CALIFORNIA BOARD OF ACCOUNTANCY

PEER REVIEW OVERSIGHT COMMITTEE
2019 Annual Report

This page is intentionally left blank for duplication purposes.

Table of Contents

I. Message from the Committee Chair 1

II. The California Peer Review Program 2

III. PROC Responsibilities 2
2019 PROC Meeting Dates 3

IV. PROC Members 3

V. AICPA 3

VI. CalCPA 4

VII. NASBA Compliance Assurance Committee 4

VIII. PROC Oversight of the California Peer Review Program 4
PROC Observed Oversight Activities 5
Peer Review-Related Reports and Publications Reviewed by the PROC 8
Other PROC Oversight Activities 12

IX. Statistical Monitoring and Reporting Activity 14
Types (System vs. Engagement) and Numbers of Reviews Completed by Month, and Cumulatively for the Annual Reporting Period 15
Types (Systems vs. Engagement) and Numbers of Reviews Receiving a Pass, Pass with Deficiencies, or Fail Rating 16
Corrective Action Matters (Various Types: Overdue Peer Review Reports, Disagreements Pending Resolution, Etc.) 18
Firms Expelled (Terminated) from the Program 19

X. Observations 20
AICPA 20
CalCPA 20
NASBA Compliance Assurance Committee 20

XI. Conclusion 20

This page is intentionally left blank for duplication purposes.

I. MESSAGE FROM THE COMMITTEE CHAIR

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2019 Annual Report. I would like to thank the CBA for its continued trust in my leadership of the PROC. I would also like to extend my sincerest appreciation to Ms. Renee Graves, CPA, who served as Vice-Chair of the PROC this last year.

Over the last year, the PROC's presence as an active oversight body has continued to flourish and grow. In addition to performing its routine oversight functions, the PROC has undertaken several important initiatives to improve its oversight of the California Peer Review Program.

The PROC worked closely with the American Institute of CPAs (AICPA) to obtain statistical information related to non-conforming engagements identified in the 2017 AICPA Peer Review Program Annual Report on Oversight. Additionally, the PROC continued to work with AICPA to obtain Peer Review Population statistics and to develop a method of data collection and analysis that will provide useful information in the coming years.

PROC members reviewed and discussed the AICPA Proposed Revisions to Chapter 3 of the Peer Review Oversight Handbook and considered the National Association of State Boards of Accountancy (NASBA) proposed revisions to the Uniform Accountancy Act Model Rules, Article 7, Firm Permits to Practice, and potential impacts to the CBA's administration of its peer review program.

The PROC has endeavored to further evaluate and refine the Administrative Site Visit process used to evaluate the California Society of CPA's (CalCPA) administration of the Peer Review Program. In the coming year, the PROC will continue to work closely with AICPA and CalCPA to further streamline the Administrative Site Visit process.

I would like to thank the CBA for the opportunity to lead the PROC over this coming year and look forward to another successful year.

Sincerely,

Jeffrey De Lyser, CPA

II. THE CALIFORNIA PEER REVIEW PROGRAM

All California-licensed accounting firms, including sole proprietorships, providing accounting and auditing services are required to undergo a peer review once every three years as a condition of license renewal.

The goal of peer review is to promote quality in the accounting and auditing services provided by accounting firms, and to ensure that licensees are adhering to professional standards. Consumer protection is increased in two crucial areas through peer review:

- First, the peer review requirement helps to monitor and educate accounting firms to promote quality in the accounting and auditing services they provide. This goal serves the public interest and protects the consumer through an increase in the quality of the product provided to clients.

- Second, the CBA requires accounting firms receiving substandard peer review rating to notify the CBA. The CBA reviews the information to assess whether to pursue enforcement actions against accounting firms. This consumer protection mechanism provides assurance that only qualified licensees are practicing public accounting and providing services to consumers in California. Consumer confidence increases from knowing accounting firms must answer to verifiable standards.

III. PROC RESPONSIBILITIES

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 PROC derives its authority from Business and Professions Code section 5076.1.

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

- Hold meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review
- Ensure that CBA-Recognized Peer Review Program Providers administer peer reviews in accordance with the standards set forth in CBA Regulations 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 CBA-recognized Peer Review Program Provider on an annual basis
- Prepare an Annual Report to the CBA regarding the results of its oversight
- Evaluate the peer reviewer population

2019 PROC MEETING DATES

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 met four times in 2019 at the CBA Office in Sacramento on the following days:

- February 15, 2019
- May 3, 2019
- August 16, 2019
- December 13, 2019

IV. PROC MEMBERS

Current Members	Term Expiration Date	Maximum Term Date
Jeffrey De Lyser, CPA, Chair	March 31, 2021	March 31, 2021
Renee Graves, CPA, Vice-Chair	November 30, 2021	November 30, 2023
Kevin Harper, CPA	March 31, 2021	March 31, 2023
Sharon Selleck, CPA	March 31, 2021	March 31, 2025
Fiona (Liang) Tam, CPA	November 30, 2021	November 30, 2025
Alan S. Lee, CPA	March 31, 2020	March 31, 2026
Iryna Oreshkova	January 31, 2021	January 31, 2027

In 2019, the PROC welcomed Ms. Oreshkova as a new member to the PROC. At the November 2019 CBA meeting, Mr. De Lyser, was re-appointed as Chair and Ms. Graves was reappointed as Vice-Chair. The PROC is actively recruiting for new members as membership terms expire.

The CBA appointed Mary M. Geong, CPA, and Katrina Salazar, CPA, as CBA member liaisons to the PROC.

V. AICPA

The AICPA Peer Review Program is currently the sole CBA-recognized Peer Review Program Provider. The AICPA oversees its program and the peer reviews are administered by an entity, typically a state CPA society, approved by the AICPA to perform that role. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in CBA Regulations section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA administers and monitors its peer review program through specifically assigned AICPA institutions, programs, and systems. Those monitoring tools are as follows:

- AICPA Peer Review Board
- AICPA Oversight Task Force
- AICPA Peer Review Program Administering Entities
- AICPA Peer Review Integrated Management Application (PRIMA)

VI. CALCPA

CalCPA is one of 55 state societies and is one of 32 administrative entities approved in 2019 by AICPA. CalCPA administers the AICPA Peer Review Program in California, Arizona, and Alaska. As an administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's *Standards for Performing and Reporting on Peer Reviews*.

CalCPA upholds the integrity of its peer review administration of the AICPA peer review program through use of the AICPA PRIMA system, complying with AICPA regulations, reviewing and ensuring qualifications of peer reviewers, conducting peer reviewer training, maintaining on-staff CPAs and technical reviewers, and facilitating several Report Acceptance Body meetings each year. The Peer Review Committee addresses various administrative issues at its bi-annual meetings

CalCPA technical reviewers review the technical quality of the peer review reports and findings on reviewed CPA firms and review the performance of peer reviewers. During the CalCPA Report Acceptance Body meetings, members discuss the peer reviews, conclude on the findings, discuss peer reviewer performance feedback, and determine whether each peer review completed is acceptable.

VII. NASBA COMPLIANCE ASSURANCE COMMITTEE

The NASBA Compliance Assurance Committee is charged to provide transparency in the operation of the AICPA National Peer Review Committee and to promote effective oversight of compliance with professional standards by CPAs and their firms. The focus of the NASBA Compliance Assurance Committee is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to boards of accountancy.

By agreement, two spots on the National Peer Review Committee are filled by NASBA representatives. The National Peer Review Committee members representing NASBA participate in Report Acceptance Body meetings and report periodically to the NASBA Compliance Assurance Committee on whether the AICPA National Peer Review Committee has operated appropriately.

The National Peer Review Committee administers the AICPA peer review program for firms that meet the following three criteria:

- The firm is required to be registered with and subject to permanent inspection by the Public Company Accounting Oversight Board.
- The firm performs engagements under Public Company Accounting Oversight Board standards.
- The firm provides quality control materials, or is affiliated with a provider of quality control materials, that are used by firms that it peer reviews.

VIII. PROC OVERSIGHT OF THE CALIFORNIA PEER REVIEW PROGRAM

The PROC is charged with providing oversight of all CBA-recognized peer review program providers and peer review-related activities.

To ensure a comprehensive oversight of the California Peer Review Program, the PROC strategically incorporates various oversight activities that includes active participation, review of relevant peer review-related publications, highlight and inquire about findings that may have potential impacts to the California Peer Review Program, and performs continual internal updates and reviews of oversight procedures to address the evolving peer review program.

PROC OBSERVED OVERSIGHT ACTIVITIES

The PROC actively oversights and evaluates the administration of the California Peer Review Program via in-person or conference call observations of peer review-related meetings and activities. In 2019, the PROC observed the following peer review-related meetings and activities:

- AICPA Peer Review Board Meetings
- Peer Reviewer Trainings
- CalCPA Report Acceptance Body Meetings
- CalCPA Peer Review Committee Meetings
- CalCPA Administrative Site Visits

AICPA Peer Review Board Meetings

PROC members observed four AICPA Peer Review Board meetings via conference calls or review of meeting materials that took place in January, May, August, and October.

The topics covered during the meetings included: AICPA's Benchmark Model for administering entities and plans to go live in 2020; revisions to Chapter 3 of the Peer Review Oversight Handbook regarding policies and procedures for administering entities, PROC member appointments and confidentiality requirements; implementation plan for accounting firms with failed peer review reports with significant deficiencies; peer reviewer population, recruitment plans, and discontinued peer reviewers; enhanced oversight procedures to address nonconforming peer reviews; dropped accounting firms; findings for further consideration; and the Report Acceptance Body oversight handbook.

The PROC reported that all AICPA Peer Review Board meetings met CBA expectations.

Peer Reviewer Trainings

CalCPA offered both an Advanced Peer Reviewer Update and New Peer Reviewer trainings on July 10-11, 2019. Both courses are created by the AICPA and facilitated by CalCPA. The courses focused on future changes to the peer review program.

The PROC reported that the trainings met CBA expectations.

CalCPA Report Acceptance Body Meetings

PROC members observed seven Report Acceptance Body meetings either in-person or via conference calls.

The PROC consistently reported that the Report Acceptance Body members have high-level technical expertise and were engaged. PROC members were impressed at the number of reviews covered during each meeting and the knowledge that the Report Acceptance Body members have regarding the individual files, standards, and technicality of peer review overall.

The PROC concluded that each Report Acceptance Body meeting met CBA expectations.

CalCPA Peer Review Committee Meetings

PROC members attended in-person the May and November CalCPA Peer Review Committee meetings.

The PROC reported that the meetings included several Report Acceptance Body meetings and covered various topics including: AICPA's Benchmark Model for administering entities and its delayed 2019 start and reporting dates and Standards Task Force, limited PRIMA statistics, familiarity threats, findings for further consideration matters, reviewer's risk assessments, decrease in the number of peer reviews completed as a result of challenges with PRIMA, and peer reviewer qualifications and population.

The PROC reported that the meetings met CBA expectations.

CalCPA Administrative Site Visits

The Administrative Site Visit to CalCPA is the most comprehensive oversight activity performed by the PROC. The Administrative Site Visit is an in-person activity that allows the PROC to perform an in-depth oversight of the California Peer Review Program. The Administrative Site Visit oversight procedures are outlined in four PROC-developed checklists and is implemented in five phases annually to ensure key deadlines are met. The checklists are as follows:

- PROC Administrative Site Visit Work Plan Checklist
- PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist
- PROC Administrative Site Visit Summary Report
- PROC Administrative Site Visit Summary Oversight Checklist

The PROC Administrative Site Visit implementation phases are listed below along with activities that took place in 2019.

Phase 1: Assignment of the two-person Administrative Site Visit team (**May**).

On May 3, 2019, the PROC assigned Ms. Graves and Ms. Selleck as subcommittee members to perform the 2019 PROC Administrative Site Visit of CalCPA.

Phase 2: Referencing the PROC Administrative Site Visit Work Plan Checklist, assigned PROC members send an initial contact letter or communicate with administering entities to arrange oversight activities and site visit, and request documents and information necessary to effectively complete the risk assessment (**May/June**).

In late July 2019, Ms. Graves and Ms. Selleck communicated with CalCPA and documented the CalCPA peer review administration process and integration with PRIMA.

Phase 3: Place on the PROC agenda an item soliciting input from PROC on risks and associated testing (**August**).

At its August 16, 2019 meeting, the PROC reviewed CalCPA's administration of the California Peer Review Program, the integration of PRIMA, risk mitigating procedures, Report Acceptance Body members and meetings, peer reviewer qualifications, and additional areas the PROC should continue to focus its oversight on.

Phase 4: Referencing the PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist, assigned PROC members will conduct the administrative site visit, perform executable risk assessment procedures to determine whether the risk mitigating procedures set in-place by the administrative entity operates and functions as intended (**September/October**).

On October 24, 2019, PROC members implemented Phase 4 of the Administrative Site Visit to CalCPA.

The PROC performed the following oversight procedures during its October 24, 2019 Administrative Site Visit to CalCPA:

- Reviewed existing and new peer reviewers and their qualifications to determine if AICPA's minimum standards were met
- Completed Phase 4 by reviewing and examining key risk variables and mitigating procedures
- Interviewed key CalCPA staff, a Peer Review Committee member, and technical reviewer
- Reviewed policies and procedures used by CalCPA to govern its peer review program process
- Read correspondence and other available documentation from other oversight activities performed at CalCPA
- Reviewed a sample of peer review reports and associated files
- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and reviewed a sample for inspection of supporting documentation
- Considered risk mitigating procedures
- Completed PROC Administrative Oversight Checklist

Phase 5: Assigned PROC members will complete the PROC Administrative Site Visit Summary Report and present findings to the PROC, and as a committee complete the Administrative Site Visit Summary Oversight Checklist (**December**).

On December 13, 2019, PROC members reported on and discussed observations from the October 24, 2019 PROC Administrative Site Visit to CalCPA, the PROC Administrative Site Visit Summary Report, and the Administrative Site Visit Summary Oversight Checklist.

The PROC concluded that the administration of the California Peer Review Program by CalCPA met CBA expectations.

NASBA Compliance Assurance Committee Meetings

The NASBA Compliance Assurance Committee met several times in 2019 including committee meetings in September and December. Additionally, select members of the NASBA Compliance Assurance Committee attended a NASBA Uniform Accountancy Act/Compliance Assurance Committee joint meeting regarding proposed changes to the Model Rules for peer review that occurred in August 2019. A joint meeting between the AICPA Oversight Task Force and the NASBA Compliance Assurance Committee occurred in September 2019. A NASBA Compliance Assurance Committee meeting open to the PROC is expected in 2020.

PEER REVIEW-RELATED REPORTS AND PUBLICATIONS REVIEWED BY THE PROC

The PROC annually reviews peer review-related reports and publications by the AICPA, CalCPA, and NASBA Compliance Assurance Committee in order to remain current with the AICPA Peer Review Program, policies, procedures, and changes that affect consumers.

The PROC reviewed the following peer review-related reports and publications in 2019:

- Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated September 28, 2018 and November 14, 2018
- AICPA Peer Review Program, National Peer Review Committee 2017 Annual Report on Oversight, Issued November 14, 2018
- Response Letter from the AICPA Regarding Nonconforming Engagements Identified in the 2017 AICPA Peer Review Program Annual Report on Oversight, Issued October 4, 2018
- AICPA Peer Review Administering Entity Oversight Visit Results for the Pennsylvania, Illinois, Georgia, Massachusetts, Maryland, Ohio, North Carolina, and Missouri Society of CPAs

Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated September 28, 2018 and November 14, 2018

At its May 3, 2019 meeting, the PROC discussed the Results and Response Letters Regarding the Administrative Oversight of the AICPA's National Peer Review Committee. The AICPA Oversight Task Force provides administrative oversight of the AICPA National Peer Review Committee. The AICPA Oversight Task Force report provides the PROC with valuable insight pertaining to the AICPA National Peer Review Committee administrative peer review process and provides reasonable assurance that consumer protection is a high priority.

During September 6-28, 2018, the AICPA Oversight Task Force conducted both on and off-site administrative oversight activities of the AICPA National Peer Review Committee peer review

process including: review of its administrative procedures, website information, working paper retention, technical review procedures, and oversight program.

On September 28, 2018, the AICPA Oversight Task Force issued a result letter and concluded that the National Peer Review Committee administrative peer review process was performed in a manner consistent with peer review standards. The letter noted a need for review of procedures on issuing committee decision letters to firms to provide reasonable assurance that the letters are in compliance with current wording requirements.

On November 14, 2018, James Brackens, Jr., CPA, AICPA Vice President – Ethics and Practice Quality, issued a response letter to the AICPA Oversight Task Force internal review of the AICPA National Peer Review Committee administrative procedures conducted between September 6-28, 2018.

Mr. Brackens noted that AICPA National Peer Review Committee staff were not aware of changes to the acceptance letter for firms receiving a non-passing report accepted without corrective actions since the introduction to the AICPA PRIMA. He noted that steps were taken to train staff on how to properly modify this letter when accepting these reviews in the future.

The PROC and staff concluded that the AICPA National Peer Review Committee peer review administrative procedures were performed in a manner consistent with peer review standards.

AICPA Peer Review Program, National Peer Review Committee 2017 Annual Report on Oversight, Issued November 14, 2018

At its May 3, 2019 meeting, the PROC reviewed the 2017 AICPA Peer Review Program Annual Report on Oversight, issued on November 14, 2018.

The oversight report provides statistics and information about the National Peer Review Committee's oversight process performed in 2017. As a result of the transition to the AICPA PRIMA system and technical difficulties, the 2017 AICPA National Peer Review Committee Report does not include any statistics on peer review results.

The AICPA Oversight Task Force conducted an internal review of the AICPA National Peer Review Committee administrative functions in September 2017 and an external review was conducted by the AICPA Peer Review Board in September 2018 which covers the overall AICPA National Peer Review Committee peer review process, including:

- Scheduling
- Technical Review
- Report Acceptance
- Firm Peer Review Oversight Process and Procedures including:
    - On-site oversight
    - Off-site oversight
    - Engagement oversight
    - Oversight of the peer reviews and reviewers
    - Enhanced oversight
    - Use of panels
- Administrative oversight
- Annual verification of reviewers' resumes

- Peer reviewer performance
- Peer reviews of quality control materials
- Oversight of acceptance process

The external review of the AICPA National Peer Review Committee administrative functions conducted by the AICPA Oversight Task Force recommended that procedures for issuing committee decision letters to firms should be reviewed to provide reasonable assurance that the letters are in compliance with current wording requirements.

The AICPA National Peer Review Committee responded to this finding by training staff on how to properly modify committee decision letters.

The internal review of the administrative functions of the AICPA National Peer Review Committee conducted by the AICPA Oversight Task Force noted instances when peer review documents were retained longer than allowed by the peer review standards.

The AICPA National Peer Review Committee responded to the findings by modifying its procedures to initiate deletion of all documents within 30 days of posting and noted that documents retained within the AICPA are not within its jurisdiction.

Based on the results of the oversight procedures, the AICPA Oversight Task Force concluded that for 2017, the oversight initiatives performed and objectives of the Peer Review Board Oversight Program, taken as a whole, were met.

Response Letter from the AICPA Regarding Nonconforming Engagements Identified in the 2017 AICPA Peer Review Program Annual Report on Oversight, Issued October 4, 2018

At its August 16, 2019 meeting, the PROC reviewed and discussed the response letter from AICPA regarding the number of nonconforming engagements identified in the 2017 AICPA Oversight Report. The response letter was dated July 18, 2019.

The AICPA response provided the following:

- The number of nonconforming engagements detected by peer reviewers has increased between 2014 and 2018, from 22 percent to 68 percent
- AICPA anticipates the overall audit quality to improve
- AICPA Subject Matter Experts are performing peer reviews using the same criteria as peer reviewers
- AICPA struggles to develop a consistent and comprehensive definition of nonconforming engagements and have revised several engagement checklists
- Of the total 43 nonconforming “Engagement Samples” specified in the 2017 AICPA Annual Report:
    - seven of the engagements were reviewed by California peer reviewers
    - six of the nonconforming engagements were from California firms
    - five of the 16 engagements not identified by peer reviewers were performed by California peer reviewers
- AICPA Subject Matter Experts focus solely on finding individual elements of nonconformity

The PROC acknowledged the AICPA's challenges with defining nonconforming peer review engagements. The PROC concluded that the AICPA will better define nonconforming peer review engagements once it shifts from a statistic-based to a rule-based model.

AICPA Peer Review Administering Entity Oversight Visit Results for the Pennsylvania, Illinois, Georgia, Massachusetts, Maryland, and Ohio Society of CPAs

The PROC is required to annually monitor selected out-of-state administering entities that operate under the CBA-Recognized Peer Review Program Provider, the AICPA, to ensure that they are held to the same regulatory standards in California.

During the August 17, 2019 PROC meeting, the PROC reviewed and enhanced its PROC oversight procedures of out-of-state administering entities. The enhanced procedures include a review of the current list of AICPA approved administering entities and top 20 jurisdictions (states) with high-volume of Out-of-State Firm Registrants under the current California mobility program:

- At each PROC meeting, select two out-of-state administering entities from the list of administering entities identified to have high-volumes of Out-of-State Firm Registrants
- Review available prior AICPA administering entities' oversight reports
- Complete the PROC Out-of-State Administering Entities Checklist
- Present and discuss as a committee the following items:
  - Findings
  - Recommendations
  - Develop items to include in a written inquiry to the AICPA regarding the findings and request for explanations, corrective actions, and timeframe for completion, if applicable
- Follow-up and review future published AICPA administering entities' oversight report(s) to ensure all findings have been addressed and corrected

The AICPA Oversight Report for Illinois recommended that Illinois verify information on its website for accuracy and to include direct links to peer review information on the AICPA website. The Illinois Society responded to the AICPA with corrective actions.

The AICPA Oversight Report for Maryland found that on an engagement review, the peer reviewer, technical reviewer and Report Acceptance Body treated a departure from a newer standard as a Finding for Further Consideration whereas current guidance would call it a non-conforming engagement and would result in a report deficiency. It is recommended that the technical reviewer and Report Acceptance Body should refresh themselves as to which matters would ordinarily result in a non-conforming engagement. The PROC will proceed with communication with AICPA to seek information and status of corrective actions.

The AICPA oversight report for Georgia listed several findings. The PROC will proceed with communication with AICPA to seek information and status of corrective actions.

The AICPA oversight reports for Massachusetts, Pennsylvania and Ohio resulted in no findings.

OTHER PROC OVERSIGHT ACTIVITIES

The PROC oversight activities are not limited to meeting observations and publications reviews. The CBA PROC performs further comprehensive oversight of the California Peer Review Program and, for 2019, included the following matters:

- AICPA PRIMA
- Peer Reviewer Population
- NASBA Revisions to the Uniform Accountancy Act Model Rules, Published January 2019
- AICPA Proposed Revisions to Chapter 3 of the Peer Review Oversight Handbook

AICPA PRIMA

AICPA launched PRIMA in 2017 to improve audit quality and streamline the administration of its National Peer Review Program. PRIMA is accessed by administering entities, accounting firms, peer reviewers, and state boards of accountancy. It allows users to perform self-service activities including initiating and tracking their peer review schedule, uploading and signing documents, and responding to discrepancies or matters in real-time. AICPA PRIMA allows all end users to observe and interact during the peer review process, which includes:

- Enrollment in the AICPA Peer Review Program
- Select a Peer Reviewer
- Schedule a Peer Review
- Complete the Peer Review Process
- Peer Review Committee Acceptance Review Process
- Corrective Action and Implementation Plan Process
- Decision to Confirm Review Acceptance

The CBA Enforcement Division has observed and experienced delays and missing information within the AICPA PRIMA system. Additionally, due to data discrepancies with the AICPA PRIMA system, the PROC has observed multiple year delays with peer review-related statistics.

The PROC can confirm that the data discrepancies and delays caused by PRIMA has directly delayed the publication of the following annual reports and publications oversighted by the PROC:

- 2017 AICPA Peer Review Program Annual Report on Oversight, issued on October 4, 2018
- 2017 AICPA Peer Review Program, National Peer Review Committee Annual Report on Oversight, issued on November 14, 2018
- 2015 CalCPA Peer Review Program Annual Report on Oversight, issued on October 6, 2016. The 2015 report is the last report that has been issued
- 2014-2015 NASBA Compliance Assurance Committee Oversight Report on the AICPA Peer Review Committee, issued February 29, 2016. The 2014-2015 report is the last report that has been issued

The PROC has been in communication with AICPA staff regarding the data discrepancies and have been informed that the AICPA is actively making improvements to PRIMA. The

PROC will continue to monitor the progress of PRIMA and pro-actively communicate with the AICPA regarding PRIMA-related issues.

Peer Reviewer Population

As part of the PROC responsibility to evaluate the peer reviewer population in California, the CBA and PROC sent a series of letters addressed to both the AICPA and CalCPA between May 2017 and April 2019 to request specific statistics and/or further clarification regarding the California peer reviewer population.

In May of 2019, the CBA received a written response from James Brackens, CPA, Vice President of Ethics and Practice Quality, at the AICPA, noting its limitations regarding identifying California licensed firms and opted to provide firm license information based on firm/reviewer mailing location.

During the August 16, 2019 meeting, the PROC reviewed the information and statistics provided by the AICPA, and determined it to be sufficient to initiate the California peer reviewer population monitoring and reporting framework. The findings were presented to the CBA during its September 2019 meeting. Presently, the California peer reviewer population statistics provided by AICPA is mostly informational and will become more applicable in the years to come. Evaluation of the California peer reviewer population requires analysis of data and statistical trends for both short and long-term, as the peer review operates on a three-year cycle.

Staff will continue to collect and analyze the California peer reviewer population statistics from AICPA with guidance from the PROC and incorporate peer reviewer population statistics in the 2020 PROC Annual Report for the CBA's consideration.

NASBA Revisions to the Uniform Accountancy Act Model Rules, Published January 2019

At its February 15, 2019 meeting, the PROC reviewed the NASBA Revisions to the Uniform Accountancy Act Model Rules, published January 2019. The NASBA proposed revisions to the Uniform Accountancy Act Model Rules specifically affects the following model rules under Article 7 – Firm Permits to Practice:

- 7- 2 | Notification of Firm Changes
- 7- 3 | Peer Review Definitions
- 7- 4 | Enrollment in Board-approved Peer Review Program
- 7- 5 | Submission of Peer Review Documents
- 7- 6 | Approved Peer Review Sponsoring Organizations, Programs and Peer Review Standards
- 7- 7 I Peer Review Oversight Committee
- 7- 9 | Attest Documentation and Retention
- 7- 10 | Unregistered Firm Compliance with Applicable Peer Review Documentation Requirements

The PROC discussed and considered the NASBA proposed revisions to the Uniform Accountancy Act Model Rules and potential impacts to the CBA's administration of its peer review program. The PROC and staff determined that the NASBA proposed revisions to the

Uniform Accountancy Act Model Rules did not conflict with the CBA's administration of its peer review program.

AICPA Proposed Revisions to Chapter 3 of the Peer Review Oversight Handbook

At its May 3, 2019 meeting, the PROC reviewed and discussed the AICPA Proposed Revisions to Chapter 3 of the Peer Review Oversight Handbook. The PROC concluded that the revisions were non substantive and focused on peer review information and confidentiality. The PROC further noted that the proposed revisions do not reflect the present peer review regulatory environment and do not prioritize consumer protections, which are concerns similarly expressed in comments from other boards of accountancy and NASBA. The PROC noted that boards of accountancy are qualified to select staff liaison(s) to appropriately and ethically delegate committee activities.

IX. STATISTICAL MONITORING AND REPORTING ACTIVITY

The PROC will annually provide and report on specific enhanced peer review-related statistics. Historically, the statistical information received from the AICPA has been informational only. The PROC has worked closely with the AICPA in recent years to identify and collect more comprehensive statistical information. The PROC will continue working with the AICPA and identify areas to monitor for trends and changes and provide analysis on the following data points in future annual reports:

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

Staff reviewed the data points and identified the following areas where no statistical information is currently available and will be set aside for future monitoring upon when data becomes available:

- Types and numbers of reviews in process
- Extensions requested and status
- Delinquent reviews
- Must-select engagements

The PROC asked that staff provide statistical updates biannually, once prior to the PROC Administrative Site Visit to CalCPA and a final report to consider for inclusion in the PROC Annual Report.

The following 2018 peer review-related statistical information was provided directly from the AICPA on July 24, 2019 for presentation at the August 16, 2019 meeting:

TYPES (SYSTEM VS. ENGAGEMENT) AND NUMBERS OF REVIEWS COMPLETED BY MONTH, AND CUMULATIVELY FOR THE ANNUAL REPORTING PERIOD

i. Numbers of reviews completed by month

Source: **2015-2016 Data** – AICPA Facilitated State Board Access[1] Website. To obtain a month-to-month report of reviews accepted, including accounting firms that chose to opt out of the Facilitated State Board Access, the AICPA Facilitated State Board Access report on the numbers of reviews accepted is most appropriate

2017-2018 Data – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access

Comments: **Table 1 – The Reviews Accepted Report**
Provides the number of both system and engagement reviews accepted on a monthly basis starting from January 1, 2015 to December 31, 2018

Table 1:

California | The Reviews Accepted Report				
MONTHS	**2015[2]**	**2016[2]**	**2017**	**2018**
January	148	161	64	52
February	196	159	243	173
March	120	135	162	138
April	149	120	95	132
May	133	111	49	112
June	147	139	14	82
July	117	84	23	138
August	107	94	63	114
September	131	134	78	154
October	153	87	108	97
November	95	87	137	117
December	104	111	86	111
TOTAL	**1,600**	**1,422**	**1,122**	**1,420**

- Average number of reviews completed in California annually: 1,391

ii. Types (system vs. engagement) and numbers of reviews completed cumulatively for the annual reporting period

[1] American Institute of Certified Public Accountants Facilitated State Board Access website is a uniform system developed to ensure transparency and satisfy state boards of accountancy's peer review information submission and result requirements. Piloted in 2007, some state societies early adopted in 2008 and all societies participating by calendar year-end 2009.
[2] The total number of reviews accepted in 2015 and 2016 slightly varies from the total reflected in Tables 2-3, as the numbers provided by CalCPA were ran on different dates.

Source: **2015-2016 Data** – CalCPA Peer Review Program Annual Report on Oversight and does not include peer reviews accepted by the National Peer Review Committee or out-of-state administering entities
2017-2018 Data – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access

Comments: **Table 2** – Uses numbers reported in the CalCPA Peer Review Program Annual Report on Oversight issued in 2016 and 2017. Each report reflects numbers from the prior year, under section IV. Results of Peer Reviews Performed. The numbers reported by CalCPA includes statistics generated annually

Table 2:

California | Peer Reviews Performed During the Calendar years 2015-2018 by Types Cumulatively for Annual Reporting Period				
Type of Review	**2015**	**2016**	**2017**	**2018**
System	532	464	349	554
Engagement	1,022	938	773	866
Total	**1,554**	**1,402**	**1,122**	**1,420**

TYPES (SYSTEM VS. ENGAGEMENT) AND NUMBERS OF REVIEWS RECEIVING A PASS, PASS WITH DEFICIENCIES, OR FAIL RATING

Source: **2015-2016 Data** – CalCPA Peer Review Program Annual Report on Oversight and does not include peer reviews accepted by the National Peer Review Committee or out-of-state administering entities

2017-2018 Data – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access

Comments: **Table 3** – Uses numbers reported in the CalCPA Peer Review Program Annual Report on Oversight issued in 2016 and 2017, each report reflects numbers from the prior year, under section IV, Results of Peer Reviews Performed by Types of Peer Review and Reporting and Rating Issued

Table 4 – Using numbers from **Table 3**, it indicates relative changes in percentage for the total reporting grades, including both system and engagement reviews performed during the calendar years 2015 through 2018

Graph 1 – Percentage trend of System Reviews with pass, pass with deficiency, and failed ratings

Graph 2 – Percentage trend of Engagement Reviews with pass, pass with deficiency, and failed ratings

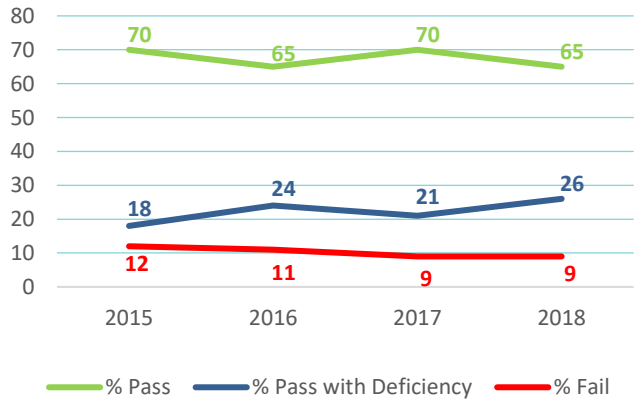
Table 3:

California | Reviews Performed by Types of Peer Review and Reporting and Rating								
Report Ratings	**2015**		**2016**		**2017**		**2018**	
	QTY	**%**	**QTY**	**%**	**QTY**	**%**	**QTY**	**%**
SYSTEM REVIEWS								
Pass	375	70%	303	65%	243	70%	358	65%
Pass with Deficiency	97	18%	110	24%	75	21%	144	26%
Failed	60	12%	51	11%	31	9%	52	9%
Total System	532		464		349		554	
ENGAGEMENT REVIEWS								
Pass	885	86%	720	77%	586	76%	639	74%
Pass with Deficiency	80	8%	110	12%	92	12%	87	10%
Failed	57	6%	108	11%	95	12%	140	16%
Total Engagement	1,022		938		773		866	
Summary Total	**1,554**		**1,402**		**1,122**		**1,420**	

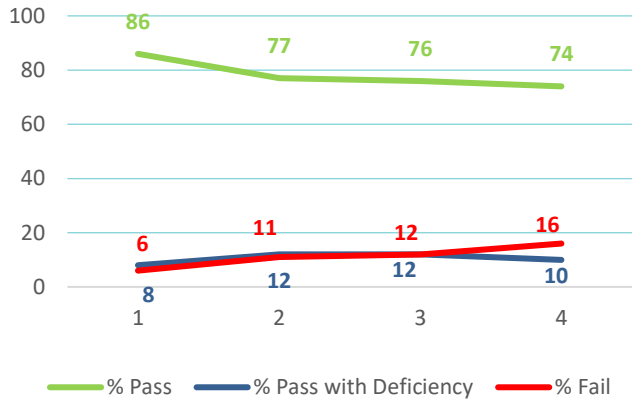
Table 4:

California | Reviews Performed by Types of Peer Review and Reporting and Rating								
Systems and Engagements	**2015**		**2016**		**2017**		**2018**	
	QTY	**%**	**QTY**	**%**	**QTY**	**%**	**QTY**	**%**
Pass	1,260	81%	1,023	73%	829	74%	997	70%
Pass with Deficiency	177	11%	220	16%	167	15%	231	16%
Failed	117	8%	159	11%	126	11%	192	14%
Summary Total	**1,554**		**1,402**		**1,122**		**1,420**	

Graph 1.a - System Reviews



Graph 1.b - Engagement Reviews



CORRECTIVE ACTION MATTERS (VARIOUS TYPES: OVERDUE PEER REVIEW REPORTS, DISAGREEMENTS PENDING RESOLUTION, ETC.)

Source: **2015-2016 Data** – CalCPA Report and does not include peer reviews accepted by the National Peer Review Committee or out-of-state administering entities

2017-2018 Data – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access

Comments: **Table 5** – Uses numbers reported in the CalCPA Reports issued in 2016 and 2017, each report reflects numbers from the prior year, under section VII. Summary of Required Follow-up Actions, with prior year numbers, identifies the types of follow-up actions that have been required.

The Peer Review Committee is authorized by the AICPA Peer Review Program Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the Peer Review Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies.

The Peer Review Committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions.

Table 5:

California | Summary of Required Follow-up Actions Under AICPA and CalCPA Peer Review Program				
Type of Follow-up Action	**2015**	**2016**	**2017**	**2018**
Submit proof of Continuing Professional Education taken	160	235	209	283
Submit copy of monitoring report	25	4	6	23
Submit to Team Captain revisit-general	29	24	12	22
Submit to Team Captain review of subsequent engagements with work papers	73	91	66	146
No longer perform any audit engagements	40	31	30	26
TC/Outside Party Review Correction of Non-Conforming Engagements	N/A	N/A	N/A	9
TC/Outside Party to Review Quality Control Document	N/A	N/A	N/A	3
Agree to Hire TC/Outside Party to Perform Inspection	N/A	N/A	N/A	4
Agree to Pre-issuance Review by TC/Outside Party	N/A	N/A	N/A	11
Request to Have Accelerated Review	N/A	N/A	N/A	1
Submit Copy of Inspection Report to Committee	N/A	N/A	N/A	9
Other	N/A	N/A	N/A	6
Totals	**327**	**385**	**323**	**543**

FIRMS EXPELLED (TERMINATED) FROM THE PROGRAM

Source: **2015-2018 Data** – AICPA Peer Review Board firm drops and firm terminations website: https://aicpa.org/forthepublic/prfirmterm.html

Comments: **Table 6** – Accounting firms that have commenced their peer review process may be terminated by the AICPA for several of the following reasons:

- Failure to cooperate
- Consecutive failed reports
- Failure to submit a signed acknowledgement letter
- Failure to complete a corrective action
- Non-cooperation related to omission or misrepresentation of information
- Failure to correct deficiencies or significant deficiencies after consecutive correction actions
- Failure to complete its peer review after it has commenced
- Failure to complete an implementation plan

Number of firms terminated between January 1, 2015 to December 31, 2018:

Table 6:

California | Terminated Firms					
ACTION	**2015**	**2016**	**2017**	**2018**	**TOTAL**
TERMINATED	0	4	3	9	16

Firms terminated for specific reasons can appeal for reenrollment in the California Peer Review Program and be evaluated by either the administering entity or a hearing panel of the Peer Review Board.
The CBA Enforcement Division proactively initiates investigations of California-licensed accounting firms identified to have been terminated from its peer review program. Results from each investigation varies on a case-by-case basis.

X. OBSERVATIONS

Based on PROC members' 2019 oversight actions and 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 Peer Review Board to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and that the AICPA Peer Review Board members execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

CALCPA

Through participation in Peer Review Committee and Report Acceptance Body meetings, and the Administrative Site Visits, the PROC found the CalCPA to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues. The PROC found the agenda items for the meetings to be relevant and appropriate, and the CalCPA to execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

NASBA COMPLIANCE ASSURANCE COMMITTEE

The NASBA Compliance Assurance Committee met several times in 2019 including committee meetings in September and December. Additionally, select members of the NASBA Compliance Assurance Committee attended a NASBA Uniform Accountancy Act/Compliance Assurance Committee joint meeting regarding proposed changes to the Model Rules for peer review that occurred in August 2019. A joint meeting between the AICPA Oversight Task Force and the NASBA Compliance Assurance Committee occurred in September 2019. Based on reviews of reports published by the AICPA National Peer Review Committee and external and internal administrative oversight reports, as well as information provided to CBA staff by NASBA, the PROC found that NASBA has promoted transparency in the operation of the AICPA National Peer Review Committee to promote oversight of compliance with professional standards by CPAs and their firms.

XI. CONCLUSION

Based on its oversight activities, the PROC concluded that NASBA, the AICPA Peer Review Program, and its administering entity, CalCPA, functioned effectively in accordance with the peer review program standards adopted by the CBA.

CALIFORNIA BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT COMMITTEE 2019 Annual Report