



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

**PROC MEETING
NOTICE & AGENDA**

**Friday, January 30, 2015
10:00 a.m. – 12:00 p.m.**

Doubletree by Hilton Berkeley Marina
200 Marina Blvd.
Berkeley, CA 94710
Telephone: (510) 548-7920

PROC Purpose Statement

To act as an advisory committee and assist the CBA in its oversight of the Peer Review Program.

- I. Roll Call and Call to Order (**Robert Lee, Chair**).
- II. Report of the Committee Chair (**Robert Lee**).
 - A. Presentation and Discussion Regarding Requirements for Reporting Actions Taken at Board Meetings In Accordance With California Government Code Section 11123 (**Dominic Franzella, Enforcement Chief**).
 - B. Approval of the December 10, 2014 PROC Meeting Minutes.
 - C. Report on the January 22, 2015 CBA Meeting.
 - D. Discussion of Recent Activities of the National Association of State Boards of Accountancy (NASBA), Compliance Assurance Committee (CAC).
- III. Report on PROC Oversight Activities (**Robert Lee, Chair**).
 - A. Report on the January 27, 2015 American Institute of Certified Public Accountants' (AICPA) Peer Review Board (PRB) Meeting.
 - B. Report on the January 27-28, 2015 California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body (RAB) Meeting.
 - C. Report on Oversight of Out-of-State Peer Review Administering Entities in Georgia and Illinois.
 - D. Assignment of Future PROC Oversight Activities.

- IV. Status of PROC Roles and Responsibilities Activity Tracking (**Jenny Sheldon, Enforcement Manager**).
- V. Review and Discussion of the 2014 AICPA Annual Report on Oversight (**Jenny Sheldon, Enforcement Manager**).
- VI. Report of the Enforcement Chief (**Dominic Franzella**).
 - A. Discussion and Acceptance of the 2014 PROC Annual Report to the CBA.
- VII. Closing Business (**Robert Lee, Chair**).
 - A. Public Comments for Items Not on the Agenda.
 - B. Agenda Items for Future PROC Meetings.
- VIII. Adjournment.

Please note: Action may be taken on any item on the agenda. All times are approximate. In accordance with the Bagley-Keene Open Meeting 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 Chanda Gonzales at (916) 561-4343, or by email at Chandalou.Gonzales@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:

Chanda Gonzales, Enforcement Analyst
(916) 561-4343 or Chandalou.Gonzales@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.
January 30, 2015

**Presentation and Discussion Regarding Requirements for Reporting Actions
Taken at Board Meetings in Accordance With California Government Code
Section 11123**

Presented by: Dominic Franzella, Enforcement Chief

Date: December 12, 2014

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with the new procedures staff will follow to meet the requirement to publicly report on each action taken in accordance with California Government Code (Government Code) section 11123.

Action Needed

No specific action is required on this agenda item.

Background

The Bagley-Keene Open Meeting Act defines various terms, including “action taken” which is defined as a “collective commitment or promise by the members of the state body to make a positive or negative decision, or an actual vote by the members of a state body when sitting as a body or entity upon a motion, proposal, resolution, order, or similar action.”

Effective January 1, 2015, Government Code section 11123 was amended, by the passage of Assembly Bill 2720 (**Attachment 1**), to require that all state bodies publicly report any action taken and the vote or abstention on that action of each member present for the action. Pursuant to Business and Professions Code section 5017.1 (**Attachment 2**), the California Board of Accountancy (CBA) keeps minutes which are publicly posted on the CBA website.

Comments

To ensure the CBA is in compliance with the new provisions that took effect January 1, 2015, the following procedures will be followed after each action at the CBA and committee meetings, including the Committee on Professional Conduct, Enforcement Program Oversight Committee, Legislative Committee, Strategic Planning Committee, Enforcement Advisory Committee, PROC, Mobility Stakeholder Group, and Qualifications Committee:

**Presentation and Discussion Regarding Requirements for Reporting Actions
Taken at Board Meetings in Accordance With California Government Code
Section 11123**

Page 2 of 2

- After a motion and a second have been put forth for a vote, a roll call vote will be taken, in alphabetical order, by the Board Relations Analyst or the committee's staff liaison.
- Members will state their vote as yes, no, or abstain, which will be recorded by the Board Relations Analyst or committee's staff liaison.
- When the roll call vote is complete, the CBA President or committee Chair will state if the motion passed or failed.

Additionally, the meeting minutes will document each members vote as "Yes," "No," or "Abstain." If a member is temporarily absent, it will be noted on the minutes.

Fiscal/Economic Impact

None.

Recommendation

None.

Attachments

1. Assembly Bill 2720
2. Business and Professions Code section 5017.1



California
LEGISLATIVE INFORMATION

AB-2720 State agencies: meetings: record of action taken. (2013-2014)

Assembly Bill No. 2720

CHAPTER 510

An act to amend Section 11123 of the Government Code, relating to public meetings.

[Approved by Governor September 20, 2014. Filed with Secretary of State
September 20, 2014.]

LEGISLATIVE COUNSEL'S DIGEST

AB 2720, Ting. State agencies: meetings: record of action taken.

The Bagley-Keene Open Meeting Act requires, with specified exceptions, that all meetings of a state body, as defined, be open and public and all persons be permitted to attend any meeting of a state body. The act defines various terms for its purposes, including "action taken," which means a collective decision made by the members of a state body, a collective commitment or promise by the members of the state body to make a positive or negative decision, or an actual vote by the members of a state body when sitting as a body or entity upon a motion, proposal, resolution, order, or similar action.

This bill would require a state body to publicly report any action taken and the vote or abstention on that action of each member present for the action.

Vote: majority Appropriation: no Fiscal Committee: no Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 11123 of the Government Code is amended to read:

11123. (a) All meetings of a state body shall be open and public and all persons shall be permitted to attend any meeting of a state body except as otherwise provided in this article.

(b) (1) This article does not prohibit a state body from holding an open or closed meeting by teleconference for the benefit of the public and state body. The meeting or proceeding held by teleconference shall otherwise comply with all applicable requirements or laws relating to a specific type of meeting or proceeding, including the following:

(A) The teleconferencing meeting shall comply with all requirements of this article applicable to other meetings.

(B) The portion of the teleconferenced meeting that is required to be open to the public shall be audible to the public at the location specified in the notice of the meeting.

(C) If the state body elects to conduct a meeting or proceeding by teleconference, it shall post agendas at all teleconference locations and conduct teleconference meetings in a manner that protects the rights of any party or member of the public appearing before the state body. Each teleconference location shall be identified in the notice and agenda of the meeting or proceeding, and each teleconference location shall be accessible to the public. The agenda shall provide an opportunity for members of the public to address the state body directly

pursuant to Section 11125.7 at each teleconference location.

(D) All votes taken during a teleconferenced meeting shall be by rollcall.

(E) The portion of the teleconferenced meeting that is closed to the public may not include the consideration of any agenda item being heard pursuant to Section 11125.5.

(F) At least one member of the state body shall be physically present at the location specified in the notice of the meeting.

(2) For the purposes of this subdivision, "teleconference" means a meeting of a state body, the members of which are at different locations, connected by electronic means, through either audio or both audio and video. This section does not prohibit a state body from providing members of the public with additional locations in which the public may observe or address the state body by electronic means, through either audio or both audio and video.

(c) The state body shall publicly report any action taken and the vote or abstention on that action of each member present for the action.

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**Attachment 2**

**California Business and Professions Code
Division 3, Chapter 1, Article 1, Section 5017.1
Administration**

5017.1

The board shall post, within 10 days of board approval, the finalized minutes from meetings of the board that are open and public pursuant to Section 5017 on the board's Internet Web site. The minutes shall remain on the board's Internet Web site for at least three years. Providing a link on the Internet Web site to the minutes shall satisfy this requirement.



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PROC Item II.B.
 January 30, 2015

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

**MINUTES OF THE
 DECEMBER 10, 2014
 PROC MEETING**

Hilton San Diego Airport/Harbor Island
 1960 Harbor Island Drive
 San Diego, CA 92101
 (619) 291-6700

I. Roll Call and Call to Order.

Robert Lee, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 2:00 p.m. on Wednesday, December 10, 2014. The meeting adjourned at 4:00 p.m.

Members

Robert Lee, Chair	Present
Sherry McCoy, Vice-Chair	Present
Katherine Allanson	Present
Nancy Corrigan	Present
Jeffrey DeLyser	Present
Seid M. Sadat	Present

CBA Staff

Patti Bowers, Executive Officer
 Rafael Ixta, Chief, Enforcement Division
 Chanda Gonzales, Enforcement Analyst
 Vincent Johnston, Enforcement Manager
 Erica Lee, Enforcement Analyst
 Kay Lewis, Investigative CPA
 Allison Nightingale, Enforcement Technician
 Dorothy Osgood, Acting Supervising Investigative CPA

Other Participants

Linda McCrone, CPA, California Society of Certified Public Accountants (CalCPA)
 Carl Sonne, Deputy Attorney General

II. Report of the Committee Chair.

A. Approval of August 22, 2014 PROC Minutes.

Mr. Lee asked if members had revisions to the minutes of the August 22, 2014 PROC meeting. Mr. Lee and several members requested revisions to the minutes regarding the correct dates for meetings attended.

It was motioned by Mr. Sadat, seconded by Ms. Corrigan, and unanimously carried by those present to adopt the minutes of the August 22, 2014 PROC meeting.

B. Report on the September 18-19, 2014 CBA Meeting.

Mr. Lee attended this meeting. Mr. Lee stated that the biggest topic was the approval of the Sunset Review Report. He noted that the CBA requested edits to the Peer Review Report to the Legislature (later adopted at the November CBA meeting).

C. Report on the November 20-21, 2014, CBA Meeting.

Mr. Lee attended this meeting. Mr. Lee mentioned that Mr. De Lyser was appointed as Chair to the EAC, Ms. Allanson was appointed to the EAC, and Mr. Sadat was appointed as Vice-Chair to the PROC.

Ms. Bowers noted the following CBA officer elections: Jose Campos, CPA, President; Katrina Salazar, CPA, Vice-President; and Alicia Berhow, Secretary/Treasurer.

D. Discussion of Recent Activities of the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC).

Mr. Ixta explained that this item is a placeholder and that there currently is nothing to report. Going forward, this will be a standing agenda item; if there is nothing to report, it will be skipped.

III. Report on PROC Oversight Activities.

A. Report on the September 10, 2014 NASBA CAC Meeting.

Ms. Corrigan and Ms. Allanson attended this meeting via teleconference. Ms. Corrigan informed the committee that the CAC gave California credit for initiating the teleconference process that took place. Ms. Allanson added that there was discussion about Employee Retirement Income Security Act (ERISA) problems. It was found that 100 Texas accounting firms that performed ERISA audits did not undergo peer review and were sent cease and desist letters.

B. Report on the September 23, 2014 California Society of Certified Public Accountants (CalCPA) Report Acceptance Body (RAB) Meeting.

Ms. McCoy attended this meeting via teleconference. She stated there was discussion about the identification of training needs and 40-45 reviews were completed.

C. Report on the September 30, 2014, American Institute of Certified Public Accountants (AICPA) Peer Review Board Meeting.

Mr. De Lyser attended this meeting via teleconference. He observed that there was high-level discussion with a lot of technical aspects and there was also discussion about peer reviewers looking at whether one is doing work in another state and related mobility issues. He noted the possible use of a risk matrix and the selecting of some of these firms as part of the Peer Review process. He also noted Department of Labor (DOL) and ERISA issues were other topics that came up. Mr. De Lyser added that it was a good meeting.

D. Report on the November 14, 2014 AICPA Peer Review Board Meeting.

Ms. McCoy attended this meeting via teleconference. She stated that there was discussion about the RAB handbook update, communications with firms subject to peer review, and changes to be implemented into the new guidance. She noted considerable discussion centered around DOL issues and the trickle down effect. She stated one person in the meeting was very passionate about ethical issues in this industry. Ms. McCoy also relayed that approximately 20 firms have peer reviewers who are now not qualified to do peer review because their firm failed to report DOL information, and as a result, these reports will potentially be called into question. She thought that this was a really good call. Lastly, Ms. McCoy stated that there was discussion on the enforcement side, regarding whether the failure to report was an oversight or was intentional, which may be difficult to determine and will impact the penalty.

Ms. McCrone added that these cases are being referred to AICPA Ethics Division. She indicated that the firms found to have intentionally subverted the peer review process are having their AICPA membership dropped permanently and others will have their membership suspended for two years.

Further, Ms. McCrone explained that if there are these problems, these peer reviews are automatically recalled and the CBA is notified.

E. Report on the November 20-21, 2014 CalCPA Peer Review Committee Meeting.

Ms. Corrigan and Ms. Allanson attended this meeting. Ms. Corrigan felt that the qualifications of the individuals on that committee are outstanding. Ms. Corrigan indicated that in addition to the general meeting, she attended the administrative meeting while Ms. Allanson oversaw RAB sessions. Ms. Corrigan stated there were AICPA representatives present who mentioned that 4,900 firms were reviewed for proper enrollment with a 10 percent peer review error rate. Ms. Allanson pointed out that these were all DOL matters. Ms. Corrigan continued that there were legal issues to check into with collecting Employer Identification Numbers from firms. She also noted that another high-risk area involved reviewing reviewer contracts and improving quality and turnaround.

According to Ms. Corrigan, the committee talked about having a quarterly telephone conference, nationwide, of technical reviewers to share information and give guidance. Ms. Allanson thought that this would make things more consistent across the country.

F. Report on the November 20, 2014, CalCPA RAB Meeting.

Ms. Allanson attended this meeting. She commented that this was the hardest working committee she had ever seen. She noted that the RAB meeting was conducted differently than past meetings in that it went into more detail and grouped the reports differently. She said that this made it easier for her, as an outsider, to follow and understand what they were accomplishing. Ms. Allanson noted that this group is very passionate about their work.

G. Assignment of Future PROC Oversight Activities.

Mr. Lee made or confirmed the following assignments:

- December 15-16, 2014 CalCPA RAB – no assignments; no volunteers
- January 27, 2015 AICPA Peer Review Board Meeting – Mr. Sadat, Ms. Corrigan
- January 27-28, 2015 CalCPA RAB – Mr. Sadat (27th), Ms. Allanson (28th)
- February RAB meetings – deferred
- March 19-20, 2015 CBA Meeting – Mr. Sadat or Mr. De Lyser
- April 22, 2015 CalCPA RAB – deferred
- May 21-22, 2015 CalCPA PRB Meeting – Ms. Allanson, Mr. Sadat

Mr. Ixta directed staff to confirm the public portion of the January 2015 AICPA PRB meeting in Puerto Rico.

IV. Reports and Status of Peer Review Program.

A. Status of PROC Roles and Responsibilities Activity Tracking.

Mr. Lee requested that the May 22, 2014 CalCPA RAB meeting that was attended be added to the tracking sheet. Ms. Allanson requested that the November 20, 2014 CalCPA RAB meeting that was attended be added to the tracking sheet.

Mr. Ixta suggested adding a new row on the tracking sheet for NASBA activities. Ms. McCoy pointed out that the asterisked note on the current activity tracking sheet should be reviewed as related to the role of the PROC. Mr. Lee suggested to have staff check whether the NASBA activity is permitted to have its own line or otherwise to place it under the “Additional Activities” section of the tracking sheet.

Ms. Corrigan brought up that Ms. Allanson and Mr. De Lyser reviewed out-of-state peer review oversight reports in 2013 and asked if that activity should be on the tracking sheet. Mr. Lee and other committee members commented that it should be added to the agenda every year. Ms. Allanson and Mr. De Lyser

volunteered to do two more of these reviews. Mr. Ixta affirmed that the data for these reviews is public and should be online. Members agreed that Ms. Allanson and Mr. De Lyser should take the next two states with the largest number of California firms that are peer reviewed in that state. Ms. Allanson requested that whoever was going to send her and Mr. De Lyser the states they are to do, to also send the checklists. She further added that this review should be done by the end of the year. Mr. Lee commented that this activity should maybe be added to the "Additional Activities" section of the tracking sheet.

Mr. Lee asked if there was anything else to be added under this Agenda Item. Mr. Ixta requested staff perform an inventory of all the checklists received for the 2014 oversight activities. Ms. Gonzales confirmed that checklists had recently been received for Ms. Allanson and Ms. Corrigan for the November 20, 2014 RAB and the November 20-21, 2014 CalCPA PRC meeting.

V. Report of the Enforcement Chief.

A. Discussion of the Draft 2014 PROC Annual Report.

Mr. Ixta introduced the draft 2014 PROC Annual Report.

Mr. Lee requested that the term dates be verified and noted the need to appoint additional members to the PROC. Ms. Bowers stated that, in reference to letters sent out about all CBA committee openings, there have been at least 30 responses received. The target time to take this to the CBA is its March 2015 meeting.

Members suggested various edits and revisions to the report.

Mr. Sadat inquired about attendance at an upcoming NASBA summit. Ms. Bowers discussed the process for out-of-state travel requests and stated that the CBA will request approval for meetings that appear necessary. A proposal for out-of-state travel for the next fiscal year will be given to the Governor in February.

B. Discussion Regarding the CAC PROC Resources Webpage Including the Review of Checklists and Templates.

Mr. Ixta thanked Ms. Corrigan for bringing this to his attention and noted that the number of participating states grew significantly. Members discussed the content of the two different checklists. They decided to use both forms for the upcoming RAB meetings and will bring the checklists back with comments for the January 2015 PROC meeting.

C. Discussion Regarding the Development of an Oversight Checklist for NASBA CAC Meetings.

Members discussed this new form and decided to use it at the next CAC meeting as a trial. Mr. Ixta asked staff to adopt all changes for the form and

mark it as a draft. The new form and its use will be discussed at the next PROC meeting.

VI. Future Agenda Items.

Ms. Bowers mentioned that the March 2015 CBA meeting will be in Irvine and that the November 2015 meeting will be at the new CBA building.

1. Review PROC Annual Report for update and changes
2. Reports on out-of-state oversight reviews
3. Modify August 22, 2014 PROC minutes
4. Update the 2014 activity tracking sheet

VII. Public Comment for Items Not on the Agenda.

No public comment.

VIII. Adjournment.

There being no further business, Mr. Lee adjourned the meeting at 4:00 p.m. on Wednesday, December 10, 2014.

Robert Lee, CPA, Chair

Chanda Gonzales, Enforcement Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-4343.



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PROC Item IV.
January 30, 2015

Status of PROC Roles and Responsibilities Activity Tracking

Presented by: Jenny Sheldon, Enforcement Manager

Date: December 22, 2014

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with a status of the oversight activities performed in 2014 and scheduled for 2015.

Action(s) Needed

It is requested that the PROC review the information presented and advise staff of any necessary revisions.

Background

None.

Comments

The PROC Roles and Responsibilities Activity Tracking chart has been updated to reflect all of the 2014 activities (**Attachment 1**) and the upcoming 2015 activities (**Attachment 2**).

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachments

1. PROC Roles and Responsibilities Activity Tracking 2014
2. PROC Roles and Responsibilities Activity Tracking 2015

**Peer Review Oversight Committee (PROC) Roles and Responsibilities
Activity Tracking – 2014**

Activity*	Notes
PROC MEETINGS <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meetings Held: 1/31, 5/2, 8/22, 12/10
ADMINISTRATIVE SITE VISITS <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"> Site Visit Held: CalCPA 7/29
PEER REVIEW COMMITTEE MEETINGS <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	<ul style="list-style-type: none"> Meetings Attended: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) 1/30, 5/13, 5/28, 8/6, 9/30, 11/14; CalCPA Peer Review Committee (PRC) 5/21-22, 11/20-21
PEER REVIEW SUBCOMMITTEE MEETINGS <ul style="list-style-type: none"> Attend and review at least four of each peer review program provider's peer review Report Acceptance Body (RAB) subcommittee meetings to observe the acceptance of peer review reports. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Meetings Attended: CalCPA Report Acceptance Body (RAB) 1/22, 2/25, 3/19, 5/22, 9/23, 11/20
REVIEW SAMPLING OF PEER REVIEWS <ul style="list-style-type: none"> Perform sampling of peer review reports. 	<ul style="list-style-type: none"> See Administrative Site Visit
PEER REVIEWER TRAININGS <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Training Attended: CalCPA Peer Reviewer 5/21, 6/26-27
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	<ul style="list-style-type: none"> N/A
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA) <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"> In progress; due to CBA at March 2015 meeting.
CBA MEETINGS	<ul style="list-style-type: none"> Meetings Attended: 1/22-23, 3/20-21, 5/29-30, 7/24, 9/18-19, 11/20-21
ADDITIONAL ACTIVITIES	<ul style="list-style-type: none"> Meeting Attended: NASBA Compliance Assurance Committee (CAC) 9/10

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

Peer Review Oversight Committee (PROC) Roles and Responsibilities
Activity Tracking – 2015
As of December 10, 2014

Activity*	Notes
PROC MEETINGS <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meetings Scheduled: 1/30, 5/1, 8/21, 12/9
ADMINISTRATIVE SITE VISITS <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"> Site Visits Scheduled:
PEER REVIEW COMMITTEE MEETINGS <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	<ul style="list-style-type: none"> Meetings Scheduled: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) 1/27
PEER REVIEW SUBCOMMITTEE MEETINGS <ul style="list-style-type: none"> Attend and review at least four of each peer review program provider's peer review Report Acceptance Body (RAB) subcommittee meetings to observe the acceptance of peer review reports. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Meetings Scheduled: CalCPA Report Acceptance Body (RAB) 1/27-28, 5/21-22
REVIEW SAMPLING OF PEER REVIEWS <ul style="list-style-type: none"> Perform sampling of peer review reports. 	<ul style="list-style-type: none"> See Administrative Site Visit
PEER REVIEWER TRAININGS <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Training Scheduled:
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	<ul style="list-style-type: none"> N/A
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA) <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"> In progress; due to CBA at March meeting.
CBA MEETINGS	<ul style="list-style-type: none"> Meetings Scheduled: 1/22-23, 3/19
ADDITIONAL ACTIVITIES	

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



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PROC Item V.
January 30, 2015

Review and Discussion of the 2014 AICPA Peer Review Program Annual Report on Oversight

Presented by: Jenny Sheldon, Enforcement Manager

Date: December 31, 2014

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with the American Institute of Certified Public Accountants (AICPA) Peer Review Program Annual Report on Oversight, issued September 30, 2014.

Action(s) Needed

It is requested that the PROC review the Annual Report (**Attachment**).

Background

The purpose of the AICPA Annual Report on Oversight is to provide a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and to conclude on whether the objectives of the AICPA Peer Review Board's 2013 oversight process were met.

Comments

The statistical information presented in the AICPA Annual Report on Oversight pertains to peer reviews that commenced and were performed during the calendar years 2011-2013. According to the report, approximately 30,000 firms are enrolled in the AICPA Peer Review Program and 9,000 peer reviews take place each year. The AICPA has 42 administering entities covering 55 jurisdictions.

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachment

AICPA Peer Review Program Annual Report on Oversight, issued September 30, 2014



Peer Review Program

ANNUAL REPORT ON OVERSIGHT

**Issued
September 30, 2014**

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Acronyms

Certain acronyms are used throughout this Report.

AE	Administering Entity
AICPA	American Institute of Certified Public Accountants
PRP	Peer Review Program
CPA	Certified Public Accountant
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
ECTF	Education and Communication Task Force
EQCR	Engagement Quality Control Review
ERISA	Employee Retirement Income Security Act
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FFC	Finding for Further Consideration
FSBA	Facilitated State Board Access
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office (U.S.)
IP	Implementation Plan
MFC	Matter for Further Consideration
NPRC	National Peer Review Committee
OTF	Oversight Task Force (AICPA Peer Review Board)
PCAOB	Public Company Accounting Oversight Board
PCPS	Private Companies Practice Section
POA	Plan of Administration
PRISM	Peer Review Information System Management
PRB	Peer Review Board (AICPA)
QCPP	Quality Control Policies and Procedures
RAB	Report Acceptance Body (Administering Entity Peer Review Committee)
SASs	Statements on Auditing Standards
SBA	State Board of Accountancy
SEC	Securities and Exchange Commission (U.S.)
SECPS	Securities and Exchange Commission Practice Section
SEFA	Schedule of Expenditures of Federal Awards
SOC	Service Organization Control
STF	Standards Task Force
SQCS	Statements on Quality Control Standards
SRM	Summary Review Memorandum
SSAEs	Statements on Standards for Attestation Engagements
SSARS	Statements on Standards for Accounting and Review Services

Introduction

Purpose of This Report

The purpose of this Annual Report on Oversight (report) is to provide a general overview; statistics and information; the results of the various oversight procedures performed on the AICPA Peer Review Program (AICPA PRP); and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2013 oversight process were met.

Scope and Use of This Report

This report contains data pertaining solely to the AICPA PRP and should be reviewed in its entirety and not taken out of context because:

- approximately 27,000¹ firms enrolled in the AICPA PRP have a peer review performed once every 3 years.
- approximately 9,000 peer reviews take place each year.
- 42² administering entities (AEs) cover 55 licensing jurisdictions.
- There are more than 660 volunteer Peer Review Committee members.

Years Presented in This Report

Statistical information presented in this report pertains to peer reviews commenced and performed during the calendar years 2011 - 2013. Accordingly, oversight procedures included in this report are performed on a calendar year basis.

1 Approximately 30,000 firms are enrolled in the AICPA PRP. Approximately 3,000 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

2 The National Peer Review Committee (National PRC) became an AE of the AICPA PRP effective January 1, 2009. Prior to January 1, 2009, the National PRC was a separate peer review program called the CPCAF PRP. The National PRC has issued a separate report for the calendar year and its results are not included within this Report.

History of Peer Review at the AICPA

A system of internal inspection was first used regularly in the early 1960s when a number of large firms used it to monitor their accounting and auditing practices and to make certain their different offices maintained consistent standards. Firm-on-firm peer review emerged in the 1970s. No real uniformity to the process existed until 1977, when the AICPA's Governing Council (council) established the Division for CPA Firms to provide a system of self-regulation for its member firms. Two voluntary membership sections within the Division for CPA Firms were created—the Securities and Exchange Commission (SEC) Practice Section (SECPS) and the Private Companies Practice Section (PCPS).

One of the most important membership requirements common to both sections was that once every three years firms were required to have a peer review of their accounting and auditing practices to monitor adherence to professional standards. The requirements also mandated that the results of peer review information be made available in a public file. Each section formed an executive committee to administer its policies, procedures and activities as well as a peer review committee to create standards for performing, reporting and administering the peer reviews.

AICPA members voted overwhelmingly to adopt mandatory peer review, effective in January 1988, and the AICPA Quality Review Program was created. Firms could enroll in the newly created AICPA Quality Review Program or become a member of the Division for CPA Firms and undergo an SECPS or PCPS peer review. Firms enrolling in the AICPA Quality Review Program that had audit clients would undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected accounting and auditing engagements. Firms without audit clients that only performed engagements under the attestation standards or accounting and review services standards would undergo off-site peer reviews, which also included a review of selected engagements to determine if they were in compliance with professional standards.

From its inception, the peer review program has been designed to be educational and remedial in nature. Deficiencies identified within firms through this process are then corrected. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether the reviewed firm's system of quality control for its accounting and auditing practice has been designed appropriately and whether the firm is complying with that system.

In 1990, a new amendment to the AICPA bylaws mandated that AICPA members who practice public accounting with firms that audit one or more SEC clients must be members of the SECPS. In 1994, council approved a combination of the PCPS Peer Review Program and the AICPA Quality Review Program under the name AICPA PRP governed by the PRB, which became effective in 1995. Thereafter, as a result of this vote, the PCPS no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB) as a private sector regulatory entity to replace the accounting profession's self-regulatory structure as it relates to public company audits. One of the PCAOB's primary activities is the operation of an inspection program that periodically evaluates registered firms' SEC issuer audit practices.

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with, and inspected by, the PCAOB. Because many state boards of accountancy (SBAs) and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their state board of accountancy licensing and other state and federal governmental agency peer review requirements.

Because both programs (AICPA and CPCAF PRPs) were only peer reviewing non-SEC issuer practices, the PRB determined that the programs could be merged and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved the revised *AICPA Standards for Performing and Reporting on Peer Reviews (standards)* effective for peer reviews commencing on or after January 1, 2009. This coincided with the official merger of the programs at which time the CPCAF PRP was discontinued, and the AICPA PRP became the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAF PRP, the activities of the former program were succeeded by the National Peer Review Committee (NPRC), a committee of the AICPA PRB.

In the more than 25 years since peer review became mandatory for AICPA membership, 52 SBAs have adopted peer review requirements and many require their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with state board peer review document submission requirements, the AICPA created FSBA through which firms may give permission to the AICPA or their AEs to give access to the firms' documents mentioned subsequently to state boards through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some state boards now require their licensees to participate in FSBA; others recognize it as an acceptable process to meet the peer review document submission requirements.

These documents typically include one or more of the following:

- Peer review reports
- Letters of response
- Acceptance letters
- Letters signed by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions
- Letters notifying the reviewed firm that required actions have been completed

About the AICPA Peer Review Board

The PRB is the senior technical committee governing the AICPA PRP and, as such, it is responsible for overseeing the entire peer review process. The PRB is dedicated to enhancing the performance and quality of non-SEC accounting, auditing and attestation engagements performed by AICPA members and their firms that are enrolled in the program. The PRB seeks to attain its mission through education and remedial corrective actions which serves the public interest and enhances the significance of AICPA membership.

The mission of the PRB is achieved through establishing and conducting the program. This includes developing, implementing, maintaining and enhancing comprehensive peer review standards and related guidance for firms subject to peer review, those performing peer reviews and others involved in administering the program for the PRB. In addition, the PRB is responsible for overseeing the entire peer review process. By reevaluating the validity and objectives of the program, the PRB ensures continuous enhancement of the quality in the performance of non-SEC accounting, auditing and attestation engagements by AICPA members and their firms enrolled in the program, and explicitly recognizes that protecting the public interest is an equally important objective of the program.

The PRB composition has been developed to comprise of 20 members representing public practitioners from various size firms, including an individual from each of the four largest firms, state society CEOs and regulators.

Various subcommittees and task forces are appointed to assist the PRB in carrying out its responsibilities. Their work is subject to review by the PRB. Currently, the PRB has task forces for planning, oversight, standards, education and communication, the National Peer Review Committee, associations, quality control materials, technical reviewers' advisory, administrative advisory, strategic planning and practice monitoring.

The activities of the PRB and its task forces and subcommittees are supported by AICPA peer review program staff who assist with drafting standards and interpretations; developing peer review guidance related to emerging issues; and work on projects in cooperation with other teams at the AICPA.

AICPA PEER REVIEW BOARD ROSTER
OCTOBER 2013 - OCTOBER 2014

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**AICPA Peer Review Board
Oversight Task Force**
(October 2013 – October 2014)

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Rachelle Drummond, Technical Manager

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LaVonne Montague, Technical Manager

Karl Ruben, Technical Manager

Letter to the AICPA Peer Review Board

To the Members of the AICPA Peer Review Board:

We have completed a comprehensive oversight program for the 2013 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state there should be reasonable assurance that (1) AEs are complying with the administrative procedures established by the PRB 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 AE peer review committees and (4) the information provided via the Internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of state CPA societies or groups of state societies (AEs) that elect and are approved to administer the AICPA PRP, including the establishment and results of each AE's oversight processes.

Our procedures were conducted in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook* and included the following procedures:

- Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the Oversight Task Force (OTF), including its PRB members, which covered all parts of the peer review process from administrative functions, peer reviewer documents and checklists, technical reviewer procedures and peer review committee actions. For 2013, 201 or approximately 2.3 percent of total reviews were selected for oversight by the AICPA PRP staff which also covered 179 different peer reviewers or 9 percent of all active peer reviewers. These reviewers selected for oversight performed approximately 12 percent of the 2013 peer reviews. See pages 12–13, “Peer Review Working Paper Oversight.”
- Visits to the AEs, on a rotating basis ordinarily every other year, by a member of the OTF. The visits included testing the administrative and report acceptance procedures established by the PRB. See pages 13–14, “Oversight Visits of the Administering Entities.”
- Monitoring the overall activities of the program. See pages 15, “Review of AICPA PRP Statistics.”
- Report Acceptance Body (RAB) Observations performed by OTF members and AICPA PRP staff. The RAB Observations began in July 2014. RAB Observations will include the review of RAB packages to ensure that RABs are performing all of their responsibilities. See pages 15-16 for a detailed description of the RAB Observation process.
- Enhanced oversight performed by designees of the OTF. The enhanced oversight began in the summer of 2014. The enhanced oversight includes the review of the financial statements and working papers for must-select engagements by designees of the OTF. See pages 16-17 for a detailed description of the enhanced oversight process.

Oversight procedures performed by the AEs in accordance with the *AICPA Peer Review Program Oversight Handbook* included the following procedures:

- Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the OTF. See pages 17-18, “Administrative Oversight of the AE.”

- Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2013, approximately 3.9% of total reviews were selected for oversight at the AE level. See pages 18–19, *Oversight of the Peer Reviews and Reviewers*.
- Verification of reviewers' resumes. For 2013, resumes were verified for 905 reviewers. See pages 19-20, "Annual Verification of Reviewers' Resumes."

During the year, 201 working paper oversights were conducted by AICPA PRP staff and 339 on-site and off-site oversights were conducted by AEs.

Based on the results of the oversight procedures performed, the OTF has concluded that in all material respects (1) the AEs were complying with the administrative procedures established by the PRB, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all AE peer review committees and (4) the information provided via the Internet or other media by AEs was accurate and timely. Based upon the OTF's conclusions, we believe for the 2013 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Richard W. Hill

Richard W. Hill, Chair
Oversight Task Force
AICPA Peer Review Board

September 30, 2014

The AICPA Peer Review Program

Overview

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards. In addition, 15 state CPA societies currently have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, of the 55 licensing jurisdictions, currently 52 SBAs have made participation in a type of practice-monitoring program mandatory for licensure. See exhibit 1.

The AICPA PRP has approximately 27,000 enrolled firms within the United States and its territories at the time this report was prepared. See exhibit 2. Approximately 9,000 peer reviews are performed each year by a pool of approximately 2,200 qualified peer reviewers.

Firms enrolled in the program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-SEC issuers covering a one-year period. The peer review is conducted by an independent evaluator known as a peer reviewer. The AICPA oversees the program and the review is administered by an entity approved by the AICPA to perform that role. An accounting and auditing practice, as defined by the standards, is "all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office (GAO); and engagements performed under Public Company Oversight Board (PCAOB) standards. Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection.

The following summarizes the different peer review types, objectives and reporting requirements as defined under the standards. There are two types of peer reviews: system and engagement.

System reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations³ under the SSAEs, or engagements under PCAOB standards, in addition to reviews, compilations or agreed-upon procedures. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including statement on quality control standards (SQCS) No. 8, in all material respects. The peer review report rating may be *pass* (firm's system of quality control is adequately designed and firm has complied with its system of quality control); *pass with deficiency(ies)* (firm's system

3 Prior to March 1, 2013, for SSAE engagements, the scope of the system review only included examinations of prospective financial statements or examinations of service organization's controls likely to be relevant to user entities' internal control over financial reporting. Prior to 2011, for SSAE engagements, the scope of a system review did not include examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting.

of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of deficiency[ies] described in the report); or *fail* (firm's system of quality control is not adequately designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects).

Engagement reviews: Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations³ under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects except for the deficiency(ies) that are described in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.

Administering Entities

Each state CPA society annually elects the level of involvement that it desires in the administration of the AICPA PRP. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the AICPA PRP for enrolled firms whose main offices are located in that state or (3) ask the AICPA to request another state CPA society to administer the AICPA PRP for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB. The PRB approved 42 state CPA societies, groups of state societies or specific-purpose committees, AEs, to administer the AICPA PRP in 2013. See exhibit 3. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the AICPA PRP.

In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted with the annual Plan of Administration (POA). The annual POA is the AE's request to administer the peer review program and is reviewed by the OTF. In addition, all AEs are required to issue and post to their website an annual report on their oversight of the previous calendar year.

AEs may also elect to use the standards and administer a peer review program for non-AICPA firms (and individuals). Non-AICPA firms (and individuals) are enrolled in the State CPA Society (AE) peer review programs and these, while very similar to the AICPA PRP, are not considered as being performed under the auspices of the AICPA PRP. They are not overseen by the AICPA PRB; therefore, this Report does not include information or oversight procedures performed by the AEs on their peer review programs of non-AICPA firms (and individuals).

Results of AICPA PRP

From 2011–2013, approximately 27,000 peer reviews were performed in the AICPA PRP. Exhibit 4 shows a summary of these reviews by type of peer review and report issued. For system reviews performed during that three-year period, approximately 87 percent of the reviews resulted in pass reports, 10 percent were pass with deficiency(ies) and 3 percent were fail. For engagement reviews performed during that three-year period, approximately 77 percent of the reviews resulted in pass reports, 17 percent were pass with deficiency(ies) and 6 percent were fail. As clearly depicted on Exhibit 4, the percent of other than pass reports in system reviews has increased since the implementation of new auditing standards in 2012. Exhibit 5 is a list of items noted as matters in engagements with year-ends between April 30, 2013 and June 30, 2014. This list contains examples of noncompliance with professional standards. Although this list is not all-inclusive and is not representative of all peer review results, it does contain more common examples of matters that were identified during the peer review process.

Exhibit 6 summarizes the number and type of reasons by elements of quality control as defined by the SQCS, for report modifications (that is, pass with deficiency[ies] or fail) on system reviews performed in the AICPA PRP from 2011–2013.

In 2011, 2012, and 2013, approximately 8, 9, and 10 percent, respectively, of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects.” The standards state that an engagement is ordinarily considered “not being performed and/or reported in accordance with professional standards in all material respects” when deficiencies, individually or in the 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.

Exhibit 7 shows the total number of individual engagements reviewed along with those identified as “not being performed and/or reported in accordance with professional standards in all material respects” also known as non-conforming engagements. There was a large increase in the number of non-conforming engagements in the ERISA and Other Audit categories in 2013. This increase can be attributed to two factors. First, the clarified auditing standards were effective for financial statements with periods ending on or after December 15, 2012. 2013 was the first peer review year that included these engagements. Second, the peer review Employee Benefit Plan Audit Engagement Checklist was redesigned in January 2013 to focus the reviewer’s attention on areas that lead to engagements being identified as non-conforming. As a reminder, the results of the NPRC are not included in this report.

In 2013, the AICPA began a project focusing on ERISA engagements. The Department of Labor (DOL) provided a listing to the AICPA of all of the firms who were listed as the auditor on the form 5500 for 2011 to determine if the firms were enrolled in the peer review program. The DOL removed members of the Employee Benefit Plan Audit Quality Center (EBPAQC) from the list due to the fact that members of the EBPAQC must make their peer review reports public as a condition of membership in the quality center. AICPA PRP staff compared the list to internal information in order to determine if the firms properly included an employee benefit plan audit in their most recent peer review. The comparison indicated many firms were not in compliance with peer review requirements and, as a result of this project, numerous peer review acceptance letters and peer review reports have been recalled. When the peer review acceptance letter is recalled, the related peer review is no longer valid and the reviewed firm must have a replacement review within 90 days of the notice of recall. Many of the peer reviews that have

been recalled so far were from 2011 and 2012. The recalled peer reviews are no longer included in the statistics for those years. This project also led to a large number of accelerated reviews, when the acceptance letter was not recalled by the AE. The replacement reviews and accelerated reviews are being performed in 2014 and will be included in next year's oversight report. The PRB expects the project, which is expected to be completed by the end of 2014, to lead to the identification of a large number of non-conforming ERISA engagements and peer review reports with a rating of other than pass. As of August 22, 2014, 42 replacement reviews have been completed. Of those 42 replacement reviews, 50 percent have received a pass rating, 14 percent have received a pass with deficiencies, and 36 percent have received a fail.

During the report acceptance process, the AEs' peer review committees determine the need for and nature of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the recommendations of the review team appear to address the engagement deficiencies adequately and whether the reviewed firm's responses to the review team's recommendations are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple corrective actions required on an individual review. Although there was a reduction in the number of corrective actions in 2013, the number of corrective actions as a percentage of overall reviews performed has remained steady. The number of corrective actions as a percentage of overall reviews performed was 25% in 2012 and 24% in 2013. Also, the percentage of other than pass peer review reports for engagement reviews decreased in 2013, while the percentage of other than pass ratings for system reviews increased in 2013. Overall, it appears that corrective actions have remained consistent from 2012 to 2013. Further, the OTF continues to provide guidance and education in the effective use of both implementation plans and corrective actions as noted in the Comments from Working Papers Oversight (exhibit 11) and the items noted as a result of Administrative Oversight Performed (exhibit 14). In total, 6,251 corrective actions were required from 2011–2013 that are summarized in exhibit 8.

In addition to the aforementioned corrective actions, there may be instances in which an implementation plan is required as a result of FFCs. For implementation plans, the firm will be required to evidence its agreement to perform and complete the implementation plan in writing as a condition of cooperation with the AE and the PRB. Agreeing to and completing such a plan is *not* tied to the acceptance of the peer review. The reviewed firm would receive an acceptance letter with no reference to the implementation plan if the peer review committee did not otherwise request the firm to also perform a corrective action plan related to the deficiencies or significant deficiencies, if any, noted in the peer review report. However, if the firm fails to cooperate with the implementation plan, the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated.

Because it is possible for a firm to receive a pass with deficiency or fail report, as well as FFCs that had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

Oversight Process

The PRB has the responsibility of oversight of all AEs. In addition, each AE is responsible for overseeing peer reviews and peer reviewers for each state they administer. This responsibility includes having written oversight policies and procedures.

All SBAs that require peer review accept the AICPA PRP as a program satisfying its peer review licensing requirements. Some SBAs have entered into an agreement with state CPA societies to perform oversight of their administration of the AICPA PRP. The SBA's oversight process is designed to assess its reliance on the AICPA PRP for re-licensure purposes. This report is not intended to describe or report on that process. Exhibit 9 shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice-monitoring program mandatory for licensure as indicated in exhibit 1.

Objectives of Peer Review Board Oversight Process

The PRB has appointed an OTF to oversee the administration of the AICPA PRP and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that the:

- AEs are complying with the administrative procedures established by the PRB.
- reviews are being conducted and results of reviews are being evaluated and reported in accordance with the standards and on a consistent basis in all jurisdictions.
- information provided to firms and reviewers (via the Internet or other media) by AEs is accurate and timely.

The oversight program also establishes a communications link with AEs and builds a relationship that enables the PRB to accomplish the following: obtain information about problems and concerns of AEs' peer review committees, provide consultation on those matters to specific AEs and initiate the development of guidance on a national basis, when appropriate.

OTF Oversight Procedures

The following oversight procedures were performed as a part of the OTF oversight program.

Peer Review Working Paper Oversights

Description

Throughout each year, a sample of peer reviews are randomly selected (by AICPA PRP staff and approved by the OTF) from each of the AEs for submission to the AICPA PRP staff for a comprehensive review of all the documents prepared during a peer review. Documents from all parts of the peer review process (administrative, peer review checklists, technical reviewer checklist, peer review committee actions, warning letters, extensions and reviewer feedback) are submitted and then reviewed by the AICPA PRP staff to determine whether:

- the reviews are being conducted and reported on in accordance with the standards.
- the AE is in compliance with the administrative procedures established by the PRB.
- information is being entered into the computer system correctly.

- reviewers are following the guidance and use the most current materials contained in the AICPA Peer Review Program Manual.
- results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

As the AICPA PRP staff completes the desk review of all the documents prepared during the peer review, a summary report with AICPA PRP staff comments is prepared for each AE and submitted to the OTF members for review and approval. Once approved, the summary report is submitted to the respective AEs' peer review committee chairs requesting that they share the findings with their committees, technical reviewers, peer reviewers and team captains, as applicable. The committee chair is asked to communicate the comments to the committee and return the acknowledgement of communication letter to the AICPA PRP staff. Normally, the cover letter (included with the summary report) sent to the AEs indicates that they are not asked to take any additional actions on the specific reviews.

If issues are noted with reviewer performance, the OTF may choose to suggest or require, depending upon significance of issues, additional oversight. If significant pervasive deficiencies, problems or inconsistencies are encountered during the review of the aforementioned materials, the OTF may choose to (1) visit the AE in which the deficiencies, problems or inconsistencies were noted to assist them in determining the cause of these problems and prevent their recurrence; or (2) request the AE to take appropriate corrective or monitoring actions, or both.

As a result of additions to the oversight process approved by the PRB in May of 2014, the final sample of working paper oversights for 2013 was not selected. In previous years, 3 percent of all reviews were selected for working paper oversight. Due to the fact that the final sample of desk oversights was not selected for 2013, the percentage of reviews selected for oversight was 2 percent of all reviews. The desk oversights are being replaced by RAB observations. RAB observations will cover a larger percentage of overall reviews and feedback will be given to RABs in real time. The PRB believes that the real time feedback will improve the overall quality of the program and the effectiveness of the oversight process. See below for a further discussion of the RAB observation process.

Results

For the year 2013, 201 working paper reviews were selected for oversight covering 179 different peer reviewers. This represents approximately 2.3 percent of peer reviews conducted in 2013 and approximately 9 percent of peer reviewers active in that same period. Exhibit 10 shows, by AE, the number and type of reviews selected. The most prevalent comments from the working paper oversight process are summarized in exhibit 11.

Oversight Visits of the Administering Entities

Description

Each AE is visited by a member of the OTF (ordinarily, at least once every other year). No member of the OTF is permitted to visit the AE in the state that his or her main office is located; where he or she serves as a technical reviewer or may have a conflict of interest; or performed the most recently completed oversight visit.

During these visits, the member of the OTF will at a minimum:

- meet with the AE's peer review committee during its consideration of peer review documents.
- evaluate a sample of peer review documents and applicable working papers on a post acceptance basis.
- perform face to face interviews with the administrator, committee chair and technical reviewers.
- evaluate the various policies and procedures for administering the AICPA PRP.

As part of the visit, the OTF member will request that the AE complete an information sheet documenting policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the AICPA PRP. The OTF member evaluates the information sheet, results of the prior oversight visit, POA and comments from working paper oversights to develop a risk assessment. A comprehensive oversight work program that contains the various procedures performed during the oversight visit is completed with the OTF member's comments. At the conclusion of the visit, the OTF member discusses any comments and issues identified as a result of the visit with the AE's peer review committee. The OTF member then issues an AICPA Oversight Visit Report (Report) to the AE that discusses the purpose of the oversight visit and that the objectives of the oversight program were considered in performing those procedures. The Report also contains the OTF member's conclusion regarding whether the AE has complied with the administrative procedures and standards in all material respects as established by the PRB.

In addition to the aforementioned Report, the OTF member issues the AE an AICPA Oversight Visit Letter of Procedures and Observations (Letter) that details the oversight procedures performed and observations noted by the OTF member. The Letter also includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is then required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter or at a minimum, when there are no findings reported, an acknowledgement of the visit. The oversight documents, including the Oversight Visit Report, the letter of procedures and observations and the AE's response, are presented to the OTF members at the next OTF meeting for acceptance. The AE may be required to take corrective actions as a condition of acceptance. The acceptance letter would reflect corrective actions, if any. A copy of the acceptance letter, the oversight visit report, letter of procedures and observations and the response are posted to the following AICPA Peer Review Program web page:
(www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx).

Results

During 2012–2013, a member of the OTF performed at least one on-site oversight visit to 41 AEs (excludes NPRC). See exhibit 12 for a listing of the AEs and the year of oversight. See exhibit 13 for a summary of observations from the on-site oversight visits performed during 2012-2013.

Review of AICPA PRP Statistics

Description

To monitor the overall activities of the program, the OTF periodically reviews the following types of statistical data for each AE and evaluates whether any patterns are emerging that should be addressed:

- The status of reviews in process
- The results of reviews
- The number and types of corrective actions
- The number, nature and extent of engagements not performed in accordance with professional standards in all material respects
- The number of overdue peer reviews

Results

As of August 2014, there were 722 incomplete reviews (125 due through 2012 and 591 due in 2013). Of these, 666 were in various stages of the evaluation process and 56 were in the background or scheduling phases of the review. AICPA PRP staff has been working with the AEs on these open reviews to ensure an appropriate course of action is taken on a case by case basis for each of these.

The status of 2013 reviews has been monitored on a periodic basis to determine reviews are being processed timely and to identify any reviews that are delinquent in the process. Firms that had not submitted background information or provided scheduling information were reviewed to determine that the appropriate overdue requests were mailed and notification sent to the AICPA to drop the firm from the program for failure to comply. For reviews that were scheduled but past their due date, inquiries were made to determine the proper extension procedures were followed.

Results of AICPA PRP are further summarized on pages 10-11 of this Report.

RAB Observations

Description

In May 2014, the PRB approved two changes to the existing oversight process. The first change approved by the PRB was to increase the number of RAB observations. The purpose of the RAB observation is to:

- determine whether the RAB is performing all of its responsibilities,
- determine whether the technical reviewer is performing all of its responsibilities,
- determine whether the reviews are being conducted and reported on in accordance with the peer review standards,
- ensure that the administrative procedures established by the PRB are being complied with,
- ensure that information is being entered into the computer system correctly, and
- ensure the results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

Previously, RAB observations were only performed during the oversight visits of the AE once every other year. The process for the increased RAB observations will be similar to the process used during the oversight visits. The RAB observer will receive the RAB package prior to the RAB meeting. The observer will select a sample of reviews from the package and review the materials that will be presented to the RAB. The observer will note any issues or items that are unclear for each review selected. During the RAB, the observer will allow the RAB to deliberate each review. If the RAB does not address the items noted by the observer, the observer will bring those items to the RAB's attention prior to the RAB voting on whether or not to accept the review. All items that were noted by the observer, but were not noted by the RAB will be included as comments in a RAB observation report. The report will be submitted to the AE's peer review committee for its consideration and each peer review committee will have the opportunity to respond to the report.

The changes to the oversight process were approved by the PRB on a pilot basis for 2014. The final procedures will be approved by the PRB in 2015, at the completion of the pilot period. The RAB observations will be performed by OTF members as well as AICPA PRP staff and at least one RAB observation will be performed per AE in 2014.

Results

Results for the RAB observation process are not available as of the publication of this report. Information about the number of reviews observed and general comments that were issued will be included in future oversight reports.

Engagement-Level Oversight

Description

As noted in the previous section, in May 2014, the PRB approved two changes to the existing oversight process. The second change to the oversight process approved by the PRB was the addition of engagement-level oversights performed by designees of the OTF. The objective of the engagement-level oversight is to ensure that peer reviewers are identifying all issues in must-select engagements, including whether engagements are properly identified as non-conforming. The oversights will increase confidence in the peer review process and identify areas that need improvement, such as peer reviewer training. The objective will be achieved by selecting oversights in two samples. The first sample is a risk based sample based on risk criteria established by the OTF. The second sample is a random sample that will achieve a 90 to 95 percent confidence level. The engagement-level oversights will focus on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers and examinations of service organizations). These oversights will neither replace nor reduce the number of oversights currently performed by AEs.

The engagement-level oversight process consists of the review of the financial statements and working papers by the OTF designee for the engagement selected. AICPA PRP staff will notify the peer reviewer and the firm that they have been selected for oversight once the peer review working papers are submitted to the AE. This will ensure that the peer reviewer is not aware of the fact that they have been selected for oversight until after the peer review has been completed. The OTF designee will complete the relevant peer review checklist and compare their results to the results of the peer reviewer. The OTF designee will issue a report detailing any differences between the items they noted and the items noted by the

peer reviewer. The report will be provided to the AE for consideration during the report acceptance process.

The engagement-level oversights were approved on a pilot basis for 2014. The final procedures will be approved by the PRB in 2015, at the completion of the pilot period. The population for the 2014 engagement-level oversight samples will be peer reviews performed in 2014. The oversights will be performed throughout 2014 and into early 2015.

Results

Results for the engagement-level oversights are not available as of the publication of this report. Information regarding the number of oversights performed, the number of non-conforming engagements not identified by peer reviewers and a general listing of the items not identified by peer reviewers will be included in next year's report.

Oversight by the Administering Entities' Peer Review Committees

The AEs' peer review committees are responsible for monitoring and evaluating peer reviews of those firms whose main offices are located in its licensing jurisdiction(s). Committees may designate a task force to be responsible for the administration and monitoring of its oversight program.

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with the AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements (discussed on pages 17–20, "AE Oversight Procedures") established by the PRB to provide reasonable assurance that:

- reviews are administered in compliance with the administrative procedures established by the PRB.
- reviews are conducted and reported upon in accordance with the standards.
- results of reviews are evaluated on a consistent basis.
- information disseminated by the AE is accurate and timely.

AE Oversight Procedures

The following oversight procedures are performed as part of the AE oversight program.

Administrative Oversight of the AE

Description

At a minimum, a committee member or a subcommittee of the AE's peer review committee should perform the administrative oversight in those years when there is no oversight visit by OTF. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP.

Results

The administrative oversight reports were submitted to the AICPA by the AE as part of the 2014 POA. Comments or suggestions resulting from the administrative oversights are summarized in exhibit 14. In addition, the OTF member reviewed the results of the administrative oversight during his or her oversight visit (described on pages 13–14,

“Oversight Visits of the Administering Entities”) and compared the results of the administrative oversight to those noted during the OTF oversight visit.

Oversight of Peer Reviews and Reviewers

Description

Throughout the year, the AE selects various peer reviews for oversight. The selections can be on a random or targeted basis. The oversight may consist of doing a full working paper review after the review has been performed, but prior to presenting the peer review documents to the peer review committee. The oversight may also consist of having a peer review committee member or designee actually visit the firm, either while the peer review team is performing the review, or after the review, but prior to final committee acceptance.

As part of its oversight process, the peer review committee oversees firms being reviewed as well as reviewers performing reviews. Minimum oversight selection requirements are also imposed by the PRB.

Firms – The selection of firms to be reviewed is based on a number of factors, including but not limited to, the types of peer review reports the firm has previously received, whether it is the firm’s first system review (after previously having an engagement review) and whether the firm conducts engagements in high risk industries.

Reviewers – All peer reviewers are subject to oversight and they may be selected based on a number of factors, including but not limited to random selection, frequent submission of pass reports, conducting a significant number of reviews for firms with audits in high risk industries, performance of their first peer review or performing high volumes of reviews. Oversight of a reviewer can also occur due to performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, not considering matters that turn out to be significant or failure to select an appropriate number of engagements. When an AE oversees a reviewer from another state, the results are conveyed to the AE of that state.

Minimum Requirements – At a minimum, the AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time, and within the 2 percent selected, there must be at least two of each type of peer review evaluated (that is, system and engagement reviews). The oversight involves doing a full working paper review and may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended the oversight be performed prior to presenting the peer review documents to the peer review committee. This allows the committee to consider all the facts prior to acceptance of the review. At a minimum, two system review oversights are required to be performed on-site. Oversights could be random or could be a combination of a targeted and random selection.

AEs that administer fewer than 100 reviews annually can apply for a waiver from the minimum requirements. The request for a waiver includes the reason(s) for the request and suggested alternatives to the minimum requirements. The waiver is to be submitted and approved by the PRB each year.

Also, at least two engagement oversights must be performed by the AE’s peer review committee or by its designee from a national list of qualified reviewers, on an annual basis. An *engagement oversight* (performed either off-site or on-site) is the review of all peer

reviewer materials and the reviewed firm's financial statements and working papers on the engagement. The two engagement oversights must include audits of employee benefits plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), engagements performed under generally accepted government auditing standards (GAGAS), audits of insured depository institutions subject to the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of carrying broker-dealers, or examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]. Also, the two oversights selected should not be of the same types of audits. No waivers of oversight of these types of engagements are permitted.

Results

For 2013, the AEs conducted oversight on 339 reviews, representing approximately 4.0 percent of all reviews performed in a twelve-month period of time. There were 188 system and 151 engagement reviews oversighted. Approximately 46 percent of the system oversights were conducted on-site. In addition, 74 ERISA, 78 GAGAS and 2 FDICIA engagements were oversighted. See exhibit 15 for a summary of oversights by AE.

Annual Verification of Reviewers' Resumes

Description

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in accounting or auditing functions. The firm that the member is associated with should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every 3 years, with a minimum of 8 hours in any 1 year.

A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The AE has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review. The AE must verify information within a sample of reviewers' resumes on an annual basis. All reviewer resumes should be verified over a 3-year period, as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. Verification must include the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans subject to ERISA, audits of insured depository institutions subject to FDICIA, audits of carrying broker-dealers, or examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]. Verification procedures may include requesting copies of their license to practice as a CPA; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates to document the required 48 CPE credits related to accounting and auditing to be obtained every 3 years with at least 8 hours in 1 year; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The AE should also

verify whether the reviewer is a partner or manager in a firm enrolled in a practice-monitoring program and whether the reviewer's firm received a pass report on its most recently completed peer review.

Results

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2013. See exhibit 16.

Feedback and Enhancements

Feedback from the Administering Entities

In order to maintain effective oversight procedures, the PRB obtains information from the AEs about matters to address, in order to provide consultation and additional guidance as needed on a national basis. The following are areas in which feedback has been received during 2011 through 2013 and subsequently addressed.

Guidance, manuals and checklists. Requests for additional guidance, as a result of issues noted during desk reviews and AE oversights, related to implementation plans have been received.

Enhanced guidance related to completion of Finding for Further Consideration (FFC) forms and appropriate implementation plans (IPs) was issued in 2011. This was communicated by issuance of a Peer Review Alert. The Peer Review Manual includes the enhanced guidance for firms and reviewers in the *Report Acceptance Body Handbook*. The manual was made available on the AICPA website.

In addition, an administrative alert was issued and the changes were addressed during an AE training call. The Administrative Manual also includes the enhanced guidance for AEs. The manual was made available on the AICPA state administrator's website.

Training for administrators. Requests have been received for additional training for administrators outside of the annual peer review conference.

Web and audio conferences have been held on various training issues for administrators. Biweekly calls are also held to address issues.

Firm Membership Changes. Concerns have been expressed over the length of time it is taking to process firm changes, including addresses, phone numbers or e-mails, enrollments, terminations, mergers or dissolutions.

AICPA PRP staff continually reviews this process and works with other teams involved in this process. Revisions made during the year included focusing on technology issues, processes and communications. The AICPA implemented a tracking system that allows the AEs access to additional information regarding the status of their changes. In addition, the AICPA is exploring technology that will allow firms to enter the information directly into the peer review system.

Frequency of issuance of new guidance. Concerns have been expressed over the frequency with which updates to peer review program guidance have been made.

The Peer Review Board Standards Task Force (STF) has established a framework to help balance the needs of reviewers and AEs to receive information and tools that may help them, as soon as possible, while ordinarily allowing for a transitional period to implement these items. However, on occasion there are circumstances in which delaying the effective date is not practical. Additionally, AICPA PRP staff has enhanced the peer review website to create a single place that provides information on changes since the previous manual update.

Reviewer Education. Concerns have been expressed over changes to the frequency and format of required reviewer training that is offered.

The Peer Review Board Education and Communication Task Force (ECTF) has approved changes to ensure that experienced peer reviewers are obtaining ongoing education which builds upon their existing skills and knowledge. Accordingly, a rewritten “Advanced Course,” which will contain extensive material on new and challenging areas of peer review guidance, will be introduced. Additionally, the AICPA will offer a *minimum* of two two-hour webinars annually, starting in 2013, with rebroadcasts where demand warrants thereby increasing scheduling opportunities for reviewers who wish to participate.

Exhibit 1

**State CPA Societies and State Boards of Accountancy That Have Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of August 2014**

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Alabama	No	Yes
Alaska	No	Yes
Arizona	No	Yes
Arkansas	No	Yes
California	No	Yes
Colorado	Yes	Yes
Connecticut	Yes	Yes
Delaware	Yes	No
District of Columbia	No	Yes
Florida	No	Yes in 2015
Georgia	Yes	Yes
Guam	No	Yes
Hawaii	No	Yes in 2015
Idaho	No	Yes
Illinois	No	Yes
Indiana	No	Yes
Iowa	No	Yes
Kansas	Yes	Yes
Kentucky	No	Yes
Louisiana	Yes	Yes
Maine	Yes	Yes
Maryland	No	Yes
Massachusetts	No	Yes
Michigan	No	Yes
Minnesota	Yes	Yes
Mississippi	Yes	Yes
Missouri	No	Yes
Montana	No	Yes
Nebraska	No	Yes
Nevada	No	Yes
New Hampshire	No	Yes
New Jersey	No	Yes
New Mexico	No	Yes
New York	No	Yes
North Carolina	Yes	Yes
North Dakota	No	Yes
Northern Mariana Islands (MP)	N/A	Statutorily passed with no effective date
Ohio	Yes	Yes
Oklahoma	No	Yes
Oregon	No	Yes

Exhibit 1

**State CPA Societies and State Boards of Accountancy That Have Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of August 2014**

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Pennsylvania	No	Yes
Puerto Rico	No	No
Rhode Island	No	Yes
South Carolina	Yes	Yes
South Dakota	No	Yes
Tennessee	No	Yes
Texas	Yes	Yes
Utah	No	Yes
Vermont	No	Yes
Virginia	Yes	Yes
Virgin Islands	No	Yes in 2015
Washington	No	Yes
West Virginia	No	Yes
Wisconsin	Yes	Yes
Wyoming	No	Yes

Exhibit 2

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice							Total
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	
AK	19	40	10	6	4	0	0	79
AL	135	205	79	28	21	8	2	478
AR	39	87	58	12	7	1	0	204
AZ	134	189	76	26	9	2	0	436
CA	903	1,262	483	223	105	28	17	3,021
CO	159	292	95	26	16	4	2	594
CT	158	197	73	32	12	2	1	475
DC	11	14	6	4	4	1	0	40
DE	11	16	17	8	8	0	0	60
FL	266	633	221	102	45	10	3	1,280
GA	254	449	149	46	25	9	6	938
GU	4	1	1	0	1	1	0	8
HI	34	73	29	16	5	2	0	159
IA	54	105	53	19	18	3	0	252
ID	31	84	39	9	5	1	0	169
IL	260	395	127	57	42	11	11	903
IN	87	201	92	34	16	5	2	437
KS	46	123	54	31	14	2	4	274
KY	92	142	82	24	16	4	2	362
LA	168	268	79	38	15	6	3	577
MA	250	384	133	44	36	7	1	855
MD	126	224	100	40	45	6	5	546
ME	29	38	20	11	6	1	2	107
MI	199	414	135	78	27	6	4	863
MN	111	188	76	35	20	7	3	440
MO	83	205	78	31	27	3	3	430
MS	85	133	43	17	9	2	2	291
MT	25	46	22	8	5	1	2	109
NC	258	422	161	60	23	2	2	928
ND	23	34	9	0	1	1	2	70
NE	20	65	38	13	12	2	1	151
NH	47	72	21	5	6	2	0	153
NJ	333	512	161	65	35	7	5	1,118
NM	66	109	33	14	2	1	2	227
NV	68	93	40	17	5	2	0	225
NY	273	562	278	139	71	31	23	1,377
OH	227	442	166	86	37	9	9	976

Exhibit 2, continued

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice							Total
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	
OK	88	162	69	21	10	2	0	352
OR	113	188	80	31	11	5	1	429
PA	255	462	194	86	46	19	4	1,066
PR	43	69	19	12	11	1	1	156
RI	45	69	26	6	6	2	0	154
SC	125	196	56	22	13	0	2	414
SD	12	29	16	9	2	1	0	69
TN	179	274	95	31	21	7	6	613
TX	802	1,033	369	173	65	21	8	2,471
UT	56	113	37	18	12	3	0	239
VA	206	286	108	43	25	3	6	677
VI	5	1	1	0	0	0	0	7
VT	21	34	11	11	2	0	0	79
WA	117	215	103	44	17	3	2	501
WI	56	124	63	23	19	7	4	296
WV	39	79	30	13	4	0	2	167
WY	<u>16</u>	<u>41</u>	<u>18</u>	<u>7</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>86</u>
Total	<u>7,266</u>	<u>12,094</u>	<u>4,632</u>	<u>1,954</u>	<u>1,022</u>	<u>265</u>	<u>155</u>	<u>27,388</u>

Exhibit 3

Administering Entities Approved to Administer the 2014 AICPA PRP

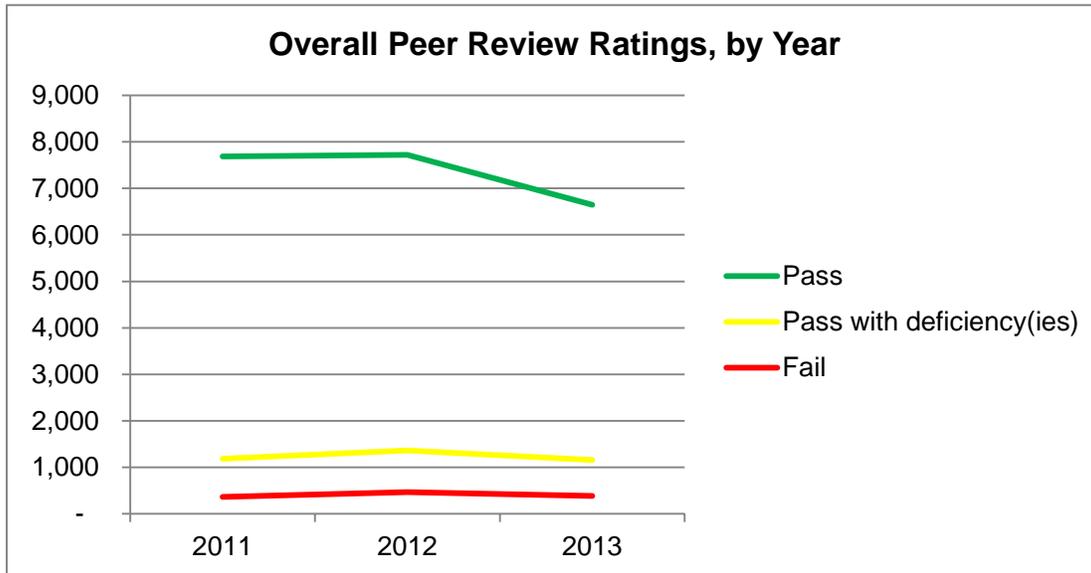
Administering Entity	Licensing Jurisdiction
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois
Indiana CPA Society	Indiana
Iowa Society of CPAs	Iowa
Kansas Society of CPAs	Kansas
Kentucky Society of CPAs	Kentucky
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota
Mississippi Society of CPAs	Mississippi
Missouri Society of CPAs	Missouri
Montana Society of CPAs	Montana
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Wyoming, Nebraska, Utah
New England Peer Review, Inc.	Maine, New Hampshire, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New Mexico Society of CPAs	New Mexico
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
South Carolina Association of CPAs	South Carolina
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington
West Virginia Society of CPAs	West Virginia
Wisconsin Institute of CPAs	Wisconsin

Exhibit 4

Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2011–2013 by type of peer review and report issued.

	2011		2012		2013		Total	
	#	%	#	%	#	%	#	%
System reviews								
Pass	3,730	88	3,969	88	2,996	85	10,695	87
Pass with deficiency(ies)	376	9	420	9	413	12	1,209	10
Fail	113	3	125	3	123	3	361	3
Subtotal	<u>4,219</u>	<u>100</u>	<u>4,514</u>	<u>100</u>	<u>3,532</u>	<u>100</u>	<u>12,265</u>	<u>100</u>
Engagement reviews								
Pass	3,954	79	3,752	74	3,653	78	11,359	77
Pass with deficiency(ies)	808	16	943	19	743	16	2,494	17
Fail	249	5	342	7	263	6	854	6
Subtotal	<u>5,011</u>	<u>100</u>	<u>5,037</u>	<u>100</u>	<u>4,659</u>	<u>100</u>	<u>14,707</u>	<u>100</u>



Note: The above data reflects peer review results as of August 13, 2014. Approximately 3% of 2013 reviews are in process and their results are not included in the preceding totals.

Exhibit 5

Examples of Matters Noted in Peer Reviews

The following is a list of items noted as matters in engagements with year-ends between April 30, 2013 and June 30, 2014. This list contains examples of noncompliance (both material and immaterial) with professional standards. Although this list is not all-inclusive and is not representative of all peer reviews, it does note some examples of matters that were identified during the peer review process. The most recent examples of matters noted in peer review can be found on the [AICPA's website](#).

Professional Standards

Clarified Auditing Standards

- The auditor's report was dated significantly earlier than the date of the review of the workpapers and the release date.
- Failure to appropriately document planning procedures, including risk assessment (and linkage of risks to procedures performed), planning analytics, and internal control testing.
- Representation letters that were dated incorrectly, did not cover the appropriate periods or were missing required representations.
- Failure to communicate and/or document required communications with those charged with governance.
- The audit documentation did not contain sufficient competent evidence to support the firm's opinion on the financial statements.

Accounting and Review Services

Compilations

- Reports were not prepared in accordance with professional standards. The following matters were noted:
 - Not updated for SSARS 19.
 - No headings on the report.
 - Inappropriate titles.
 - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information.
 - Failure to mention that substantially all disclosures are omitted.
- Failure to obtain an engagement letter or revise the letter for SSARS 19.
 - Other miscellaneous matters were noted relative to the engagement letter including failure to note the lack of independence or the letter referred to GAAP on an OCBOA engagement.

Reviews

- Representation letters that were dated incorrectly or did not cover the appropriate periods.
- Reports were not updated for SSARS 19 or had inappropriate titles.
- Failure to obtain an engagement letter or revise the letter for SSARS 19.

Attestation Standards

(Note: Most MFCs in this area are related to AUPs or SOCs. SOC related MFCs are included in the practice area section below.)

- Various matters were identified related to AUP reports, most frequently failure to include the word "independent" in the report title.
- Other report matters included failure to include:
 - A title.
 - Reference of the AICPA attestation standards.

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

- A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.
- Identification of the subject matter or the engagement or written assertion or the character of the engagement.
- Failure to include all elements required by attestation standards in the engagement letter.

Code of Professional Conduct

- Failure to establish and document in writing their understanding with the client with regard to non-attest services provided.

Statements on Quality Control

- Monitoring
 - QC document did not include monitoring procedures.
 - Monitoring procedures did not include review of all elements of quality control.
 - Results of monitoring and inspections were not documented.
- Engagement Performance
 - Criteria for Engagement Quality Control Review not established.
 - EQCR not performed on engagements that meet the firm's criteria.
- Human Resources
 - Policies not sufficient to ensure partners and staff obtain appropriate CPE.
 - Policies not set to require relevant CPE for levels of service and industries of engagements performed.
- Leadership Responsibilities for Quality Within the Firm
 - Failure to have a written quality control document in accordance with SQCS 8.

FASB Accounting Standards Codification

- No disclosure of tax years that remain subject to examination by major tax jurisdictions and disclosure of uncertain tax positions.
- No disclosure of the date through which subsequent events were evaluated.
- Incorrect classifications, net amounts instead of gross and non-cash transactions on the cash flow statement.
- Long-term debt was not segregated into current and long-term portions.
- Missing or insufficient sinking funds disclosure, term, interest rate, maturity, covenants and collateral, if any, for a note payable.
- Missing or insufficient fair value disclosures related to fair value hierarchy of investments, description of the levels, descriptions of the methods used and tabular presentation of amounts. Also included insufficient procedures and documentation regarding the procedures to obtain assurance of the fair value measurements.

Practice Areas

Issues noted above related to professional standards and FASB Accounting Standards Codification were prevalent in each of these practice areas. Matters included in this section are those trends identified for each specific practice area.

Governmental, A-133, and HUD Reporting

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

- Failure to include all of the required elements of professional standards in the Independent Auditor's Report including the following omissions: reference to the engagement being performed in accordance with *Government Auditing Standards*, identification of the governmental entity's major funds and opinion units presented, and addressing supplemental information and required supplemental information, reference to prior year financial statements when comparative years are presented, reference to the Yellow Book Internal Control report.
- Failure to include all of the required elements of professional standards in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters including: omitted "Independent" from report title, omitted reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs, indication that there were no significant deficiencies identified, omitted a clause stating that the entity's responses were not audited and that the auditor expresses no opinion on those responses, and omitted purpose alert.

Disclosure and Presentation

- Failure to present the financial statements in accordance with professional standards including Equity and Net Asset presentation and reconciliations, presentation of funds, missing significant policy footnotes, and financial statement titles.

Documentation and Performance

- Failure to properly document independence considerations required by Yellow Book including the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor, evaluation of threats, and safeguards applied to reduce threats to an acceptable level.
- Failure to meet the Yellow Book CPE requirements including 80 hours of A&A and 24 hours of Yellow Book specific courses.
- Failure to document audit planning and procedures including consideration of IT systems, testing of significant accounts and transactions, fraud procedures, internal controls, and linkage of risk assessment to procedures performed.
- Failure to document required communications with those charged with governance.
- Failure to ensure that the written representations from the audited entity contained all applicable elements including the following: representations tailored to the entity and governmental audit regarding federal awards, and representations covering both years when comparative financial statements are presented.
- SINGLE AUDIT: Failure to identify and test sufficient and appropriate major programs. These errors were the result of using preliminary expenditures when the final expenditures resulted in a high risk Type A program, failure to cluster, and failure to group programs with the same Catalog of Federal Domestic Assistance (CFDA) number.
- SINGLE AUDIT: Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each compliance requirement and major program.
- SINGLE AUDIT: Failure to document the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk.
- SINGLE AUDIT: Failure to document the testing of controls and compliance for the relevant assertions related to each compliance requirement with a direct and material effect for the major program.

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

ERISA

- Missing or insufficient documentation of allocation of investment income to participant accounts.
- Insufficient participant testing related to demographic data and payroll.
- Insufficient procedures and documentation for reliance on SOC 1 reports.
- Supplemental schedules required by ERISA and DOL regulations are not presented in the prescribed format.

Broker-Dealers

- Failure to comply with SEC Independence Rules, including not preparing financial statements for clients.
- Audit reports inappropriately referenced use of the PCAOB standards to perform the audits (when SAS were followed).
- Audit reports on internal controls were not appropriate, including using the non-carrying format for a carrying firm, outdated definitions of internal control and restrictions of the report to management and regulations.
- Failure to use a broker-dealer specific financial statement checklist thus missing required disclosures.

Service Organization Control (SOC) Reports

SOC 1

- The service auditor lacked the experience and training required under SSAE 16 to properly complete a Service Organization Control Report.
- The client acceptance, the description of controls and the audit documentation omitted reference to the need for complimentary user controls if any exist, the risks that threaten the achievement of the control objectives and the linkage between the controls included in the control description, and the proper identification of subservice organizations and related services and ultimate use of the carve out method.
- The information included in the report did not have sufficient support in the workpapers, such as:
 - No documentation to assess the nature, timing, and extent of the procedures (specifically sampling methodology).
 - Control testing did not address the elements of the control, all IT general controls and change management controls.
 - No documentation of procedures to support the Other Information included in the report.
- Incorrect references included or incorrect language used in the report including user controls, carve outs, and other information.

SOC 2

- The report issued included non-standard wording regarding complementary user entity controls.

Banking, including FDICIA

- Failure to include all elements required by professional standards in the accountant's report on internal controls.

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

- Failure to understand and comply with the independence rules applicable to these engagements, i.e. SEC independence rules do not allow the auditor to also prepare the client's financial statements.
- Failure to properly disclose:
 - valuation allowances and related segmentation information of the loan portfolio.
 - consolidated capital ratios and requirements.
 - that the entity was subject to expanded regulatory supervision and why.
 - OREO's and goodwill in the fair value footnote as a non-recurring measurement item.
- Insufficient audit testing of real estate lending including inadequate quantitative information such as aging, past due status, or historical charge-offs. Similarly, insufficient audit testing of foreclosed property data, including inadequate testing of current year additions, analysis of fair value/carrying value.
- Insufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias.
- Management representation letter did not contain representations specific to financial institutions.

Not for profit

- Open tax years were not disclosed because the firm believed the disclosure was not required for tax-exempt entities.
- Net assets not properly classified as unrestricted, temporarily restricted and permanently restricted.
- Inadequate disclosure of the nature, amounts and types of net asset restrictions.
- Policies regarding donated goods and services not disclosed.
- Auditors' report did not refer to the Statement of Functional Expenses.
- Improper expense classifications on the Statement of Functional Expenses.

Exhibit 6

Type and Number of Reasons for Report Modifications

The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews performed in the AICPA PRP from 2011–13 summarized by elements of quality control as defined by the SQCS No. 8, *A Firm's System of Quality Control* (no change in elements from SQCS No. 7, which was superseded by SQCS No. 8 as of January 1, 2012). A system review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 8, in all material respects. SQCS No. 8 states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm ("the tone at the top"); relevant ethical requirements; acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. Because pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in exhibit 4, "Results by Type of Peer Review and Report Issued."

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	56	60	44
Relevant ethical requirements	17	12	10
Acceptance and continuance of client relationships and specific engagements	35	41	44
Human resources	98	93	85
Engagement performance	405	462	418
Monitoring	<u>211</u>	<u>231</u>	<u>189</u>
Totals	<u>822</u>	<u>899</u>	<u>790</u>

Exhibit 7

Number of Engagements Not Performed in Accordance With Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as not performed in accordance with professional standards in all material respects from peer reviews performed in the AICPA PRP from 2011–13. The standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards in all material respects when issues, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents the omission of a critical accounting, auditing or attestation procedure required by professional standards.

Engagement Type	2011			2012			2013		
	Number of Engagements			Number of Engagements			Number of Engagements		
	Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards	
Audits:									
Single Audit Act (A-133)	1,704	196	12%	1,780	209	12%	1,393	168	12%
Governmental - All Other	1,407	96	7%	1,519	112	7%	1,295	120	9%
ERISA	2,152	112	5%	2,569	141	5%	1,974	174	9%
FDICIA	24	-	0%	10	-	0%	31	3	10%
Carrying Broker-Dealers	6	-	0%	7	-	0%	6	-	0%
Other	4,816	239	6%	5,040	254	5%	4,067	365	9%
Reviews	5,630	350	6%	6,051	471	8%	5,038	319	6%
Compilations:									
With Disclosures	3,785	240	6%	3,979	337	8%	3,317	255	8%
Omit Disclosures	11,404	1,210	11%	12,266	1,706	14%	10,598	1,398	13%
Forecasts & Projections	129	6	5%	148	8	5%	88	10	11%
SOC Reports	38	-	0%	60	1	2%	62	1	2%
Agreed Upon Procedures	1,028	26	3%	1,036	17	2%	941	21	2%
Other SSAEs	164	7	4%	225	6	3%	147	4	3%
Totals	32,287	2,482	8%	34,690	3,262	9%	28,957	2,838	10%

Exhibit 7, continued

Number of Engagements Not Performed in Accordance
With Professional Standards in All Material Respects

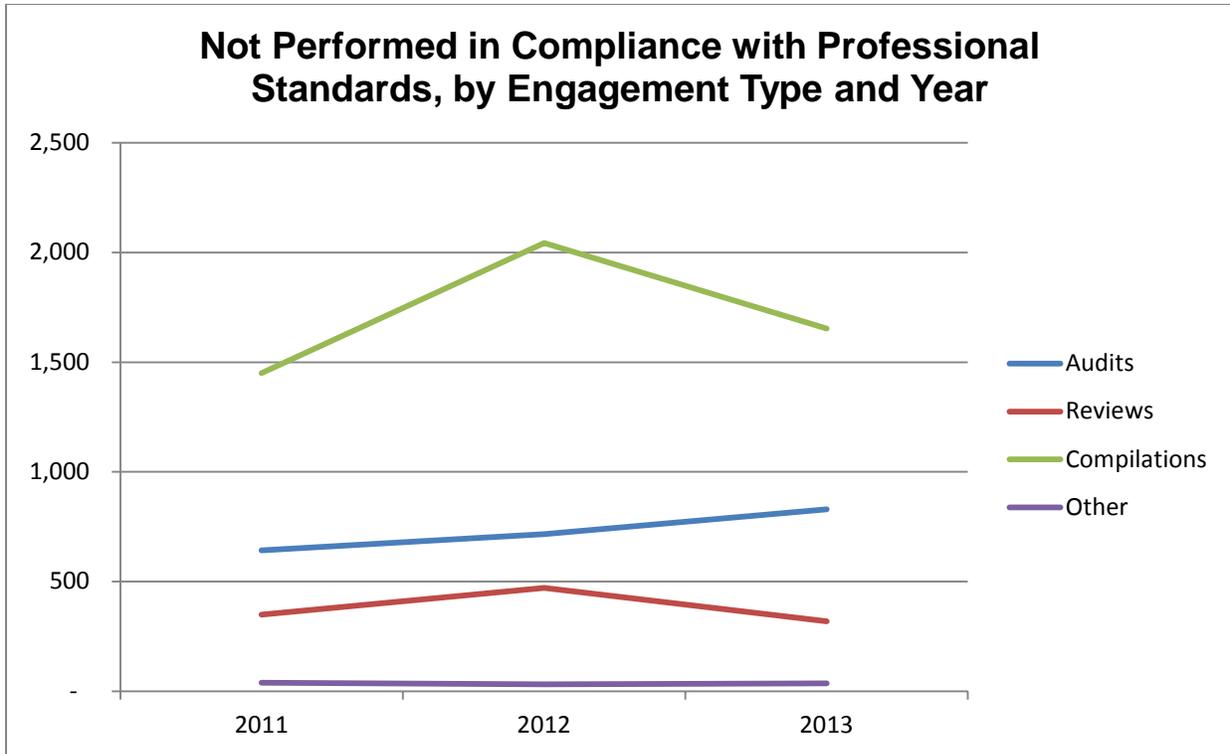
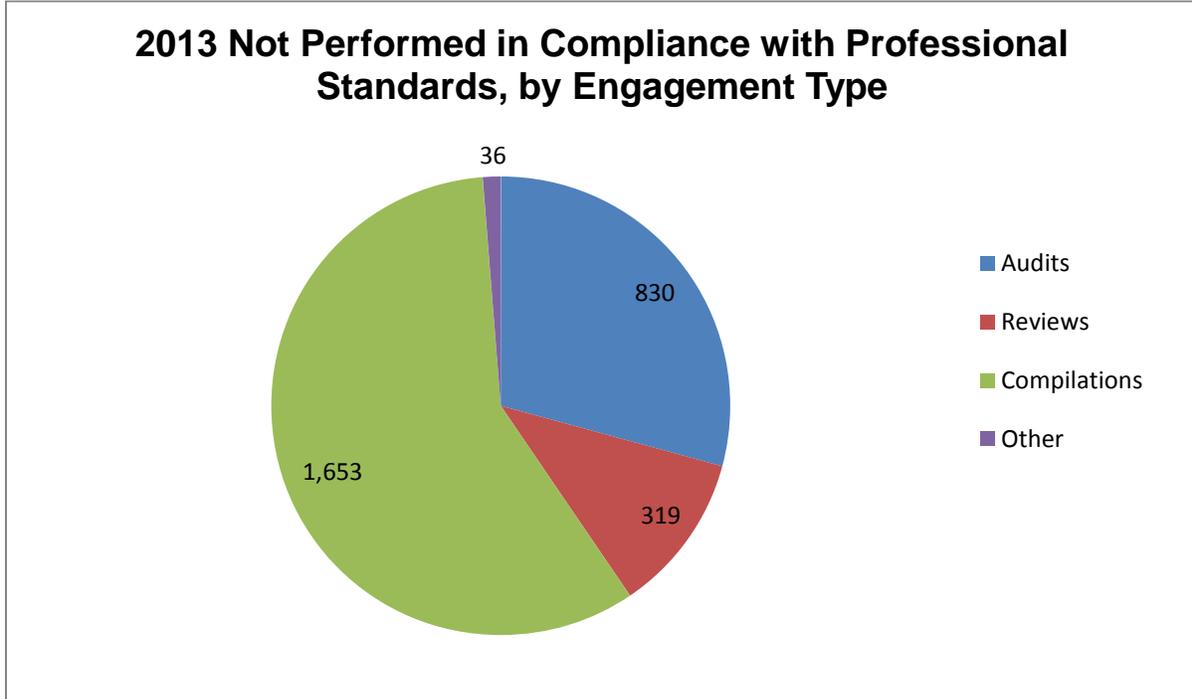


Exhibit 8

Summary of Required Corrective Actions

The AEs' peer review committees are 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 AE 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 matters noted by the reviewer and the firm's response thereto. Corrective actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple corrective actions. For 2011–13 reviews, committees required 6,251 corrective actions. The following represents the type of corrective actions required.

Type of Corrective Action	<u>2011</u>	<u>2012</u>	<u>2013</u>
Agree to take/submit proof of certain C(CPE)	1,064	1,361	1,056
Submit to review of correction of engagements that were not performed in accordance with professional standards	367	471	378
Agree to preissuance reviews	172	179	193
Submit monitoring report to Team Captain or Peer Review Committee	69	81	70
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	43	45	34
Submit to revisit (Team Captain or Peer Review Committee Member)	81	86	84
Agree to have accelerated review	26	23	9
Submit evidence of proper firm licensure	9	9	13
Firm has stated they do not perform any auditing engagements	17	25	19
Agree to hire consultant for inspection	12	10	9
Review of formal CPE plan	5	5	7
Team captain to review Quality Control Document	15	19	13
Submit inspection completion letter	5	2	2
Submit proof of purchase of manuals	21	32	28
Outside party to visit during inspection	1	1	-
Submit report on consultant	4	11	2
Oversight of Inspection – Review	6	7	13
Submit quarterly progress reports	2	5	1
Oversight of Inspection – Visitation	8	13	8
Total	<u>1,927</u>	<u>2,385</u>	<u>1,939</u>

Exhibit 9

Administering Entities That Have Entered Into a Peer Review Oversight Relationship with a State Board of Accountancy

The following shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice monitoring program mandatory for licensure as indicated in exhibit 1, State CPA Societies and State Boards of Accountancy That Have Made Participation in an Approved Practice Monitoring Program a Condition of Membership or Licensure.

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between AE and State Board</u>
Alabama Society of CPAs	Alabama	No
California Society of CPAs	Alaska	No
California Society of CPAs	Arizona	Yes
Arkansas Society of CPAs	Arkansas	No
California Society of CPAs	California	Yes
Colorado Society of CPAs	Colorado	Yes
Connecticut Society of CPAs	Connecticut	No
Virginia Society of CPAs	District of Columbia	No
Georgia Society of CPAs	Georgia	No
Oregon Society of CPAs	Guam	No
Idaho Society of CPAs	Idaho	Yes
Illinois Society of CPAs	Illinois	No
Indiana CPA Society	Indiana	Yes
Iowa Society of CPAs	Iowa	No
Kansas Society of CPAs	Kansas	Yes
Kentucky Society of CPAs	Kentucky	No
Society of Louisiana CPAs	Louisiana	Yes
New England Peer Review, Inc.	Maine	No
Maryland Association of CPAs	Maryland	Yes
Massachusetts Society of CPAs	Massachusetts	No
Michigan Association of CPAs	Michigan	No
Minnesota Society of CPAs	Minnesota	Yes
Mississippi Society of CPAs	Mississippi	Yes
Missouri Society of CPAs	Missouri	Yes

Exhibit 9, continued

**Administering Entities That Have Entered Into a Peer Review
Oversight Relationship with a State Board of Accountancy**

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between AE and State Board</u>
Montana Society of CPAs	Montana	Yes
Nevada Society of CPAs	Nebraska	No
Nevada Society of CPAs	Nevada	Yes
New England Peer Review, Inc.	New Hampshire	No
New Jersey Society of CPAs	New Jersey	Yes
New Mexico Society of CPAs	New Mexico	No
New York State Society of CPAs	New York	Yes
North Carolina Association of CPAs	North Carolina	No
North Dakota Society of CPAs	North Dakota	No
The Ohio Society of CPAs	Ohio	Yes
Oklahoma Society of CPAs	Oklahoma	Yes
Oregon Society of CPAs	Oregon	Yes
Pennsylvania Institute of CPAs	Pennsylvania	No
New England Peer Review, Inc.	Rhode Island	No
South Carolina Association of CPAs	South Carolina	Yes
Oklahoma Society of CPAs	South Dakota	No
Tennessee Society of CPAs	Tennessee	Yes
Texas Society of CPAs	Texas	Yes
Nevada Society of CPAs	Utah	No
New England Peer Review, Inc.	Vermont	No
Virginia Society of CPAs	Virginia	Yes
Washington Society of CPAs	Washington	Yes
West Virginia Society of CPAs	West Virginia	No
Wisconsin Institute of CPAs	Wisconsin	No
Nevada Society of CPAs	Wyoming	No

Exhibit 10

Number and Type of Working Paper Oversight Performed by AICPA Staff

The following shows the number and type of working paper oversight performed by AICPA Peer Review Program staff for 2013.

AE	Engagement	System	Total
Alabama Society of CPAs	3	2	5
Arkansas Society of CPAs	3	3	6
California Society of CPAs	10	7	17
Colegio de Contadores Publicos Autorizados de Puerto Rico	0	3	3
Colorado Society of CPAs	3	1	4
Connecticut Society of CPAs	2	1	3
Florida Institute of CPAs	6	3	9
Georgia Society of CPAs	4	3	7
Hawaii Society of CPAs	2	2	4
Idaho Society of CPAs	2	1	3
Illinois CPA Society	3	5	8
Indiana CPA Society	2	1	3
Iowa Society of CPAs	1	1	2
Kansas Society of CPAs	0	2	2
Kentucky Society of CPAs	1	2	3
Maryland Association of CPAs	2	1	3
Massachusetts Society of CPAs	2	2	4
Michigan Association of CPAs	4	2	6
Minnesota Society of CPAs	4	3	7
Mississippi Society of CPAs	1	2	3
Missouri Society of CPAs	2	1	3
Montana Society of CPAs	2	0	2
Nevada Society of CPAs	1	2	3
New England Peer Review	2	2	4
New Jersey Society of CPAs	5	1	6
New Mexico Society of CPAs	3	3	6
New York State Society of CPAs	2	7	9
North Carolina Association of CPAs	4	1	5
North Dakota Society of CPAs	4	1	5
Ohio Society of CPAs	5	3	8
Oklahoma Society of CPAs	2	1	3
Oregon Society of CPAs	2	1	3
Pennsylvania Institute of CPAs	2	3	5
Society of Louisiana CPAs	2	1	3
South Carolina Association of CPAs	2	1	3
Tennessee Society of CPAs	1	2	3
Texas Society of CPAs	9	4	13
Virginia Society of CPAs	2	3	5
Washington Society of CPAs	3	0	3
West Virginia Society of CPAs	1	2	3
Wisconsin Institute of CPAs	2	2	4
Total	113	88	201

Exhibit 11

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Throughout each year, a sample of reviews is selected (by AICPA PRP staff and approved by the OTF) from the AEs for submission to the AICPA PRP staff for a full working paper review. Documents from all parts of the peer review process (administrative, peer review information system management (PRISM) computer system, peer review checklists, technical reviewer checklist and peer review committee actions) are reviewed to determine whether the reviews are being performed and reported on in accordance with the standards. The following is a summary of the most prevalent comments that were generated as a result of the working paper oversights performed by the AICPA PRP staff during the year 2013. The comments are intended to provide the AEs, their committees, report acceptance bodies, peer reviewers and technical reviewers with information and constructive recommendations that will help ensure consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all of the respective parties. Ordinarily, AEs do not receive all of the peer review checklists that are obtained as part of the working paper reviews and therefore, would not be able to identify some of these comments.

Engagement Quality Control Review

- The firm failed to establish or established inappropriate, vague or insufficient criteria for the purposes of establishing a threshold for EQCR and it was not appropriately highlighted in the peer review documentation.

Monitoring

- The firm failed to appropriately respond to questions pertaining to performance of post-issuance review, review of compliance with firm quality control policies and procedures (QCPP) and/or documentation of firm monitoring procedures. Based upon the peer review documentation, it is unclear how these responses or lack of responses were addressed by the reviewer.

Reviewer Feedback

- Feedback was not issued to the peer reviewer when it would have been appropriate. Some examples include scope matters, incomplete matters for further consideration (MFC) forms (for example, not referencing professional standards) and late submission of the report to the reviewed firm.
- Reviewer feedback forms were not used appropriately or were not signed by a member of the peer review committee.

Engagement Checklists

- Peer reviewer checklists and documents were not submitted or were incomplete. Failure to complete and/or submit all relevant programs and checklists may create a presumption that the review has not been performed in conformity with the standards governing the program.
- There were multiple “no” responses on the engagement checklists which did not have a documented resolution. They were not mentioned in the exit conference summary contained in the Summary Review Memorandum and there was no MFC prepared.
- There were sections on the engagement checklists which were not completed in their entirety. Some examples included: the general data, audit engagement risk assessment, the identification of significant audit areas.

Exhibit 11, continued

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Engagements not in conformity with applicable professional standards in all material respects

- There were inconsistencies within the peer review documentation regarding evaluation of whether engagement(s) were performed and/or reported on in conformity with applicable professional standards in all material respects.
- Non-conforming engagements were not properly identified by the reviewer.

Engagement Selection

- A selection was not made from all levels of service provided by the firm, and the reviewer did not provide an explanation as to why this was appropriate.
- There were engagements reviewed which were outside of the scope of the peer review year, and no explanation was provided as to why this was appropriate.

Independence

- The information provided by the firm was incomplete in regard to the prior year's fees and also in regards to providing nonattest services, which are needed to appropriately determine the firm's independence on the engagement.

Risk Assessment

- The risk assessment included in the SRM failed to comprehensively address the inherent and control risks and discuss the firm's system of quality control.
- The risk assessment did not address why a particular type of ERISA engagement was selected when the firm performed multiple types of ERISA engagements.
- The representation letter was modified to indicate that the firm communicated investigations and/or allegations to the peer reviewer, but the risk assessment did not include any consideration of allegations or investigations.

Firm Representation Letter

- The peer review representation letter did not include all required representations.

Matters for Further Consideration (MFCs) and Findings for Further Consideration (FFCs)

- MFCs should have been prepared, but were not. For example, if the engagement checklists address several "no" answers relating to disclosure and documentation, they should be carried forward to an MFC.
- MFCs did not reflect the respective professional standards in order to lend support for the matter being addressed as a deficiency and did not include the engagement, checklist page, or question where the comment was derived.
- MFCs did not include the correct industry type.
- The FFC form was not written systemically. Paragraphs .83-.85 of the standards contain guidelines on identifying the underlying cause of a finding. The team captain should identify the underlying systemic cause of all findings.
- The reviewed firm's response on the FFC form was not complete and did not indicate the persons responsible for implementation or the timing of implementation.

Report Release Date

- Significant difference between the report date and the report release date on audit engagements.

Exhibit 11, continued

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Summary Review Memorandum (SRMs)

- The reviewer did not adequately document in the SRM their consideration of issuing another type of report.
- Items included in the exit conference section of the SRM appear to have been material enough to warrant an MFC in order for the reviewer and the firm to evaluate the matters in the aggregate.
- Questions in the SRM regarding comparing peer review results with the firm's internal monitoring were answered "n/a" when they should have been properly considered.
- The reviewer did not adequately assess the firm's quality control materials. For example, the firm used materials that were not subject to AICPA quality control material (QCM) review and the reviewer indicated that the materials received a QCM review.

Surprise Engagement

- The surprise selection was not the firm's highest level of service and the team captain's conclusion for the selection was not documented in the SRM.
- A firm's only engagement subject to *Government Auditing Standards* was selected as the surprise engagement.

Engagement Statistics in the PRISM System

- Engagement statistics were not recorded into PRISM or were recorded incorrectly (that is, types of engagements reviewed and if an engagement was not in compliance with applicable professional standards).

Review Acceptance

- The review was not presented to the peer review committee within 120 days of receipt of the report and letter of response, if applicable, from the reviewed firm.

Overdue Reviews

- The peer review was completed and/or submitted to the AE late and there was no extension granted or no overdue letters generated.

Client financial statements

- Client financial statements provided to the reviewer for the peer review were forwarded for oversight though required to be returned or destroyed.

Background Information

- The background information entered in PRISM did not agree with the information included on the background form.

Team member approval

- A team member was included on the SRM that was not approved by the AE.

Corrective actions and/or implementation plans

- Failure to utilize or improper use of implementation plans and/or corrective actions.

Exhibit 12

On-Site Oversight of Administering Entities Performed by AICPA Oversight Task Force

During 2012–2013, a member of the OTF performed an on-site oversight visit to each of the following 41 AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year. The oversight results can be found on the [AICPA's website](#).

<u>2012</u>	<u>2013</u>
Alabama	Connecticut
Arkansas	Georgia
California	Hawaii
Colorado	Idaho
Florida	Illinois
Kansas	Indiana
Michigan	Iowa
Mississippi	Kentucky
Missouri	Louisiana
Montana	Maryland
Nevada	Massachusetts
New England	Minnesota
New Jersey	North Carolina
New Mexico	Oklahoma
New York	South Carolina
North Dakota	Texas
Ohio	Virginia
Oregon	Washington
Pennsylvania	
Puerto Rico	
Tennessee	
West Virginia	
Wisconsin	

Exhibit 13

Observations from On-Site Oversight of Administering Entities Performed by the AICPA Oversight Task Force

As discussed in more detail in the *Oversight Visits of the AEs* section, each AE is visited at least every other year by an OTF member who performs various oversight procedures. At the conclusion of the visit, the OTF member issues an AICPA oversight visit report as well as an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed, observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter, or at a minimum, when there are no findings reported, an acknowledgement of the visit. The two oversight documents and the AE's response are presented by the AICPA OTF Peer Review Board (PRB) members at the next AICPA PRB meeting for acceptance. A copy of the acceptance letter, the two oversight visit letters and the response are posted to the following AICPA PRP web page:

<http://www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx>.

The following represents a summary of common observations made by the OTF resulting from the on-site oversight visits performed during 2011–2013. The observations listed below are not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- The appropriate letters for overdue information and documents, reviewer performance and other reminders were not generated according to the time requirements in the administrative manual.
- Confidentiality Agreements were not obtained annually for committee members/technical reviewers.
- Inadequate monitoring of open corrective actions, implementation plans and reviews by staff and committee members.
- Technical reviewer should monitor experience and training requirements for his role.
- Annual confirmations not obtained for firms that have represented they no longer perform accounting and auditing engagements.
- Annual plan of administration not submitted timely.
- Extensions were not granted in accordance with the guidelines.
- Back-up plan was not documented.

Reviewer Resume Verification

- Procedures not performed timely.
- Procedures performed on reviewer resume information obtained did not include all those required by the standards and related guidance.
- Reviewer resume population was not monitored to ensure that every active reviewer's resume were verified every three years.
- Peer reviewers were not notified of education shortfalls discovered during resume verification and their inability to perform peer reviews due to the shortfall.

Web site and Other Media Information

- The data maintained on the website as it relates to peer review was not current.
- The annual report was not included on the website.

Exhibit 13

Observations from On-Site Oversight of Administering Entities Performed by the AICPA Oversight Task Force

Working Paper Retention

- Working papers were not retained and then destroyed 120 days after acceptance by the peer review committee in accordance with the working paper retention policy of the administrative manual.
- Reviewer feedback was maintained beyond the recommended guidelines.

Committee Procedures

- Reviewer feedback was not issued when necessary. Also, the reviewer feedback was not signed by a peer review committee member.
- Technical reviewers did not address all significant issues before reviews are presented to the RAB.
- Guidelines regarding conditional acceptance was not followed.
- The status of open reviews and follow-up status was not periodically monitored and discussed by the Committee and related documentation of such presentations and discussions recorded in the Committee minutes.
- Accurate and contemporaneous minutes were not prepared to document Committee meetings.
- Reviewer feedback was not disseminated when warranted by AICPA desk oversight comments.
- Confidentiality agreements were not obtained from Committee meeting visitors prior to the meeting.
- Technical reviewers were not evaluated annually.
- RAB members did not have the required team captain training.
- Accelerated reviews were used as a corrective action in lieu of other actions.
- A quorum was not present for certain meetings which delayed the timeliness of acceptance of reviews.
- Committee meetings were not scheduled to ensure timely acceptance of reviews.
- Internal oversight of the administration of the Program was not performed timely.
- Required oversight not performed timely each year.

Exhibit 14

Administrative Oversight Performed By Peer Review Committees of Administering Entities

The AE's peer review committee is required to establish administrative oversight procedures to provide reasonable assurance that the AICPA PRP is being administered in accordance with guidance as issued by the PRB. An administrative oversight should be performed in those years when there is no AICPA oversight visit. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP. Each AE was requested to submit documentation indicating that an administrative oversight was performed with its 2013 and 2014 POAs. Comments or suggestions contained in the reports are summarized subsequently and are not indicative of every AE. They also vary in degree of significance. In addition, the OTF member reviewed the results of the administrative oversight during the oversight visit (described on pages 13–14, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight with those noted during the OTF oversight visit to evaluate whether any matters still need improvement.

- Files contained documents that should have been destroyed.
- Delinquent letters on reviews were not being sent in a timely manner.
- Reviewer feedback and performance deficiency letters were not being issued when necessary.
- Reviews were not always presented to the peer review committee in accordance with the timelines specified by the standards.
- The committee chair and technical reviewer did not always resolve inconsistencies and disagreements before submitting reviews to the RABs.
- Ensure Plan of Administration is accurate and timely filed.
- In order to reduce misplaced or incomplete files, the Society should explore the possibility of computerized record keeping solutions.
- Acceptance letters not sent timely.
- Review website for technical material and check for updates.
- RAB members must maintain qualifications required by the scope of their duties.
- Review committee member qualifications to ensure they are in compliance with CPE requirements.
- Establish method to utilize reviewer feedback and deficiency letters to target reviewers for oversight.
- Oversight report was not posted to AE website

Exhibit 15

Summary of Oversight Performed by Administering Entities

AEs are required to conduct oversight on a minimum of 2 percent of all reviews performed in a 12-month period of time. Within the 2 percent selected for oversight, the AE must evaluate at least two of each type of peer review. Also, at least 2 engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2013 oversight year.

Administering Entity	Type of Review/Oversights			Type of Engagement Oversights				Total Oversights Performed at Firm
	System	Engagement	Total	ERISA	GAGAS	FDICIA	Total	
Alabama	2	2	4	1	1	-	2	2
Arkansas	6	2	8	4	2	-	6	4
California	16	20	36	9	10	-	19	3
Colorado	2	2	4	1	1	-	2	2
Connecticut	2	3	5	1	1	-	2	2
Florida	7	9	16	2	2	-	4	6
Georgia	2	4	6	2	2	-	4	2
Hawaii	2	1	3	1	1	-	2	2
Idaho	2	1	3	1	1	-	2	1
Illinois	9	4	13	1	1	-	2	5
Indiana	3	2	5	1	2	-	3	2
Iowa	6	2	8	1	1	-	2	4
Kansas	5	2	7	2	1	1	4	2
Kentucky	5	2	7	1	1	-	2	1
Louisiana	4	4	8	1	2	-	3	2
Maryland	3	4	7	1	1	-	2	2
Massachusetts	9	4	13	6	8	-	14	2
Michigan	5	7	12	2	2	-	4	2
Minnesota	2	4	6	1	1	-	2	2
Mississippi	2	2	4	-	2	-	2	2
Missouri	3	2	5	3	2	-	5	2
Montana	4	2	6	1	1	-	2	-
Nevada	5	2	7	1	1	-	2	2
New England	7	2	9	4	1	-	5	4
New Jersey	7	2	9	1	4	-	5	2
New Mexico	3	2	5	2	1	-	3	2
New York	8	4	12	4	4	-	8	3
North Carolina	5	5	10	1	1	-	2	3
North Dakota	1	1	2	1	-	-	1	1
Ohio	5	3	8	1	3	-	4	5
Oklahoma	3	2	5	1	2	-	3	2
Oregon	2	2	4	1	1	-	2	2
Pennsylvania	7	5	12	3	3	-	6	7
Puerto Rico	2	-	2	-	2	-	2	2
South Carolina	2	1	3	1	1	-	2	2
Tennessee	3	5	8	1	1	-	2	2
Texas	9	14	23	6	3	-	9	2
Virginia	6	6	12	1	1	-	2	2
Washington	3	4	7	1	1	-	2	2
West Virginia	5	4	9	-	1	1	2	2
Wisconsin	4	2	6	1	1	-	2	2
TOTAL	188	151	339	74	78	2	154	101

Exhibit 16

Summary of Reviewer Resumes Verified by Administering Entities

AEs are required to verify all reviewer resumes over a 3-year period as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. The following shows the number of reviewer resumes verified by AEs for the years 2011–2013.

<u>Administering Entity</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Alabama	9	4	36
Arkansas	15	8	7
California	70	59	59
Colorado	9	17	10
Connecticut	12	6	17
Florida	40	43	36
Georgia	48	-	49
Hawaii	-	4	5
Idaho	17	6	4
Illinois	39	42	27
Indiana	12	11	17
Iowa	11	9	8
Kansas	18	-	2
Kentucky	16	14	10
Louisiana	48	-	48
Maryland	18	18	17
Massachusetts	14	38	6
Michigan	42	19	34
Minnesota	7	17	9
Mississippi	12	13	16
Missouri	20	24	14
Montana	5	8	6
Nevada	61	76	70
New England	7	14	7
New Jersey	28	28	35
New Mexico	20	19	18
New York	28	28	48
North Carolina	31	33	30
North Dakota	1	1	1
Ohio	36	36	26
Oklahoma	11	17	15
Oregon	9	15	1
Pennsylvania	26	47	37
Puerto Rico	12	12	11
South Carolina	46	15	13
Tennessee	20	20	24
Texas	61	44	40
Virginia	21	23	19
Washington	25	25	14
West Virginia	9	7	7
Wisconsin	7	7	16
Totals	<u>941</u>	<u>827</u>	<u>869</u>

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the “senior technical committee” governing the AICPA PRP and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the <i>Standards</i> , Interpretations to the <i>Standards</i> and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the AE oversight process for the AICPA PRP.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications and responsibilities of AE peer review committees, report acceptance bodies and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
AICPA PRP Administrative Manual	The publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.
Administering Entity	A state CPA society, group of state CPA societies, or other entity annually approved by the PRB to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB.
Agreed Upon Procedures	Specific procedures agreed to by a CPA, a client and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
Attest Engagement	An engagement that requires independence as defined in the AICPA professional standards.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a CPA.
Compilation	Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements performed under SSARS.
Employment Retirement Income Security Act of 1974	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.

Glossary

<u>Term</u>	<u>Definition</u>
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) recapitalized the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), expanded the authority of banking regulators to seize undercapitalized banks and expanded consumer protections available to banking customers.
Engagement Review	A type of peer review for firms that do not perform audits or certain SSAE engagements that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles, a comprehensive basis of accounting other than generally accepted accounting principles, or a special purpose framework.
Finding for Further Consideration (FFC)	A finding is one or more matters that the reviewer concludes does not rise to the level of a deficiency or significant deficiency and is documented on a Finding for Further Consideration Form.
Firm	A form of organization permitted by law or regulation whose characteristics conforms to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA PRP should be terminated or whether some other action should be taken.
Implementation Plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to Findings For Further Consideration. A RAB may require an implementation plan when the responses to a firm's FFC(s) are not comprehensive, genuine and feasible.
Licensing Jurisdiction	For purposes of this Report, licensing jurisdiction means any state or commonwealth of the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands.

Glossary

<u>Term</u>	<u>Definition</u>
Matter for Further Consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards in all material respects. Matters are typically one or more “No” answers to questions in peer review questionnaires(s). A matter is documented on a Matter for Further Consideration Form.
Other Comprehensive Basis of Reporting	Consistent accounting basis other than generally accepted accounting principles (GAAP) used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the AICPA PRP and make recommendations regarding the PRB oversight procedures.
Peer Review Committee	An authoritative body established by an AE to oversee the administration, acceptance, and completion of the peer reviews administered and performed in the licensing jurisdiction(s) it has agreed to administer.
Plan of Administration	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the AICPA PRP.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
PRISM System	An online system that is accessed to carry out the AICPA PRP administrative functions.
Report Acceptance Body	A committee or committees appointed by an AE for the purpose of considering the results of peer reviews and ensuring that the requirements of the AICPA PRP are being complied with.
Review	Performing inquiry and analytical procedures on financial statements that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with GAAP.
Reviewer Feedback Form	A form used to document a peer reviewer's performance on individual reviews and give constructive feedback.
Reviewer Resume	A document residing on the AICPA website and required to be updated annually by all active peer reviewers which is used by AEs to determine if individuals meet the qualifications for service as reviewers as set forth in the standards.

Glossary

<u>Term</u>	<u>Definition</u>
Scheduling Status Report	A report which provides key information on peer reviews such as firm name, due date, review number, type, status and the date background information was received.
Special Purpose Framework	A financial reporting framework, other than generally accepted accounting principles, that is one of the following bases of accounting: cash basis, tax basis, regulatory basis, contractual basis, or another basis.
State Board of Accountancy	An independent state governmental agency that licenses and regulates CPAs.
State CPA Society	Professional organization for CPAs providing a wide range of member benefits.
Summary Review Memorandum	A document used by peer reviewers to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in an FFC.
System of Quality Control	A process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.
System Review	A type of peer review for firms that have an accounting and auditing practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on accounting and auditing engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
Technical Reviewer	Individual(s) at the AE whose role is to provide technical assistance to the RAB and the Peer Review Committee in carrying out their responsibilities.
Territory	A territory of the United States is a specific area under the jurisdiction of the United States and for purposes of this Report includes Guam, the District of Columbia, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands.



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PROC Item VI.A.
January 30, 2015

Discussion of the 2014 PROC Annual Report

Presented by: Dominic Franzella, Chief, Enforcement Division

Date: December 23, 2014

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with a final draft of the 2014 Annual Report to the California Board of Accountancy (CBA).

Action(s) Needed

It is requested that the PROC approve the final draft of the 2014 Annual Report (**Attachment**).

Background

At its December 10, 2014 meeting, PROC members directed staff to make updates to the 2014 Annual Report and provide a revised copy at the next PROC meeting.

Comments

There were several changes made to the report following PROC members' input. Staff made additional revisions to improve overall readability, the most noticeable of which include moving the statistical chart from page four to page 12 and removing the appendix. While information from the CBA's Peer Review Report to the Legislature has been referenced in the 2014 PROC Annual Report, it does not appear to be necessary to include it as an appendix as CBA members were involved with the development of that report. The 2014 PROC Annual Report will be presented to the CBA at its March 2015 meeting.

Fiscal/Economic Impact Considerations

None.

Recommendations

Staff recommends that the PROC approve the PROC 2014 Annual Report and should any further edits be necessary, delegate authority to the Chair to approve any final edits.

Attachments

Final Draft 2014 PROC Annual Report to the CBA



CALIFORNIA BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT COMMITTEE
2014 Annual Report



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I. Message from the Committee Chair

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2014 Annual Report. I would like to extend my sincerest appreciation to Nancy Corrigan, CPA, who served as the PROC's first-ever chair. Under Ms. Corrigan's leadership, coupled with the PROC members' unparalleled dedication, California's PROC grew from a start-up committee looking to establish best practice and protocols, to a nationally recognized leader in performing regulatory oversight of the peer review process.

The most recent recognition came when the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC) hosted its first inaugural open conference call for all board of accountancy peer review oversight committee members, board members, and staff which was initiated at the request of the California PROC. NASBA's CAC has agreed to continue to facilitate and host these calls twice a year in May and November.

The PROC continues to maintain an active presence on both a state and national level. The PROC participated in various American Institute of CPAs Peer Review Board conference calls that have allowed it to stay abreast of various relevant issues confronting the peer review process. And, as always, the PROC conducted its annual review of the California Society of CPAs, the administering entity responsible for administering the vast majority of peer reviews for California-licensed accounting firms.

I would like to thank the CBA for the opportunity to succeed Ms. Corrigan as Chair of the PROC. I look forward to another successful year and the opportunity to serve the CBA together with the highly qualified members of the PROC and CBA staff.

Respectfully,

Robert Lee, CPA
PROC Chair

II. Background

In 2009, the CBA sponsored Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010. AB 138 requires all California-licensed firms, including sole proprietorships, providing accounting and auditing services, to undergo a peer review once every three years as a condition of license renewal. Effective January 1, 2012, Senate Bill 543 (Chapter 448, Statutes of 2011) removed the sunset language included in the original enabling legislation, making mandatory peer review permanent in California.

Peer review, as defined by Business and Professions Code (BPC) section 5076(b)(1), is a study, appraisal, or review conducted in accordance with professional standards of the professional work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the board in regulations. The peer review report shall be issued by an individual who has a valid and current license, certificate, or permit to practice public accountancy from this state or another state and is unaffiliated with the firm being reviewed.

III. PROC Responsibilities

The PROC derives its authority from BPC section 5076.1. The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The roles and responsibilities of the PROC, as defined by the CBA, are:

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

IV. Committee Members

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

On May 30, 2014, Robert Lee was appointed Chair of the PROC. Ms. McCoy served as the Vice-Chair during 2014.

<u>Current members</u>	<u>Term Expiration Date</u>	<u>Maximum Term Date</u>
Robert Lee, CPA, Chair	September 30, 2015	September 30, 2017
Sherry McCoy, CPA, Vice-Chair	July 31, 2015	July 31, 2017
Katherine Allanson, CPA	July 31, 2015	July 31, 2017
Nancy J. Corrigan, CPA	July 31, 2015	July 31, 2017
Jeffrey DeLyser, CPA	March 31, 2015	March 31, 2021
Seid Sadat, CPA	December 12, 2014	
Vacant		

V. Legislation and Regulations

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

Effective January 1, 2014, Title 16, CCR sections 40 and 45 were amended requiring licensees to report specific peer review information on the Peer Review Reporting Form (PR-1) at the time of license renewal. The revised language also clarifies that any accounting firm that performs specific services for the first time, whether it is newly licensed or simply new to performing those services, must complete a peer review within 18 months of the date it completes those services.

VI. Reporting Requirements

Pursuant to BPC section 5076(m)(1), on or before January 1, 2015, the CBA is required to provide the Legislature and Governor with a report regarding the peer review requirements that include, without limitation:

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

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

In keeping with its purpose, the PROC assisted the CBA in preparing the report that is due to the Legislature and Governor. The CBA approved the report at its November 2014 meeting.

VII. Board-recognized Peer Review Program Providers

a. American Institute of Certified Public Accountants (AICPA)

The AICPA Peer Review Program is currently the only Board-recognized Peer Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in Title 16, CCR section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

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

i. California Society of Certified Public Accountants (CalCPA)

CalCPA administers the AICPA Peer Review Program in California. As the administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's *Standards*. The CalCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews. CalCPA administers the largest portion of peer reviews to California-licensed firms.

ii. National Peer Review Committee (NPRC)

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

iii. Other State Societies

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

VIII. Activities and Accomplishments

Following are the activities and accomplishments of the PROC during 2014.

a. Administrative Functions

i. Committee Meetings

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

The PROC held four meetings as follows:

- January 31, 2014 – Berkeley, CA
- May 2, 2014 – Los Angeles, CA
- August 22, 2014 – Sacramento, CA
- December 10, 2014 – San Diego, CA

A representative of the PROC attended each of the six CBA meetings to report on PROC activities.

ii. Oversight Checklists

The PROC has developed oversight checklists which serve to document the members' findings and conclusions after performing specific oversight activities. The present checklists, listed on the following page, are included in the PROC Procedures Manual and additional checklists will be developed as necessary. Members submit the completed checklists to the CBA for future reference.

Present Checklists:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Peer Review Board Meeting Checklist
- Peer Review Program Provider Checklist
- Summary of Oversight of Out-of-State Peer Review Administering Entity

New Checklist under Development:

- Summary of Compliance Assurance Committee Meeting

iii. Approval of Board-recognized Peer Review Program Providers

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

iv. Withdrawal of Board Recognition of a Peer Review Program Provider

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

b. Program Oversight

The PROC is charged with providing oversight of all Board-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA. During 2014, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

i. AICPA

A. AICPA Peer Review Board (PRB)

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

During 2014, PROC members observed all six AICPA PRB meetings, as follows:

- January 30, 2014 – conference call
- May 13, 2014 – conference call
- August 6, 2014 – conference call
- September 30, 2014 – conference call
- November 14, 2014 – conference call

B. AICPA Peer Review Program Annual Report on Oversight

The AICPA Annual Report on Oversight provides a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and concludes on whether the objectives of the oversight process were met.

The PROC reviewed the report issued on September 27, 2013, for the calendar year 2012, at its January 2014 meeting. Based on the oversight procedures performed, the AICPA Oversight Task Force concluded that in all material respects (1) the administering entities were complying with the administrative procedures established by the Peer Review Board, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all administering entities and peer review committees, and (4) the information provided via the Internet or other media by administering entities was accurate and timely.

ii. CalCPA

A. Peer Review Committee

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

During 2014, PROC members attended each of the following CalCPA PRC meetings:

- May 22-23, 2014 – Dana Point, CA
- November 20-21, 2014 – Yountville, CA

B. Report Acceptance Body (RAB)

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

During 2014, PROC members observed each of the following RAB meetings via teleconference or in person:

- February 25, 2014 – conference call
- March 19, 2014 – conference call
- May 22, 2014 – in person
- September 23, 2014 – conference call
- November 20, 2014 – in person

C. Administrative Site Visit

The PROC is charged with conducting, at a minimum, an annual Administrative Site Visit of each Peer Review Program Provider to determine if the provider is administering peer reviews in accordance with the standards adopted by the CBA.

On July 29, 2014, the PROC reviewed CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the *AICPA Standards for Performing and Reporting on Peer Reviews*, interpretations, and other guidance established by the board. The PROC's responsibility is to determine whether the peer review program complies with the Minimum Requirements for a Peer Review Program, pursuant to Title 16, CCR, section 48.

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

- Reviewed policies and procedures utilized by CalCPA to govern its peer review program process
- Read correspondence and other available documentation from other oversight activities performed at CalCPA
- Reviewed the Report Acceptance Body assignment binder
- Selected a sample of peer review reports and associated files for review

- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and select a sample for inspection of resumes and other documentation.

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

D. Sample Reviews

The PROC conducts 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.

This oversight activity was completed on July 29, 2014, in conjunction with the administrative site visit.

E. Peer Reviewer Training

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews. The CalCPA Education Foundation offers two types of peer reviewer trainings. Each year, the CalCPA Education Foundation offers a two-day course for new peer reviewers and a one-day refresher course for existing peer reviewers.

During 2014, PROC members attended the one-day training course *AICPA Peer Review Program Advanced Course* on May 21, 2014. A PROC member attended the two-day training course *How to Conduct a Review Under the AICPA Practice Monitoring Program* on June 26-27, 2014.

F. CalCPA Annual Report on Oversight

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

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2012. The oversight report summarizes the results of the mandated oversight of two percent of all reviews processed during the year and verification of the resumes and continuing professional education of one third of peer reviewers.

G. Oversight Visit Report of CalCPA

In years when the AICPA Peer Review Board does not perform oversight of the CalCPA, a member of the CalCPA PRC performs an administrative oversight.

The PROC reviewed the report of the Administrative Oversight Visit to the CalCPA conducted by PRC Chair David E. Vaughn, CPA on December 3, 2013. The report had no findings or recommendations for the administration of the program.

iii. NPRC

A. NASBA Compliance Assurance Committee (CAC)

The charge of the NASBA CAC is to promote effective oversight of compliance with professional standards by CPAs and their firms. As such, the focus of the NASBA CAC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to Boards of Accountancy – PROCs. The NASBA CAC provides oversight of the NPRC.

The PROC reviewed a summary of the NASBA CAC meeting held on June 26, 2014 and two PROC members observed the September 10, 2014 CAC meeting via teleconference.

B. NASBA CAC Report on the AICPA NPRC

The PROC reviewed the NASBA CAC report on the AICPA NPRC dated March 31, 2014. During the period November 1, 2011 through October 31, 2012 two former state board members sat as members on the AICPA NPRC. These members participated in 18 of the 25 RAB meetings held during this time period which represented 72 percent of the total RABs.

Based on the oral reports provided at each CAC meeting by the NASBA representatives serving as members on the AICPA NPRC, as well as reviewing the comprehensive oversight report prepared by the AICPA NPRC and the administrative oversight report issued by a third party on October 26, 2012, the NASBA CAC is satisfied and can report that the

AICPA NPRC has operated appropriately for the period of November 1, 2011 to October 31, 2013.

iv. Other State Societies

Most California-licensed accounting firms use CalCPA or AICPA NPRC to administer their peer reviews. There are some California-licensed firms that have their peer reviews administered by AICPA administering entities other than CalCPA and AICPA NPRC, meaning out-of-state CPA societies.

The PROC intends on reviewing the AICPA oversight visit report and the state PROC’s annual report, if available, for a selection of out-of-state administrative entities each year. All AICPA oversight visit reports are reviewed and accepted by the AICPA PRB Oversight Task Force.

c. Other Activities

i. NASBA PROC Summit

The PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all boards of accountancy. The conference is intended to assist boards of accountancy in learning how to establish a new PROC and also share experiences among existing PROCs to help each board of accountancy be more effective with peer review oversight. Sessions and content are formed based on the most requested information by accountancy board members and PROC members considering the goals and objectives of the NASBA CAC. A PROC Summit was not held in 2014.

IX. Statistics

The data in the following table reflects the number of peer review reports accepted by the CalCPA from 2012 through 2014, and provides perspective on the size of the peer review program in California. The table does not include statistics for peer reviews accepted by the NPRC or out-of-state administering entities.

Peer Review Reports Accepted by the CalCPA*				
Type of Review	2012	2013	2014	Total
System	648	517	507	1,672
Engagement	1,253	1,184	1,102	3,539
Total	1,901	1,701	1,609	5,211

*Data received from CalCPA as of October 17, 2014.

X. Findings

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

AICPA

The PROC found the AICPA PRB to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and AICPA PRB members to execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

In 2014, the U.S. Department of Labor (DOL) requested that the AICPA verify that all public accounting firms conducting audits of pension plans under the Employee Retirement Income Security Act (ERISA) were enrolled in peer review. The AICPA conducted a matching program and determined that some firms may not have appropriately identified the performance of ERISA pension plan audits prior to the completion of the firm's peer review. As such, these types of engagements may not have been reviewed during the peer review.

The AICPA was found to be responsive to the DOL's concerns. The AICPA PRB approved new guidance requiring that an administrative entity "recall its acceptance letter when notified by staff that the peer review report is not correct in all material respects. The peer review information and peer review documents must be removed from view on Facilitated State Board Access, and the administering entity must notify the application state board(s) of accountancy of information allowed by the guidance."

CalCPA

The PROC found the CalCPA PRC met expectations concerning knowledge of peer review acceptance procedures and corrective/monitoring actions. Through participation in five RAB meetings, the PROC found RAB members met expectations concerning knowledge of technical and procedural matters.

NPRC

In 2014, the PROC began participating in NASBA CAC meetings and reviewing summaries of CAC meetings not open to PROC members.

XI. Conclusions

Based on its oversight activities, the PROC concluded that the AICPA Peer Review Program, including its administering entities, CalCPA and NPRC, function effectively. The PROC recommends that the CBA continue to recognize the AICPA Peer Review Program as a Board-recognized Peer Review Program Provider.