

**TITLE 16. PROFESSIONAL AND VOCATIONAL REGULATIONS
DIVISION 1.
DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY

FINAL STATEMENT OF REASONS**

Subject Matter of Proposed Regulations

This final statement of reasons addresses the regulations applicable to Firm Responsibilities for Peer Review; Attest Engagement Notification

Sections Affected

Title 16, California Code of Regulations (CCR), Division 1, sections 41 and 50.1

Updated Information

The Informative Digest and Initial Statement of Reasons (ISOR) are included in the rulemaking file and incorporated as though set forth herein.

The California Board of Accountancy (CBA) staff noticed the proposed rulemaking with a 45-day comment period ending on February 24, 2025. The CBA received six comments during the comment period. No comments were received during the public hearing held on February 26, 2025. The CBA considered all written comments at its March 20, 2025, board meeting, approved staff-recommended responses, and voted to accept the proposed regulatory text as originally noticed with no changes.

Local Mandate

A mandate is not imposed on local agencies or school districts.

Consideration of Alternatives

No reasonable alternative which was considered or that has otherwise been identified and brought to the attention of the CBA would be more effective in carrying out the purpose for which it was proposed or would be as effective and less burdensome to affected private persons than the adopted regulation or would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provision of law. The CBA incorporates by reference the alternatives identified in its ISOR and did not receive any comments that altered its findings.

Comments

The 45-day comment period began on January 10, 2025, and ended on February 24, 2025. The CBA held a public hearing on February 26, 2025. The comments received during the 45-day comment period and the CBA's responses to the comments are presented below. No comments were received at the hearing.

Comment 1:

The CBA received the following comment on January 10, 2025:

“You should also be reviewing tax preparation practices in the same manner. Make it voluntary to start and then let the public know – Hey these preparers have been peer reviewed.

The public should be protected from non-licensed preparers.”

The CBA responds to this comment as follows:

The CBA rejects this comment. The peer review report provision extends to firms that perform accounting and auditing services, pursuant to BPC section 5076. The CBA does not have authority to extend the requirement to tax preparers except where they are holding themselves out to the public as public accountants and perform services that meet the definitions of BPC section 5076. Additionally, the CBA mentions in the Initial Statement of Reasons that the American Institute of Certified Public Accountants (AICPA) operates a national peer review program, and the scope of a peer review does not include tax services.

Comment 2:

The CBA received the following comments on January 11, 2025:

“I reviewed the proposed language for changes to sections 41 and 50.1 regarding notification of firms to clients and have the following comments to consider:

1. Do other states also have similar language – has a similar type of statute been tried before and where there any adverse or benefits noted by the rule?
2. When will the disclosure be required? Specifically will the disclosure be required as part of the engagement letter?
3. Have there been any issues to date with a firm with no qualified owners performing assurance work without disclosing the sign-off firm?

Overall, the change seem innocuous, but I question the necessity to add a rule when it is not needed. Further, the natural market would be proving the right incentives for firms and clients to organically determining how important it is to disclose the ultimate firm to sign off on the engagement. This would seem to be something that is simple to include in the initial discussions with the client, and if the client feels it is necessary, they can mandate the disclosure before agreeing to the engagement.”

The CBA responds to this comment as follows:

The CBA rejects this comment. As stated in the Initial Statement of Reasons, California is unique in requiring specific attest experience to sign reports on engagements, and the AICPA, the CBA's recognized peer review program provider who operates the national peer review program, does not contemplate the need to obtain this information.

CCR section 50.1 states that the written notification to any attest client or prospective attest client must be provided prior to engaging in attest services. The proposed regulation provides flexibility and does not require the notification to be accomplished as part of the engagement letter.

At its July 2019 meeting, the Enforcement Program Oversight Committee provided information on general and attest experience requirements and subsequent enforcement actions taken because licensees were inappropriately providing attestation-related services. Over the past few years, the CBA took disciplinary action against licensees that performed work outside the scope of what their CPA license allows – specifically, licensees who have only completed the general experience requirement but have signed reports on attest engagements. Therefore, over the course of several discussions, the CBA adopted this regulatory proposal to enhance consumer protection through peer review notification and enhanced client notification, as detailed below.

This regulatory proposal is anticipated to increase transparency in regard to the peer review process, by ensuring peer reviewers are aware of the circumstance, prior to commencement of the peer review, that no owner is authorized to sign reports on attest engagements, and that some of the work being reviewed may include reports signed by individuals no longer working for the accounting firm. Additionally, this regulatory proposal is anticipated to increase consumer protection by providing consumers with valuable information that will allow them to perform a search on the CBA website to ensure licensees signing reports on attest engagements have completed the necessary attest experience, and to determine whether the CBA has taken any discipline or other enforcement action against the licensee. The proposed amendments will also allow for a more direct notification to clients, further enhancing consumer protection.

Comment 3:

The CBA received the following comment on January 11, 2025:

“Comment: In addition, or perhaps instead, of a firm needing to provide a written statement to the peer reviewer or peer review team that a firm has no owner to sign attest engagements, there should be a requirement on the peer reviewer to inquire about this same issue of the firm undergoing peer review.

Rationale: Peer review is designed to help ensure that firms are compliant with applicable standards, and a deficient firm needing to come into compliance would be aided by the oversight of the peer review process on this issue.”

The CBA responds to this comment as follows:

The CBA rejects this comment. The AICPA, the CBA’s recognized peer review program provider, operates a national peer review program and does not contemplate the need to obtain this information since California is unique in requiring specific attest experience to sign reports on engagements. Rather than placing the burden on the peer reviewer to obtain this information for all reviews performed, the CBA determined it would be more efficient and less burdensome to require the firm to notify the peer reviewer.

Comment 4:

The CBA received the following comment on January 13, 2025:

“I am glad that you are addressing the problem with firms that have no licensees that can sign attest reports. I am the only one left with such license and I intend to retire in two years.

The problem is in order to get the higher license you have to complete audit hours only. This does not make sense because Reviews and Compilations are also attest hours. The application should allow you to use Review hours to obtain the license. If a firm wants to do an audit they would still need to get educated. We don’t do any audits. We do some reviews. My partner who does not have the attest license does all the review work and I check it and sign off on the report. I’m sure he has over 2,000 of hours doing reviews. This time should qualify but it does not. You need to change the requirements so that review hours which are attest hours qualify for him for the license upgrade.

I see this proposal allows them to use another firm with an attest licensee to sign the report but they are few and far between these days.”

The CBA responds to this comment as follows:

The CBA rejects this comment. The CBA appreciates the commenter’s support of this rulemaking proposal. The CBA rejects the commenter’s suggestion as it is unrelated to the scope of this regulatory proposal.

Comment 5:

The CBA received the following comment on January 13, 2025:

“As an Attest license CPA and owner of a CPA firm which performs attest services, I

support the spirit of these regulations. Additionally, I recommend that an additional rule set for final furnished reports to also be signed by the attest CPA with name and license number.

This would increase transparency and accountability for CPAs further than providing this information solely in contract documents such as the engagement letter. This has particular benefits where the intended audience for attest services extends beyond the parties the CPA initially furnishes their report to (e.g. financial statement audits, and other third-party attestations). “

The CBA responds to this comment as follows:

The CBA rejects this comment. The CBA appreciates the commenter’s support for this proposed rulemaking. The CBA rejects the commenter’s recommendation to require furnished reports to be signed with the name and license number of the attest CPA in addition to the engagement letter as this step would be duplicative and redundant. The CBA finds that it is necessary to provide the client with valuable information prior to commencement of services to allow the client time to perform a search on the CBA website to ensure the licensee has completed the necessary attest experience and determine whether the CBA has taken any discipline or other enforcement action against the licensee.

Comment 6:

The CBA received the following comment on January 28, 2025:

“I have heard about the proposed changed to the required hours for license renewal be reduced from 80 hours down to 40 hours. I completely agree to the proposed change due to the fact that the current required hours are quite burdensome and unnecessary.

I hope that such proposal happens.”

The CBA responds to this comment as follows:

The CBA rejects this comment. The CBA rejects the commenter’s support to reduce the existing required hours for license renewal as it is unrelated to proposed amendments made to sections 41 and 50.1.

On March 20, 2025, the written public comments were presented to the CBA Members. The CBA Members reviewed the written public comments as well as the responses and agreed the concerns expressed were addressed in the Initial Statement of Reasons. For this reason, the CBA agreed to proceed without making any changes to the text.