



CALIFORNIA BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT COMMITTEE
2013 Annual Report



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I. Message from the Committee Chair

I am proud to present the 2013 Annual Report of the Peer Review Oversight Committee (PROC) to the California Board of Accountancy (CBA). As we wrap up our third year, I am pleased to report that the PROC has again made significant progress in providing oversight to California's mandatory peer review program.

One of our most crucial goals was achieved this year. We were successful in working with the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) to provide an appropriate level of oversight to the National Peer Review Committee (NPRC). The NPRC administers peer reviews to the largest accounting firms in the country who also have significant impact on the public interest. So it was a huge accomplishment to learn that the leadership of NASBA agreed to allow State PROCs to participate in conference calls conducted by the CAC during which the CAC will discuss many important topics of interest to the PROC, including oversight of the NPRC. This oversight is necessary to ensure that the NPRC is administering peer reviews in accordance with the standards set by the American Institute of Certified Public Accountants (AICPA).

The PROC also implemented a procedure for providing oversight to AICPA's administering entities in other states that administer peer reviews to California-licensed accounting firms. This year the PROC reviewed the AICPA's oversight reports for Nevada, Oregon, Texas, and New York; each of these states administered at least ten peer reviews to California-licensed firms.

Of course, the PROC continues to provide a comprehensive level of oversight to the California Society of Certified Public Accountants (CalCPA), the administering entity responsible for administering peer reviews to the vast majority of accounting firms in California.

In summary, the PROC has now installed processes and procedures to oversight administering entities which accept peer reviews of California firms, regardless if the administering entity is located in-state, out-of-state, or in a nation-wide basis. This far reaching objective was established at the onset of the PROC. It is extremely fulfilling to me and the PROC members to reach this milestone.

As always, I would like to thank the CBA members for the continued direction and support of the PROC and its mission. I would like to thank the PROC members for another year of dedication and resolve; we would not have made these significant strides without their unending commitment.

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. Effective January 1, 2012, Senate Bill 543 removed the sunset language concerning mandatory peer review, making mandatory peer review permanent in California.

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.

As of July 2013, 51 licensing jurisdictions in the United States have made participation in a practice-monitoring program mandatory for licensure. Programs in four of these jurisdictions will go into effect in or after 2014.

III. PROC Responsibilities

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

The roles and responsibilities of the PROC are:

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

IV. Committee Members

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

In 2012, five of the seven PROC members were reappointed to the PROC for their second term. In order to address succession planning concerns, to create varying member term expiration dates, and to all allow new members to be appointed to the PROC, two members were rotated from the PROC. Further, the position of Vice Chair was created and Robert Lee was appointed. His term as the Vice Chair expired on December 31, 2013, and Sherry McCoy was appointed Vice Chair effective January 1, 2014. Nancy Corrigan was reappointed as the Chair for another year. Jeffrey DeLyser was appointed to the PROC on March 21, 2013.

<u>Current members:</u>	<u>Term Expiration Date:</u>
Nancy J. Corrigan, CPA, Chair, 2nd	May 24, 2015
Robert Lee, CPA, Vice Chair, 2nd	May 24, 2015
Katherine Allanson, CPA, 2nd	May 24, 2015
Jeffrey DeLyser, CPA, 1st	March 21, 2015
Sherry McCoy, CPA, 2nd	May 24, 2015
Seid Sadat, CPA, 2nd	May 24, 2015
Vacant	

V. Legislation and Regulations

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

Effective January 1, 2014, Title 16, California Code of Regulations (CCR) sections 40 and 45 were amended requiring licensees to report specific peer review information on the Peer Review Reporting Form at the time of license renewal. The revised 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 three-year phase in period for peer review reporting ended on July 1, 2013, which was the deadline for the last group of licensees to submit the Peer Review Reporting Form. As noted above, beginning in 2014, Peer Review Reporting Forms will be submitted with the licensee's license renewal application.

VI. Reporting Requirements

Pursuant to BPC section 5076(n)(1), 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 willing to assist the CBA in any way necessary in preparing the report that is due to the Legislature and Governor on January 1, 2015. CBA staff will commence drafting the report in calendar year 2014.

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(1/12)) to the CBA on the following schedule:

- Licensees with a license number ending in 01-33 by July 1, 2011;
- Licensees with a license number ending in 34-66 by July 1, 2012;
- Licensees with a license number ending in 67-00 by July 1, 2013.

The chart below displays information gathered by the CBA during the three-year phase in period. Licensees used the Peer Review Report Form to self-report whether or not they operate as a firm, and if so, whether the firm is subject to peer review.

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	2,605	4,301	15,757	22,663	51
34-66	July 1, 2012	2,144	4,006	13,122	19,272	101
67-00	July 1, 2013	1,993	3,882	14,043	19,918	1,046
Total		6,742	12,189	42,922	61,853	1,198

* Data as of December 31, 2013.

As mentioned on page 3, Section V, the three-year phase in implementation period ended on July 1, 2013, and the information depicted in the above table will no longer be available. Instead, licensees will report their peer review information at the time of license renewal.

The data in the following table reflects the number of peer review reports accepted by the CalCPA in 2011, 2012, and 2013. The CalCPA administers the largest portion of peer reviews to California-licensed firms.

Type of Review	Peer Review Reports Accepted by the CalCPA*			
	2011	2012	2013	Total
System	406	648	517	1,571
Engagement	870	1,253	1,184	3,307
Total	1,276	1,901	1,701	4,878

*Data received from CalCPA as of December 31, 2013.

The table does not include statistics for peer reviews accepted by the NPRC or out-of-state administering entities.

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 established a task force comprised of two PROC members to review the survey comments collected through September 18, 2012. The task force reviewed 339 surveys submitted by peer review firms largely in response to the following survey questions:

- Do you believe that undergoing peer review has helped to improve your overall service to your clients?
- Do you, or will you, use peer review as a marketing tool to potential clients?
- To eliminate the need for future peer review, will you cease providing the services which trigger a mandatory peer review under the law?
- Do you have any additional comments on the peer review process?

At the June 21, 2013 PROC meeting, the task force submitted their report (**Appendix A**) and made the following recommendations:

1. Provide more education on the benefits of peer review.
2. Provide more education on the concept that a CPA's primary objective is to protect the public interest.
3. Provide a simple chart showing the chronology of the peer review process.
4. CalCPA should continue to remind peer reviewers about the best approach to the peer review process when working with firms.

The recommendations of the task force were implemented by revising existing CBA publications and creating an easy to follow flow chart of the peer review process to post to the CBA website (**Appendix B**).

IX. Board-recognized Peer Review Program Providers

a. 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 entities authorized to administer the AICPA Peer Review Program. At present, there are 42 administering entities.

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. 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.

ii. NPRC

The AICPA also administers a peer review program through the NPRC 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. The NASBA CAC provides oversight of the NPRC.

iii. Other State Societies

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

X. Activities and Accomplishments

Following are the salient activities and accomplishments of the PROC during 2013.

a. Administrative Functions

i. Committee Meetings

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

The PROC held four meetings as follows:

- February 22, 2013 – Glendale
- June 21, 2013 – Sacramento
- August 23, 2013 – Ontario
- November 1, 2013 – Sacramento

The PROC Chair attended six CBA meetings to report on PROC activities, one of which was prepared by and reported on by the PROC Vice Chair.

ii. PROC Procedures Manual

The PROC updated its Procedures Manual which outlines specific procedures and processes to fulfill its duties. Updates include procedures for providing oversight of other states' peer review programs, an updated copy of the AICPA's Glossary of Terms, Acronyms, and Abbreviations, a revised organizational chart, the removal of the Summary of Sample Reviews checklist, and the addition of the Summary of Oversight of Out-of-State Administering Entities checklist.

iii. Oversight Checklists

The PROC developed 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 new checklist was created to track oversight activities:

- Summary of Oversight of Out-of-State Peer Review Administering Entity (**Appendix C**)

Checklists previously developed include:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Peer Review Board Meeting Checklist
- Peer Review Program Provider Checklist

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

iv. 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 Peer Review Program Provider Checklist is used to evaluate applications.

v. 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 2013, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

i. AICPA

A. AICPA Peer Review Board

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.

During 2013, one to two PROC members observed three of the four PRB meetings:

- January 25, 2013 – in person
- May 7, 2013 – conference call
- August 14, 2013 – conference call

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.

During 2013, two PROC members attended each of the following PRC meetings:

- May 9-10, 2013 – San Diego
- November 21-22, 2013 – Yountville

B. Report Acceptance Body (RAB)

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

During 2013, one to two PROC members observed each of the following RAB meetings via teleconference or in person:

- May 9, 2013 – in person
- August 21, 2013 – conference call
- September 24, 2013 – conference call
- November 22, 2013 – in person

C. Administrative Site Visit

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

On May 15-16, 2013, 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 oversight responsibilities:

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

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

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

D. Sample Reviews

This oversight activity was completed on May 15-16, 2013, in conjunction with the administrative site visit.

E. Peer Reviewer Training

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

The CalCPA Education Foundation offers two types of peer reviewer trainings. A two-day course for new peer reviewers and a one-day refresher course are offered each year.

During 2013, PROC members attended the one-day training course *AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers* on May 8, 2013 and July 25, 2013.

F. CalCPA Annual Report on Oversight

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

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2011. The oversight report summarizes the results of the mandated oversight of 2% of all reviews processed during the year, and verification of the resumes and continuing professional education of one third of peer reviewers. For peer reviews conducted in 2011, 13 system reviews and 12 engagement reviews were subject to the oversight process. Sixty-one of 129 peer reviewer's resumes were verified by CalCPA.

G. AICPA Oversight Visit Report of CalCPA

The AICPA conducted an oversight visit of CalCPA on November 14-16, 2012. The AICPA Oversight Visit Report was issued on November 16, 2012, and accepted by the AICPA PRB Oversight Task Force on May 6, 2013. The next oversight visit will be conducted in 2014.

The PROC reviewed the report which concluded that CalCPA has complied with the administrative procedures and standards in all material respects as established by the board.

iii. NPRC

A. Third-Party Administrative Oversight Visit

The PROC reviewed the report of the third-party Administrative Oversight Visit to the NPRC conducted by the accounting firm of Ray, Foley, Hensley & Company, PLLC, on September 25-26, 2012. The purpose of the administrative oversight visit is to ensure that the AICPA Peer Review Program is being administered in accordance with guidance as issued by the AICPA Peer Review Board. The PROC also reviewed the AICPA's written response to the oversight visit report.

B. Compliance Assurance Committee (CAC)

The NASBA CAC provides oversight of the NPRC.

The PROC has continued to work with the CAC to develop a process to provide oversight to the NPRC, including participation in CAC conference calls.

The CAC agreed to provide the PROC with a copy of its second Annual Oversight Report, and the Annual Oversight Report on the AICPA Peer Review Program for the NPRC. The PROC will review these reports once they are received from the CAC. The CAC is also exploring options for allowing PROC members to observe CAC meetings.

iv. Other State Societies

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

The PROC will review the AICPA oversight visit report and the state PROC's annual report, if available, for a selection of out-of-state administrative entities each year. All AICPA Oversight Visit Reports are reviewed and accepted by the AICPA PRB Oversight Task Force (OTF)

In 2013, the PROC reviewed the most recent AICPA Oversight Visit Reports for Nevada, Oregon, Texas, and New York, as follows:

- Nevada Society of CPAs:
 - Oversight Visit Report, September 21, 2012
 - Accepted by AICPA PRB OTF, January 24, 2013
- Oregon Society of CPAs
 - Oversight Visit Report, September 28, 2012
 - Accepted by AICPA PRB OTF, January 24, 2013
- New York State Society of CPAs:
 - Oversight Visit Report, September 12, 2012
 - Accepted by AICPA PRB OTF, May 6, 2013
- Texas Society of CPAs:
 - Oversight Visit Report, December 9, 2011
 - Accepted by AICPA PRB OTF, May 7, 2012

c. Other Activities

i. NASBA PROC Summit

The PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all Boards of Accountancy. The conference is intended to assist Boards in learning how to establish a new PROC and also share experiences among existing PROCs to help each Board be more effective with Peer Review Oversight. Sessions and content are formed based on the most requested information by Accountancy Board Members and PROC Members considering the goals and objectives of the CAC. The first NASBA PROC Summit was held in 2011. The PROC did not participate in the NASBA PROC Summit due to out-of-state travel restrictions.

The second NASBA PROC Summit was held on July 10, 2013 in Nashville, TN. The PROC Vice Chair participated via webcast. Additionally, the PROC submitted an issue paper on how failed peer reviews are treated by the CBA and submitted 13 questions for consideration and discussion by the CAC and participants of the Summit.

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 to have well-prepared materials, and good communication of meeting expectations as well as administration of peer review standards and processes. The PRB is a very high level technical group that is extremely knowledgeable and focused in dealing with peer review issues.

CalCPA

The PROC found the CalCPA PRC met expectations concerning knowledge of peer review acceptance procedures and corrective/monitoring actions.

Through participation in four RAB meetings, the PROC was impressed with how RAB members discussed the issues and came to conclusions. It was also noted that RAB members commented on technical and procedural matters for further discussion at the semi-annual PRC meetings.

NPRC

In 2013, the PROC was successful in working with the CAC to develop a process for providing an appropriate level of oversight to the NPRC. Beginning in 2014, the PROC will participate in CAC meetings in addition to reviewing annual oversight and administrative sight visit reports prepared by the AICPA and the CAC.

XII. Conclusions

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

**Report of the Task Force of the
Peer Review Oversight Committee
Summary of Voluntary Peer Review Survey Comments
Submitted from December 9, 2010 to September 18, 2012**

Following is a summary of the comments that were submitted for the period from December 9, 2010 to September 18, 2012 from the peer review voluntary surveys. These comments were maintained on a confidential basis by CBA staff and were presented in a numbered list format to the PROC sub-committee for review and summarization for the purpose of determining whether the peer review process can be improved as a result of the survey comments submitted by peer reviewed firms. There were 339 comments that were listed from the survey that were largely in response to the following survey questions:

- Do you believe that undergoing peer review has helped to improve your overall service to your clients? (Survey question 7)
- Do you, or will you, use peer review as a marketing tool to potential clients? (Survey question 9)
- To eliminate the need for future peer review, will you cease providing the services which trigger a mandatory peer review under the law? (Survey question 10)
- Do you have any additional comments on the peer review process? (Survey question 11)

The tabulation of the responses to these questions is complicated in that many of them covered multiple questions in their responses; however the PROC task force attempted to identify the salient topic of the response in including it within the tabulation. We identified nine categories of responses with their respective tabulations as follows:

(1) The profession has too many disclosure requirements and continuing education requirements along with the peer review requirement; the professional standards are overly burdensome.	6
(2) The peer review process is overly time consuming, costly, and a burden on small firms.	77
(3) The peer review process is educational, helpful and a necessity to maintain the quality of firms practicing in public accounting.	116
(4) The administration process over peer reviews, knowing who to contact, making the arrangements, due dates, having data requested by the administering entity and the peer reviewer and who to respond to with the final report, was very confusing.	35
(5) The peer review process is required too frequently for firms and should be extended over a longer period of time (five years, etc.)	8
(6) If firms perform no audits, perform only compilations without disclosure or just a few compilations with disclosure, they should be exempt from peer review.	41
(7) The process from having the peer review to being accepted is too long.	4
(8) The peer review process is not helpful, does not mean anything to clients, has no positive influence on clients, is punitive to the firms and of no benefit to the firms or their clients.	45
(9) Other.	<u>7</u>
Total responses	<u>339</u>

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Summary of Voluntary Peer Review Survey Comments
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Please note that category numbers 2 and 6 could be combined as they generally pertain to the time requirement and the cost of completing a peer review even if category 6 responders did not specifically mention the time or cost factor.

Additional Comments

- Numerous responding indicated that even with peer review they see substandard work when they obtain a new client, thus there is no benefit to the peer review process.
- Numerous responding did not see the impact that a few compilations have on the public (clients, bankers, etc.) and saw no risk to performing a few engagements and being exempt from peer review. They saw no value given the small practice that they have. Some believe that since they are retired or work part-time, they should not have to undergo peer review.
- Numerous responding saw no benefit to the process, and high cost, if they are only occasionally preparing financial statements without disclosures.
- Many small firm responders blame larger firms for getting their own clients and their own firms into trouble and then creating the peer review process for all firms.
- Many responding plan to reduce their practice to avoid the cost of the peer review process.
- Several responses indicated that to pay both a peer reviewer and the administering entity was unfair, with the total cost many times being all of their profits or a large percentage of what they bill the client. Many are unable to pass the cost to the client.
- Several responses compared CPAs to other professions (doctors and lawyers) who do not have similar requirements, indicating that the peer review process is punitive rather than educational. Some indicated that CPAs do not need to be regulated by the government.
- Several responded that the additional 24-hour continuing education required should be sufficient and that a peer review on top of this is excessive.

Recommendations of the Task Force

- (1) Provide more education on the benefits of peer review, including (a) the promotion of quality and consistency between CPA firms, (b) the educational benefits to smaller firms, and (c) the benefit of peer review as a marketing tool.
- (2) Provide more education on the concept that a CPA's primary objective is to protect the public interest. To do this CPAs need to understand that they need to promote an environment whereby the public is protected by this primary objective, and that peer review and the regulations that we practice by are designed to ensure this.
- (3) Provide a simple chart showing the chronology of the beginning of the peer review process, who administers it and how it became to be self-policing. This is important to resolve the mystery that seems to surround peer review and its development and current process.

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Summary of Voluntary Peer Review Survey Comments
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- (4) CalCPA should continue to remind peer reviewers about the best approach to the peer review process when working with the firms and that it is not to be punitive in nature. Comments from firms on the voluntary survey should be shared with the peer reviewers to facilitate this process.

**DEPARTMENT OF CONSUMER AFFAIRS**

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Are You Required to Get a Peer Review?

You need a peer review if you perform any accounting and auditing services using the following professional standards:

- Statements on Auditing Standards (SASs)
- Statements on Standards for Accounting and Review Services (SSARS)*
- Statements on Standards on Attestation Engagements (SSAEs)
- Government Auditing Standards
- Audits of non-Securities and Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB)

The peer review must be accepted within 18 months after the first engagement or three years since your last peer review.

To enroll for a peer review, contact:
California Society of Certified Public Accountants (CalCPA)
at (650) 522-3094 (www.calcpa.org), or
National Peer Review Committee (NPRC)
at (919) 402-4502, press 2 (PRSupport@aicpa.org)

CalCPA/NPRC will work with you to select a peer reviewer and schedule the peer review.

Once the peer review is completed, you are required to report the results of your peer review on the Peer Review Reporting Form (PR-1) Form to the California Board of Accountancy (CBA).

Report your peer review results by submitting the PR-1 form to the CBA with your license renewal application.

Questions? Contact the CBA's Peer Review Unit at (916) 561-1706 or visit the website at www.cba.ca.gov.

* Firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provision of SSARS are not required to undergo peer review.



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 CALIFORNIA BOARD OF ACCOUNTANCY
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Peer Review Oversight Committee

Summary of Oversight of Out-of-State Peer Review Administering Entity

Purpose: As part of its oversight activities, the Peer Review Oversight Committee (PROC) is entrusted to ensure that peer reviews are conducted in accordance with standards established by the California Board of Accountancy (CBA) and administered by the Board-recognized peer review program provider (Provider). Consistent with its legislative mandate, the PROC provides oversight of the Provider's out-of-state administering entities if those entities accept peer review reports pursuant to Business and Professional Code Section 5076 and CBA Regulations Sections 38-48.6. In conducting its oversight, the PROC may review oversight reports prepared by the Provider. These matters are then summarized and reported to the CBA as part of the PROC reporting.

Date: _____

Name of State/Administering Entity: _____

Evaluation of Provider Oversight Report	YES	NO	N/A
1. Did the Provider perform oversight of the Administering Entity (AE) of this state? If so, what is the date of the oversight?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a report available from the Provider?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Were there any findings of concern? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Were there any recommendations from the Provider? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Did the AE disagree with any of the recommendations? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Were there any specific problems or issues? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. Did the AE address issues/recommendations identified in the previous oversight report?
If yes, please explain:

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CONCLUSION

1. Does the AE administer peer reviews in accordance with the standards established by the CBA?
 Meets Expectations Does Not Meet Expectations*

Comments:

The above checklist was prepared by:

Print Name

Signature

* A rating of "Does Not Meet Expectations" requires a comment.