 2012 meeting, the California Board of Accountancy (CBA) adopted proposed changes to CCR Section 40(b) that simplifies the language to require that a firm performing accounting and auditing services for the first time shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of services (**Attachment 1**).

Comments

The CBA continues to receive numerous inquiries from firms that have undergone a change in structure and want to know when their next peer review is due. Examples of changes in firm structure include merging or dividing of partnerships, incorporation of sole proprietorships, sale of a firm, etc. Under current law peer review due dates do not change as a result of changes to firm structure. Pursuant to the above-cited code provisions, any newly formed firm (sole proprietorship, corporation or partnership) or any firm that performs accounting and auditing services for the first time is required to have a peer review report accepted within 18 months of the completion of the services.

Recommendations

None

Attachments

1. Title 16, CCR Section 40(b), current and proposed

CALIFORNIA CODE OF REGULATIONS
TITLE 16. Professional and Vocational Regulations
DIVISION 1. Board of Accountancy Regulations
ARTICLE 6. Peer Review

Section 40. Enrollment and Participation.

CURRENT

(a) Commencing with the operative date prescribed by Section 45(b), a firm operating or maintaining an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 36 months prior to its first reporting date and have a peer review report accepted by a Board-recognized peer review program once every three years in order to renew its license.

(b) Each firm licensed after the operative date of this Article that performs services in an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

(c) Should a firm begin performing services as defined in Section 39(a) of this Article after the operative date prescribed by Section 45(b), the firm shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

PROPOSED

~~(a) Commencing with the operative date prescribed by Section 45(b), a firm operating or maintaining an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 36 months prior to its first reporting date and have a peer review report accepted by a Board-recognized peer review program once every three years in order to renew its license.~~
(a) Commencing with the operative date prescribed by Section 45(b), a firm performing services as defined in Section 39(a) shall have a peer review report accepted by a Board-recognized peer review program within 36 months prior to its first reporting date and have a peer review report accepted by a Board-recognized peer review program once every three years in order to renew its license.

~~(b) Each firm licensed after the operative date of this Article that performs services in an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.~~

~~(c) Should a firm begin performing services as defined in Section 39(a) of this Article after the operative date prescribed by Section 45(b), the firm shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.~~
(c) Should a firm begin performing services as defined in Section 39(a) of this Article after the operative date prescribed by Section 45(b), the firm performing services as defined in Section 39(a) for the first time shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the date it completes those services.