



CALIFORNIA BOARD OF ACCOUNTANCY  
PEER REVIEW OVERSIGHT COMMITTEE  
2012 Annual Report



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## **I. Message from the Committee Chair**

It is with pleasure that I present the 2012 Annual Report of the Peer Review Oversight Committee (PROC) as our second report to the California Board of Accountancy (CBA). The PROC has continued to make significant progress in establishing a peer review oversight process, with the goal of making recommendations to the CBA to ensure the effectiveness of mandatory peer review.

During our second year as a committee, I reported our activities to you at each CBA meeting. During the past year, the PROC has further developed its knowledge with respect to the administration of the peer review process, the various bodies involved with the process, including the program provider and administering entities, and its roles and responsibilities related thereto as a committee.

In 2012, members provided oversight at fifteen peer review events, including peer review board and committee meetings, report acceptance body meetings, peer reviewer training courses sponsored by the program provider, and performed an administrative site visit of the program provider's administering entity. In performing these oversight activities, we used checklists and other materials developed during our first year, along with checklists more recently adopted, that document our oversight procedures. Our goal is to continue to improve upon these processes going forward. All oversight activities were performed under the revised roles and responsibilities for the PROC pursuant to Section 5076.1 of the Business and Professions Code.

During 2012, the PROC also arranged for presentations by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC). These presentations assisted the PROC in understanding the extent of the AICPA and the CAC's processes for oversight of the NPRC. Once the PROC completes gathering information, it will make a determination on the best way to provide oversight of the California firms who peer review with the NPRC. We anticipate having an oversight process in place in 2013.

With the majority of our learning curve behind us, the PROC was able to concentrate on more oversight activities during 2012. Additionally, this enabled the PROC to reduce the number of committee meetings from six in 2012 to four in 2013.

To further strengthen the infrastructure of the PROC and allow for succession planning, the PROC appointed a Vice Chair position, rotated out two members as of December 31, 2012, and will be appointing two new members in early 2013. The staggered terms will enable the committee to maintain continuity of knowledge of peer review oversight activities into the future.

In closing, I want to thank the CBA members for their direction in supporting the PROC and its accomplishments in its second year. I also want to thank the PROC members for their continuing contributions to our Committee and our many accomplishments. I further appreciate the working relationship and continued support from the CBA staff in assisting the PROC with accomplishing its goals.

Nancy J. Corrigan, CPA  
*Committee Chair*

## II. Background

In 2009, the CBA sponsored Assembly Bill 138 (AB 138) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and 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.

Peer review is defined as the study of a firm's accounting and auditing practice by an independent Certified Public Accountant (CPA) using professional standards, the purpose of which is to promote quality in the accounting and auditing services provided by CPAs.

## III. PROC Responsibilities

The PROC derives its authority from Section 5076.1 of the Business and Professions Code (B&P). The PROC is comprised of seven CPAs who maintain a California license in good standing and who are authorized to practice public accountancy. The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The CBA, at its July 26, 2012 meeting, adopted the following revised roles and responsibilities for the PROC:

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

#### IV. Committee Members

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

<u>Current members:</u>	<u>Term Expiration Date:</u>
Nancy Corrigan, CPA, Chair	May 24, 2013
Robert Lee, CPA, Vice Chair	May 24, 2013
Katherine Allanson, CPA	May 24, 2013
Gary Bong, CPA	December 31, 2012
T. Ki Lam, CPA	December 31, 2012
Sherry McCoy, CPA	May 24, 2013
Seid Sadat, CPA	May 24, 2013

#### V. Regulations

On July 26, 2012, the CBA adopted regulations modifying Title 16, CCR, Sections 40 and 45. The proposed changes would replace the initial phase-in reporting dates with the requirement that licensees report specific peer review information on the Peer Review Reporting Form at the time of renewal. The proposed language also clarifies that any firm that performs specific services for the first time, whether it is newly licensed or simply new to performing those services, must complete a peer review within 18 months of the date it completes those services.

The rulemaking package is currently moving through the approval process. It is anticipated that the package will be provided to the Office of Administrative Law no later than July 2013 and once approved would become effective on January 1, 2014.

#### VI. Reporting Requirements

Pursuant to Business and Professions Code (B&P), 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:

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

- The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
- The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.
- The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.
- 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.

In keeping with its purpose, the PROC is available to assist the CBA in any way necessary in preparing the report that is due to the Legislature and Governor on January 1, 2015.

## VII. Statistics

The following statistics provide perspective on the size of the peer review program in California.

With the implementation of mandatory peer review, all licensees are required to submit a Peer Review Reporting Form (Form PR-1(1/10)) to the CBA. Licensees with a license number ending in 01-33 had a reporting date of July 1, 2011, licensees with a license number ending in 34-66 had a reporting date of July 1, 2012, and licensees with a license number ending in 67-00 have a reporting date of July 1, 2013.

Using information collected on the Peer Review Reporting Form, the following table illustrates the number of firms required to undergo a peer review, firms not required to undergo peer review, and licensees that do not operate as firms.

Peer Review Reporting Forms Received by the CBA*						
License Ends In	Reporting Date	Firms Requiring Peer Review	Firms Not Requiring Peer Review	Licensees Not Operating as a Firm	Total	Licensees That Have Not Reported
01-33	July 1, 2011	2,454	4,254	15,628	22,336	717
34-66	July 1, 2012	1,801	3,837	12,577	18,215	1,953
67-00	July 1, 2013	704	2,076	7,779	10,559	10,395
<b>Total</b>		<b>4,959</b>	<b>10,167</b>	<b>35,984</b>	<b>51,110</b>	<b>13,065</b>

\* Data as of January 15, 2013.

The data in the following table reflects the number of peer review reports accepted by the California Society of Certified Public Accountants (CalCPA) in 2010, 2011, and 2012.

Peer Review Reports Accepted by the CalCPA*				
Type of Review	2010	2011	2012	Total
System	413	406	648	1,467
Engagement	535	870	1,253	2,658
<b>Total</b>	<b>948</b>	<b>1,276</b>	<b>1,901</b>	<b>4,125</b>

\*Data received from CalCPA as of December 31, 2012.

### VIII. Peer Review Voluntary Survey

In order to gather information on the impact of mandatory peer review, the CBA developed a voluntary survey for firms to complete as they submit their Online Peer Review Reporting Form. The survey went live on the CBA website on December 9, 2010. The PROC will continue to use the results of this ongoing survey to ensure the effectiveness of mandatory peer review.

For the purpose of analysis, preliminary survey results (**Appendix A**) were divided into two groups: (1) firms that have not undergone a peer review in the past, and (2) firms that have previously been peer reviewed. Although not all licensees answered all the survey questions, between 1,817 and 2,030 responses were received for each question. In general, the results revealed:

- **CORRECTIVE ACTION ORDERED**  
Less than 20 percent of the firms were required to take corrective action, with the most common action being continuing professional education.
- **VOLUNTARY ACTION TAKEN**  
Approximately half of the firms responding made voluntary changes to improve their processes.
- **FEES**  
Fewer than 10 percent of the firms increased fees to offset the cost of undergoing a peer review. The average increase for firms that raised fees was 12 percent.
- **OTHER COMPREHENSIVE BASIS OF ACCOUNTING (OCBOA)**  
A large majority of the firms have workload consisting of 25 percent or less OCBOA engagements.
- **IMPROVED SERVICES**  
Approximately 70 percent of the firms believe that undergoing a peer review has helped improve service to clients.
- **CLIENT NOTIFICATION**  
Fifty percent of the firms intend to notify clients that they have undergone a peer review.
- **MARKETING**  
Thirty percent of the firms will use peer review as a marketing tool.
- **CESSATION OF SERVICES**  
Nine percent of the firms will cease providing accounting and auditing services to eliminate the need for a future peer review.

Of the 342 general comments received as part of the survey, 103 were supportive of mandatory peer review whereas 199 were not supportive, and 40 were neutral.

## **IX. Board-recognized Peer Review Program Providers**

### **a. American Institute of CPAs (AICPA)**

The AICPA is currently the only Board-recognized Peer Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in CCR Section 48. Further, the CBA accepts all AICPA-approved organizations authorized to administer the AICPA Peer Review Program. At present, there are 42 administering entities. The PROC has the authority to request information and materials from all organizations.

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 must perform corrective actions.

#### **i. California Society of CPAs (CalCPA)**

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

#### **ii. National Peer Review Committee (NPRC)**

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 Accounting Oversight Board (PCAOB) or perform audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB.

#### **iii. Other State Societies**

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

## **X. Activities and Accomplishments**

Following are the salient activities and accomplishments during the PROC's second year.

### **a. Administrative Functions**

#### **i. Committee Meetings**

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

The PROC held six meetings as follows:

- February 10, 2012 – Sacramento
- April 20, 2012 – Glendale
- June 15, 2012 – San Jose
- August 24, 2012 – Sacramento
- October 19, 2012 – Burbank
- December 4, 2012 – Sacramento

The PROC Chair summarized the PROC meetings in written reports that were presented at each CBA meeting.

#### **ii. PROC Procedures Manual**

The PROC updated its Procedures Manual which outlines specific procedures and processes to fulfill its duties. Updates include the PROC's revised roles and responsibilities, information regarding conflicts of interest, and newly created oversight checklists.

#### **iii. Oversight Checklists**

The PROC developed two additional oversight checklists which serve to document the members' findings and conclusions after specific oversight activity. Members submit the completed checklists to the CBA for future reference.

The following two checklists were created to track oversight activities:

- Summary of Peer Reviewer Training Course (**Appendix B**)
- Summary of Peer Review Board Meeting (**Appendix C**)

Checklists previously developed include:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit

The checklists are part of the PROC Procedures Manual. Additional checklists will be developed if deemed necessary.

#### **iv. Appointment of PROC Vice Chair**

At the request of the CBA, the PROC established a Vice Chair position to address concerns regarding succession planning. Robert Lee, CPA, was appointed Vice Chair by the CBA.

#### **v. Approval of Board-recognized Peer Review Program Providers**

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

The PROC created a checklist to evaluate applications (**Appendix D**).

#### **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. Program Oversight**

The PROC is charged with providing oversight of all Board-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA.

During 2012, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities, the CalCPA and the NPRC.

#### **i. AICPA**

##### **A. AICPA Peer Review Board**

The AICPA PRB is responsible for maintaining, furthering and governing the activities of the 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 PRB holds four meetings per year. PROC members observed each of the following PRB meetings via teleconference:

- January 20, 2012
- May 8, 2012
- August 8, 2012
- October 9, 2012

## ii. CalCPA

### A. Peer Review Committee

The CalCPA Peer Review Committee is responsible for ensuring that the peer review program is performed in accordance with the standards and guidance issued by the AICPA's PRB. The 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 each of the following PRC meetings:

- April 26, 2012 – San Mateo
- November 15-16, 2012 – Yountville

### B. Report Acceptance Body

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

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

- January 5, 2012 – teleconference
- January 24, 2012 – in person
- March 6, 2012 – teleconference
- May 17, 2012 – teleconference
- July 24, 2012 – teleconference
- November 15, 2012 – in person

### C. 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.

On February 16, 2012, the PROC reviewed the CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA *Standards for Performing and Reporting on Peer Reviews*, interpretations, and other guidance established by the board. The PROC's responsibility is to determine whether the peer review program complies with the Minimum Requirements for a Peer Review Program, pursuant to Title 16, CCR, Section 48.

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

- Read correspondence and other available documentation from other oversight activities performed at CalCPA;
- Reviewed the Report Acceptance Body assignment binder;
- Used the PRISM system-generated reports provided by CalCPA to select a sample of peer review reports and associated files for review;
- Discussed peer reviewer qualifications process with CalCPA personnel and selected one peer reviewer for resume inspection;
- Obtained a listing of extensions to evaluate consistency of reasons for extension with policies of CalCPA.

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

#### **D. Sample Reviews**

The PROC developed a system for sampling peer review reports. The first review was completed on February 16, 2012, in conjunction with the administrative site visit.

#### **E. Peer Reviewer Training**

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

The CalCPA Education Foundation offers two 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. PROC members attended the one-day training course *AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers* on May 23, 2012, and the two-day training course *How to Conduct a Review Under the AICPA Practice-Monitoring Program* on June 27-28, 2012.

### **iii. NPRC**

#### **A. Annual Monitoring Report**

The PROC reviewed the NASBA CAC first annual monitoring report of the NPRC. This report is the product of an agreement between NASBA and the AICPA to provide a mechanism by which the operations of the NPRC could be monitored and reported on by the CAC.

#### **B. AICPA Presentation**

The PROC arranged a presentation by Jim Brackens, Vice President, Ethics & Practice Quality, AICPA, which included the various aspects of the AICPA's oversight of the NPRC.

### **C. CAC Presentation**

The PROC arranged a presentation by Janice Gray, Chair of NASBA's CAC, which included information on the CAC's oversight of the NPRC.

The PROC sent a letter to the CAC requesting information necessary for the PROC to better understand the CAC's oversight process of the NPRC. The PROC requested the following information:

- Copies of CAC oversight reports;
- Copies of third-party reviewer reports;
- Oversight statistics annually;
- A calendar of events to include CAC oversight activities, scheduling of third-party reviews and administrative site visits, report development activities, etc.

The PROC continues to work with the CAC to develop a process to provide adequate oversight to the NPRC.

### **IV. Other State Societies**

The PROC is aware that California-licensed firms are having their peer reviews performed by AICPA administering entities other than CalCPA and NPRC, and will be exploring options for monitoring and ensuring these administering entities are given sufficient oversight.

## **XI. Findings**

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

### **AICPA**

The PROC found the AICPA PRB meetings to be informative, efficient and structured. PROC members were invited to ask questions at regular intervals throughout the meetings. The PRB was diligent with regard to their responsibility for the peer review process and ensuring that the process is integrated with changes to professional standards. The PRB appears devoted to the quality of peer reviewers and how the AICPA could enhance this quality for the overall good of CPA firms.

### **CalCPA**

PROC members were impressed with the CalCPA PRC members' technical expertise. The PRC deals with issues such as interpreting standards and applying consistency as the standards change and evolve. The PRC maintains a running list of recurring peer review deficiencies that they monitor and gauge, as well as monitoring the performance of peer reviewers.

Through participation in six RAB meetings, PROC members found RAB members professional and able to effectively discuss issues and arrive at well thought out conclusions.

PROC members found the peer reviewers courses to be informative and effective. The presenter had a practical approach and spent an ample amount of time going through specific cases and explaining why certain decisions were made. It was noted that, although the course is marketed to new peer reviewers, the course seemed to be designed for more experienced peer reviewers. Although the presenter used advanced terminology, she was always willing to answer questions and provide further explanation.

### **NPRC**

In 2012, PROC members began researching and developing an understanding of the NPRC, including the oversight provided by AICPA and NASBA's CAC. The PROC will continue to research oversight of the NPRC and development of an oversight plan in 2013.

## **XII. Conclusions**

Based on its oversight activities, the PROC concluded that the AICPA and its administering entities, CalCPA and NPRC, function effectively as a peer review program provider. The PROC recommends that the CBA continue to recognize the American Institute of Certified Public Accountants as a peer review program provider.

**California Board of Accountancy**  
**Peer Review**  
**Preliminary Voluntary Survey Results**  
December 9, 2010 - September 18, 2012

<b>Was your recent peer review the first time you have undergone a peer review?</b>			
	ENG	SYS	Total
Yes (1st Time Peer Reviewed)	423	133	556
No (Previously Peer Reviewed)	909	565	1474
Total	1332	698	2030

<b>Was your firm required to take any corrective action as a result of undergoing peer review?</b>			
	Yes	No	Total
1st Time Peer Reviewed	148	401	549
Previously Peer Reviewed	178	1259	1437
Total	326	1660	1986

<b>Type of Correction Ordered</b>	1st Time Peer Reviewed	Previously Peer Reviewed
CPE	90	87
Accelerated Review	2	2
Additional Inspections/Reviews	25	31
Update Library	30	27
Strengthen Staff	8	21
Submission of Additional Materials	12	27
Other	27	39

<b>Has your firm voluntarily made any changes that improved its processes as a result of undergoing a peer review?</b>			
	Yes	No	Total
1st Time Peer Reviewed	295	226	521
Previously Peer Reviewed	703	683	1386
Total	998	909	1907

<b>Voluntary Changes Made</b>	1st Time Peer Reviewed	Previously Peer Reviewed
CPE	130	276
Update Library	136	226
Strengthen Staff	51	249
Other	84	197

<b>Did you raise your fees to offset the cost of your peer review?</b>				
	Yes	No	Total	Average Increase
1st Time Peer Reviewed	85	431	516	16.5%
Previously Peer Reviewed	76	1261	1337	9%
Total	161	1692	1853	

<b>Do you believe that undergoing peer review has helped to improve your overall service to your clients?</b>			
	Yes	No	Total
1st Time Peer Reviewed	280	218	498
Previously Peer Reviewed	931	388	1319
Total	1211	606	1817

<b>Do you, or will you, voluntarily notify clients that you have undergone peer review?</b>			
	Yes	No	Total
1st Time Peer Reviewed	238	260	498
Previously Peer Reviewed	657	667	1324
Total	895	927	1822

<b>Do you, or will you, use peer review as a marketing tool to potential clients?</b>			
	Yes	No	Total
1st Time Peer Reviewed	111	395	506
Previously Peer Reviewed	439	894	1333
Total	550	1289	1839

<b>To eliminate the need for a future peer review, will you cease providing the services which trigger a mandatory peer review under the law?</b>			
	Yes	No	Total
1st Time Peer Reviewed	84	419	503
Previously Peer Reviewed	83	1237	1320
Total	167	1656	1823

<b>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)?</b>						
	0%	1-25%	26-50%	51-75%	76-99%	100%
1st Time Peer Reviewed	152	242	22	14	16	22
Percentage	32%	52%	5%	3%	3%	5%
Previously Peer Reviewed	288	792	80	36	38	11
Percentage	23%	63.5%	6.5%	3%	3%	1%

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## Peer Review Oversight Committee

APPENDIX B

**Summary of Peer Reviewer Training Course**

**Purpose:** As part of its oversight activities, the Peer Review Oversight Committee (PROC) observes training provided to new and experienced peer reviewers as further described in the PROC's Procedure Manual. Peer reviewer training is provided throughout the United States; however, in California, training is generally provided twice each year, one class for new peer reviewers currently 16 hours over 2 days, and one class for experienced peer reviewers currently 8 hours on one day. Both classes are conducted with live instruction. Participants are provided with the materials upon arrival at the training location. The objective of this aspect of PROC oversight is to observe how the peer reviewers are trained and determine whether or not this aspect of the peer review process is operating effectively in the state of California.

Course Date: \_\_\_\_\_

Name of Peer Reviewer Training: \_\_\_\_\_

Name of Instructor: \_\_\_\_\_

<b>EVALUATION OF THE TECHNICAL ASPECTS OF THE TRAINING CONTENT</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Does the instructor appear knowledgeable about:			
The technical aspects of their reviews, both peer review standards as well as general audit and accounting standards.			
Critical peer review issues and risk considerations (focus matters).			
Industry specific issues (i.e. requirements of ERISA, Governmental Standards/Regulations, etc.).			
The differences in matters, findings, deficiencies and significant deficiencies.			
Appropriate types of reports.			
Circumstances for requiring revisions to review documents.			
2. Is the subject matter covered relevant to conducting peer reviews?			
3. Did the course achieve the training objectives?			
4. Comments regarding the overall evaluation of the technical aspects of the peer reviewer training:			

EVALUATION OF THE TRAINING PROCESS	YES	NO	N/A
5. Does the instructor keep the class engaged and involved in discussions?			
6. Does the instructor respond to questions from participants accurately and respectfully?			
7. Is sufficient time allowed for material covered and experience level of participants?			
8. Are the instructors' presentations skills effective for this course?			
9. Are the training materials relevant to the subject matter?			
10. Are the training materials useful/organized as a reference guide to peer reviewers?			
11. Comments regarding the overall evaluation of general training process:			
<b>CONCLUSION</b>			
12. Rate the training as to its effectiveness for its role in the peer review process: <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations*			
13. Other comments, if any:			

The above summary was prepared by:

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Signature

\* A rating of "No" or "Does Not Meet Expectations" requires a comment.



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Peer Review Oversight Committee

APPENDIX C

**Peer Review Board Meeting Checklist**

**Purpose:** As part of its oversight activities, the Peer Review Oversight Committee (PROC) observes selected Peer Review Board (PRB) meetings as further described in the PROC's Procedures Manual. The PRB meetings generally occur via conference call. PRB members are provided with the materials needed to review and prepare for discussions on a general call; however, given the oversight nature of the PROC, such materials are not distributed to PROC members. Rather, the objective of this aspect of PROC oversight is to observe how the PRB executes its duties in the meeting and determine whether or not this aspect of the peer review process is operating effectively in the state of California. These matters are then summarized and reported to the California Board of Accountancy as part of the PROC reporting.

Date of Meeting: \_\_\_\_\_

Name of Peer Review Program Provider: \_\_\_\_\_

<b>EVALUATION OF THE TECHNICAL ASPECTS OF THE MEETING CONTENT AND DISCUSSION</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Do the PRB members appear knowledgeable about their responsibilities?			
2. Are PRB members knowledgeable about:			
The technical aspects of both peer review standards as well as general audit and accounting standards.			
Critical peer review issues and risk considerations (focus matters).			
Challenges facing peer reviewers.			
Challenges facing CPA firms being peer reviewed.			
Appropriateness of recommended corrective or monitoring actions.			
The need to providing CPAs an appropriate balance of education and discipline.			
3. Based upon your observations, were the PRB's discussions and actions taken reasonable in the circumstances?			
4. Comments regarding the overall evaluation of the technical aspects of the meeting content and discussion:			

EVALUATION OF THE GENERAL MEETING PROCESS	YES	NO	N/A
5. Was sufficient time allowed for discussion of each matter?			
6. Were there a required minimum number of PRB members present to take action?			
7. Was the nature of the discussion appropriate?			
8. Do members appear to have a good rapport with one another? Are members respectful of each other, i.e., are members' ideas given appropriate consideration?			
9. Comments regarding the overall evaluation of general meeting process:			
<b>CONCLUSION</b>			
10. Rate the meeting as to its effectiveness for its role in the peer review process: <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations*			
11. Other comments, if any:			

The above checklist was prepared by:

\_\_\_\_\_

Print Name

\_\_\_\_\_

Signature

\* A rating of "No" or "Does Not Meet Expectations" requires a comment.



**DEPARTMENT OF CONSUMER AFFAIRS**  
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Peer Review Oversight Committee

APPENDIX D

**Peer Review Program Provider Checklist**

**Purpose:** Pursuant to Title 16, California Code of Regulations (CCR), Section 48.2, prior to receiving California Board of Accountancy (CBA) recognition to perform peer reviews in California, a peer review program provider shall submit an *Application to Become a Board-Recognized Peer Review Program* (1/10). With the application, the firm shall submit materials evidencing the program meets the requirements outlined in Section 48. Pursuant to CCR Section 47(f), the Peer Review Oversight Committee (PROC) shall review and recommend to the CBA for approval of peer review program provider applications for recognition by the CBA.

Name of Organization \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Telephone Number \_\_\_\_\_ Fax Number \_\_\_\_\_

Contact Person: \_\_\_\_\_

**Title 16, California Code of Regulations, Section 48**

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**

<b>Y</b>	<b>N</b>
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A peer review program shall have a minimum of two types of peer reviews that include the following:

/ / / / /	/ / / / /
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(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.

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(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.

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<b>(b) Peer Review Report Issuance</b>	<b>Y</b>	<b>N</b>
(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.		
<b>(c) Peer Reviewer Qualifications</b>	<b>Y</b>	<b>N</b>
Has the Provider established minimum qualifications for an individual to qualify as a peer reviewer, to include:	/ / / / / /	/ / / / / /
(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.		
<b>(d) Planning and Performing Peer Reviews</b>	<b>Y</b>	<b>N</b>
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) 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.		
<b>(e) Plan of Administration and Accepting Peer Review Reports</b>	<b>Y</b>	<b>N</b>
(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).		
<b>(f) Composition of the Peer Review Committee (PRC)</b>	<b>Y</b>	<b>N</b>
(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.		

The following recommendation was adopted by the PROC on \_\_\_\_\_:

Approval       Denial

\_\_\_\_\_  
PROC Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
PROC Vice Chair

\_\_\_\_\_  
Date

Comments:

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