CALIFORNIA BOARD OF ACCOUNTANCY

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

PROC MEETING
NOTICE & AGENDA

Friday, December 9, 2011
9:00 a.m. – 3:30 p.m.

Embassy Suites Irvine
2120 Main Street
Irvine, CA 92614
Telephone: (949) 553-8332
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PROC Purpose Statement
To provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

I. Roll Call and Call to Order **(Nancy Corrigan, Chair)**.

II. Report of the Committee Chair **(Nancy Corrigan)**.

   A. Approval of the October 27, 2011 PROC Minutes.

   B. Report on the November 17-18, 2011 CBA Meeting.

      1. Discussion Regarding Disseminating Portions of the California Society of CPAs' (CalCPA) Articles Containing Peer Review Tips.

      2. Discussion Regarding Approaches to Enlisting More Peer Reviewers.

   C. Meeting Protocol.

III. Report on PROC Activities **(Nancy Corrigan)**.

   A. Report on the October 11, 2011 Visit to the California Society of CPAs (CalCPA) Office.

   B. Discussion Regarding Sampling of Peer Review Reports.

   C. Discussion Regarding Letter to the National Association of State Boards of Accountancy (NASBA) Regarding the Peer Review Oversight Committee Summit.

IV. Reports and Status of Peer Review Initial Implementation **(Rafael Ixta, Enforcement Chief, Kathy Tejada, Enforcement Manager, and April Freeman, CBA Staff)**.

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

B. Status of Correspondence to Licensees Regarding Peer Review Reporting.

C. Status of PROC Roles and Responsibilities Activity Tracking.

D. Discussion of Implementation Phase-in Dates in California Code of Regulations Title16 Section 45 – Reporting to the Board.

V. Discussion Regarding the PROC's Annual Report to the CBA **(Rafael Ixta)**.

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VI. Discussion Regarding Oversight of the American Institute of Certified Public Accountants' National Peer Review Committee (NPRC). **(Rafael Ixta)**.

VII. Discussion Regarding Failed Peer Reviews **(Rafael Ixta)**.

A. Enforcement Process for Failed Peer Reviews.

B. Summary of Failed Peer Reviews.

VIII. Adoption of PROC Procedures Manual **(Rafael Ixta)**.

IX. Discussion Regarding Peer Review Survey **(Rafael Ixta)**.

X. Discussion Regarding PROC Assignments **(Nancy Corrigan)**.

XI. Future Agenda Items **(April Freeman)**.

XII. Public Comment for Items Not on the Agenda.

XIII. Adjournment.

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

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

For further information regarding this meeting, please contact:

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

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

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PROC Item II.A.
December 9, 2011

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

MINUTES OF THE
October 27, 2011
PROC MEETING

DoubleTree by Hilton San Jose
2050 Gateway Place
San Jose, CA 95110
Telephone: (408) 453-4000

PROC Members:
Nancy Corrigan, Chair
Katherine Allanson
Gary Bong
T. Ki Lam
Sherry McCoy
Robert Lee
Seid M. Sadat

Staff and Legal Counsel:
Rafael Ixta, Chief, Enforcement Division
Kathy Tejada, Manager, Enforcement Division
April Freeman, Peer Review Analyst

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

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 9:30 a.m.

II. Report of the Committee Chair.

A. Approval of August 30, 2011 Minutes.

Ms. Corrigan asked members if they had any changes or corrections to the minutes of August 30, 2011, PROC meeting. Ms. Corrigan requested that the third paragraph of Item II.C. be revised to refer to Minnesota and Texas' procedures manuals. She added that she has confirmed that Texas does not have a procedures manual.

Sherry McCoy requested that the year be added to the motion under Item II.A.

It was motioned by Katherine Allanson, seconded by Robert Lee, and unanimously carried by those present to adopt the minutes of the August 30, 2011 PROC meeting as revised.

B. Report on the September 22, 2011 CBA Meeting

Ms. Corrigan summarized her report to the California Board of Accountancy (CBA) at its September 22, 2011 meeting. She advised the CBA of the PROC's accomplishments. Her report also included information concerning several PROC members' attendance at a recent peer reviewer training course, the status of the PROC procedures manual, the American Institute of Certified Public Accountants' (AICPA) White Paper, and the conflicts of interest issue.

Ms. Corrigan reported to the CBA that, although she could not attend the National Association of State Boards of Accountancy's (NASBA) PROC Summit, materials developed by the CBA PROC were sent to NASBA for use during the Summit's discussions. She was proud to report that states such as Texas have shown interest in using the materials to improve their own peer review oversight processes and procedures.

Ms. Corrigan advised that the CBA approved the PROC's 2012 meeting dates and thanked PROC members for their hard work.

Ms. Corrigan also explained that the PROC was assigned to review the American Institute of Certified Public Accountants' (AICPA) Exposure Draft on Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, to determine if comments in addition to those in the CBA's September 26, 2011 letter are necessary.

C. Report on Conflicts of Interest Issue.

Ms. Corrigan advised PROC members that the Department of Consumer Affairs (DCA) Legal Office has reviewed the duties of the PROC and determined that it is not a conflict of interest for PROC members to perform peer reviews. She reminded members that they cannot participate in any discussion involving peer reviews that they or their firm performed.

Gary Bong questioned whether there is a conflict of interest with his firm performing the audit of the CalCPA. Mr. Ixta responded that, although the question was not initially posed to DCA, he has subsequently inquired about that scenario and has been advised that it is not a conflict.

Robert Lee requested clarification as to whether a PROC member can be a firm owner/partner and be a peer reviewer.

It was motioned by Robert Lee, seconded by Gary Bong, and unanimously carried by those present to direct staff to seek guidance from DCA Legal Office regarding whether a PROC member can be a firm owner/partner and be a peer reviewer, and whether a PROC member can be an owner/partner in a firm that audits a Board-recognized peer review program provider.

Ms. Corrigan suggested that a representative from the DCA Legal Office attend a PROC meeting to answer any additional questions if necessary.

III. Report on PROC Activities

A. Report on the October 20-21, 2011 CalCPA Peer Review Committee (PRC) Meeting.

Ms. Corrigan and Seid Sadat attended the meeting. Mr. Sadat stated that the meeting was very informative and he learned a lot, although he felt that the PRC members were subdued by the PROC's presence. He further commented that it is difficult to observe a report acceptance body (RAB) meeting without documentation. He added that states such as Kansas are able to review all relevant documents prior to a meeting. Mr. Sadat questioned if the PROC should only be observing these meetings and what should happen if a PROC member observes a problem.

Ms. Corrigan added that the PRC is technically very capable, and has a wealth of knowledge. She observed that the members try to bridge the gap between their own and AICPA's interpretation of the standards, and attempt to resolve problems with peer reviewers. Ms. Corrigan believes the PRC is concerned about the quality of peer reviews.

Mr. Sadat questioned CalCPA's procedures for handling underperforming peer reviewers who have numerous open engagements. Linda McCrone explained the AICPA's procedures for peer reviewer oversight and the steps of due process. She stated that if they can't get resolution, they issue a final letter advising the reviewer that they are no longer authorized to perform peer reviews. She explained that CalCPA ensures that any open engagements are reassigned to another firm or CalCPA's CART program for the completion at the original rate charged.

Members discussed, and Ms. McCrone agreed, that limiting the number of peer reviews accepted by a peer reviewer under oversight should be considered. Mr. Lee also suggested that the CBA should be notified when a peer reviewer is removed from the program.

Mr. Ixta stated that a more in depth look at how CalCPA is handling peer reviewers can be accomplished during the administrative site visit. He reminded members that the PROC's job is to look at the big picture concerning CalCPA's processes, which may lead to CalCPA modifying their procedures, timelines, etc.

Mr. Sadat emphasized the PROC's need for access to CalCPA's information and suggested staff research how other states, such as Kansas and Missouri, handle the confidentiality of such documents. Mr. Lee believes it is appropriate to inform the CBA that the confidentiality issue continues to prevent the PROC from doing its job effectively. Ms. Allanson suggested only taking temporary possession of the materials.

It was motioned by Robert Lee, seconded by T. Ki Lam, and unanimously carried by those present to direct staff to revisit the issue of confidentiality and how California laws are limiting the PROC's ability to carry out its duties.

Mr. Ixta clarified the difference between the PROC's objective and enforcement actions. He explained the complaint process and when accusations are filed. He

reiterated that the CBA has a responsibility to identify substandard peer reviewers who continue to practice public accountancy to ensure they are competent.

B. Report on September 20, 2011 CalCPA Report Acceptance Body (RAB) Meeting.

Mr. Sadat and Ms. Allanson participated in the meeting via teleconference. Mr. Sadat restated that he needs the documentation in order to participate effectively. Ms. Allanson stated she had access to the documents at CalCPA's Glendale office.

C. Report on the October 6, 2011 AICPA's Peer Review Board (PRB) Meeting.

Mr. Lee and Ms. Allanson participated in the meeting via teleconference. Mr. Lee acknowledged that the members were very passionate. Ms. Allanson reported on the heated discussion concerning the early implementation of SSARS 19.

IV. Reports and Status of Peer Review Initial Implementation.

A. Update on Proposed Legislative Language to Extend the Sunset Date on Mandatory Peer Review.

Kathy Tejada advised members that Senate Bill 543 has been signed by the Governor making the PROC permanent.

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

Ms. Tejada reported that as of September 27, 2011, 29,141 licensees have reported peer review information. The breakdown is as follows: 2,508 firms required to undergo peer review, 5,642 firms not required to undergo peer review, and 20,991 licensees not operating as a firm.

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

April Freeman stated that on August 12, 2011, approximately 3,800 deficiency letters were sent to licensees who were required to, but did not, report by July 1, 2011. She added that there are still about 1,500 licensees who have not reported. Mr. Ixta stated that licensees who did not report by the deadline will be issued citations with administrative fines.

Members questioned whether licensees who have not had a peer review will be able to renew their licenses. Mr. Ixta explained that the renewal form includes a statement that the licensee acknowledges that they have complied with peer review requirements. He added that if a licensee has not had a peer review, their license should not be renewed.

Staff is currently preparing reminder letters to be mailed to licensees who are required to report by July 1, 2012. These letters are expected to be mailed in January 2012.

V. Status of PROC Roles and Responsibilities Activity Tracking.

Ms. Freeman gave an overview of the PROC activity tracking sheet. She went over the tasks that are still outstanding, which include performing an administrative site visit, preparing the annual report to the CBA, developing policies for new peer review providers, and performing random samplings of peer review reports.

VI. Discussion of Materials from the August 16, 2011 National Association of State Boards of Accountancy (NASBA) PROC Summit.

Ms. Corrigan discussed additional materials that were provided from the NASBA PROC Summit, in addition to the materials provided under Item II.C. at the August 30, 2011 PROC meeting.

Mr. Ixta called attention to Washington State's application review checklist which can be used as a model when the PROC receives an application from a new peer review program provider. It was also suggested that staff contact other states to determine how they approve new program providers.

Ms. Corrigan believes that the *NASBA Compliance Assurance Committee PROC Report Review* for the State of Minnesota (8/30/11 Item II.C. Attachment 6) can assist the PROC in drafting its Annual Report to the CBA. Mr. Ixta added that the cover sheet (PROC Reports) would also be helpful.

VII. Discussion Regarding PROC Procedures Manual.

Mr. Ixta gave an overview of the changes to the draft PROC Procedures Manual and requested that the PROC move to adopt the manual.

Members suggested that the conflict of interest information, including a template of the letter signed by members, be included in the manual. They also suggested that verbiage concerning CBA staff's role be included, and that the term subcommittee be clarified to mean "report acceptance body."

VIII. Discussion of the AICPA's Exposure Draft on Proposed Revision to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, August 22, 2011.

Ms. Corrigan explained that the CBA had done a cursory review of AICPA's Exposure Draft and sent a letter of support on September 26, 2011. However, the CBA requested that the PROC take a closer look to determine if the response drafted by CBA staff was appropriate.

Ms. Allanson explained the proposed changes addressed individuals who act as peer reviewers and also create Quality Control Materials (QCM) or training classes to meet CPE requirements. The old rules required these individuals to have a peer review, whereas the proposed change would only require a peer review for individuals creating QCM, not CPE. Ms. Allanson recommended that the PROC accept the letter originally sent to the AICPA.

It was motioned by Katherine Allanson, seconded by Seid Sadat, and carried unanimously by those present that the September 26, 2011 letter sent to the AICPA Peer Review Program on behalf of the CBA is acceptable as issued and no further action is necessary.

IX. Discussion Regarding the PROC's Annual Report on the CBA.

Ms. Corrigan reminded members that the goal is to have the Annual Report submitted to the CBA at the March 2012 meeting. Mr. Ixta stated that he would like to have a first draft of the report by the PROC's December 9, 2011 meeting, with the final draft being adopted at the PROC's February 2012 meeting.

Mr. Ixta requested feedback from members concerning topics that should be included under each section as follows:

- Message from the Committee Chair – Ms. Corrigan agreed that staff could prepare something generic for her to review.
- Background – Mr. Ixta suggested using information similar to the report in the August 30, 2011 Agenda Item II.C. Attachment 6.
- Goals & Objectives – Mr. Ixta suggested goals and objectives be taken from the procedure manual prepared by several PROC members.
- Committee Members & Staff – Self-explanatory.
- Legislation & Regulation – Mr. Ixta suggested preparing a chronology starting with AB138 which created mandatory peer review, emergency regulations, modified regulations, and conclude with SB543 which makes PROC permanent.
- Strategic Plan Accomplishments – Mr. Ixta explained CBA's Strategic Plan and suggested providing information on the accomplishments relating to peer review.
- Statistics – Mr. Ixta suggested using reporting statistics regarding phase I and failed peer reviews. Mr. Corrigan questioned whether those statistics are appropriate for the PROC's report. Ms. Allanson thought it provided a scope for a frame of reference.
- Oversight Activities:
  - Scope of Work – Ms. Corrigan suggested discussing all of the meetings and oversight activities that members have participated in. Some activities will still be in the planning process. Ms. Corrigan suggested clarifying IX.a.vi. concerning withdrawal of recognition of a peer review program provider.
  - Findings and Conclusions – Mr. Ixta suggested these items be left for further discussion at the next meeting.
- Preliminary Survey of Peer Review Survey Results – Mr. Ixta explained that staff will need to start compiling the data that has been submitted. Members thought a discussion of the survey questions would be beneficial.
- Public Affairs & Outreach – Mr. Ixta suggested discussing the letters that were sent, information on the website, and UPDATE articles. Mr. Lee suggested the report make the CBA aware of how much leniency needs to go into this process.
- Peer Review Reporting Database – Item may no longer be relevant.
- Future Considerations – Mr. Lee suggested that staff consider issues that need to be addressed. Ms. McCrone suggested discussing how peer review will be handled after the three year phase in period.

Staff will bring a draft report to the next meeting.

Mr. Bong questioned whether larger firms must go through peer review. Ms. McCrone explained that large firms go through peer review at the national level, administered by the National Peer Review Committee (NPRC) with oversight provided by the NASBA PROC. Mr. Ixta explained that large firms still have to report peer review information to the CBA and the CBA does get copies of the failed peer reviews. Members were concerned that the PROC is not providing oversight to the NPRC and requested that this issue be addressed.

X. Discussion Regarding Procedures for Oversight Checklists.

Mr. Ixta explained the new procedures for submission of the oversight checklists. The section includes all the checklists that have been developed to date. Members are required to submit checklists to the CBA within 30 days of the oversight activity. Checklists will be maintained by the CBA and destroyed subject to normal record retention policies.

It was motioned by Robert Lee, seconded by Seid Sadat, and carried unanimously by those present to adopt the procedures for submission of oversight checklists.

XI. Discussion Regarding Peer Review Program Statistics Available from CalCPA.

Ms. McCrone distributed the latest CalCPA statistics concerning peer reviews performed in 2009 and 2010. She answered questions concerning the statistics and PROC members' access to CalCPA's database. Ms. McCrone advised members to ask for the statistics they need, as navigating the database is not straightforward.

Ms. Corrigan added that she and Ms. McCoy visited the CalCPA offices on October 11, 2011 to document their procedures. During that visit, they were able to view the database and ask questions concerning its capabilities.

XII. Discussion Regarding PROC Assignments.

Ms. Corrigan gave additional information about the visit to the CalCPA office and requested feedback from members concerning the timing of the official administrative site visit. Members agreed to target February 2012.

Ms. McCrone added that AICPA's next visit to the CalCPA office is scheduled for November 2012.

XIII. Future Agenda Items.

Agenda items for future meetings:

- Discussion of Oversight of the National Peer Review Committee
- Discussion of Other States' Procedures for Approving Peer Review Program Providers
- PROC Members Reappointments
- Report on October 11, 2011 Visit to CalCPA Office

XIV. Public Comment for Items Not on the Agenda.

Ms. McCrone questioned how the Enforcement Division handles failed peer review reports. Mr. Ixta explained that once a failed report is received, either from the firm or the provider, a letter is sent to the licensee acknowledging the failed report and requesting confirmation of compliance with corrective actions. An investigation is opened to monitor compliance with corrective actions, and to determine if a violation of the Accountancy Act exists and warrants additional investigation. Mr. Ixta stated that failed peer review reports would become subject to the Public Records Act if an investigation were not opened.

Members requested a mechanism for tracking the reasons for failed peer reviews.

XV. Adjournment.

There being no further business, the meeting was adjourned at 2:52 p.m.

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Nancy Corrigan, Chair

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

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PROC Item II.B.1.
December 9, 2011

Discussion Regarding Disseminating Portions of the California Society of CPAs' Articles Containing Peer Review Tips

Presented by: Nancy J. Corrigan, PROC Chair
Date: November 15, 2011

Purpose of the Item
The purpose of this agenda item is to discuss the feasibility of disseminating common peer review deficiencies to licensees.

Action Needed
No specific action is required on this agenda item.

Background
At the November 17-18, 2011 California Board of Accountancy (CBA) meeting, a question arose concerning disseminating information about peer review deficiencies to licensees. The belief is that if licensees are made aware of common peer review deficiencies, they will improve their practice prior to a peer review and deficiencies will be reduced.

Comments
Currently, the CalCPA communicates common peer review deficiencies to CPAs and firms through articles on its website. CalCPA also send e-newsletters to peer reviewers alerting them of new requirements and problems that are being encountered.

Two articles currently available on CalCPA's website are *The Lowdown on New Peer Review Regs* **(Attachment 1)** and *Smooth Sailing Through New Audit Standards* **(Attachment 2)**. CalCPA's most recent e-Newsletter, published in June 2011, also addresses peer review issues **(Attachment 3)**. These articles provide an example of the types of information being distributed by CalCPA.

The CBA has a variety of options for sharing this information, including UPDATE articles, online peer review tips, and/or links from the CBA website directly to CalCPA articles.

Recommendations
None

Attachments
1. The Lowdown on New Peer Review Regs, California CPA, May 2010
2. Smooth Sailing Through New Audit Standards, California CPA, December 2008
3. CalCPA e-Newsletter, June 2011

The Lowdown on New Peer Review Regs

California CPA: May 2010

Taking the Mystery Out of the New Requirements

By Linda McCrone, CPA

California joined more than 40 other states and territories Jan. 1, 2010, in requiring mandatory peer review of firms that issue compilation, review, attest and audit reports through legislation sponsored by the California Board of Accountancy. Here's a primer on what that means for affected firms.

Who is Subject to Peer Review?
The first step is to determine whether the firm is issuing financial statements or a trial balance. If the firm is not issuing a financial statement, then it's not required to issue a report and would not be subject to peer review.

For more, see SSARS standards, specifically the related interpretations of Sec. AR 100, question 15 (AR Sec. 9100.54).

If the firm is issuing financial statements, but only for management use of the client and not for third parties—such as a bank—SSARS Sec. AR 100.24 allows the firm to issue financial statements without a report.

To do so, there must be an engagement letter with the client with very specific wording, and each page of the financial statements must include a reference such as "restricted for management's use only."

More details and a sample engagement letter are available in the standards.

A firm that produces financial statements for management use only can turn these statements over to another CPA firm to issue a compilation, review or audit. Under the related interpretations of Sec. AR 100, question 31 (AR Sec. 9100.136), although the other firm is a third party, it's not deemed to be using the financial statements.

Although question 31 and the related answer address a situation where the other CPA firm is performing an audit, the question and answer also applies to compilation and review engagements.

Accountancy Regulations, Article 6, Sec. 42 excludes firms from peer review whose highest level of work is compilations where no report is issued.

CPA firms with employees acting as controllers or similar positions for clients shouldn't be issuing reports if they are part of the management of the client. Instead, they could issue a transmittal letter on the client's letterhead. See the related interpretations of Sec. AR 100, question 21 (AR Sec. 9100.80) for sample language. This type of engagement would not be subject to peer review.

When Does Peer Review Apply?
Firms will begin reporting peer review information to the CBA in summer 2011, even though the law is effective Jan. 1, 2010.

Accountancy Regulation Article 6, Sec. 45 has a three-year phase-in using the last two digits of a firm number (the firm number is the individual's license number for sole practitioners who are not incorporated):

- Firm numbers ending in 01-33: reporting date is no later than July 1, 2011
- Firm numbers ending in 34-66, reporting date is no later than July 1, 2012
- Firm numbers ending in 67-00, reporting date is no later than July 1, 2013

Under the CBA's regulations, a firm operating or maintaining an accounting and auditing practice shall have a peer review report accepted by a peer review program within 36 months prior to its license renewal date and have a peer review report accepted once every three years.

The CBA determines who will be subject to mandatory peer review. Since the statute went into effect Jan. 1, 2010, the CBA could determine that a firm issuing any compilation, review, audit or attest engagements with report dates after Jan. 1, 2010, is operating an accounting or auditing practice.

What is Peer Review?
A peer review, performed every three years by an independent CPA, comes in two types:

- **System Reviews**: for firms that perform audits or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs)
- **Engagement Reviews**: for firms that only issue compilations, reviews and reports under the SSAEs that are not included in system reviews.

For engagement reviews, the peer reviewer will look at one engagement from each level of service: compilation without disclosures, compilation with disclosures and review with a minimum of two engagements to be reviewed. In addition, at least one engagement is reviewed from each partner. The financial statements and work papers are sent to the peer reviewer's office.

The peer reviewer's report will have one of the following ratings:

- **Pass**: Nothing came up during the review that caused the peer reviewer to believe that the engagements submitted for review were not performed and reported on in conformity with professional standards.
- **Pass with deficiency**: The peer reviewer found a material deficiency in one or more of the engagements submitted.
- **Fail**: Material deficiencies were found in all of the engagements submitted.

In addition, the peer reviewer will prepare Findings for Further Consideration (FFC) if there are matters that are not in conformity with professional standards, but aren't significant enough to be classified as a material deficiency.

For system reviews, the peer reviewer visits the firm, evaluates the system of quality control, interviews staff and reviews a representative sample of accounting and auditing engagements. Again, there are three ratings for the peer review report:

- **Pass**: The firm's system is suitably designed and the firm has complied with its policies and procedures so that it has a reasonable assurance of performing and reporting in conformity with applicable professional standards.
- **Pass with deficiency**: The system is suitably designed and the firm has complied with the system, except for the deficiency or deficiencies described in the report.
- **Fail**: The system is not suitably designed or has not been complied with.

A peer reviewer also will issue an FFC when there is more than a remote possibility that applicable professional standards will not be followed.

The peer reviewer submits the report, FFC and work papers to the peer review program. Technical reviewers, who sometimes ask questions or require changes, then review the peer review. Three or four members of the 20-member California Peer Review Committee then evaluate the peer review and decide whether to accept the peer review or require additional changes.

The CBA recognizes the AICPA Peer Review Program as meeting the requirements of their peer review regulations. The AICPA National Peer Review Committee administers peer reviews for firms that are required to register with and be inspected by the Public Company Accounting Oversight Board or firms that perform audits of non-SEC issuers pursuant to PCAOB standards.

CalCPA administers peer review for all other firms headquartered in California. Firms headquartered in other states, but also licensed in California, may use their AICPA approved administering entity to process their peer reviews.

How Does a Firm Get Started?
A firm should submit an enrollment form to the CalCPA Peer Review Program. Firms should begin this process in late summer or early fall before the year the firm's peer review must be submitted to the CBA. Once the peer review is finished and submitted to CalCPA, processing time typically takes two to three months. Enrollment forms for AICPA member and non-member firms are available online.

When a firm enrolls, the system automatically assigns a due date, which complies with AICPA requirements but not necessarily to CBA requirements. It is the firm's responsibility to make sure its peer review is completed in a timely manner.

CalCPA's peer review program is paperless, so it's important that the firm include the correct e-mail address for the managing partner or owner on the enrollment form, and that the firm adds *ca@prcpa.org* and *peerreview@calcpa.org* to its e-mail safe senders list.

Choosing a Peer Review Year
One of the most important peer review decisions a firm makes is choosing the appropriate peer review year. Peer reviewers select engagements to review with periods or years ending within the peer review year.

Firms need to have completed most of their engagements by the time the peer review commences so the peer reviewer will be able to select appropriate engagements. This is why firms are assigned a due date six months after their peer review year-end.

The peer reviewer must submit the peer review work papers to the administering entity by the due date.

In subsequent peer reviews, the administering entity will contact the firm to start the peer review process in the month of a firm's year-end. The firm could start and complete the process during the summer, since most Dec. 31 engagements would be completed by then, and avoid having to work on peer review during the early- and late-year tax seasons.

Performing the review in the summer would also allow plenty of time for the peer review to go through the administrative process.

The determination of year-end for system reviews will depend on the nature of a firm's audit practice. For example, if the firm performs ERISA audits, these are generally calendar year audits due by Oct. 15. A good year-end would be June 30, with the peer review occurring in November or December.

Firms performing nonprofit or government audits often have engagements with June 30 year-ends that sometimes run into the following year to complete. A good year-end may be April 30 or May 31, so the firm's prior year audits could be reviewed during the summer before the start of audit season.

Choosing a Peer Reviewer
Another important decision is choosing the firm's peer reviewer. You can review the AICPA's criteria for a CPA to become a peer reviewer online.

For engagement peer reviews, peer reviewers do not have to match the firm's industry. For system reviews, there must be a match of certain audit industries. For some industries or practice areas there must be a match if the firm performs any of that type of audit, but for other industries, there must be a match only if the audits comprise more than 10 percent of the firm's audit practice.

In system reviews, peer reviewers can use team members to assure the match. It's important to remember that only audits need to match.

To find a peer reviewer, ask other firms for opinions about their peer reviewers. CalCPA also offers an annual directory of reviewers available online. Peer reviewers pay a small fee to be included in this directory.

The AICPA also has an online directory of all reviewers.

In addition, some firms are hiring a consultant to either review some engagements for a period prior to their peer review year or to become part of their pre-issuance review process. The consultant is also a good resource to assist you in finding a peer reviewer.

How Much Will Peer Review Cost?
The firm will pay the peer reviewer a negotiated fee. Engagement reviews typically take three to six hours. For engagement reviews, CalCPA offers a program known as Committee-Appointed Review Team, where the firm contracts with CalCPA, which uses independent contractors to perform the review. System reviews for firms that have just a few audits will typically take 12 to 20 hours.

The California Peer Review program charges an annual registration fee. Firms pay this fee every year, not just in the year of their peer review. Even though the program is part of CalCPA, it maintains separate financial statements to ensure that revenue covers expenses.

The California Peer Review Committee evaluates these financial statements annually to determine if the registration fee to be charged in the following year is appropriate.

For calendar year 2010, the fee is $175 for the first professional and $50 for each professional up to a maximum fee of $2,000. A professional is defined as a CPA or college graduate pursuing CPA licensure. This applies to all members of the firm that fit the definition of a professional, even if they perform no accounting or auditing work or are not full-time employees.

Quality Control Standards
Even though quality control documentation is only evaluated in system peer reviews, it is important to realize that all firms—not just those with AICPA members—performing accounting engagements must have a written quality control document and perform and document monitoring.

The AICPA offers a practice aid that provides sample wording for quality control documents for different size firms online. Alternatively, some firms are using the quality control policies and procedures documentation questionnaire available on the AICPA's website.

All firms are required to include the criteria established for an engagement quality control review (EQCR) of an engagement in their quality control document. Firms must be careful in developing EQCR criteria since some will need to hire an independent contractor to perform this service. Firms are allowed to set criteria so that it is probable the conditions will never be met.

For example, for firms that perform only reviews and compilations, the criteria could be that they will require an EQCR if they accept an audit engagement. For firms with audit practices, the criteria could be that an EQCR is required if the firm performs an Employee Benefit Plan audit or OMB Circular A-133 audit.

Other criteria might involve application of new standards, complex issues, size of client (in terms of amount of revenues), size of engagement (in terms of number of hours) or entry into a new industry.

Quality control standards also require an annual written independence confirmation. While this may be handled on an engagement-by-engagement basis, it is often more efficient to obtain such a confirmation from all firm personnel, including firm owners, to cover all firm clients.

Also, don't forget to obtain independence confirmations from per diem personnel or firms that perform a segment of an engagement.

Common Deficiencies

The most common deficiency in an engagement peer review is the misclassification of a material asset or liability. For example, the current portion of long-term debt is not recorded in current liabilities and the amount is material. If the amount is not material, this would be an FFC and not in the peer review report.

Also, when generally accepted accounting principles statements are issued, if a balance sheet and income statement are present, there must be a statement of cash flows for each period presented in the income statement. If the client does not want to pay for all the required statements of cash flow, simply modify the accountant's report for the GAAP departure.

Statements of cash flow are not required if the financial statements are prepared on the cash or tax basis, but they must follow the GAAP rules if presented.

If financial statements contain a material departure from the basis of accounting used, the accountant's report should be modified to describe the nature of the departure and the effect on the financial statements or that the effect is not known. A material departure cannot just be described in the notes. The financial statement and notes are the work product of the client, while the report is the work product of the CPA.

Some industries, such as construction and common interest realty associations, have additional accounting requirements that are explained in AICPA Audit and Accounting Guides. You can review the list online to determine if any industries that the firm issues financial statements for are covered by these guides.

For example, financial statements for common interest realty associations must have required supplementary information on future major repairs and replacements, or the report must describe the departure. This would apply even if the financial statement were a compilation without disclosure.

The standard report on a compilation without disclosure just describes the omitted note disclosures, not the missing required supplementary information, so an additional paragraph would need to be

added to the report.

In system reviews, audits of employee benefit plans and audits under Government Auditing Standards or OMB Circular A-133 have unique auditing, reporting and financial statement issues. The AICPA has developed audit quality control centers for these industries that have resources.

Some of the resources are available to all firms, but other information is available only to members of these quality control centers.

Firms with membership in any of the quality control centers must have their peer review report in public file, but the FFCs are not part of this public file.
Linda McCrone, CPA, Esq. is CalCPA's director of technical services.

Peer Review Resources
CalCPA

CBA
Accountancy Act, Article 4, Sec. 5076; Accountancy Regulations, Article 6

AICPA:

- Statements on Auditing Standards (SASs)
- Statements on Standards for Accounting and Review Services (SSARS)
- Statements on Standards for Attestation Engagements (SSAEs)

Why Peer Review?
CPA firms have undergone approximately 300,000 peer reviews since 1987, resulting in reports that provide insight into participating firms' quality control standards and their real-world use of those standards. Peer review focuses on strengthening firms' quality control and encourages firms to improve processes and correct shortcomings. Many firms also find peer review very educational and beneficial to their accounting and auditing practices.

Smooth Sailing Through New Audit Standards

California CPA: December 2008

by Marcia J. Hein, CPA

Peer review season is in high gear and there are lessons to be learned about implementing the new audit risk standards. Following are some of the hot spots seen in peer reviews so far.

1. Failure to document observation and inspection procedures.
SAS 109 tells us that observation and inspection procedures should be performed to support inquiries of management regarding the entity and its environment. These procedures would typically include some or all of the following:

- Observation of entity operations;
- Inspection of documents;
- Reading management reports, interim financial statements and board minutes; and
- Walk-throughs.

While firms may be performing these procedures, they often are not documented in the workpapers.

2. Failure to document risk assessment procedures.
Most firms understand the risks of their audit clients and properly identify significant transaction classes, material balances and significant fraud and other risks. Once the identification process occurs, the new standards require auditors to gain further knowledge of the flow of transactions and controls over these significant areas, and to document the knowledge obtained. This documentation is often missing from working papers.

3. Failure to link risk assessments to actual procedures performed.
Risk assessments may be properly identified, but some practitioners do not properly link those assessments to procedures performed. For instance, if the risk of material misstatement for accounts receivable is moderate or high, and receivables are a material balance, the “basic” audit procedures from our Practitioners Publishing Company programs should be supplemented by extended procedures.

Conversely, if the risk of material misstatement for an area is low and the balance is not considered material, then basic procedures (or even analytical review) will suffice.
Many firms do not understand this link and continue to perform all of the procedures they always have performed. Others just perform the basic procedures for all sections and disregard the extended procedures, even when some of these procedures are necessary.

4. Failure to properly use electronic third-party practice aids.
Our friends at PPC try to make our lives easier. In addition to the normal practice aids for audits of non-public companies, PPC has electronic practice aids that will increase our audit efficiency. Unfortunately, there may be a big learning curve in the first year of implementation and, like all programs, they are only as good as the information you put in. So reviewers have seen a variety of problems in using these electronic practice aids.

First, firms need to make certain that the risk assessments they have made actually get input into the summary form because that is the form that the software uses to formulate the audit procedures to perform. For instance, if you have identified cash as a significant risk, but forget to check that box on the summary form, the suggested audit procedures won’t be sufficient to lower audit risk to an appropriate level.

Also, if circumstances change during the audit, and the firm decides to change the audit plan (for example, the number and type of procedures), they often don't go back and change the risk assessments to accurately reflect their final decisions. Instead, they use an "override" feature on the programs. This often causes a failure to link risk assessments to audit procedures as described above.

Firms need to understand the standards and the practice aids to make certain that the standards are implemented correctly. Firms that use PPC should consider purchasing PPC's *Guide to Audit Risk Assessment*, which gives examples of the completed forms as guidance.

Additional CPE on the standards themselves (search "audit risk assessment" at CalCPA's event registration page) and on use of applicable software also may be necessary. Firm personnel assigned to the review of engagements should emphasize the link between risk assessments and audit procedures performed during the review of engagements.

Marcia J. Hein, CPA is a past chair of the California Peer Review Committee, technical reviewer for the California peer review program and peer review instructor for the California CPA Education Foundation. You can reach her at Marcia@mjh-cpa.com.

CalCPA e-Newsletter: June 2011

Typed SRM and MFC
The California Peer Review Committee has decided that effective for peer reviews with reports dated after June 30, 2011 the summary review memorandum (SRM) on a system review and the matter for further consideration forms (MFC) on both the engagement and system reviews must be typed.

Signatures on MFC and FFC forms
"Discussed with owner" is an appropriate signature for MFC forms on an engagement review, but the MFC forms on a system review must be signed by the appropriate person in the firm. Finding for Further Consideration forms (FFC) for both engagement and system reviews must be signed by the appropriate person in the firm. It is never acceptable for a peer reviewer to sign on behalf of a firm. Of course all forms must also be signed by the peer reviewer.

New Checklists
The AICPA has updated several team and review captain checklists and has added a great feature to the website, displaying the date a form was last updated. The latest update is June 9, 2011. It is the responsibility of the peer reviewer to ensure that the most recent forms are used. For system and engagement reviews commencing after June 30, 2011 the June 9 updates must be used or the technical reviewer will require you to replace the form with the current forms.

CBA Extension
The peer review program, with the approval of the CBA, has developed an extension process for firms that need to report their results to CBA by July 1, 2011. The extension request form can be accessed from the peer review home page of CALCPA's website. The extension to report peer review results to the California Board of Accountancy (CBA) is not an extension of the peer review due date. When new firms enter the peer review program but need to report their results to CBA by July 1, 2011 we assign them a due date three months from the date they enrolled in the peer review program so that the peer reviewer will have time to perform the review. We use this due date to generate late notices.

Due to the time it takes to perform and process a peer review, the peer review program is giving extensions to report results to CBA up to February 29, 2012. However, peer reviews of firms due to report by July 1, 2011 will have to be received by this office by September 30, 2011 in order to comply with this timeline. Also, peer reviewers and firms must respond timely to questions and revisions in order for the firm to be able to meet the February 29, 2012 deadline. Do not expect this extension process for the CBA to be available to firms due to report July 1, 2012. The peer review program is working with the CBA to add additional clarity to their letters regarding the timing requirements for peer review completion. Therefore, firms with a reporting date of July 1, 2012 should plan on having their peer reviews to us by January 31, 2012 at the latest. Also, if you as a peer reviewer have an active tax practice and cannot respond timely to revision requests during tax season, you should complete and submit your peer reviews by December 31, 2011.

Industry Match on System Reviews
Peer reviewers should discuss industries in which the firm performs audits before agreeing to a system peer review. The purpose of this discussion is to determine that the reviewer's resume will match that of the firm. However, sometimes a firm doesn't mention a particular industry during the initial discussion or they may answer the industry questions on the scheduling form

incorrectly. When you receive notice of a failure to match an industry on a system peer review, obtain the scheduling form from the firm and review it with them. If the scheduling form needs to be corrected, have the firm email corrections to peerreview@calcpa.org. If the problem is that the firm failed to mention an industry, then you may add a team member. Usually the firm would send the audit to the team member sufficiently ahead of the peer review so the team captain has the results ahead of his or her visit to the firm. Lastly, if there is not a match but you still believe that you can perform the peer review, you may explain your reasons via email to peerreview@calcpa.org. To fairly assess this issue, the peer review program needs to know how many audits are in each of the industries checked by the firm and how many other audits there are. Also, any audits performed under OMB Circular A-133 or generally accepted government auditing standards must be clearly indicated. The peer reviewer must explain the reason for requesting approval without the match. Each peer review stands on its own. If a peer reviewer is approved on a different review for the same industry code as in the current review, the peer reviewer must again explain the reasoning and cannot simply refer to the other review.

Peer Review Year

End Firms undergoing an initial peer review need to select an appropriate peer review year end. Peer reviewers should assist the firm in determining a year end that is best for them. Some peer reviewers have been incorrectly advising firms that their year end is six months before the assigned due date of this first review. A year end should be chosen carefully because it is difficult to change and can only be rolled back, not forward. The subsequent peer review will be due six months after the year end. For engagement reviews, May through July is often a good peer review year end. The peer review program first contacts the firm for their subsequent peer review in the month of the firm's year end which would be after tax season. The peer review can occur during the summer and the engagements, which are typically December 31 year ends, are usually complete by that time. Year ends for system reviews may vary due to the type of engagements the firm performs. For instance, audits of nonprofit and government entities often have June 30 year ends, so the firm is really busy in the summer and early fall, and the June 30 work may not be completed by the due date. Some firms use a May 31 peer review year end so that the prior year's audit work can be peer reviewed during the summer before the crunch of audit seasons. For firms with ERISA audits a May, June or July year end is good. The calendar ERISA audits are not due until October 15 so the peer review could be performed in November, December or early January.

FFCs

Weak or incomplete documentation is often noted as a symptom of a systemic problem in system reviews. At some point in the spectrum, this weak or incomplete documentation would be so deficient as to no longer support the auditor's report. Reviewers often have differing viewpoints on where that point in the spectrum might be. To properly assess peer review documents, the Report Acceptance Body needs information as to exactly what documentation is present in the file and what is missing. Therefore, reviewers should be more specific in their descriptions on documentation. Just stating that the documentation is "weak" or "incomplete" in specific areas will no longer suffice.

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PROC Item III.A.
December 9, 2011

Report on the October 11, 2011 Visit to the California Society of CPA's Office

Presented by: Nancy J. Corrigan, PROC Chair
Date: November 15, 2011

Purpose of the Item
The purpose of this agenda item is to provide members with a summary of the information gathered during a recent visit to the office of the California Society of CPAs (CalCPA).

Action Needed
No specific action is required on this agenda item.

Background
On October 11, 2011, PROC Chair Nancy J. Corrigan and PROC Member Sherry McCoy conducted a review of CalCPA's peer review processes and administrative procedures. The information from the visit will be used to determine the extent and nature of future oversight activities. A draft summary of the visit, prepared by Ms. Corrigan and Ms. McCoy, is included as **Attachment 1.**

Comments
None

Recommendations
None

Attachments
1. Draft Summary of Site Visit to CalCPA, October 11, 2011

Attachment 1

California Board of Accountancy (CBA)
Peer Review Oversight Committee (PROC)
Summary of Site Visit to CalCPA

Date of visit:	October 11, 2011
PROC representatives performing visit:	Nancy Corrigan, Chairperson Sherry McCoy, Member
CalCPA personnel interviewed:	Linda McCrone, Director Susan Lamb, Supervisor

The above-listed PROC representatives visited the CalCPA offices in order to obtain an initial understanding of the administrative procedures for the peer review process as conducted by the CalCPA. The information from this visit will be used in the future to determine the extent and nature of the oversight procedures to be performed by the PROC in connection with its responsibilities to the CBA.

Upon our arrival in San Jose, we were met by Linda McCrone, Director, who provided a tour and introductions to her team at the offices of CalCPA in San Mateo, California. Linda then provided an overview of the process that firms use to complete the peer review through CalCPA, following the online guidance as follows (also see the appendix for information and links extracted from http://www.calcpa.org/Content/peerreview.aspx):

Conflicts of Interest

Because it is important and necessary to avoid conflicts of interest in the peer review process, great care is taken from the initial stages to final report stages to evaluate the potential for and the avoidance of such conflicts. This is achieved through ongoing communications of the various constituents (peer reviewers, the firm being reviewed, technical reviewers, CalCPA personnel, contractors and members of the PRC and RAB). If potential conflicts are identified, the impacted parties are responsible for recusing themselves from the event that would be conflicting (for example, participation in a RAB call). [Discussion for next site visit: insert here how this is documented and the controls in place to achieve the objective; obtain policy, if available]

Getting Started

There are two primary jurisdictions for reviews now in place based on membership status with AICPA: AICPA and non-AICPA. Also note that CalCPA does not have

involvement with the larger firm peer review processes as those are administered solely by AICPA through its national peer review process.

Receipt of the request for peer review from the firm to be reviewed may come in by email, fax or US postal mail. The individual covering the phones is responsible for routing documents to those individuals who are in charge of the various areas of peer review processing. Key areas include the forms and processing for backgrounds, enrollments and workpapers. Questions by phone are similarly routed with Linda McCrone or Susan Lamb handling any questions that cannot be answered by other personnel. No manual logs are considered necessary due to the checks and balances available thru the use of PRISM and the CalCPA's paperless files which are prepared in due date order and include notes and other tools for status monitoring, including an aging report for the reviews in the system. Note that technical review notes are not attached to PRISM but rather are retained in the CalCPA files for that purpose as well as managing files selected for oversight (see discussion elsewhere in this document regarding the oversight process).

All requests are entered into the AICPA's PRISM system for administration with separate data collection forms used for each. From this input, a firm number, a review number and due date are established. Reports are available within PRISM to then manage the workflow of a given review throughout the peer review process. CalCPA relies upon the PRISM system for managing its inventory of reviews and the related documents in process. PRISM updates are managed by AICPA for AICPA peer reviews; whereas CalCPA inputs updates directly for the non-AICPA firms.

Scheduling

Once a review number is generated in the getting started phase of the process, the scheduling form is the next phase.

The background form that is completed during this phase must be reviewed by the peer reviewer during his/her work (described in the Performance discussion below) to be sure it is consistent with the information provided, particularly the industry list and matters that provide for matching of a qualified peer reviewer with the firm being reviewed. CalCPA also inspects this form for consistency and inputs the information to the AICPA system to determine if the requested peer reviewer has the applicable qualifications to complete the review.

Once the data is input, PRISM generates the necessary correspondence and CalCPA then approves those communications that are ready for mailing/distribution. Late

notices and other forms of letters are also managed in this system so that it serves as the dashboard for review status as well as the overall inventory of reviews in the system. This reporting tool within PRISM includes the information necessary to determine the specific stage at which the peer review process is for each engagement and the timeline for each phase of the process (scheduling hinges upon the due date of the report (based upon the firm's peer review yearend) that is determined and documented at the beginning of the process). Susan also uses PRISM to prepare for the AICPA oversight process (discussed below) as it contains the records necessary for them to select files for their oversight review process.

NOTE: Eventually, firms will be able to input the background information online directly into PRISM which will eliminate the need for the collection to occur separate from input. Linda also noted that the website includes a list of peer reviewers for firms to consider; this listing is not a comprehensive directory but includes firms, including those outside California, who have paid a fee to be included in the online directory.

Performance of the peer review

Completion of the work is coordinated between the peer reviewer and the firm being reviewed. Documents are then submitted to the CalCPA for technical review. Prior to commencement of the review, a checklist is completed and reviewed (by Victoria) to ensure that all documentation has been received (report and appropriate checklists and workpapers). Any missing or incomplete documents must be remedied prior to initiation of the technical review. The file assembly process is facilitated via scanned documents in Adobe and other means to enable a paperless system for ready access to those authorized in the office as well as remote reviewers with each review package organized in a standardized order. These folders then continue through the review process and are subject to filing and retention based upon the due date and status in the system.

CART reviews follow a similar process with 8-10 independent contractors utilized by CalCPA to complete these types of engagements. CART Reviews are Committee Appointed Reviews wherein a firm requiring a peer review contacts CalCPA and requests that a firm be appointed to perform their peer review.

Technical review

There are currently two primary technical reviewers, Suzanne and Marcia, both of whom are former California residents now living outside the State of California. These two coordinate the scheduling of reviews with Linda using 2-week cycles that rotate between Marcia and Suzanne. In addition, Linda performs technical reviews and a new

reviewer has joined the team in 2011 (Alice). Each review is documented in a review completion form prepared by the technical reviewer. Linda may insert revisions and updates where appropriate and necessary. Linda or Alice typically take responsibility for clearing the technical review comments made by Marcia or Suzanne during this phase. The final portion of this form is used by the AICPA for data gathering in those areas where difficulty and errors have historically been present (A-133, etc.). Once completed, data from this process is entered into PRISM.

During this process, feedback forms are prepared for the peer review team captain and copies of these are retained in the reviewer's resume file to monitor his/her quality. In addition, statistics as to major and minor comments are accumulated by reviewer and are likewise used for both coaching and overall quality purposes (may recommend additional training or remove the reviewer when appropriate).

Approval

Report acceptance takes one of two forms: either 1) RAB which represents the PRC or 2) an individual technical reviewer on behalf of PRC. The latter category is limited to engagement reviews of highest quality. Any reports subject to this review are then listed in the materials distributed to those attending the RAB meeting so that they are aware of those reviews and conclusions. The RAB approval may occur via conference call (1-2 held each month) or in person meeting held two times per year. Prior to the meeting, a table is prepared by Susan (reviewed by Linda) and distributed to list the reviews to be discussed (review number, firm name and number, name of team captain, review type (system or engagement) and coding for conclusions past and present. In addition, the RAB process includes secure electronic dissemination of the materials in advance of the meeting with one individual taking the lead to discuss with the group his/her observations and recommend a conclusion on the particular review. Approval requires a majority and coordination is made to ensure that sufficient coverage exists for each call or meeting.

[consider adding some stats (either percentage or rounded numbers) here to give some sense as to the number of reviews that go in front of the RAB in the normal course compared to the number that are recommended for approval by the individual reviewer]

Change of firm information

In addition to the above forms and processes, a separate change form is available to communicate to CalCPA the firm changes such as mergers, change in entity type, change in ownership, etc.

Oversight by CalCPA – this is an ongoing process and on selected items only; matters for oversight are selected by the peer review committee (may be discussed on the RAB calls) as well as discretion of the Director (Linda). Oversights may be done by Linda, the peer review committee members or others as appointed by them. Steve Johnston does the majority of the engagement review oversighting. It should also be noted that CalCPA has predetermined coverage targets with tasks completed and progress toward these goals measured throughout the year (a certain percentage (2%) of reviews are periodically completed based on the total reviews in the system). These oversight reviews are written documents prepared in a standardized report directed to the chair of the peer review committee.

File documents, other than the permanent items, are subject to destruction 120 days after the date of the acceptance letter or completion of the corrective action. Documents included in the permanent files are retained to assist in the next cycled peer review for the subject firm. Those retained documents include the scheduling form filled out by the subject firm, the report, the original acceptance letters, corrective actions and FFCs. Permanent file are numbered according to the firm number rather than the peer review number (paperless file system).

Oversight by AICPA – this is done every other year by AICPA appointed individuals who do a site visit of the CalCPA and completed the administrative visit work program and related procedures (file reviews, policy/procedure review, peer review team qualifications, etc.).

Documents Prepared as a Result of the Peer Review Process

- Two formal reports are available on the CalCPA website as follows:
  1. CalCPA's Annual Oversight Report: this report is prepared by the CalCPA and provides a summary of CalCPA's peer review activities, including program operations and statistics. Link: http://www.calcpa.org/Content/Files/Peer%20Review/2011Annual_Oversight_Report.pdf and
  2. The AICPA's Peer Review Board Oversight Report: this document is issued biennually to CalCPA as an administering entity of the AICPA Peer Review Program. Link: http://www.calcpa.org/Content/Files/Peer%20Review/2011Annual_Oversight_Report.pdf
- Key issues document: This "Committee Running List" of common technical questions and issues is updated throughout the peer review process by the PRC.

This form of central repository enables the Committee to quickly address frequently encountered matters and to remain consistent on the resulting actions taken. The updates (additions or deletions resulting from changes in standards or other circumstances) are discussed during the course of the technical issues in committee meetings (including RAB calls) throughout the year. Linda maintains the list and sends it to technical reviewers (Marcia and Suzanne) for any needed edits or clarifications. The change dates are documented on the list noting at which meeting the edits were made. The current version of the list is distributed to the PRC at each of its meetings (twice per year).

Other matters

In addition to the above peer review process aspects, certain other matters were discussed by the PROC representatives and the CalCPA personnel during the visit:

- Random sample of peer reports – the PROC will determine how to meet its responsibilities in this area (refer to regulations for general information on this aspect of the PROC's role)
- Reviewer resumes – one of the PROC responsibilities is oversight of qualified reviewers; resumes and related documents for those performing peer reviews is available onsite in files at the CalCPA office (resumes are reviewed by CalCPA for accuracy on a rotating 1/3 basis)
- PROC reporting to the CBA – content of the annual report as to statistics available at CalCPA and expectation to discuss this in more detail at upcoming PROC meetings; some of the report information described in the regulations may not be readily available. However, the PROC may make suggestions to the Board for amendments to the PROC roles and responsibilities, including content of the report to the Board.
    - 2009 CalCPA stats are on the website
    - 2010 forthcoming
    - Consider AICPA v. Cal-only peer stats
    - Nat'l stats will also be available to compare to California stats
    - 400 extensions to date though expectation is that 2012 will show improvement in this area due to the clarifications made in the letters that are sent to licensees
- PROC to establish timeline and specific steps to execute its duties for the oversight procedures; a detailed plan should be in place prior to the end of calendar 2011 with procedures being completed in the timeframe as determined by the committee as soon as feasible. Considerations:
    - Format for the report to the Board
    - Checklists or other tools to be utilized by the PROC

- Sample sizes and sources of information
- PROC members to complete the work
- Communication with CalCPA (coordination of dates and work to be performed)

Appendix information – forms and other information used by Linda McCrone in walking thru the peer review application and performance process are included or linked below:

How to Guide: 0211.CBA.peer.review.report.how-to-guid

Resources available online to firms for completing the peer review process (hyperlinks to website):

- AICPA Member Enrollment Form
- Non-AICPA Member Enrollment Form
- Peer Review Program Change Form
- Peer Review Scheduling Form (Information Required for Scheduling Reviews)
- Exhibit 2—Peer Review Team Information
- FSBA Q&A

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PROC Item III.C.
December 9, 2011

Discussion Regarding Letter to the National Association of State Boards of Accountancy Regarding the Peer Review Oversight Committee Summit.

Presented by: Nancy J. Corrigan, Chair
Date: November 22, 2011

Purpose of the Item
The purpose of this agenda item is to provide members with a draft letter to the National Association of State Boards of Accountancy (NASBA) concerning the Peer Review Oversight Committee (PROC) Summit.

Action Needed
It is requested that members vote on the recommendation below.

Background
NASBA's PROC Summit was held on August 16, 2011 in Charleston, South Carolina, and provided representatives from various states with a forum to discuss and share information concerning the functions of their PROCs.

Comments
Staff has prepared a draft letter to the NASBA **(Attachment 1)**, which thanks NASBA for the invitation to the Summit, encourages future Summits, and requests that future Summits are offered via teleconference or webcast so that more states can participate.

Recommendations
It is recommended that the PROC:
1. Review the draft letter and make appropriate edits, if necessary.
2. Adopt the draft letter to be sent to NASBA supporting future PROC Summits.

Attachments
1. Draft Letter to NASBA, dated December 12, 2011.

CALIFORNIA BOARD OF ACCOUNTANCY

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December 12, 2011

Attachment 1

Linda L. Biek, CPA, Director
Governmental, International and Professional Relationships
National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219

Dear Ms. Biek:

The California Board of Accountancy's (CBA) Peer Review Oversight Committee (PROC) would like to thank you for the opportunity to participate in the National Association of State Boards of Accountancy's August 16, 2011, PROC Summit.

Regrettably, the CBA PROC did not receive approval from State of California to travel to South Carolina to attend the meeting. Fortunately, we received a verbal account of the Summit from Linda McCrone of the California Society of CPAs. She also provided us with all of the materials that were collected during, and distributed after, the Summit. Any future materials that become available would also be greatly appreciated.

Given the importance of this topic, we would strongly urge NASBA to organize another Summit in the near future. While we are partial to the next Summit being held on the west coast, perhaps even in California, it would benefit all states to have the gathering offered via teleconference, video conference, or webcast. This would allow more participation and increase the benefits and support that the Summit provides to new and growing committees.

Again, thank you for the continued dedication to increasing the effectiveness of the Peer Review Program. Should any additional materials become available relating to past or future Summits, we would greatly appreciate reviewing copies. If you have any questions or concerns, please contact Rafael Ixta, Enforcement Chief, at (916) 561-1731 or rixta@cba.ca.gov.

Sincerely,

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

CALIFORNIA BOARD OF ACCOUNTANCY

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PROC Item IV.C.
December 9, 2011

Status of PROC Roles and Responsibilities Activity Tracking

Presented by: April Freeman, CBA Staff
Date: November 15, 2011

Purpose of the Item
The purpose of PROC Roles and Responsibilities Activity Tracking checklist **(Attachment 1)** is to ensure that all oversight duties are completed by the PROC.

Action(s) Needed
No specific action is required on this agenda item.

Background
At its February 25, 2008 meeting, the California Board of Accountancy (CBA) was presented with *Continued Consideration of Key Policy Issues Related to Mandatory Peer Review* which included PROC responsibilities as adopted by the CBA in January 2008. These responsibilities, in addition to duties specified in the CBA Regulations Section 47, have been listed on the PROC Roles and Responsibilities Activity Tracking checklist.

Comments
Target completion dates have been included for the Administrative Site Visit and the Annual Report to the CBA.

Recommendations
It is recommended that the PROC members continue to monitor oversight activities to ensure that all responsibilities are met.

Attachment
1. PROC Roles and Responsibilities Activity Tracking, updated November 10, 2011.

PROC Roles and Responsibilities
Activity Tracking – 2010/2011

As of November 10, 2011

Activity	Notes
PROC MEETINGS • Conduct four one-day meetings.	• PROC Meetings: 11/9, 1/20, 3/4, 5/6, 7/8, 8/30, 10/27
ADMINISTRATIVE SITE VISIT • Conduct, at a minimum, an annual administrative site visit of the peer review program provider.	(Target: February 2012)
PEER REVIEW COMMITTEE MEETING • 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 Committee. • Ensure peer review program provider is adhering to CBA standards.	• Attended CalCPA PRC: 6/2–3, 10/20-21 • Attended AICPA PRB: 1/21, 5/3, 8/10, 10/6
PEER REVIEW SUBCOMMITTEE MEETING • Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports. • Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings. • Ensure that peer reviews are being accepted in a consistent manner.	• Attended CalCPA RAB: 2/2, 6/15, 7/7, 7/26, 9/20
REVIEW SAMPLING OF PEER REVIEWS • Perform sampling of peer review reports.	
PEER REVIEWER TRAINING • Ensure that peer reviewers are properly qualified.	• Attended CalCPA Peer Reviewer Training: 7/18-19
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS • Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers.	TBD
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY • Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program.	(Target: March 2012 CBA Meeting)

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

ATTACHMENT 1

CALIFORNIA BOARD OF ACCOUNTANCY

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PROC Item V.
December 9, 2011

Discussion Regarding the PROC's Annual Report to the CBA

Presented by: Rafael Ixta, Chief of Enforcement
Date: November 23, 2011

Purpose of the Item

The purpose of this item is to provide members with the first draft of the PROC 2011 Annual Report (Report) to the California Board of Accountancy (CBA).

Action(s) Needed

It is requested that members:

1. Read the draft Report prior to the meeting.
2. Be prepared to discuss and edit the sections prepared by staff.
3. Be prepared to provide language or suggestions for the incomplete sections.

Background

Pursuant to Title 16 California Code of Regulation Section 47(c), the PROC is required to report to the CBA annually regarding the results of its oversight, and shall include the scope of work, findings, and conclusions regarding its oversight.

Comments

The Report is scheduled to be presented to the CBA at the March 2012 meeting. Therefore, the final draft of the Report must be approved at the PROC's February 10, 2012 meeting.

Recommendations

None

Attachment

1. Draft of the PROC 2011 Annual Report to the CBA

Attachment 1

Peer Review Oversight Committee
2011 Annual Report
to the California Board of Accountancy

I. Message from the Committee Chair

II. Background

In January 2009, the California Board of Accountancy (CBA) sponsored Assembly Bill 138 (AB 138) implementing mandatory peer review. AB 138 became effective on January 1, 2010, requiring all California licensed firms providing accounting and auditing services, including sole proprietorships, to undergo a peer review once every three years as a condition of license renewal. At the time the legislation passed, 41 other jurisdictions had already implemented a peer review requirement.

On January 1, 2010, emergency regulations became effective to implement, interpret and make specific peer review requirements. On June 30, 2010, Division 1, Title 16, California Code of Regulations, Article 6, Sections 39 through 48.6 were adopted as the permanent peer review regulations.

The PROC derives its authority from Section 5076.1 of the Business and Professions Code (B&P). The PROC is comprised of 7 certified public accountants of this state who maintain a license in good standing and who are authorized to practice public accountancy.

Peer review is defined as the study of a firm's accounting and auditing practice by an independent Certified Public Accountant using professional standards.

III. Goals & Objectives

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.

Broadly stated, the PROC has the following roles and responsibilities:

- Oversee the activities of Board-recognized peer review program providers (Provider) related to how peer reviews are processed and evaluated
- Ensure Providers are administering peer reviews in accordance with the standards adopted by the CBA
- Ensure that peer reviewers are properly qualified
- Ensure that peer reviews are being accepted in a consistent manner by Providers
- Conduct site visits of Providers and their peer review committees
- Review a sample of peer review reports
- Represent the CBA at Providers' peer review meetings
- Evaluate organizations that apply to become Board-recognized Providers.

IV. Committee Members

The PROC is comprised of seven licensees. Members must 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.

Current members are:

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

V. Legislation & Regulation

On January 20, 2011, the CBA adopted regulations adding sections 38, 47, and 48.4 to Article 6. On May 25, 2011, the CBA adopted regulations modifying section 48.3.

On October 3, 2011, Senate Bill 543 made the following changes to Business and Professions Code Sections 5076 and 5076.1:

- Removed the sunset date, making mandatory peer review and the PROC permanent.
- Changed the date the report is due to the Governor and Legislature to January 1, 2015.
- Added additional reporting requirements in the report to the Governor and Legislature.

VI. Strategic Plan Accomplishments

VII. Statistics

VIII. Board-recognized Peer Review Program Providers

a. American Institute of Certified Public Accountants (AICPA)

The AICPA is currently the only Board-recognized Peer Review Program Provider. Through the regulatory process, the CBA incorporated by reference the AICPA's Standards for Performing & Reporting on Peer Reviews (*Standards*) as the minimum standards for administering a peer review program. The CBA accepts all AICPA-approved organizations authorized to administer the AICPA Peer Review Program. At present, there are 41 administering entities. The PROC will have the authority to request information and materials from all organizations; however, its primary oversight responsibilities will focus on the CalCPA.

The AICPA's Peer Review Board (PRB) is responsible for maintaining, furthering and governing the activities of the AICPA's Peer Review Program, including the issuance of peer review standards, and peer review guidance, while being mindful

of the profession's covenant to serve the public interest with integrity and objectivity.

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

i. California Society of CPAs (CalCPA)

The California Society of CPAs (CalCPA) administers the AICPA Peer Review Program in California.

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

ii. National Peer Review Committee

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

IX. Oversight Activities

a. Scope of Work

From November 2010 through December 2011, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and the CalCPA as the administering entity and report acceptance body.

i. Meetings

A. Peer Review Oversight Committee

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 has held eight meetings as follows:

- November 9, 2010 – Sacramento
- January 20, 2011 – San Jose
- March 4, 2011 – Ontario
- May 6, 2011 – Oakland
- July 8, 2011 – Sacramento
- August 30, 2011 – Los Angeles

- October 27, 2011 – San Jose
- December 9, 2011 – Irvine

The PROC Chair has personally attended all CBA meetings to report on PROC activities.

B. AICPA Peer Review Board

The American Institute of Certified Public Accountants' Peer Review Board (PRB) holds four meetings per year. PROC members participated in the following PRB meeting via teleconference:

- January 21, 2011 – Orlando, FL
- May 3, 2011 – Durham, NC
- August 10, 2011 – Portland, OR
- October 6, 2011 - Teleconference

C. CalCPA Peer Review Committee

The CalCPA Peer Review Committee (PRC) meets in person twice a year. PROC members observe how the PRC executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the state of California.

PROC members attended the following PRC meetings:

- June 2-3, 2011 – Laguna Beach
- October 20-21, 2011 – Desert Springs

D. CalCPA Report Acceptance Body

The CalCPA hold multiple Report Acceptance Body (RAB) meetings per year. The RAB meetings generally occur via conference call. RAB members review and present the peer reports subject to discussion on a general call. PROC members observe how the RAB executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the state of California.

PROC members participated in the following RAB meetings via teleconference:

- February 23, 2011
- June 2, 2011
- June 15, 2011
- July 7, 2011
- July 26, 2011
- August 25, 2011
- September 20, 2011
- October 20, 2011
- December 13, 2011

ii. Administrative Site Visit

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

The PROC has conducted a preliminary visit of the CalCPA's administrative office to document processes and procedures. The official administrative visit is scheduled for February 2012.

iii. Peer Reviewer Training

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

The CalCPA Education Foundation offers two peer reviewer trainings per year. A two-day course for new peer reviewers and a one-day refresher course are each offered once a year. Several PROC members attended the two-day training course *How to Conduct a Review Under the AICPA Practice-Monitoring Program* on July 18-19, 2011 in Los Angeles.

iv. Sample Reviews

The PROC is in the process of developing a system for sampling peer review reports.

v. Approval of Board-recognized Peer Review Program Providers

The CBA has not received any applications from potential Providers.

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

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

b. Findings

c. Conclusion

X. Preliminary Summary of Peer Review Survey Results

The CBA developed a voluntary survey for firms to complete as they submit their Online Peer Review Reporting Form. The survey gathers valuable information on the impact of peer review on small firms and sole proprietors.

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

(A) The number of peer review reports completed to date and the number of reports which were submitted to the board as required in subdivision (f).
(B) The number of enforcement actions that were initiated as a result of an investigation conducted pursuant to subdivision (j).
(C) 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.
(D) The extent to which mandatory peer review of accounting firms enhances consumer protection.
(E) The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.
(F) A recommendation as to whether the mandatory peer review program should continue.
(G) The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
(H) The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.
(I) The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.
(J) A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

The Peer Review survey went live on the CBA Web site on December 9, 2010. Approximately 1,500 surveys have been submitted.

XI. Public Affairs & Outreach

a. Letters to Licensees

b. CBA Website

c. Publications

XI. Future Considerations

a. Projects

b. Issues Pending

c. Changes to Future Implementation Activities

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PROC Item VI.
December 9, 2011

Discussion Regarding Oversight of the American Institute of Certified Public Accountants' National Peer Review Committee

Presented by: Rafael Ixta, Enforcement Chief
Date: November 15, 2011

Purpose of the Item

The purpose of this item is to provide members with information on the oversight of the American Institute of Certified Public Accountants' (AICPA) National Peer Review Committee (NPRC).

Action Needed

No specific action is required on this agenda item.

Background

The NPRC is one of the forty two administering entities of the AICPA Peer Review Program. It administers peer reviews for AICPA firms required to be registered with and inspected by the Public Company Accountancy Oversight Board (PCAOB), or performing audits of non-SEC issuers pursuant to the standards of the PCAOB.

As an administering entity, the NPRC is subject to a biennial oversight visit conducted by a member of AICPA's Oversight Task Force. The *2010 Annual Report on Oversight* was issued on September 14, 2011 **(Attachment 1)**.

In addition, the results of an administrative oversight procedures performed at the request of the NPRC were documented in a letter dated December 10, 2010 **(Attachment 2)**. The NPRC responded in a letter dated February 2, 2011 **(Attachment 3)**.

Comments

The National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC) is charged with exploring, developing and implementing opportunities for state boards to become uniformly involved in standard setting and oversight of mandatory peer review or other compliance assurance review programs.

The CAC will meet in December 2011 to develop a report to state boards on the process of oversight for the NPRC. All state boards will receive a copy of the final report.

Once the CBA receives the CAC's report, it will be shared with the PROC members to discuss how the report may be utilized and incorporated into the PROC's duties to provide oversight to the NPRC – as an administering entity of the Board-recognized peer review program provider.

Recommendations
None

Attachments
1. AICPA Peer Review Program's 2010 Annual Report on Oversight for the National Peer Review Committee
2. Letter, dated December 10, 2010, regarding the administrative oversight visit to NPRC
3. Letter, dated February 2, 2011, containing AICPA's response to the administrative oversight visit

Attachment 1

Peer Review Program

National Peer Review Committee

2010 Annual Report on Oversight

Issued September 14, 2011

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of the forty two Administering Entities (AEs) of the AICPA Peer Review Program (AICPA PRP). It administers the AICPA PRP for AICPA firms (and individuals) meeting certain criteria, specifically when the firm is required to be registered and inspected by the Public Company Accounting Oversight Board (PCAOB), and/or the firm performs audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB. Firms that are not required to have their review administered by the National PRC may choose to do so. The National PRC, unlike some other AEs of the AICPA PRP, does not administer any peer review programs other than the AICPA PRP. Therefore, the National PRC only administers peer reviews of AICPA firms (and individuals) in which at least one partner is a member of the AICPA.

This Report on Oversight is intended to provide statistics and information about the National PRC's 2010 and 2009 oversight years, which are more fully discussed in the following text, but also discusses the history, background, composition, and procedures of the National PRC as they differ substantially from those of the other forty one AEs.

Scope

Statistical information presented in this report is determined by the actual date of the peer review, that is, when the peer review was performed. Oversight procedures are to be performed and results reported on a calendar year. All statistical information is presented to provide an understanding of the National PRC individually and as a part of the AICPA PRP. The results of the peer reviews administered for the calendar years 2010 and 2009, the first years the National PRC operated under the AICPA PRP's standards and guidance, are presented to aid understanding.

This report presents information and data related to the firms administered by the National PRC only. Any other data provided, including that presented for the AICPA PRP as a whole, is for comparative purposes only.

For more information on the AICPA PRP as a whole, including the AICPA PRP's Annual Report on Oversight (Annual Report), go to www.aicpa.org/INTERESTAREAS/PEERREVIEW /RESOURCES/TRANSPARENCY/Pages/default.aspx. The Annual Report provides further background information on the AICPA PRP, including an overview of the AICPA PRP, definitions of terminology used in this report (such as *system* and *engagement review*; *pass*, *pass with deficiency,* and *fail reports*; and *engagements not being performed and/or reported in accordance with professional standards in all material respects*), and a further understanding of an AE's responsibilities to perform oversight on their procedures.

History of the National PRC

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 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 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 and a peer review committee to create standards for performing, reporting, and administering the peer reviews.

AICPA members voted overwhelmingly to adopt, effective in January 1988, mandatory peer review and the AICPA Quality Review Program was created. Firms were given a choice between enrolling in the newly created AICPA Quality Review Program or becoming a member of the Division for CPA Firms and undergoing an SECPS or PCPS peer review. Firms enrolling in the AICPA Quality Review Program that had audit clients would now undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected audit and accounting 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, AICPA Council approved a combination of the PCPS Peer Review Program and the AICPA Quality Review Program under the name AICPA Peer Review Program governed by the AICPA Peer Review Board (PRB), which became effective in 1995. Thereafter, the PCPS, which, as a result of this vote, no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the 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 became the successor to the SECPS Peer Review Program, 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 and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF Peer Review Program 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 Peer Review Program and the CPCAF Peer Review Program) were now only peer reviewing non-SEC issuer practices, it was determined that the programs could be merged into one and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved revised Standards for Performing and Reporting on Peer Reviews 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 Peer Review Program was discontinued, and the AICPA PRP is now the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAF Peer Review Program, the activities of the former program were succeeded by the National PRC, a committee of the AICPA PRB.

The National PRC became one of the forty two administering entities of the AICPA PRP. The mission of the National PRC is achieved through supporting the PRB in meeting its mission, which is stated as follows:

> The PRB is dedicated to enhancing the performance and quality of accounting, auditing and attestation engagements performed by AICPA members and their firms which are enrolled in the AICPA PRP. 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 National PRC supports this mission by fulfilling its responsibilities as a task force of the PRB and an AE.

The National PRC has the responsibility to oversee all of the functions of an AE, including the entire peer review process for firms' peer reviews subject to its administration. The peer review process includes administration, acceptance of reviews, resolving reviewed firm/peer reviewer issues and oversight of the process. In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually, as well as submit a plan of administration (POA) and an annual request to administer AICPA PRP peer reviews. Oversight procedures performed by the AEs in accordance with the AICPA Peer Review Program Oversight Handbook include the following procedures:

- Oversight of various reviews, based upon reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. (See the "Oversight of the Peer Reviews and Reviewers" section that follows).

- Verification of reviewers' resumes. (See the "Annual Verification of Reviewers' Resumes" section that follows).

- Administrative oversight, which encompasses the National PRC's administrative functions and select technical functions. (See the "Administrative Oversight" section that follows).

Oversight of the peer review process is intended to provide reasonable assurance that peer reviews are being performed and reported on in accordance with the applicable peer review standards and to promote consistency among reviewers. It is this oversight of the peer review process that is the focus of this report.

Members of the National PRC

The National PRC is comprised of between fifteen to seventeen members who are public practitioners, two of whom represent state boards of accountancy recommended by the National Association of State Boards of Accountancy. Some of these members may also be members of the PRB, although it is not required. The largest four firms maintain seats on the National PRC, and the remaining seats represent a reasonable cross-section of those firms whose peer reviews are administered by the National PRC, which is a diverse constituency. The Chair of the National PRC is a member of the PRB's Planning Task Force and may also be a member of the PRB. See exhibit A for a roster of the National PRC's members.

Staff of the National PRC

The National PRC's staff consists of the Senior Vice President, Public Practice and Global Affairs; Vice President, Ethics and Practice Quality; Directors; and an appropriate number of qualified senior technical managers, technical managers, and administrative staff to support the activities of the National PRC and its task forces and subcommittees. The staff assists the members of the National PRC and its task forces and subcommittees in their responsibilities. The staff also assists in administration, presentation of reviews for acceptance, resolving reviewed firm/peer reviewer issues, and the oversight of processes. Additionally, the staff may be involved in other projects in cooperation with other teams at the AICPA, including the AICPA PRP. The National PRC is supported by all the AICPA peer review program staff.

Firms Administered by the National PRC

Firms whose peer reviews are administered by the National PRC range from sole practitioners to the largest CPA firms (see the following table). However, all the larger firms (over 300 personnel) in the AICPA PRP are administered by the National PRC. These larger firms typically have extensive audit and accounting practices that demand a greater internal investment of resources devoted to the quality control function. This positions these firms to develop more rigorous internal quality control systems. In addition, many of these firms are subject to additional regulatory oversight by the PCAOB, the Department of Labor, and others.

Number of Administered/Enrolled Firms by Number of Personnel[1] as of November 1, 2010

	Administered by National PRC		[2]*Enrolled in AICPA Peer Review Program*	
Firm Size (by # of personnel[1])	# of Firms	% of Total	*# of Firms*	*% of Total*
Sole Practitioners	25	3.44%	9,704	33.17%
2 to 5	75	10.32%	11,921	40.75%
6 to 10	80	11.00%	4,159	14.22%
11 to 19	102	14.03%	1,852	6.33%
20 to 49	179	24.62%	1,105	3.78%
50 to 99	129	17.74%	333	1.14%
100 to 199	82	11.28%	116	.41%
200 to 299	17	2.34%	23	.08%
300 to 399	10	1.38%	10	.03%
400 to 999	11	1.51%	11	.04%
1,000 to 9,999	13	1.79%	13	.04%
10,000 +	4	.55%	4	.01%
Total Enrolled Firms	727	100.00%	29,251	100.00%

Due to the variety of firm sizes administered by the National PRC, some of the reviews occur over one day and others over a number of months. Some of the reviews are performed by only a team captain, whereas others may also involve office captains and as many as 50 or more team members. Firms whose reviews are administered by the National PRC cover 55 licensing jurisdictions, each of which may have different practice monitoring requirements. Further, some firms are multistate, which means that the review may be performed in several states at the same or different times. As a result of these and other related circumstances of the member firms that are administered, these peer reviews are diverse and complex, encounter different risks, and include firms subject to close scrutiny by various regulators.

National PRC Process Overview

In order to understand the National PRC's oversight procedures, it is first helpful to have an overview of the National PRC's processes.

As required by the *AICPA Standards for Performing and Reporting on Peer Reviews,* peer reviewers must timely complete and update a resume that accurately reflects their reviewer qualifications, including recent industry experience. The National PRC uses this information to determine whether peer review resources are appropriately matched to peer review firms needing them.

[1] *Personnel* is defined per Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control*, (AICPA, *Professional Standards,* QC sec. 10), as "all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs." This would include all personnel performing audits, reviews, compilations, or other attest engagements; those professionals who have partner or manager level responsibility for the overall supervision or review of such engagements; and leased and per diem employees who devote at least 25 percent of their time in performing such engagements.

[2] At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

Firms to be peer reviewed receive background and scheduling information forms that request information on the firm's management and structure, audit and attest engagements, peer reviewer information, as well as dates of planned commencement and exit conference. Once this information is received, it is entered into the peer review computer system and validations related to peer reviewer qualifications and other data are performed. Any issues identified through this process are addressed by staff with the firm or team, or both, or review captain until issues are resolved. A scheduling verification is sent to the firm and the team captain upon completion of the scheduling process. Staff evaluates background and scheduling information received to determine fit with oversight strategies, in general. Panel assignments (see the "Use of Panels" section that follows) for large firms, if necessary, are determined and participation requested. Peer reviews are then monitored for timely submission of peer review documents. The results of this monitoring are reported periodically to both the Oversight Task Force of the National PRC and the full National PRC.

Upon receipt of the peer review working papers from the team or review captain, they are assigned to a technical manager on a first in, first out order, adjusted by risk (reports having other than a pass rating or other circumstances). All peer reviews administered by the National PRC, including those selected for oversight, are subject to a full working paper review by AICPA technical staff. This includes review of a summary review memorandum describing the major aspects of the review, engagement checklists, quality control checklists (and documents, if available), focus group/staff interviews, and other working papers. This also includes review of A-133 engagement profiles and related engagement checklists. The technical manager completes a comprehensive technical review checklist tailored to the National PRC to document his or her procedures.

The technical manager's role is to anticipate questions from the Report Acceptance Body (RAB) of the National PRC, seek answers from the team or review captain or firm, or both; address issues or problems; and consult with staff, consultants, and others in advance of RAB presentation. The technical reviewer must advise the RAB of significant matters related to the review, provide certain working papers for the RAB's review, and recommend any corrective actions, implementation plans, or reviewer performance feedback, if any.

Peer reviews meeting certain criteria, such as current or immediately previous peer review report being issued with a rating of "pass with deficiency" or "fail" (or "modified" or "adverse" under the former standards), are subject to a concurring review. The concurring review is performed by technical staff independent of the technical review. The technical and concurring reviews cover a majority of the items reviewed during desk reviews generally conducted by the AICPA.

The National PRC as a whole serves as the RAB for the peer reviews of firms meeting certain criteria. However, the majority of peer reviews are presented via semimonthly conference calls to smaller RABs, typically comprising approximately five National PRC members (excluding the National PRC chair and the PRB chair if also on the National PRC, due to their other peer review responsibilities), including a RAB chair. The technical reviewer having completed the technical review is available during the RAB meeting to answer any questions the members might have. National PRC members are assigned to the calls to obtain a cross-section of firm sizes and industry experience. The role of the RAB is to consider peer reviews for acceptance on behalf of the National PRC. Approximately three to five days prior to a scheduled call, the National PRC members assigned to that call receive an agenda consisting of a committee spreadsheet summarizing the items being presented, the RAB member responsible for

presenting each peer review, and the relevant peer review documentation for each review being presented, which includes:

- A Form C-1 summarizing relevant information about the review, as well as staff findings, including open items that may delay acceptance, and recommendations
- The peer review report
- Finding for Further Consideration (FFC) forms, if applicable
- The letter of response, if applicable
- Matter for Further Consideration forms, if necessary
- Prior peer review report, letter of comment, or letter of response, if necessary

The RAB member responsible for presenting each peer review then has an opportunity to discuss the peer review with the technical reviewer and others prior to presentation to the RAB on the scheduled conference call.

Firm Peer Review Oversight Process and Procedures

The National PRC performs the oversight process through its Oversight Task Force (OTF). The OTF comprises a minimum of three members of the National PRC with additional members added as necessary. The OTF is responsible for establishing oversight policies and procedures at least as comprehensive as those necessary to comply with those established by the PRB as set forth in the *AICPA Peer Review Program Oversight Manual* and the *AICPA Peer Review Administrative Manual*. Along with the full National PRC, it determines that reviews are being conducted and reported upon in accordance with the *Standards for Performing and Reporting on Peer Reviews*, and that the results of reviews are being evaluated on a consistent basis. More specifically, the OTF

- oversees the development, implementation, and summarization of a risk-based, annual on-site oversight plan developed and performed by National PRC technical staff, who utilize a detailed work program.
- establishes the process that utilizes panels comprising National PRC members to oversee the review of firms that meet certain criteria and other reviews when deemed appropriate.
- discusses and reports on the results of the oversight process to the full National PRC and other interested parties.
- oversees reviewer qualification and performance issues related to National PRC reviews and maintains a report of all reviewers with restrictions that are performing National PRC reviews.
- oversees the preparation of an annual report on the oversight activities of the National PRC.
- oversees revisions to the National PRC Oversight Program and other materials used in oversight activities.
- coordinates and assists with the PRB's oversight of the National PRC's administrative functions.
- provides reports on its activities to the PRB.

On-Site Oversight

Annually, oversight is performed on a sample of peer reviews meeting one or more of a number of risk-based criteria. The risk-based criteria are developed and/or reevaluated annually by the OTF. Currently, approximately 25 risk-based criteria exist that firms and team/review captains are evaluated for to assess their potential for oversight. This evaluation is qualitative as well as quantitative, and some criteria are weighted more heavily than others. They include criteria that, if met, result in mandatory oversight of the peer review. Currently, mandatory review includes firms with over 400 accounting and auditing personnel[1] and those having received a report grade of fail (or adverse) in their last peer review.

The oversight schedule is reviewed and approved by the OTF and National PRC at regular intervals.

Oversight is predominately performed on-site during review fieldwork by the National PRC's technical staff and outside consultants, if necessary. Procedures include, but are not limited to, the review of planning (risk assessment, scope, and engagement selection); selecting a sample of engagements reviewed and reperforming the steps on the peer review engagement checklist completed by the peer review team; interviews/discussions with team members to assess their qualifications and whether they understand their procedures; and review of testing of quality control attributes completed by peer review team and participation in select engagement, office, and firm closing meetings. A detailed Oversight Program is utilized to assist in documenting the procedures. A full technical review (see preceding discussion) of all peer review workpapers is also performed by the individual who performed the oversight. The oversight and technical review processes complement and support each other.

Oversight of the Peer Reviews and Reviewers

The PRB has mandated that, at a minimum, each AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time. That 2 percent must be comprised of at least 2 system and 2 engagement peer reviews. In addition, a minimum of 2 system reviews must be conducted on-site.

National PRC Oversights Conducted

Type	2010	2009
On-site by panel (see following section) or presented to full committee	10	3
Other on-site	11	15
Off-site	1	4
Total	22	22
% of peer reviews conducted during year	10%	8%

These oversights afforded contact with peer review teams ranging from 1–50 peer reviewers and a number of accounting personnel with the firms themselves. Through the 44 oversights conducted in the past two years, National PRC staff and committee members interacted with 41 peer reviewers serving in the capacity of team captain. These 41 team captains served in that role in approximately 166 of the 430 reviews administered by the National PRC during 2009 and 2010. During this process, the oversight team provides ongoing formal and informal feedback as a part of the ongoing exchange between AICPA staff and peer reviewers. Although these interactions were generally positive, the opportunity is taken, when warranted, to issue formal feedback in an attempt to educate and remediate future peer review performance.

As previously described, and in the National PRC's POA submitted to and approved by the PRB, on-site oversight of engagement reviews was not deemed necessary due to the small proportion of engagement reviews performed and due to the full working paper reviews already performed on all reviews submitted.

Use of Panels

A panel of at least three members of the National PRC oversees the peer reviews of firms that meet certain criteria and other reviews when deemed appropriate. In addition, panels are assigned to other reviews by the National PRC, its chair, or a RAB when appropriate in other circumstances. When assigned, a determination may be made that the review is also required to be presented to the full National PRC for acceptance. Reviews that have oversight panels assigned to them may also undergo oversight by National PRC technical staff.

Panel members are appointed by the National PRC, its chair, the OTF, or a RAB, with assistance from staff. Panel members are selected based on various factors, including size of firm and industry experience of the panel member's firm and of the firm under review. Panel members must be independent of the reviewed firm and the review team members.

The panel is supported by National PRC staff that assists it in carrying out its duties. This responsibility includes coordination and facilitation of discussions between the reviewed firm, its reviewers, and the panel. It includes the performance of the full technical review of the working papers.

The panel participates in calls or meetings, or both, to understand and provide feedback on the planning, interim, and final phases of the peer review, including panel chair participation at the exit conference. The scope of the peer review is ordinarily approved by the panel prior to the review's commencement. The panel also considers the appropriateness of the review team's conclusions and may consult with the review team and/or the reviewed firm concerning matters resulting from the review. The panel orally reports to the National PRC at its meetings to provide updates on the status of the review. Once the review is complete, the panel chair presents the review and the panel's conclusions, including whether the panel recommends its acceptance, to the National PRC.

Annual Verification of Reviewers' Resumes

Determining that reviewers' resumes are updated annually and are accurate is a critical element in appropriately matching them to peer review firms needing them. Verification must include the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards, audits of employee benefit plans under the Employee Retirement Income Security Act (ERISA), and audits of insured depository institutions subject to the FDIC Improvement Act of 1991. Specifically, the verification procedures must include, but are not limited to (1) calling or writing peer reviewers and requesting them to provide specific information, such as the number of engagements they are specifically involved with and in what capacity, (2) determining from the peer review computer system whether the peer reviewer's firm actually performed those engagements during its last peer review, (3) verification of license to practice, and (4) verification of continuing professional education (CPE) attendance and credits. Ordinarily, an experienced technical reviewer or AE peer review committee member should perform the verification. Detailed procedures, along with practice aids such as forms, letters, and other materials are provided in the AICPA Peer Review Program Oversight Handbook.

AEs are required to verify this information within a sample of reviewers' resumes on an annual basis, such that all should be verified over a three-year period (at least one-third per year). During 2010 and 2009, the National PRC was required to verify the resumes of those peer reviewers performing exclusively National PRC reviews in the capacity of team captain, review captain, or team member.

Disposition	2010	2009
Suspended for noncooperation with verification process	6	1
Voluntarily removed/became inactive	14	1
Verified	46	58
Total	66	60
% of peer reviewers performing exclusively National PRC peer reviews	39%	35%

In both years, the process resulted in several minor modifications to reviewers' resumes but these modifications were relatively insignificant in impact. None of these modifications or actions affected peer reviews performed previously by the reviewers.

Peer Reviewer Performance

Staff utilizes the peer review computer system and various spreadsheets to monitor the status of reviews, enrolled firms, and peer reviewer performance. Difficulties encountered with reviews, enrolled firms, and peer reviewers are discussed during weekly staff meetings, as well as with the Director, Peer Review; RABs; the National PRC Chair; and the full PRC, as necessary. In considering peer review documents for acceptance, the National PRC evaluates the reviewer's performance on each peer review. In addition to the National PRC's evaluation, the PRB and AICPA staff also evaluate and track reviewers' performance on peer reviews.

On occasion, weaknesses will be noted in the performance of reviewers. In such circumstances, the National PRC or its RABs advise the reviewers of the weaknesses noted so that similar errors are not made on reviews performed in the future. As previously noted, performance matters are initially communicated to the reviewer through the use of a reviewer feedback form issued by the National PRC or RAB. The reviewer feedback form is designed to give reviewers positive and constructive feedback directly from the National PRC or RAB. Reviewer feedback forms document a reviewer's performance on individual reviews and provide the National PRC and the OTF with useful evidence to determine whether a pattern of weaknesses is evident in the reviewer's performance. Formal reviewer feedback forms were issued as a result of technical review which included, but were not limited to, issues noted related to documentation, underdeveloped risk assessments, low scope, failure to consult, and inappropriate disposition of findings.

If serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the PRB or National PRC, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer.

Results of Firm Peer Reviews

As provided for in the *Standards for Performing and Reporting on Peer Reviews,* firms can receive a rating of pass, pass with deficiency(ies), or fail. In a system review, this rating relates to whether or not the firm's system 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. In an engagement review, this rating relates to whether or not the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2010

	National PRC[3,4]		*AICPA Peer Review Program*[5]	
System Reviews:	**Number**	**% of Subtotal**	***Number***	***% of Subtotal***
Pass	220	97.35%	3421	89.32%
Pass with deficiencies	6	2.65%	320	8.36%
Fail	0	- %	89	2.32%
Subtotal – System	226	100.00%	3830	100.00%
Engagement Reviews:				
Pass	2	100.00%	4704	91.30%
Pass with deficiencies	0	- %	397	7.71%
Fail	0	- %	51	0.99%
Subtotal – Engagement	2	100.00%	5152	100.00%

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2009

	National PRC[3,6]		*AICPA Peer Review Program*[5]	
System Reviews:	**Number**	**% of Subtotal**	***Number***	***% of Subtotal***
Pass	189	94.03%	3989	88.33%
Pass with deficiencies	8	3.98%	438	9.70%
Fail	4	1.99%	90	1.97%
Subtotal – System	201	100.00%	4517	100.00%
Engagement Reviews:				
Pass	4	100.00%	4166	90.53%
Pass with deficiencies	0	- %	387	8.41%
Fail	0	- %	49	1.06%
Subtotal – Engagement	4	100.00%	4602	100.00%

The number of peer review reports issued for National PRC and AICPA PRP is significantly less than the number of firms "administered by the National PRC" and the number of firms "enrolled

[3] Data as of June 10, 2011.

[4] Includes 9 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 16 underway and 4 pending commencement and are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

[5] Data as of September 8, 2011.

[6] Includes 5 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 2 underway which are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

in the AICPA PRP" presented earlier in this report. Administered or enrolled firms represent the total number of firms that have peer reviews, but peer reviews are due only every three years. Therefore, the number of peer reviews performed during any annual period will be approximately one-third of the number of administered or enrolled firms, depending upon timing (some peer review years being "heavier" than others).

As discussed earlier in this report, National PRC firms generally are larger firms that typically have extensive audit and accounting practices. Therefore, engagement reviews represent a very small part of National PRC's administered reviews. Further, as previously discussed, larger firms typically are more heavily regulated, necessitating more developed internal quality control systems and more resources devoted to this function. Therefore, the National PRC administers fewer peer reviews in which a report other than pass is issued by the nature of its firm population.

Number and Reasons for Deficiencies in the Year 2010

	National PRC[3,4]	***AICPA Peer Review Program[5]***
Leadership responsibilities for quality within the firm	0	35
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	0	12
Engagement performance	5	318
Human resources	0	86
Acceptance and continuance of client relationships and specific engagements	0	23
Monitoring	1	169
Totals	6	643

Number and Reasons for Deficiencies in the Year 2009

	National PRC[6,7]	***AICPA Peer Review Program[8]***
Leadership responsibilities for quality within the firm	0	28
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	0	13
Engagement performance	6	423
Human resources	2	98
Acceptance and continuance of client relationships and specific engagements	0	25
Monitoring	3	191
Totals	11	778

The number of deficiencies noted with reports is higher than the number of reports with deficiencies due to reports with multiple deficiencies.

Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards in the Year 2010

	National PRC[3,4,7]			*AICPA Peer Review Program*[5]		
	# of Engagements			# of Engagements		
Engagement type	**Reviewed**	**Not in Conformity**	**%**	**Reviewed**	**Not in Conformity**	**%**
Audits – Single Audit (A133)	313	15	5%	1486	174	12%
Audits – Governmental	169	0	-%	1374	126	9%
Audits – ERISA	686	6	1%	1832	104	6%
Audits – FDICIA	42	0	-%	27	0	-%
Audits – Other	1,418	19	1%	4449	208	5%
Reviews	453	0	-%	5571	202	4%
Compilations with disclosures	263	0	-%	3892	92	2%
Compilations without disclosures	335	3	1%	11608	313	3%
Financial forecast and projections	13	0	-%	74	2	3%
Agreed upon procedures	158	0	-%	780	14	2%
Other SSAEs	54	2	4%	305	18	6%
Totals	3,904	45	1%	31398	1253	4%

[7] Does not include engagements subject to internal inspections and relied upon by peer reviewers to reduce scope as permitted in the peer review standards.

Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards in the Year 2009

	National PRC[6,7,9]			*AICPA Peer Review Program*[8]		
	# of Engagements			# of Engagements		
Engagement type	**Reviewed**	**Not in Conformity**	**%**	**Reviewed**	**Not in Conformity**	**%**
Audits – Single Audit (A133)	161	5	3%	1775	141	8%
Audits – Governmental	108	1	1%	1530	127	8%
Audits – ERISA	293	6	2%	1886	122	6%
Audits – FDICIA	21	0	-%	27	2	7%
Audits – Other	616	7	1%	4921	293	6%
Reviews	335	1	-%	5894	199	3%
Compilations with disclosures	187	0	-%	3966	93	2%
Compilations without disclosures	271	1	-%	11960	364	3%
Financial forecast and projections	9	0	-%	80	1	2%
Agreed upon procedures	98	0	-%	768	15	2%
Other SSAEs	25	0	-%	385	24	6%
Totals	2124	21	1%	33192	1381	4%

When a peer review report other than pass is issued, the firm should respond in writing to the deficiencies or significant deficiencies and related recommendations to indicate what appropriate actions it will take in response. Per the *Standards for Performing and Reporting on Peer Reviews*, the National PRC may require certain remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. During 2010 and 2009, the National PRC required 12 corrective actions in each year of a wide variety, such as agreement to take or submit proof of certain continuing professional education, agreement to preissuance reviews, agreement to hire a consultant for inspections, oversight of inspections via a review, and oversight of inspections via visitation.

The lower rate of report ratings other than pass (discussed previously) lends itself to a lower rate of corrective actions. As noted, a firm may be asked to complete more than one corrective action, so experience rate comparability may be somewhat skewed.

The National PRC strives to achieve the goal of being educational and remedial. To that end, firms are sometimes requested to complete an implementation plan to address findings noted in FFC forms issued as a result of their peer review. Implementation plans requested by the National PRC adhere to the actions allowable by guidance, such as submission of internal inspection reports, etc. At September 8, 2011, the National PRC had requested eight implementation plans on 2010 reviews and seven on 2009 reviews. Although this mechanism is available to all AICPA PRP AEs as indicated in the *Standards for Performing and Reporting on Peer Reviews*, no data was readily available showing how widely it was used by other AEs.

Peer Reviews of Quality Control Materials (QCM)/ CPE

The National PRC is also responsible for the administration of quality control material (QCM) and CPE peer reviews, including acceptance of the resultant peer review reports. QCM peer reviews embody a higher degree of risk from an AE perspective. Because of that heightened risk, QCM peer reviews receive a correlating level of scrutiny, like that given to the larger firm peer reviews. While there is much less risk associated with CPE programs, CPE program peer reviews receive a similar level of scrutiny because the system used to develop QCM and CPE programs are often related. The National PRC created the QCM & CPE Task Force for added involvement in the administration and acceptance process for QCM and CPE program reviews. The task force's involvement includes performing oversight reviews prior to acceptance, developing practice aids, and recommending enhancements to the guidance related to QCM and CPE peer reviews.

Oversight and Acceptance Process

Similar to peer reviews of firms, QCM and CPE peer reviews undergo full working paper technical reviews and concurring reviews. QCM and CPE peer reviews are potentially subject to three differing levels of oversight:

Task Force Oversight
Oversight is performed by a QCM & CPE Task Force member. At a minimum, all QCM and CPE peer reviews are subject to task force oversight. Oversight encompasses reviewing the Team Captain's Checklist, Summary Review Memorandum (SRM), and a sample of the QCM and/or CPE materials opined upon in the report. The task force can judgmentally elect to perform additional oversight procedures as deemed necessary.

Panel Oversight
In certain situations, it may be necessary to assign a panel to a QCM or CPE peer review. When any of the following risk criteria are met, the task force will consider the necessity of assigning a panel to the peer review:

- New publisher or provider
- Peer reviewer performing a QCM or CPE peer review for the first time
- Size of the provider client base
- Materials are for complex or high risk industries
- Judgmental referral (for example, by staff, the task force, or the National PRC) of the team captain or provider for oversight
- Concerns from users or other affected parties

Panels are typically composed of a chair and two other members; members of the QCM & CPE task force are expected to chair the panels. The other panel members can be solicited either from the task force, the National PRC, or the PRB on an as needed basis. The panel will perform the procedures ordinarily covered by a task force oversight, plus review the planning documentation for the peer review prior to the commencement of fieldwork (including the planning portions of the Team Captain's Checklist and SRM). In addition, the panel may elect to review a larger sample of QCM or CPE materials.

Staff On-Site Oversight

Staff will perform an on-site oversight visit during the peer review when deemed necessary by either the task force or a panel. The on-site visit will include observing and reviewing the peer reviewer's procedures to test the functional aspects of the provider's system to develop and maintain QCM and/or CPE programs. Staff on-site oversight is performed in addition to oversight by either the task force or a panel and does not take the place of either. The QCM & CPE task force determined that staff should perform on-site oversight of the functional testing of all QCM peer reviews under the new criteria. Due to the timing of when this criterion was established versus the peer review procedures for these reviews, staff was unable to perform on-site oversight on all 2009 peer reviews. However, that level of oversight will be performed on the next peer review cycle.

During 2010, three QCM/CPE peer reviews were subject to on-site oversight. During 2009, four QCM/CPE peer reviews were subject to oversight. One was conducted by a task force member, two of these were performed on-site by a panel, and one employed a panel and staff on-site.

Once technical, concurring, and oversight reviews are completed, QCM and CPE peer reviews are presented to the full National PRC for acceptance with the task force's recommendation.

Administrative Oversight

A review of the administrative functions of the National PRC was conducted in October 2010, the objective of which was to determine if the National PRC is following the administrative and report acceptance procedures established by the PRB for the AICPA PRP. The review encompassed the National PRC's tenure as an AE of the AICPA PRP by testing the most relevant data available, within applicable limits. The review was performed by a prior CPCAF peer review committee member, who is familiar with National PRC's policies and procedures and served in the past on the PRB as well as the PRB's OTF. The reviewer is currently neither a member of the National PRC nor the PRB.

The oversight procedures included the following:

- Evaluation of various policies and procedures for administering the AICPA PRP.
- Evaluation of a sample of peer review documents and applicable working papers assembled by technical staff on a post-acceptance basis. This evaluation was directed at evaluation of the accumulation of matters for RAB consideration.
- Performance of face-to-face interviews with the administrator and a sample of technical reviewers.

As part of the visit, the reviewer received an Information Sheet documenting policies and procedures in the areas of administration, technical review, and oversight processes employed by the National PRC in administering the AICPA PRP. The reviewer evaluated the Information Sheet, POA, and the National PRC's policies and procedures to develop a risk assessment. A comprehensive oversight work program was utilized by the reviewer in the conduct of the review.

The reviewer has issued a letter to the National Peer Review Committee discussing the purpose and scope of the oversight visit as well as providing observations and recommendations for enhancement. These observations and recommendations are summarized as follows:

- Formalization of documentation pertaining to certain matters, such as issuing formalized noncooperation letters to team captains in the event of a lack of response to questions arising during the technical review process and retention of confidentiality agreements for all National PRC members
- Implementation of a centralized filing system for FFC forms, separate from those documents subject to the 120-day document retention rules so as to allow for easier retention of only those documents required to be retained past 120 days
- Retention of record of letters sent to team captains regarding working paper retention.

The National PRC has evaluated these recommendations, identified policies to address them, and implemented them.

Exhibit A

2009/2010 NATIONAL PEER REVIEW COMMITTEE ROSTER (effective 10/10)

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Attachment 2

REGIER CARR & MONROE, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
THE DIVISION FOR CPA FIRMS

December 10, 2010

National Peer Review Committee
American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707

Re: Administrative Oversight Visit to National Peer Review Committee

Dear Committee Members:

Oversight procedures were conducted with respect to the administrative function of the National Peer Review Committee (National PRC) in place as of October 18, 2010. The objective of the procedures was to evaluate whether the National PRC's administrative functions were being conducted in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews and the National PRC policies and procedures, which are approved by the AICPA Peer Review Board (PRB) through inclusion in the National PRC's Plan of Administration.

It is important to note that the National PRC administered peer reviews are subject to involvement of AICPA technical staff and oversight of National Peer Review Committee members. The National PRC consists of several members who serve on both the PRB and the National PRC, as well as two former state board regulatory representatives. Additionally, the National PRC chair attends meetings of the PRB, reporting National PRC activity on a quarterly basis. Accordingly, as a result of the additional scrutiny surrounding National PRC administered reviews, further procedures related to the peer review report acceptance procedures are not considered necessary.

In conjunction with the oversight procedures, the following observations are being communicated.

Administrative Procedures

On October 18-19, 2010, I met with Francis McClintock, Senior Technical Manager and Christopher Ellis, Manager - Operations to review the program's administration. I believe the administrative processes were being handled in a manner consistent with peer review standards.

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

I also reviewed the policies and procedures for the granting of extensions. I found that the Manager of Operations handles short-term extension requests with discussion from the Senior Technical Manager when the circumstances warrant.

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

- Follow up with Team Captains related to delinquent response to inquiries resulting from the technical review process is primarily through informal e-mail communication. While such communication would generally appear to be appropriate for the initial request, continued use of informal e-mail to follow-up on requests is not consistent with the more formal letter process outlined in the administrative manual. The more formal letter process is required to support placing restrictions on reviewers for non-cooperation. A delay in utilizing the more formal process

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has the potential to delay appropriate actions for non-cooperation. In discussion, some technical reviewers were not aware of the letter process as outlined in the administrative manual.

- It should be noted that as a result of implementation issues related to the PRISM system, certain administrative functions, such as initiation of actions to drop a firm, were not functional from September, 2009 to June, 2010. The issues appear to have been resolved as of June, 2010 and effective June, 2010 follow up on those delayed actions was initiated.

I requested copies of recent confidentiality agreements for committee members.

- Confidentiality agreements could not be located for approximately one-half of the committee members.

I reviewed the back-up plan to support the administrative and technical review process. The functions related to administrative and technical review were reorganized during the past year to provide for more cross-training of the respective functions utilizing staff that formerly were separately assigned to the National PRC and as support for the AICPA Peer Review Program.

Web Site and Other Media Information

I reviewed the National PRC information on the AICPA Web site material and other media information (if applicable), I noted that the administering entity maintains current information as it relates to the peer review program. In addition, the administering entity has individuals who are responsible for maintaining the Web site and monitors the Web site to ensure peer review information is accurate and timely.

Working Paper Retention

I reviewed the completed working papers and found compliance with the working paper retention policies, except as follows:

- There is no centralized filing system to maintain FFC forms. Currently, FFCs are stored with the electronic version of the RAB acceptance package, which can include information that should be purged 120 days after completion of the review. Accordingly, while the paper version of documents are being purged 120 days after completion of the review, the same is not true with the electronic version of documents included in RAB packages, which should also be purged.
- Copies or other record of letters to team captains regarding working paper retention is not maintained.

Technical Review Procedures

I met with technical reviewers, to discuss procedures. I reviewed summary resumes of all individuals performing technical reviews and reviewed information related to participation in a peer review. All technical reviewers had either participated in a peer review or were scheduled to participate during the next twelve months. Information related to required training was also reviewed without exception.

I reviewed the reports, letters of response, if applicable, and the working papers for four reviews. All review issues appear to have been addressed properly by the technical reviewer before reviews were presented to the committee. Note that there were no engagement reviews administered by the National PRC.

Oversight Program

Lisa Joseph, Technical Manager, administers the process for verification of reviewer resume information. Reviewer resume verification was requested for approximately sixty reviewers in 2009. The reviewer

resume verification process appears to be in conformity with the AICPA Peer Review Program Oversight Handbook.

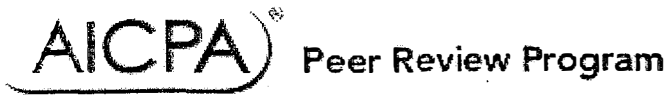
Summary

My observations to enhance the administration of the program are summarized as follows:

- In the event of a lack of response by a team captain to an informal e-mail with questions rising during the technical review process, the technical reviewer should follow-up with non-cooperation letters outlined in the Administrative Manual.
- There should be follow up regarding confidentiality agreements not yet received from National PRC committee members and a system established to ensure such agreements are obtained on an annual basis and maintained for ready retrieval.
- A centralized filing system should be established to maintain FFC forms until the subsequent peer review. Currently, FFCs are stored with the electronic version of the RAB acceptance package, which can include information that should be purged 120 days after completion of the review.
- Copies or other record of letters to team captains regarding working paper retention should be maintained.

Sincerely,

Albert R. Denny, CPA



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

February 2, 2011

Oversight Task Force
of the National Peer Review Committee
American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707

Dear Task Force Members:

We received the attached letter as a result of the oversight procedures of the administrative functions performed by Albert Denny at the request of the National Peer Review Committee. The staff of the National Peer Review Committee has addressed the findings identified in the letter as follows.

- In the event of no response to an initial e-mail request to a team captain for delinquent peer reviews, guidance in the RAB Handbook should be followed and any subsequent request should utilize the letters outlined in the manual. NPRC RESPONSE: Going forward, NPRC technical reviewers will follow the guidelines required in the RAB Handbook by using the appropriate letters at the appropriate time. Specifically, NPRC technical reviewers will send an informal email, followed up with a phone call. If a response is not received within a week, a follow-up email and phone call will be made. If a response is not received within a week following the second phone call, formal letters will be issued to the team captain. The technical staff was trained on this during the technical staff meeting on January 11, 2011. A senior technical manager will monitor reviews in technical review status on a monthly basis to verify that staff is following up with the team captains according to the RAB handbook.

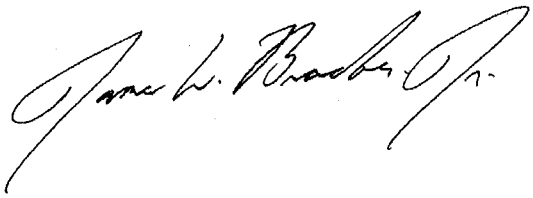
- There should be follow up regarding confidentiality agreements not yet received from NPRC committee members. NPRC RESPONSE: The operations team has mailed confidentiality agreements to all NPRC members for the 2010-2011 year, which began October 1, 2010. Some of these letters have been received and staff is actively following up on those that have not. Once returned, the confidentiality letters will be housed in a central repository to allow easy reference and retrieval. Going forward, staff will verify that a signed confidentiality agreement has been received from a member before transmitting committee or RAB documents to him/her. Additionally, the NPRC Policies and Procedures Manual has been updated to indicate that NPRC members cannot vote if their confidentiality agreement has not been signed and returned to staff.

- A centralized filing system should be established to maintain FFC forms until the subsequent peer review. Currently, FFCs are stored with the electronic version of the RAB acceptance package, which can include information that should be purged 120 days after completion of the review. NPRC RESPONSE: Operations staff has created an electronic repository for the FFC forms and has destroyed all inappropriately preserved documents. Following each RAB, operations staff will file all FFC forms on the shared drive. Staff will then determine which reviews were completed more than 120 days in the past, destroy the working papers associated with those reviews, and send the proper letter informing the Team Captain of the retention requirements of the AICPA PRP. A copy of the retention letter will be placed in the review folder. The review folder will then be placed in our files and the appropriate destruction date marked on the outside of the folder. All electronic working paper documents and copies of review documents will be purged from our team's shared drives. RAB packages will be destroyed 120 days after the RAB date. This process will monitored by the Operations Manager on a quarterly basis.

- Copies or other record of letters to team captains regarding working paper retention should be maintained. NPRC RESPONSE: As noted above, a copy of the letter sent to the team captain will be retained in the review folder for all working papers returned in the future. This process will be monitored by the Operations Manager on a quarterly basis.

We believe these steps fully address the findings of the oversight procedures applied to the National PRC administrative functions. We found this to be a very valuable process that has allowed us the opportunity to improve our processes related to administering the AICPA Peer Review Program for firms that have their reviews administered by the National Peer Review Committee.

Sincerely,



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

CALIFORNIA BOARD OF ACCOUNTANCY

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PROC Item VII.A.
December 9, 2011

Enforcement Process for Failed Peer Review Reports

Presented by: Rafael Ixta, Enforcement Chief
Date: November 16, 2011

Purpose of the Item

The purpose of this agenda item is to provide members with general educational information on failed peer reviews.

Action Needed

No specific action is required on this agenda item.

Background

Business and Professions Code, Section 5076 provides for the following regarding failed peer reviews:

- Requires a firm who received a substandard (failed) peer review report to submit a copy to the CBA (5076(f));
- Requires the board-recognized program provider to file with the CBA a copy of all substandard (failed) peer review reports issued to California firms (5076(g));
- Requires the CBA to define a substandard (failed) peer review report in regulation;
- Any substandard (failed) peer review report submitted to the CBA shall be collected for investigatory purposes (5076(j)); and,
- Permits the CBA to initiate an investigation and impose discipline against a firm based on information contained in a peer review report received by the CBA (5076(e)).

Additionally, Title 16 California Code of Regulations Section 48(b)(1)(C) & 48(b)(2)(C) defines a substandard (failed) peer review report.

Comments

Based on the above statutory authority, the CBA receives copies of failed peer reviews of California firms and initiates an investigation. An investigation is initiated to 1) evaluate the reasons why a failed report was issued and 2) to identify and monitor compliance with any corrective actions imposed by the peer review program provider. If it is believed that the failed peer review was a result of egregious conduct, CBA staff requests additional information from the licensee for further investigation. Since the mandatory peer review program was initiated, the CBA has received 36 failed peer review reports.

Recommendations
None

Attachments
1. Business and Professions Code Section 5076
2. Title 16 California Code of Regulations Sections 46 and 48

Business & Professions Code

5076. (a) In order to renew its registration, a firm, as defined in Section 5035.1, shall have a peer review report of its accounting and auditing practice accepted by a board-recognized peer review program no less frequently than every three years.

(b) For purposes of this article, the following definitions apply:

(1) "Peer review" means 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.

(2) "Accounting and auditing practice" includes any services that are performed using professional standards defined by the board in regulations.

(c) The board shall adopt regulations as necessary to implement, interpret, and make specific the peer review requirements in this section, including, but not limited to, regulations specifying the requirements for board recognition of a peer review program, standards for administering a peer review, extensions of time for fulfilling the peer review requirement, exclusions from the peer review program, and document submission.

(d) The board shall adopt emergency regulations in accordance with the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) to establish policies, guidelines, and procedures as outlined in subdivision (c). The adoption of the regulations shall be considered by the Office of Administrative Law to be necessary for the immediate preservation of the public peace, health and safety, or general welfare. The emergency regulations shall be submitted to the Office of Administrative Law for filing with the Secretary of State and publication in the California Code of Regulations, and shall be replaced in accordance with the Administrative Procedure Act.

(e) Nothing in this section shall prohibit the board from initiating an investigation and imposing discipline against a firm or licensee, either as the result of a complaint that alleges violations of statutes, rules, or regulations, or from information contained in a peer review report received by the board.

(f) A firm issued a substandard peer review report, as defined by the board in regulation, shall submit a copy of that report to the board. The board shall establish in regulation the time period that a firm must submit the report to the board. This period shall not exceed 60 days from the time the report is accepted by a board-recognized peer review program provider to the date the report is submitted to the board.

(g) (1) A board-recognized peer review program provider shall file a copy with the board of all substandard peer review reports issued to California-licensed firms. The board shall establish in regulation the time period that a board-recognized peer review program provider shall file the report with the board. This period shall not exceed 60 days from the time the report is accepted by a board-recognized peer review program provider to the date the report is filed with the board. These reports may be filed with the board electronically.

(2) Nothing in this subdivision shall require a board-recognized peer review program provider, when administering peer reviews in another state, to violate the laws of that state.

(h) The board shall, by January 1, 2010, define a substandard peer review report in regulation.

(i) Any requirements imposed by a board-recognized peer review program on a firm in conjunction with the completion of a peer review shall be separate from, and in addition to, any action by the board pursuant to this section.

(j) Any report of a substandard peer review submitted to the board in conjunction with this section shall be collected for investigatory purposes.

(k) Nothing in this section affects the discovery or admissibility of evidence in a civil or criminal action.

(l) Nothing in this section requires any firm to become a member of any professional organization.

(m) A peer reviewer shall not disclose information concerning licensees or their clients obtained during a peer review, unless specifically authorized pursuant to this section, Section 5076.1, or regulations prescribed by the board.

(n) (1) By January 1, 2015, the board shall provide the Legislature and Governor with a report regarding the peer review requirements of this section that includes, without limitation:

(A) The number of peer review reports completed to date and the number of reports which were submitted to the board as required in subdivision (f).

(B) The number of enforcement actions that were initiated as a result of an investigation conducted pursuant to subdivision (j).

(C) 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.

(D) The extent to which mandatory peer review of accounting firms enhances consumer protection.

(E) The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.

(F) A recommendation as to whether the mandatory peer review program should continue.

(G) The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.

(H) The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.

(I) The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.

(J) A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

(2) A report to the Legislature pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.

Title 16, California Code of Regulations

46. Document Submission Requirements.

(a) A firm receiving a peer review report issued under Section 48(b)(1)(C) or (b)(2)(C) shall submit a copy of the peer review report to the Board including any materials documenting the prescription of remedial or corrective actions imposed by a Board-recognized peer review program provider within 45 days of the peer review report being accepted by a Board-recognized peer review program provider. A firm shall also submit to the Board, within the same 45-day reporting period, any materials, if available, documenting completion of any or all of the prescribed remedial or corrective actions.

(b) Upon request by the Board, a firm shall submit to the Board all requested documents related to the peer review including:

(1) If the firm received a peer review report issued under Section 48(b)(1)(A) or (b)(2)(A) it shall submit the copy of the peer review report including materials documenting the acceptance of the report.

(2) If the firm received a peer review report issued under Section 48(b)(1)(B) or (b)(2)(B) it shall submit the copy of peer review report including any materials documenting the prescription of remedial or corrective actions imposed by a Board-recognized peer review program provider. In addition, a firm shall also submit any materials, if available, documenting completion of any or all of the prescribed remedial or corrective actions.

(c) Any documents required for submission as part of this section may be submitted electronically.

48. Minimum Requirements for a Peer Review Program.

For a peer review program provider to receive Board recognition and be authorized to administer peer reviews in California, the peer review program provider must submit evidence to the satisfaction of the Board that the peer review program is comprised of a set of standards for performing, reporting on, and administering peer reviews. A peer review program shall include the following components:

(a) Peer Review Types

A peer review program shall have a minimum of two types of peer reviews that include the following:

(1) For firms performing engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards, examinations of prospective financial statements under the Statements on Standards on Attestation Engagements (SSAEs), or audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB), the firm shall undergo a peer review designed to test the firm's system of quality control. The scope of the peer review shall be such that it provides a peer reviewer with a reasonable assurance that a firm's system of quality control was designed in accordance with professional standards and was complied with by the firm's personnel.

(2) For firms only performing engagements under the Statements on Standards for Accounting and Review Services (SSARS) or under Statements on Standards on Attestation Engagements (SSAEs) not encompassed in review performed under subsection (a)(1), the firm shall undergo a peer review designed to test a cross-section of a firm's engagements to assess whether the engagements were performed in conformity with the applicable professional standards.

(b) Peer Review Report Issuance

(1) For firms undergoing peer reviews pursuant to subsection (a)(1), one of the following three types of peer review reports shall be issued:

(A) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control was suitably designed and complied with by the firm's personnel, which provides the firm with reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(B) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control was suitably designed and complied with by the firm's personnel with the exception of a certain deficiency or deficiencies that are described in the report. The deficiencies are such that the firm's design of or compliance with its system could create a situation in which the firm would have less than reasonable assurance of performing and/or reporting on engagements in conformity with applicable professional standards.

(C) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control is not suitably designed or complied with by the firm's personnel, and thus, does not provide the firm with reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(2) For firms undergoing peer reviews pursuant to subsection (a)(2), one of the following three types of peer review reports shall be issued:

(A) A peer review report indicating that a peer reviewer or peer review team concluded that there was no evidence which would cause the peer reviewer to believe that the engagements performed by the firm were not performed in conformity with applicable professional standards.

(B) A peer review report indicating that a peer reviewer or peer review team concluded that, with the exception of a certain deficiency or deficiencies, nothing would cause the peer reviewer to believe that the engagements performed by the firm and submitted for review were not performed in conformity with applicable professional standards. The deficiencies identified were such that the peer reviewer concluded they were material to the understanding of the report or financial statements or represented omission of critical procedures required by applicable professional standards.

(C) A peer review report indicating that a peer reviewer or peer review team concluded that the engagements reviewed were not performed and/or reported on in conformity with applicable professional standards. In issuing such report, the peer reviewer shall assess both the significance of the deficiencies identified and the pervasiveness of the deficiencies.

(c) Peer Reviewer Qualifications

A peer review program shall include minimum qualifications for an individual to qualify as a peer reviewer. The qualifications shall, at a minimum, include the following:

(1) Have a valid and active license in good standing to practice public accounting issued by this state or other state.

(2) Be actively involved and practicing at a supervisory level in a firm's accounting and auditing practice.

(3) Maintain a currency of knowledge of the professional standards related to accounting and auditing, including those expressly related to the type or kind of practice to be reviewed.

(4) Provide the Board-recognized peer review program provider with his/her qualifications to be a reviewer, including recent industry experience.

(5) Be associated with a firm that has received a peer review report issued in accordance with subsection (b)(1)(A) or (b)(2)(A) of this section or has received a peer review rating of pass or unmodified as part of the American Institute of Certified Public Accountants Peer Review Program as part of the firm's last peer review.

(d) Planning and Performing Peer Reviews

A peer review program shall include minimum guidelines and/or standards for planning and performing peer reviews commensurate with the type of peer review being performed including, but not limited to, the following:

(1) For peer reviews performed in accordance with subsection (a)(1) of this section, a peer review program's guidelines and/or standards shall include the following:

(A) Ensuring that prior to performing a peer review, a peer reviewer or a peer review team takes adequate steps in planning a peer review to include the following: (i) obtain the results of a firm's prior peer review (if applicable), (ii) obtain sufficient understanding of the nature and extent of a firm's accounting and auditing practice, (iii) obtain a sufficient understanding of a firm's system of quality control and the manner in which the system is monitored by a firm, and (iv) select a representative cross-section of a firm's engagements.

(B) In performing a peer review, the peer reviewer or peer review team shall test the reviewed engagements while assessing the adequacy of and compliance with a firm's system of quality control. The peer review is intended to provide the peer reviewer or peer review team with reasonable basis for expressing an opinion as to whether a firm's system of quality control is suitably designed and complied with by a firm's personnel such that the firm has reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(2) For peer reviews performed in accordance with subsection (a)(2) of this section, a peer review program's guidelines and/or standards shall include the following:

(A) Ensuring that prior to performing a peer review, a peer reviewer or peer review team select a representative cross-section of a firm's accounting and auditing engagements to include at a minimum one engagement for each partner, shareholder, owner, principal, or licensee authorized to issue reports.

(B) In performing a peer review, the peer reviewer or peer review team shall review the selected engagements to determine if the engagements were performed in conformity with the applicable professional standards.

(3) Nothing in a peer review program provider's guidelines and/or standards shall prohibit a peer reviewer or peer review team from disclosing pertinent peer review-related information regarding a firm to a subsequent peer reviewer.

(e) Peer Review Program Plan of Administration and Accepting Peer Review Reports

(1) The administration plan shall clearly outline the manner in which the peer review program provider intends on administering peer reviews and shall, at a minimum, include the following:

(A) Identify a peer review committee, and if necessary subcommittees, and employ knowledgeable staff for the operation of the review program as needed.

(B) Establish and perform procedures for ensuring that reviews are performed and reported on in accordance with the program's established standards for performing and reporting on peer reviews.

(C) Establish a program to communicate to firms participating in the peer review program the latest developments in peer review standards and the most common findings in peer reviews conducted by the Board-recognized peer review program provider.

(D) Establish and document procedures for an adjudication process designed to resolve any disagreement(s) which may arise out of the performance of a peer review, and resolve matters which may lead to the dismissal of a firm from the provider's peer review program.

(E) Establish guidelines for prescribing remedial or corrective actions designed to assure correction of the deficiencies identified in a firm's peer review report.

(F) Establish guidelines for monitoring the prescribed remedial and corrective actions to determine compliance by the reviewed firm.

(G) Establish and document procedures for ensuring adequate peer reviewers to perform peer reviews. This shall include ensuring a breadth of knowledge related to industry experience.

(H) Establish and document procedures to ensure the qualifications of peer reviewers and to evaluate a peer reviewer's performance on peer reviews.

(I) Establish a training program or training programs designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews.

(J) Establish and document procedures to ensure that a firm requiring a peer review selects a peer reviewer with similar practice experience and industry knowledge, and peer reviewer is performing a peer review for a firm with which the reviewer has similar practice experience and industry knowledge.

(K) Require the maintenance of records of peer reviews conducted under the program. Such records shall include, at a minimum, written records of all firms enrolled in the peer review program and documents required for submission under Section 46, with these documents to be retained until the completion of a firm's subsequent peer review.

(L) Provide to the Board's Peer Review Oversight Committee access to all materials and documents required for the administration of peer reviews.

(2) As required by subsection (e)(1)(A) of this section, the peer review program provider shall establish a peer review committee to assist in the review and acceptance of peer review reports. The peer review program provider's committee shall:

(A) Meet regularly to consider and accept peer review reports.

(B) Assist the peer review program provider in resolving instances in which there is a lack of cooperation and agreement between a peer reviewer and/or reviewed firm in accordance with the peer review program's adjudication process.

(C) Make a final determination on a peer review report pursuant to subdivision (b).

(f) The peer review committee established by the peer review program provider shall comply with the following in relation to the composition of the committee:

(1) All committee members shall meet the peer reviewer qualification requirements established in Section 48(c).

(2) In determining the size of the committee, consideration shall be given to the requirement for broad industry experience, and the likelihood that some members will need to recuse themselves from some reviews as a result of the member's close association to the firm or having performed the review.

(3) No committee member may concurrently serve as a member of the Board.

(4) A committee member may not participate in any discussion or have any vote with respect to a reviewed firm when the member lacks independence as defined by California Code of Regulations Section 65 or has a conflict of interest. Examples of conflicts of interest include, but are not limited to:

(A) the member's firm has performed the most recent peer review of the reviewed firm's accounting and auditing practice.

(B) the member served on the review team which performed the current or the immediately preceding review of the firm.

(C) the member believes he/she cannot be impartial or objective.

(5) Each member of the committee shall comply with all confidentiality requirements. The peer review program provider shall annually require its committee members to sign a statement acknowledging their appointments and the responsibilities and obligations of their appointments.

CALIFORNIA BOARD OF ACCOUNTANCY

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PROC Item VII.B.
December 9, 2011

Summary of Failed Peer Reviews

Presented by: Rafael Ixta, Enforcement Chief
Date: November 21, 2011

Purpose of the Item
The purpose of this agenda item is to provide members with specific information concerning failed peer review reports.

Action Needed
No specific action is required on this agenda item.

Background
At the October 27, 2011 meeting, members inquired as to the reasons that firms are receiving failed peer reviews.

The California Board of Accountancy (CBA) has opened investigations on 32 failed peer reviews. The failed peer review reports were received from the reviewed firm or the Board-recognized peer review program provider in accordance with Business and Professions Code Sections 5076(f) and 5076(g), respectively.

Comments
Enforcement staff has prepared a Summary of Deficiencies in 32 Failed Peer Reviews **(Attachment 1)**. The summary lists each failed peer review, the code(s) for the deficiencies cited in the peer review report, and the corrective action assigned by the Board-recognized peer review program provider. Also provided are the codes assigned to each deficiency and the number of times each deficiency is found in the 32 failed reports **(Attachment 2)**.

Recommendations
None

Attachments
1. Summary of Deficiencies in 32 Failed Peer Reviews, November 18, 2011
2. Peer Review Deficiency Codes

Summary of Deficiencies in 32 Failed Peer Reviews*

As of November 18, 2011

No.	Firm Policies	Audits	Reviews	Compilations	GAS	CalCPA Corrective Action
1		2, 3, 4, 5, 6		3		Team captain review of next ERISA audit
2		1, 2			2, 3, 5	Team captain revisit
3	1, 4, 5	1, 2			2, 6	Team captain revisit
4	3, 4, 5	1, 2				Submit audit engagement to Team captain
5	3, 6	1, 6			5	Team captain revisit
6			1			Team captain post issuance review
7	2, 3	4			1	Team captain revisit
8		1, 2			2	Team captain revisit
9	4, 5	1				8 hrs CPE Audit, Submit audit engagement to Team captain
10	3, 4, 5	2, 4				Will no longer perform audits
11	3, 4, 5	2	1			Team captain revisit, 8 hrs CPE in Audit
12		1, 2				Team captain review of audit engagement and work papers, 8 hrs CPE Audit
13			1	3		Team captain preissuance review
14	3	1, 2			2, 5, 7	CPE in Gov, Team captain review (Nevada)
15	1, 3	1, 2, 6			2, 6	Accelerated review by 12/31/2010, not yet completed
16				2		8 hrs CPE Compilation & Reviews
17		1, 6		3, 7		Submit copy of monitoring report
18			1, 2, 4			8 hrs CPE Comp & Reviews, Team captain post issuance review
19				2,7		8 hrs CPE Compilation & Reviews
20				9		8 hrs CPE Compilation & Reviews
21	3		1		1, 2, 4, 5	Team captain revisit (all Gov audits, no prior peer review)
22				1, 2		8 hrs CPE Compilation & Reviews
23		2, 6		2	1, 2, 6	80 hrs Gov CPE, Team captain revisit
24	1, 3	2, 3			2	Accelerated review by 6/30/2011
25	1				1, 2, 5	80 hrs Gov CPE, Team captain revisit
26				7		8 hrs CPE Financial Statements
27			3			8 hrs CPE Compilation & Reviews
28				2, 7		8 hrs CPE Compilation & Reviews
29				5		8 hrs CPE Non Profit Financials
30				1, 2		8 hrs CPE Compilation & Reviews
31			1	4, 7		8 hrs CPE Compilation & Reviews
32				5, 6, 8		8 hrs CPE Compilation & Reviews

* See Attachment 2 for code reference.

Attachment 1

PEER REVIEW DEFICIENCY CODES

Firm Policies:

Code[1]		Quantity
1	Lack of a quality control system	4
2	Quality control procedures not followed	1
3	Quality control policies and procedures not in compliance with professional standards	9
4	No monitoring procedure/not properly performed	5
5	No Statement on Quality Control Standards (SQS 7)	5
6	Lack of proper CPE	1

Audits:

1	Lack of planning documentation and the steps completed	10
2	Procedures not adequately performed	12
3	Lack of engagement/communication documentation	2
4	Financial statements missing disclosures/necessary supplemental schedules	3
5	Repeat deficiencies from prior peer reviews	1
6	Lack of/ineffective monitoring	5

Compilations:

Code[1]		Quantity
1	Lack of/not current to professional standards engagement letter	2
2	Accountant's report not updated to current standards	6
3	Accountant's report lacked necessary disclosure	3
4	Repeat deficiencies from prior peer reviews	1
5	Non-disclosure financial Statement - improper financial statement presentation	2
6	Full disclosure financial statement - misclassifications	1
7	Financial statements did not conform to standards	5
8	Additional note disclosures required	1
9	Lack of accountant's report with trust financials	1

[1] Deficiency codes were developed by CBA staff based on a review of failed peer reviews.

Reviews:

Code[1]		Quantity
1	Lack of inquiry and analytical review procedure/documentation	6
2	Lack of adherence to professional standards in departures from GAAP and Financial Statement presentation	1
3	Improper Financial Statement presentation (current and long term liabilities	1
4	Repeat deficiencies from prior peer reviews	1

Government Auditing Standards:

Code[1]		Quantity
1	Lack of audit planning and documentation	4
2	Procedures not adequately performed as required by professional standards	9
3	Lack of annual monitoring	1
4	Ineffective monitoring procedures	1
5	Lack of required prior 3 year peer review	5
6	Lack of proper CPE	3
7	Financial statements not conforming to standards	1

[1] Deficiency codes were developed by CBA staff based on a review of failed peer reviews.

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PROC Item VIII.
December 9, 2011

Adoption of PROC Procedures Manual

Presented by: Rafael Ixta, Chief of Enforcement
Date: November 18, 2011

Purpose of the Item
The purpose of this item is to provide PROC members with the final PROC Procedures Manual.

Action(s) Needed
It is requested that the PROC vote to adopt the PROC Procedures Manual.

Background
At the October 27, 2011 PROC meeting, members reviewed and suggested minor revisions to draft of the manual. All edits are included in the final manual **(Attachment 1)**.

Comments
Due to the size of Appendix A, it will only be included in the final copies provided to members. Appendices B, G and H will be added to the manual once they are developed and approved by the PROC.

Recommendations
It is requested that the PROC adopt the PROC Procedures Manual.

Attachment
1. PROC Procedures Manual

Attachment 1

CALIFORNIA BOARD OF ACCOUNTANCY

PEER REVIEW OVERSIGHT COMMITTEE PROCEDURES MANUAL

November 2011

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SECTION I - INTRODUCTION

This procedure manual contains guidance assembled by the California Board of Accountancy's (CBA) Peer Review Oversight Committee (PROC) to be used by the PROC and the CBA in its peer review oversight roles and responsibilities as described herein. The peer review process utilizes a significant number of terms and acronyms which have been presented in a glossary (APPENDIX A). In addition, to provide a visual aid for the PROC's place in the peer review process, an organizational structure chart is included (APPENDIX B).

A. AUTHORITY

The PROC derives its authority from Section 5076.1 of the Business and Professions Code (B&P) as follows: The CBA shall appoint a peer review oversight committee of certified public accountants of this state who maintain a license in good standing and who are authorized to practice public accountancy to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The composition and function of the PROC is further defined in Title 16 California Code of Regulations (CCR) Section 47.

B. PURPOSE

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. (B&P §5076.1)

C. MEMBERSHIP

The PROC shall be comprised of not more than seven (7) licensees. The licensees shall maintain a valid and active license to practice public accounting in California issued by the CBA. No member of the committee shall be a current member or employee of the CBA. (B&P §5076.1(a), CCR §47)

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

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

D. TENURE

PROC members shall be appointed to two-year terms and may serve a maximum of four (4) consecutive terms. (B&P §5076.1)

E. CONFIDENTIALITY

All PROC members shall sign a confidentiality letter.

Any information obtained by the PROC in conjunction with its review of peer review program providers shall not be a public record, and shall be exempt from public disclosure, provided, however, this information may be disclosed under any of the following circumstances:

- In connection with disciplinary proceedings of the CBA
- In connection with legal proceedings in which the CBA is a party
- In response to an official inquiry by a federal or state governmental regulatory agency
- In compliance with a subpoena or summons enforceable by court order
- As otherwise specifically required by law

All PROC members are required to sign a confidentiality letter (APPENDIX C).

F. CONFLICTS OF INTEREST

PROC members shall not participate in any discussions with respect to a reviewed firm when the member lacks independence as defined by Title 16 California Code of Regulations Section 65 or has a conflict of interest.

PROC members are allowed to conduct peer reviews as self-employed individuals, employees of a firm, or as an owner/partner of a firm. However, if any decisions involving the peer reviewed firm come before the PROC, the PROC member would have to disqualify himself/herself from all of the issues/decisions before the PROC.

Member are required to file the Fair Political Practices Commission's Form 700 upon appointment, annually, and upon leaving office. Members of the PROC are designated as Disclosure Category 4, which means that they must report:

> All interests in real property and investments and business positions in, and any income, including gifts, loans and travel payments from, a business entity, professional association or individual where the business entity, professional association or individual's profession is regulated by or offers programs or courses qualifying for licensing or continuing education credit by the official's or employee's license agency.

If any PROC member receives any income, gifts, loans, or travel payments from any person or entity (as defined by the Act) regulated by the CBA, he or she must disclosure the financial interest on the Form 700. This would be true even if such person or entity is not regulated in any manger by the PROC since Disclosure Category 4 requires disclosure when the regulation stems from the "official's or employee's licensing agency." A PROC member would be deemed to have a financial interest in a decision if certain financial limits are met.

G. TRAVEL REIMBURSEMENT

Each PROC member shall be reimbursed for traveling and other reasonable expenses necessarily incurred in the performance of duties. (B&P §103)

General guidelines for travel reimbursement will be provided at the time of appointment.

H. COMPENSATION

Each PROC member shall receive a per diem of one hundred dollars ($100) for each day actually spent in the discharge of official duties. (B&P §103)

SECTION II – GENERAL COMMITTEE MEETING INFORMATION

A. MEETINGS

The PROC shall hold meetings as necessary in order to conduct business and shall report to the CBA regarding the effectiveness of mandatory peer review. This shall include the PROC Chair attending CBA meetings to report on the activities of the PROC. The PROC shall also prepare an annual report to the CBA regarding the results of its oversight, and shall include the scope of work, findings, and conclusions regarding its oversight. (CCR §47(c))

B. OPEN/CLOSED SESSION

PROC meetings may include both open and closed sessions.

C. QUORUM

Before any action may be taken on agenda items, a quorum must be present at the meeting. Therefore, attendance by PROC members is critical. A majority of the PROC membership shall constitute a quorum.

D. ATTENDANCE BY MEMBERS

PROC members are expected to attend all regularly scheduled meetings of the PROC as well as assigned meetings of peer review program providers. A member who is absent from two consecutive PROC meetings will be subject to review by the Chair. Upon recommendation to the CBA, the member may be dismissed.

E. ATTENDANCE BY OTHERS

PROC meetings may be attended by CBA members as well as the general public. Members of the general public are only allowed to attend the open session portion of the meeting.

To ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full California Board of Accountancy (CBA) are present at a committee meeting, members who are not members of that committee may attend the meeting only as observers. CBA members who are not committee members may not sit at the table with the committee, and they may not participate in the meeting by making statements or by asking questions of any committee members.

F. STAFF

CBA staff will be available prior to and during all PROC meetings to provide the following:

- Meeting room arrangements
- Travel arrangements
- Coordination of meeting materials
- Record meeting proceedings
- General support to members

SECTION III – ROLES AND RESPONSIBILITIES

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

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

The PROC shall develop a more detailed plan for performing and completing the above roles and responsibilities as outlined in the manual. This plan shall be reviewed with the

CBA on a routine basis and updated as appropriate to enable the PROC to fulfill its purpose. Documents resulting from the PROC's program shall be considered drafts until approved as final by the PROC and the CBA. Final documents shall be subject to the retention schedule in place at the CBA.

SECTION IV – PROC FUNCTIONS

The PROC oversight duties will include the following.

A. OVERSIGHT OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS

1. Administrative Site Visits

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

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

2. Peer Review Committee Meetings

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

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

3. Peer Review Subcommittee Meetings (Report Acceptance Bodies)

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

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

4. Sample Reviews

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

   Sample reviews may be conducted during the Administrative Site Visit.

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

5. Peer Reviewer Training

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

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

6. Statistics

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

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

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

B. EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS

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

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

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

D. ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY

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

E. DOCUMENTATION OF OVERSIGHT ACTIVITIES

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

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

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

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

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PROC Item IX.
December 9, 2011

Discussion Regarding Peer Review Survey

Presented by: Rafael Ixta, Enforcement Chief
Date: November 15, 2011

Purpose of the Item

The purpose of this agenda item is to provide members with a copy of the peer review survey **(Attachment 1)**.

Action Needed

No specific action is required on this agenda item.

Background

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

(A) The number of peer review reports completed to date and the number of reports which were submitted to the board as required in subdivision (f).
(B) The number of enforcement actions that were initiated as a result of an investigation conducted pursuant to subdivision (j).
(C) 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.
(D) The extent to which mandatory peer review of accounting firms enhances consumer protection.
(E) The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.
(F) A recommendation as to whether the mandatory peer review program should continue.
(G) The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
(H) The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.
(I) The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the

purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.

(J) A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

The voluntary confidential survey will assist the CBA in collecting information from sole proprietors and small firms to prepare the report that is due to the Legislature and the Governor on January 1, 2015.

The Peer Review survey went live on the CBA website on December 9, 2010. The survey is available to all firms that report peer review results online and. To date, over 1,500 surveys have been submitted.

Comments

Staff is currently in the process of compiling the results. The results, if available, will be presented at the meeting.

Recommendations

None

Attachments

1. Confidential Survey

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Confidential Survey

Attachment 1

The California Board of Accountancy (CBA) is conducting a voluntary, confidential survey of certified public accountant (CPA) firms as they submit their peer review reporting form. Please take a moment to complete this brief survey to provide the CBA with valuable information on the performance of the CBA's Peer Review Program and how it has impacted your firm. The results will be used only for aggregate statistical purposes. Individual responses are completely confidential and will not be subject to release under the Public Records Act.

Thank you for taking the time to assist the CBA in improving its peer review program. If you do not want to participate in this survey, please click the "No, Thank You" button at the bottom of this page and you will be directed to the confirmation page acknowledging receipt of your peer review information.

1. Was your recent peer review the first time you have undergone a peer review?
   Yes ___ No ___

2. Which type of peer review did you undergo?
   Engagement Review ___ System Review ___

3. Was your firm <u>required</u> to take any corrective actions as a result of undergoing peer review?
   Yes ___ No ___

   What did you have to do (mark all that apply)?
   ___ Additional CPE ___ Additional inspections or reviews
   ___ Accelerated review ___ Strengthen staff (through training or new staff)
   ___ Update Library ___ Submission of additional materials
   ___ Other (please describe) _____

4. Has your firm voluntarily made any changes that improved its processes as a result of undergoing peer review?
   Yes ___ No ___

   What changes did you make (mark all that apply)?
   ___ Additional CPE ___ Strengthen staff (through training or new staff)
   ___ Update Library ___ Other (please describe) _____

5. What percentage of your workload during the three years encompassing your recent peer review was spent on Compilations without disclosure using other comprehensive basis of accounting (OCBOA)? _____

6. Did you raise your fees to offset the cost of your peer review?
   Yes ___ No ___

   If so, by what percentage? _____

7. Do you believe that undergoing peer review has helped to improve your overall service to your clients?
   Yes ___ No ___

8. Do you, or will you, voluntarily notify clients that you have undergone peer review?
   Yes ___ No ___

9. Do you, or will you, use peer review as a marketing tool to potential clients?
   Yes ___ No ___

10. To eliminate the need for a future peer review, will you cease providing the services which trigger a mandatory peer review under the law?
    Yes ___ No ___

11. Do you have any additional comments on the peer review process?

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PROC Item X.
December 9, 2011

Discussion Regarding PROC Assignments

Presented by: Nancy J. Corrigan, PROC Chair
Date: November 16, 2011

Purpose of the Item

The purpose of this item is to provide members with the 2012 Year-at-a-Glance California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC) Calendar **(Attachment 1)**.

Action(s) Needed

No specific action is required on this agenda item. It is requested that all members bring their calendars to the meeting.

Background

None

Comments

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

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

Recommendations

It is recommended that members continue to use the calendar as a tool for assigning members to participate in meetings held by the AICPA and CalCPA.

Attachment

1. 2012 Year-at-a-Glance CBA PROC Calendar, updated November 2, 2011.

CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)
2012 MEETING DATES/LOCATIONS

(as of November 2, 2011)

JANUARY 2012

S	M	T	W	Th	F	S
1	2	3	4	5 T-2pm	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20 NO	21
22	23	24 T-9am	25	26 SC	27 SC	28
29	30	31				

FEBRUARY 2012

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

MARCH 2012

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

APRIL 2012

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

MAY 2012

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

JUNE 2012

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

JULY 2012

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

AUGUST 2012

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

SEPTEMBER 2012

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

OCTOBER 2012

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

NOVEMBER 2012

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

DECEMBER 2012

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

10-day Meeting Notice Date
Deadline for Exec Surname

COMMITTEE/TASK FORCE

CBA - California Board of Accountancy
PROC - Peer Review Oversight Committee
AICPA - American Institute of Certified Public Accountants
PRB - Peer Review Board
CalCPA - California Scoeity of Certified Public Accountants
RAB - Report Acceptance Body
PRC - Peer Review Committee
NASBA - National Assoc. of State Boards of Accountancy

GENERAL LOCATION

NC-NORTHERN CALIFORNIA
SC-SOUTHERN CALIFORNIA
SJ-SAN JOSE
SM - SAN MATEO
ONT - ONTARIO
PS - PALM SPRINGS
SAC - SACRAMENTO
OAK - OAKLAND
LA - LOS ANGELES
NO - New Orleans
T-TELECONFERENCE

ON SHADED DATES CBA OFFICE IS CLOSED
CBA MEETING
PROC MEETING
AICPA PRB MEETING
CalCPA RAB MEETING
CalCPA PRC MEETING
PEER REVIEWER CPE

Attachment 1

12/1/2011