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PROC Agenda Item II.a.  
March 4, 2011

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

**MINUTES OF THE  
January 20, 2011  
PROC MEETING**

Hilton San Jose  
300 Almaden Boulevard  
San Jose, CA 95110  
Telephone: (408) 287-2100

PROC Members:

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

Staff and Legal Counsel:

Rafael Ixta, Chief, Enforcement Division  
Paul Fisher, Supervising Investigative Certified Public Accountant  
Kathy Tejada, Manager, Enforcement Division  
April Freeman, Peer Review Analyst

Other Participants:

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

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 10:00 a.m.

II. Approval of November 9, 2010 Minutes.

Ms. Corrigan asked members if they had any change or corrections to the November 9, 2010 PROC meeting minutes. No changes were necessary.

**It was motioned by Robert Lee, seconded by T. Ki Lam, and unanimously carried by those present to adopt the minutes of the November 9, 2010, PROC meeting.**

III. Reports.

Kathy Tejada informed members that the permanent peer review regulations were approved and went into effect on December 20, 2010. She added that the regulations concerning the PROC were approved and became effective on January 20, 2011.

Ms. Tejada reported that as of January 18, 2011, 13,255 licensees had reported peer review information. The breakdown is as follows: 925 firms required to undergo peer review, 2,255 firms not required to undergo peer review, and 10,075 licensees not operating as a firm.

IV. Role of the PROC.

Rafael Ixta stated that in response to members' request, staff researched and confirmed that the PROC does have the authority to perform all of the tasks adopted by the California Board of Accountancy (CBA) in January 2008. He further advised members that if at any time they wish to increase or decrease their functions, they would need to communicate that to the CBA for consideration.

Ms. Corrigan suggested adhering to the CBA's direction for a period of time before proposing any changes.

Mr. Ixta also advised members that staff will be working with members to develop a procedures manual for the Committee.

V. Discussion of Implementation Activities.

Ms. Corrigan explained that after gathering materials used by the Mississippi State Board of Public Accountancy, the Texas State Board of Public Accountancy, and the American Institute of Certified Public Accountants (AICPA), it was decided that staff would modify Texas' checklists so the PROC could evaluate them in conjunction with AICPA checklists to determine if they will meet California's goals and objectives.

Mr. Bong questioned how the PROC will help facilitate a good peer review program that is beneficial to consumers, in addition to being a positive, valuable experience for firms. Mr. Ixta added that although there may be overlap with AICPA's oversight functions, the CBA has a responsibility to make sure that a mandatory program is efficient and effective.

Members discussed developing oversight materials that are generic in the event additional organizations are approved as administering entities.

Mr. Bong requested that CalCPA provide the PROC with a summary of their procedures. In response, Ms. McCrone gave an overview of CalCPA's process, including AICPA's oversight of CalCPA and CalCPA's review of peer reviewers. She also advised members that the Report Acceptance Body (RAB) procedure manual is free online as well as the results AICPA's oversight visit of CalCPA in 2008. The results of AICPA's 2010 oversight visit will be available online after they are accepted by AICPA. The CalCPA also uses an administrative manual and a computer manual. Ms. McCrone agreed to provide additional information requested by the PROC in addition to scheduling time for members to visit the CalCPA offices.

Ms. McCrone advised members that CalCPA will appoint new members to the Peer Review Committee at their meeting on June 2, 2010. Those members will go through a teleconference training before they attend their first RAB meeting, which the PROC members are welcome to participate. Ms. McCrone reminded members that RAB materials must be destroyed within ninety (90) days after the RAB meeting.

After discussing the purpose of the checklists, it was decided that this issue would be tabled until after members had an opportunity to observe a RAB meeting. This would allow for a better understanding of what type of information members would need to provide effective oversight of the peer review process.

**It was motioned by Robert Lee, seconded by Gary Bong, and unanimously carried by those present to have the PROC prepare a letter to CalCPA requesting a summary of their entity, population and process as it relates to the Peer Review Program in order to better understand and evaluate its program.**

**It was motioned by Robert Lee to have as many PROC members as allowed by law to observe a RAB meeting without materials. Motion failed due to lack of a second.**

#### VI. Discussion of Meeting Dates and Assignments.

Ms. Corrigan reviewed the 2011 Year-at-a-Glance PROC Calendar. She requested that all members calendar February 23<sup>rd</sup> for the RAB teleconference, and June 2<sup>nd</sup> and 3<sup>rd</sup> for CalCPA Peer Review Committee meetings scheduled in Southern California. Attendance at these meetings will be determined once CBA staff receives guidance from Legal Counsel concerning issues of confidentiality and whether the PROC can destroy work papers after the meeting.

Ms. Corrigan also pointed out that AICPA's Peer Review Board was holding an open session meeting on Friday, January 21<sup>st</sup> and asked if any members, in addition to herself and Rafael Ixta, would be interested in joining the teleconference. Katherine Allanson expressed interest.

April Freeman informed members that the National Association of State Boards of Accountancy's (NASBA) Peer Review Summit is tentatively scheduled for May 16, 2011 in Nashville. Additional information will be provided to members as it becomes available.

VII. Comments on AICPA Peer Review Exposure Draft, June 1, 2010.

Robert Lee stated that he and T. Ki Lam reviewed AICPA's Peer Review Exposure Draft and prepared comments recommending that the CBA support the current exposure draft without any changes.

CBA staff prepared a draft letter for the CBA to submit to AICPA.

**It was motioned by Gary Bong, seconded by Katherine Allanson, and unanimously carried by those present to adopt the sub-committee's comments and the draft letter.**

VIII. Discussion of Proposed Confidentiality Statement.

Mr. Ixta explained that the authority found in section 54.2 of CBA's regulations applies to all CBA committee members and addresses confidentiality of information gathered as a committee member. The regulation does allow for certain specific disclosures, such as disciplinary or legal proceedings.

Further, Mr. Ixta stated that Business and Professions Code section 5076.1 exempts information obtained by the PROC from public disclosure except in certain specific situations, such as disciplinary or legal proceedings.

The confidentiality letter that has been submitted to AICPA for approval includes references to both of these statutes. Linda McCrone confirmed that AICPA's legal office is still reviewing the letter.

IX. Discussion of Disciplinary Guidelines.

Paul Fisher advised members that the Disciplinary Guidelines have been updated to include peer review. The updated guidelines have been adopted by the CBA but still need to be put into regulation, which should occur in mid 2012. The current edition is available on the CBA Web site.

Mr. Fisher gave an overview of the various penalties for violation of peer review requirements.

## X. Review of Letters of Licensees.

Ms. Freeman requested feedback on three letters that were drafted for the purpose of reminding licensees of the peer review requirements. The first letter will be mailed in February and will remind licensees of the requirement to report peer review results by July 1, 2011. The second letter will act as a final warning, informing licensees of the consequences of non-compliance. The third letter will be mailed after July 1, 2011, and notify licensees that they are in violation of the requirements.

Members discussed the letters and recommended that the letters be clearer, use stronger language concerning the importance of compliance, and emphasize that immediate action is needed to meet the July 1, 2011, deadline.

Mr. Sadat questioned whether licensees could receive an extension to complete their peer review and subsequent reporting. Mr. Ixta stated that the CBA does not have the authority to grant extensions; only CalCPA can grant extensions and only for engagement reviews. Ms. McCrone described the process in granting extensions and suggested that the CBA better communicate the requirements to the next group of licensees required to report.

Mr. Bong questioned the consequences to licensees who do not comply with peer review requirements. Mr. Ixta responded that the CBA can take enforcement action against their license. He added that procedures will be developed to determine if licensees are not reporting correctly.

Mr. Ixta added that the CBA is currently developing language to add to renewal forms and initial licensing documents, in addition to notifying licensees of the peer review requirements via Facebook and Twitter.

## XI. Future Agenda Items and Meeting Dates

Future agenda items include:

- Audit process
- Report on RAB meeting
- Report on AICPA PRB meeting
- Statistics

The PROC approved the following meeting dates for 2011:

- Friday, March 4, 2011 – Southern California
- Friday, May 6, 2011 – Northern California
- Friday, July 8, 2011 – Southern California
- Tuesday, August 30, 2011 – Northern California
- Thursday, October 27, 2011 – Southern California

It was agreed that these dates could be changed if necessary.

XII. Public Comment.

No comments were received.

XIII. Adjournment.

There being no further business, the meeting was adjourned at 2:43 p.m.

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Nancy Corrigan, Chair

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

DRAFT

## Memorandum

PROC Agenda Item III.  
March 4, 2011

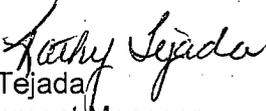
To : PROC Members

Date : February 18, 2011

Telephone: (916) 561-1734

Facsimile : (916) 263-3673

E-mail : ktejada@cba.ca.gov

From :   
Kathy Tejada  
Enforcement Manager

Subject : Reports and Status of Peer Review Initial Implementation

### Pending Regulations – Section 48.3 Title 16 California Code of Regulations

The rulemaking package modifying section 48.3 was noticed on October 1, 2010. Public comments were accepted through November 15, 2010 and a public hearing was held on November 16, 2010. The rulemaking is currently pending approval by the Department of Consumer Affairs. The proposed regulations add language (**Attachment 1**) which requires Board-recognized Peer Review Program providers to report substandard reports to the CBA within 60 days of their acceptance date.

### Discussion of Revised Legislative Language to Extend the Sunset Date on Mandatory Peer Review

As a part of its 2010 Sunset Review Report, the California Board of Accountancy (CBA) indicated a desire to extend the sunset date on the CBA's Peer Review Program. At its November 2010 meeting, the CBA voted to sponsor legislation to extend the legislative reporting date and the sunset date of peer review (**Attachment 2**).

At its January 2011 meeting, the CBA adopted alternative language (**Attachment 3**) that would remove the sunset date from the entire program and instead, focus it only on the areas of concern to the Legislature regarding other comprehensive basis of accounting (OCBOA).

The CBA is currently in negotiations with Senator Darrell Steinberg's staff to determine which language will be used in the proposed legislation.

### Statistics

As of February 16, 2011, 13,552 peer review reporting forms have been submitted. The breakdown is as follows:

Peer Review Required (firms)	949
Peer Review Not Required (firms)	2,301
Peer Review Not Applicable (non-firms)	10,302

Attachments

## PROPOSED REGULATORY LANGUAGE

### 48.3. Board-Recognized Peer Review Program Provider Reporting Responsibilities.

(a) Upon request of the Board or Peer Review Oversight Committee, a Board-recognized peer review program provider shall make available, at a minimum, the following:

(1) Standards, procedures, guidelines, training materials, and similar documents prepared for the use of reviewers and reviewed firms.

(2) Information concerning the extent to which the Board-recognized peer review program provider has reviewed the quality of reviewers' working papers in connection with the acceptance of reviews.

(3) Statistical data maintained by the Board-recognized peer review program provider related to its role in the administration of peer reviews.

(4) Information concerning the extent to which the Board-recognized peer review program provider has reviewed the qualifications of its reviewers.

(5) Sufficient documents to conduct sample reviews of peer reviews accepted by the Board-recognized peer review program provider. These may include, but are not limited to, the report; reviewer working papers prepared or reviewed by the Board-recognized peer review program's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, including, but not limited to, the imposition of required remedial or corrective actions; the monitoring procedures applied; and the results.

(b) A Board-recognized peer review program provider shall provide the Board, in writing or electronically, the name of any California-licensed firm expelled from the peer review program and provide the reason(s) for expulsion. The Board-recognized peer review program provider shall submit this information to the Board within 30 days of notifying the firm of its expulsion.

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

(c) A Board-recognized peer review program provider shall provide the Board, in writing or electronically, a copy of all substandard peer review reports issued to California-licensed firms within 60 days from the time the report is accepted by the Board-recognized peer review program provider.

NOTE: Authority cited: Sections 5010, 5076, and 5076.1, Business and Professions Code. Reference: Section 5076 and 5076.1, Business and Professions Code.

**PROPOSED LEGISLATIVE LANGUAGE**  
**Adopted by the California Board of Accountancy, November 2010**

**Business and Professions Code Section 5076.**

(n) By January 1, ~~2016~~<sup>2013</sup>, the board shall provide the Legislature and Governor with a report regarding the peer review requirements of this section that includes, without limitation:

(1) 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.

(2) 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.

(3) 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.

(o) This section shall remain in effect only until January 1, ~~2017~~<sup>2014</sup>, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, ~~2017~~<sup>2014</sup>, deletes or extends that date.

**Business and Professions Code Section 5076.1.**

(e) This section shall remain in effect only until January 1, ~~2017~~<sup>2014</sup>, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, ~~2017~~<sup>2014</sup>, deletes or extends that date.

**PROPOSED LEGISLATIVE LANGUAGE**  
**Adopted by the California Board of Accountancy, January 2011**

**Business and Professions Code Section 5076.**

(n) By January 1, ~~2013~~ 2016, the board shall provide the Legislature and Governor with a report regarding the peer review requirements of this section that includes, without limitation:

(1) 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.

(2) 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.

(3) 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.

(o) For purposes of this Section, accounting and auditing work shall include the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting. This ~~section subsection~~ shall remain in effect only until January 1, ~~2014~~ 2017, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, ~~2014~~ 2017, deletes or extends that date.

(p) As of January 1, 2017, for purposes of this Section, accounting and auditing work shall not include the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting.

**Business and Professions Code Section 5076.1.**

~~(e) This section shall remain in effect only until January 1, 2014, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2014, deletes or extends that date.~~

## Memorandum

PROC Agenda Item IV.  
March 4, 2011

To : PROC Members

Date : February 23, 2011  
Telephone : (916) 561-1731  
Facsimile : (916) 263-3673  
E-mail : rixta@cba.ca.gov

  
From : Rafael Ixta, Chief  
Enforcement Division

Subject : Peer Review Oversight Committee (PROC) Goals and Objectives for 2011

Attached is a draft of the PROC Procedure Manual prepared by PROC Member, Sherry McCoy. The highlighted sections deal with the committee's roles and responsibilities.

In addition to the meeting materials, you are being provided with a copy of the American Institute of Certified Public Accountants' Glossary of Terms, Acronyms, and Abbreviations. Please add this information to your reference material.

Staff will be at the meeting to answer any questions PROC members might have.

Attachment

California Board of Accountancy (CBA)  
Peer Review Oversight Committee (PROC)  
Procedure Manual

Table of Contents

Introduction

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

**Comment [S1]:** this is a draft document; recommend referring back to the PROC Agenda item IV from 11.9.2010 to capture add'l content for this draft procedure manual (there was a lot of discussion in that document about meetings and attendance that needs to be revisited and discussed at a future PROC meeting).

Committee Formation and Purpose

- A. Establishment and source of authority – The members of the PROC were appointed in 2010 with the authority granted by Business and Professions Code (B&P) Section 5076.1(a) as follows: The [CBA] shall appoint a peer review oversight committee of certified public accountants of this state who maintain a license in good standing and who are authorized to practice public accountancy to provide recommendations to the [CBA] on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.
- B. Purpose – As described in the Issue Paper on mandatory Peer Review dated February 2008, the PROC is intended to engender confidence in the California Peer Review Program from the profession and consumers by performing oversight of the program and providing recommended actions to the CBA on the effectiveness and continued reliance on the program.

Roles and Responsibilities – the PROC shall evaluate the responsibilities adopted for the PROC by the CBA to determine if the responsibilities are sufficient for the PROC to fulfill its purpose. Any recommendations for changes to the PROC's responsibilities shall be presented to the CBA for consideration and approval. Broadly stated, the PROC shall have the following roles and responsibilities:

- A. Advocate for the profession and serve as a spokesperson for the peer review process in California
- B. Obtain an understanding of the process of peer review administration in California
- C. Perform or oversee the performance of procedures to evaluate the effectiveness of the peer review process in California
- D. Report to the CBA and other parties as appropriate as to the results of its procedures

E. Participate in collaborative communications with constituents of the profession

The PROC shall develop a more detailed plan for performing and completing the above roles and responsibilities as outlined in the Appendix entitled PROC Program Detail. This plan shall be reviewed with the CBA on a routine basis and updated as appropriate to enable the PROC to fulfill its purpose. Documents resulting from the PROC's program shall be considered drafts until approved as final by the PROC and the CBA. Final documents shall be subject to the administrative processes in place at the CBA (as to the form and means of retention).

These roles and responsibilities are contained in California law as follows:

A. California Code of Regulations (CCR) provides that the PROC shall do the following:

- i. Hold meetings as necessary to conduct business and report to the CBA as to the effectiveness of mandatory peer review, including an annual report to the CBA regarding the committee's oversight activities (scope of work, findings and conclusion). (CCR 47(c))
- ii. Request from a Board-recognized peer review program provider those materials necessary to perform the committee's review. (CCR 47(d))
- iii. Refer to the CBA any Board-recognized peer review program provider that fails to respond to any PROC request. (CCR 47(e))
- iv. Review and recommend to the CBA for approval peer review program provider applications for recognition by the CBA. (CCR 47(f)) In 2010, the AICPA is the only structure approved in California. Applicants will be required to provide the PROC with the following items (at a minimum) as described in CCR 48.3:
  - a. Standards, procedures, guidelines, training materials and similar documents prepared for the use of reviewers and reviewed firms.
  - b. Information concerning the extent to which the Board-recognized peer review program provider has reviewed the quality of reviewers' working papers in connection with the acceptance of reviews.
  - c. Statistical data maintained by the Board-recognized peer review program provider related to its role in the administration of peer reviews.
  - d. Information concerning the extent to which the CBA-recognized peer review program provider has reviewed the qualifications of its reviewers.
  - e. Sufficient documents to conduct sample reviews of the peer reviews accepted by Board-recognized peer review program provider. These may include, but are not limited to: the report; reviewer working papers prepared or reviewed by the Board-recognized peer review program's peer review committee in association with the acceptance of the review; and material concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied and the results.

B. Business and Professions Code (B&P) Section 5076.1 also provides authority for the committee to undertake the following:

- i. Oversee the activities of sponsoring organizations related to how peer reviews are processed and evaluated
- ii. Ensure sponsoring organizations are adhering to the AICPA *Standards for Performing and Reporting on Peer Reviews*
- iii. Represent the CBA at the AICPA's Peer Review Board meetings

**Comment [S2]:** Is "sponsoring organization" the same as "administering entity"?

**Comment [S3]:** At the January 2011 meeting, this point was discussed as to potential for change to allow add'l organizations

**Committee Membership and Related Matters**

- A. Membership and tenure – CCR Section 47(a) and (b) provides for a committee of not more than seven licensees who shall maintain a valid and active license to practice public accounting in California issued by the CBA; committee members shall not also be current members or employees of the CBA. [add tenure information and citation]
- B. Confidentiality and conflicts of interest [outline requirements and documentation needed]

**Administrative Matters**

- A. Committee meeting attendance and conduct – [discuss expectations as to SoCal/NorCal rotations, telephonic v. in person, what constitutes a meeting (reference to Bagley-Keene Open Meeting Act), public notice, private session, etc.]
- B. Travel reimbursement and compensation – [cite guiding principles and refer to resources]

DRAFT

## Appendices

Glossary of Terms and Acronyms [insert various sources found; there are good resources but these are scattered in various documents (AICPA guides, online tools, etc.)]

Organizational Structure Chart [insert chart to show placement of CBA, PROC, peer reviewers, technical reviewers, etc., including AICPA interactions as well]

PROC Program Detail - the PROC's duties will include the following:

**Comment [S4]:** Consider "piggyback" opportunities with the AICPA-- both efficient and educational....

A. Advocate for the profession and serve as a spokesperson for the peer review process in California

- Attend events at the local, state and national level where feasible; the CBA staff shall assist in providing the committee members with calendar information for these events
- PROC members are encouraged to participate in continuing education courses that include peer review program content
- PROC members may also serve as a spokesperson for the cause in such venues as local CPA chapter events and general industry forums; the content of such discussions or presentations is intended to be overview in nature with references made to administering entities or CBA as appropriate

B. Obtain an understanding of the process of peer review administration in California

- All PROC members shall be provided with the materials (either in paper or via electronic access with specific links) that collectively comprise the administering entity's procedure manual for the administration of peer review. As a result of this step in the program, the committee should gain an understanding of the workflow and workload demands of the administering entity.
- All PROC members shall be provided with statistical monitoring and reporting data on a regular basis; such data should be in a mutually agreed upon format to be prepared by the administering entity and shall include, but is not limited to, the following:
  - Types and numbers of reviews in process
  - Types and numbers of reviews completed (by month and cumulatively for the annual reporting period)
  - Extensions requested and status (granted or denied)
  - Corrective action matters (various types: overdue peer review reports, disagreements pending resolution, etc.)
- If not included in the statistical data reports, all members shall be provided with a written outline of the administering entity's risk assessment process in conducting its peer review program activities.
- All or a delegation of the PROC shall perform a site visit of the administering entity at an agreed upon time to determine and document whether or not the administering entity is following its procedure manual in the administration of peer review; documentation of

**Comment [S5]:** The administering entity oversight information sheet has most if not all of the information necessary for this step to be completed -- recommend tailoring the AICPA to fit the California needs

the visit and the resulting observations and conclusions shall be evidenced by completion of [need form of report/checklist]

- C. Perform or oversee the performance of procedures to evaluate the effectiveness of the peer review process in California
- Observation of report acceptance body (RAB) discussions (live meeting or teleconference) [need form of report to be used for this purpose]
  - Observation of peer review committee discussions [need form of report to be used for this purpose]
  - Inspection and evaluation of a sample of the the administering entity's approval of peer reviewers and those reviewers qualifications to perform peer reviews[need form of report to be used for this purpose]
  - Other activities that may be undertaken to further enhance the PROC's understanding and provide for ongoing improvement of the program (should these activities be elected, it is recommended that at least 2 PROC members or one PROC member and one representative from the administering entity or CBA be present):
    - Attend a sample of peer review exit conferences [need form of report to be used for this purpose]
    - Perform evaluation of a sample of system, engagement and CART review peer reviewers [need standard interview/evaluation form]
- D. Report to the CBA and other parties as appropriate as to the results of its procedures
- [need form of report to be used for this purpose]
- E. Participate in collaborative communications with constituents of the profession
- Be available for consultation on peer review administration matters (general or case specific) with CBA and administering entities as appropriate
  - Solicit input from constituents via surveys, focus groups or other means for the purpose of identifying areas for improvement and/or further education
  - Provide recommendations for changes to the peer review process to the CBA and other parties as appropriate to facilitate ongoing improvement for all constituents of the profession (CBA, administering entities, committee members, peer reviewers, practitioners and their clients)[need form of report to be used for this purpose]

**Comment [56]:** Also consider potential for understanding cost of the process to constituents as well as benefits (best practices, etc.)

#### Technical Resources

- A. Governing legislation
- i. [insert descriptions/links to CCR/B&P, etc.]
- B. AICPA resources
- i. *AICPA Peer Review Program Manual* – contains the current standards, interpretations, guidelines, peer review checklists, and other guidance materials developed by the board for the administration, performance, and reporting the results of peer reviews
  - ii. *AICPA Peer Review Program Report Acceptance Body Handbook* – serves as a resource for committees, RABs, technical reviewers, and administrators in the administration,

acceptance, and completion of peer reviews; this manual is updated as necessary and is included as section 3300 of the *AICPA Peer Review Program Manual*.

- iii. *AICPA Peer Review Web Site* – contains additional guidance (Peer Review Alerts, etc.) that should be considered by reviewers and administering entities at [www.aicpa.org/members/div/practmon/index.htm](http://www.aicpa.org/members/div/practmon/index.htm)
- iv. *AICPA Peer Review Program Administrative Manual*– serves as guidance and a reference tool for those administering the program; this manual is updated as necessary and made available to approved administering entities and located on the AICPA SharePoint extranet.
- v. *AICPA Peer Review Program Oversight Handbook*– serves as guidance and a reference tool related to the oversight procedures performed on the program. The manual is updated as necessary and made available to approved administering entities and located on the AICPA SharePoint extranet.
- vi. *Annual Report on Oversight* – issued by the AICPA Peer Review Board Oversight Task Force to provide a general overview; past and current statistics and information; the results of the various oversight procedures performed on the program; and to conclude on whether the objectives of the board's oversight process were met. The report is available on the AICPA Web site.
- vii. *Reviewer Monitoring Report*– maintained by the AICPA staff and includes all reviewers with open or closed restrictions. Annually, the administering entities are requested to review the report to determine if a reviewer's name should be removed (for reviewers whose name was placed on the report at the administering entity's request). See chapter 8, Section IX, of *AICPA Peer Review Program Report Acceptance Body Handbook* for further information regarding the purpose and use of the reviewer monitoring report. This report is made available to approved administering entities and located on the AICPA SharePoint extranet.

#### C. California Board of Accountancy resources

- i. *California Board of Accountancy Peer Review Web Site* – contains additional guidance that should be considered by reviewers and administering entities at [www.\[need link\]](http://www.[need link])

#### D. California Society of CPAs resources

- i. *California Society of CPAs Peer Review Web Site* – contains additional guidance that should be considered by reviewers and administering entities at [www.\[need link\]](http://www.[need link])

#### Administrative

- A. AICPA resources
- B. California Board of Accountancy resources
- C. California Society of CPAs resources
- D. Department of Consumer Affairs Travel Guide
- E. Forms (travel, applications for committee membership, etc.)

## Memorandum

PROC Agenda Item V.a.  
March 4, 2011

To : PROC Members

Date : February 22, 2011  
Telephone : (916) 561-1731  
Facsimile : (916) 263-3673  
E-mail : rixta@cba.ca.gov

  
From : Rafael Ixta, Chief  
Enforcement Division

Subject : Open Session Agenda for the January 21, 2011, American Institute of Certified Public Accountants' (AICPA) Peer Review Board Meeting

Attached is the Open Session Agenda for the AICPA's Peer Review Board Meeting held on January 21, 2011, in Orlando, Florida. In addition to me, the PROC Chair Nancy Corrigan and PROC Member Katherine Allanson participated in the teleconference.

The agenda is being provided to assist you in familiarizing yourself with the types of issues addressed at an AICPA Peer Review Board meeting. PROC members who participated in the teleconference will share highlights of the meeting and answer questions from those members who were unable to participate.

Attachment

**AICPA PEER REVIEW BOARD  
OPEN SESSION AGENDA  
JANUARY 21, 2011 8:00 AM – 3:00 PM  
ORLANDO, FL  
CONFERENCE CALL ID 1-866-446-9850 ID#6113188  
Meeting Room: COMO**

- |             |      |   |
|-------------|------|---|
| 8:00-8:05   | 1.00 | Welcome Attendees**- Ms. Lieberum   |
| 8:05-8:20   | 1.01 | Consent Agenda: <ul style="list-style-type: none"> <li>a. Approval of October Open Session Meeting Minutes*-Mr. Hevia</li> <li>b. Approval of Peer Review Alert*-Ms. Golden</li> <li>c. Approval of Administering Entity Plans of Administration*-Mr. Watson</li> <li>d. Report on Firms Dropped or Terminated from the AICPA Peer Review Program* - Ms. Lieberum</li> <li>e. Report on Standards Task Force Future Agenda Items*-Ms. Golden</li> <li>f. Report on Education and Communication Task Force Future Agenda Items*-Mr. Moynihan</li> <li>g. Report on Oversight Task Force Future Agenda Items*-Mr. Watson</li> </ul> |
| 8:20-8:30   | 1.02 | Chair's Report**-Mr. Hevia  |
| 8:30-8:40   | 1.03 | Vice-President's Report**-Mr. Brackens  |
| 8:40-8:50   | 1.04 | Operations Director's Report**-Ms. Thoresen   |
| 8:50-9:00   | 1.05 | Report from State CPA Society Executive Directors**-Ms. Peters  |
| 9:00-9:30   | 1.06 | Update on Feedback Provided to the Board*-Ms. Lieberum  |
| 9:30-10:00  | 1.07 | Approve Exposure Draft for Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews of Compilations Performed under SSARS No. 19 included in an Engagement Review*-Ms. Golden  |
| 10:00-10:20 |      | Break   |
| 10:20-10:50 | 1.08 | Approve Changes to the AICPA Standards for Performing and Reporting on Peer Reviews Due to Migration of SAS 70 to SSAE 16*-Ms. Golden   |
| 10:50-11:25 | 1.09 | Discuss Proposed Changes to Peer Reviewer Training*-Mr. Moynihan  |
| 11:25-12:00 | 1.10 | Approve Revisions to Interpretations 33-1 and 132-1*-Ms. Golden   |
| 12:00-12:50 |      | Lunch   |
| 12:50-1:20  | 1.11 | Approve Proposed Revisions to the Interpretations as a Result of Ethics Interpretation 101-17*-Ms. Golden   |
| 1:20-1:50   | 1.12 | Discussion on Providing More Flexibility for the Issuance of Implementation Plans*-Ms. Golden   |
| 1:50-2:10   | 1.13 | Discussion on Impact of 403(b) Engagements**-Mr. Watson   |
| 2:10-2:40   | 1.14 | Update on Broker Dealers*-Mr. Brackens/Ms. Golden   |
| 2:40-2:50   | 1.15 | Update on Exposure Draft on Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE)**-Ms. Golden  |
| 2:50-3:00   | 1.16 | Future Open Session Meetings**-Ms. Lieberum <ul style="list-style-type: none"> <li>a. May 3, 2011 – Durham, NC</li> <li>b. August 10, 2011 – Portland, OR</li> </ul>  |

\*- Document Provided

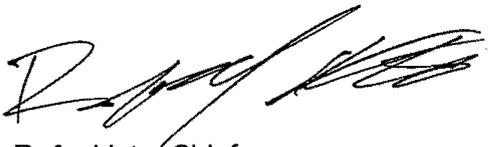
\*\*-Verbal Discussion

## Memorandum

PROC Agenda Item V.c.  
March 4, 2011

To : PROC Members

Date : February 22, 2011  
Telephone : (916) 561-1731  
Facsimile : (916) 263-3673  
E-mail : rixta@cba.ca.gov

  
From : Rafael Ixta, Chief  
Enforcement Division

Subject : California Society of Certified Public Accountants' Peer Review Program Procedures

On February 9, 2011, Nancy Corrigan, Chair of the Peer Review Oversight Committee (PROC), sent a written request to the California Society of Certified Public Accountants (CalCPA) soliciting additional information about its administration of the American Institute of Certified Public Accountants' (AICPA) Peer Review Program (**Attachment 1**).

Information received from Linda McCrone, Director of CalCPA's Peer Review Program, is being provided for your review (**Attachment 2**). In addition to the CalCPA information, along with your meeting materials, you are receiving copies of the *AICPA Peer Review Administrative Manual* and the *AICPA Peer Review Program's Report Acceptance Body (RAB) Handbook*. These materials should be added to your reference materials.

It is my understanding that Ms. McCrone will attend the March 4, 2011, PROC meeting to answer any questions you may have.

Attachments



DEPARTMENT OF CONSUMER AFFAIRS  
CALIFORNIA BOARD OF ACCOUNTANCY  
2000 EVERGREEN STREET, SUITE 250  
SACRAMENTO, CA 95815-3832  
TELEPHONE: (916) 263-3680  
FACSIMILE: (916) 263-3675  
WEB ADDRESS: <http://www.cba.ca.gov>



February 9, 2011

California Society of Certified Public Accountants  
Attn: Linda McCrone, CPA  
Division Director of Technical Services  
1800 Gateway Drive, Suite 200  
San Mateo, CA 94404-4072

RE: California Board of Accountancy Peer Review Oversight Committee Request for Information

Dear Ms. McCrone:

The Peer Review Oversight Committee (PROC) of the California Board of Accountancy would first like to thank you for your personal attendance and participation at our meetings. We are grateful for your willingness to provide information regarding the Peer Review process of the California Society of Certified Public Accountants (CalCPA).

At the last meeting of the PROC, it was determined that additional information would be helpful to the PROC for purposes of understanding the CalCPA's administration of the AICPA's Peer Review Program. Accordingly, we request that the following information be provided to us by February 18, 2011:

1. **Organization Chart** – please provide an organization chart that depicts the key positions for administering the Peer Review Program. Please include committee, employee and contract positions.
2. **Flow Chart** – please provide a Flow Chart of the key steps and processes for administering the Peer Review Program. The Flow Chart should provide the reader with an understanding of the process from the inception of the Peer Review notification requirement through and including the acceptance of the Peer Review Report .
3. **Procedure Manual** – please provide a copy of all formal or informal Procedure Manuals related to the processing of Peer Reviews. Computer processing instructions and guides are not requested.
4. **Population Information** – please provide a schedule containing the population of Peer Review results for 2008, 2009 and 2010. The schedule should include standard dash board data for analysis including, but not limited to,

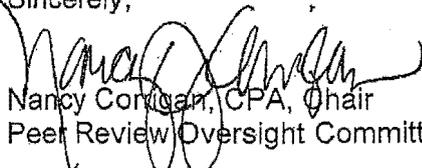
1. Total Peer Review Reports

**ATTACHMENT 1**

2. Total Reports with no letter of comments
3. Total Reports with letter of comments
4. Total Failed Reports
5. Elapsed time of report processing
6. Provide the above information based on size of firm (number of partners/shareholders) either in the format that is common to CalCPA or as an example:
  - a. Sole practitioners
  - b. 2 – 5 partners/shareholders
  - c. 6 – 20 partners/shareholders
  - d. 25 + partners/shareholders
5. **Population Completeness** – Please provide information regarding how the CalCPA ensures that all CPAs have properly reported and complied with the Peer Review requirements.
6. **Failed Reviews** – Please provide any information regarding the commonality of Peer Review Failures.
7. **Monitoring** – Please provide information regarding the monitoring of failed Peer Review Firms.
8. **Qualification of Peer Reviewers** – please provide a detailed description of the qualification process for Peer Review Providers.
9. **Committee Members** – please provide information regarding the qualification and acceptance process for Peer Review Committee Members.
10. **Education** – please provide a schedule of education and introduction processes for Peer Review Committee Members.
11. **AICPA Inspection** – please provide a copy of the most recently received AICPA inspection including any findings or comments received both formal and informal and CalCPA's response
12. **Service Matters** – please provide a schedule of any complaints or concerns lodged with CalCPA by CPAs or CPA Firms within the last eighteen months regarding the Peer Review Program including the resolution thereof.

We would again like to state that we are grateful for your willing assistance with the PROC. We also wish to thank you in advance for providing the above information. Please feel free to contact me regarding any of the items above that may require additional clarification.

Sincerely,

  
Nancy Corrigan, CPA, Chair  
Peer Review Oversight Committee

 **CalCPA** Peer Review Program

February 17, 2011

California Society of CPAs  
1800 Gateway Dr., Ste. 200  
San Mateo, CA 94404

Ms. Nancy Corrigan, CPA, Chair  
Peer Review Oversight Committee  
California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815

Dear Ms. Corrigan,

I am responding to your letter of February 9, 2011 requesting additional information.

The organization chart for the peer review program of the California Society of CPAs (CalCPA) is attached.

We do not have a flow chart of the overall peer review process. The speech that Jim Brackens, AICPA VP – Firm Quality and Practice Monitoring, and I gave to the Peer Review Oversight Committee last fall is the best summary of the program. I have attached a handout of that speech. I have also added a page of clarifying information.

The AICPA procedure manual is an extensive manual and will be sent by email to Rafael Ixta.

Regarding the population information, I have included the schedule for the years 2008-2005. The AICPA peer review computer database was replaced in September 2009. We will be working on reports for 2009 and 2010 in March and will send them as soon as they are completed.

Regarding population completeness, a firm has to enroll in our program for the database to keep track of the firm. Once the firm is enrolled, emails are generated when it is time for a firm's peer review. For firms that state they no longer perform accounting and auditing engagements, they are sent annual letters to confirm that they have not issued any compilation, review, attest or audit reports. The California Society of CPAs has and continues to reach out to California CPAs through articles, speeches, and materials in CalCPA Education Foundation classes informing them of the new California peer review requirements

Failed reviews in systems are usually the result of inadequate audit documentation. In engagement reviews it is usually presentation issues such as missing statements of cash flow or misclassifying a material asset or liability.

For failed system peer reviews, the corrective action is usually a team captain revisit or review of an audit including work papers by the team captain or an accelerated peer review. For engagement reviews corrective actions are usually education and/or review of an engagement by the review captain.

On the CalCPA website in the peer review section is a link to the AICPA web site for "How to Become a Peer Reviewer". I have attached this article. In addition, every year a third of the peer reviewers are asked for information to support their industry experience listed on their resume

**ATTACHMENT 2**



and to submit a listing of accounting and auditing continuing education classes they have taken. I also use the AICPA database to get information concerning a peer reviewer firm's last peer review and compare this to the information submitted by the peer reviewer.

Committee members serve for four year terms and can serve consecutive terms. In May of each year, I place an article in the peer review e-newsletter inviting peer reviewers to apply to be on the California Peer Review Committee. The Peer Review Administrative Committee is a subcommittee of the California Peer Review Committee with four to five members who have been approved by CalCPA Council. They determine whether members should continue and who the new members will be. The Peer Review Administrative Committee considers the industry experience and peer review experience of potential committee members.

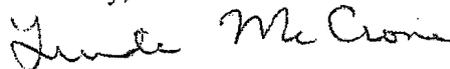
For newly appointed committee members, I provide an hour teleconference in August or September prior to their being on a RAB. They are expected to review the *AICPA Peer Review Program Report Acceptance Body Handbook*. Peer reviewers are required to take an update class every three years. The AICPA informs peer reviewers of new issues through periodic peer review alerts that are available on their web site. I produce periodic e-newsletters to address issues that are available on our website. In addition at the two full committee meetings, committee members are updated. Every year, the AICPA has a Peer Review Conference for peer reviewers, committee members, and administrators. This year, the conference will be held on Monday and Tuesday, August 8 and 9, 2011 in Portland, Oregon. A favorite activity of the conference is the case studies. The California Peer Review Committee goes over these case studies at the fall full committee meeting for the members who were not able to attend the conference. CalCPA Education Foundation each year offers the two day introductory course on how to become a peer reviewer and the one day update course. This year the two day introductory course will be on July 18 and 19, 2011 at the Los Angeles Airport and the one day update course will be on May 24, 2011 at our offices in San Mateo. Next year the two day course will be in Northern California and the one day course will be in Southern California.

Attached is the AICPA inspection that occurred on October 22-24, 2008 which is also available on our web site. Another AICPA inspection occurred on October 20-22, 2010. As soon as the AICPA Peer Review Board approves this oversight it will be posted on our web site and I will send you a copy.

My staff and I work hard to help firms with the peer review process. We constantly evaluate our process and make changes when necessary. There is no formal complaint process at this time.

I look forward to working the California Board of Accountancy Peer Review Oversight Committee and to attending the upcoming meetings. Please let me know if you would like additional clarification.

Sincerely,



Linda McCrone, CPA, Director  
California Society of CPAs Peer Review Program

**California Peer Review Committee**

**Linda McCrone**  
Director of Peer Review

**Susan Lamb**  
Peer Review Supervisor

**Independent Contractors**  
Technical Reviewers and Oversight

**Martha Amador**  
Administrative Assistant

**Martin Mitra**  
Senior Peer Review Administrator

**Tara Carolan**  
Peer Review Administrator

**New Hire**  
Peer Review Administrator

## California Society of CPAs Peer Review Process

This is an additional explanation of some of the points contained in the peer review speech given to the Peer Review Oversight Committee in September 2010. A handout from that speech is attached.

To start a peer review, a firm must submit their enrollment form to the peer review program. At the [www.calcpa.org](http://www.calcpa.org) peer review website are two enrollment forms, for AICPA member firms and non-AICPA member firms. Based on the information in the form, the peer review program establishes a due date which is the date by which the peer review should be completed and received by the peer review program. In the first peer review, the firm and peer reviewer establish a firm's peer review year. After the first review, the due date is six months after a firm's year end.

Seven months before the due date, the firm is sent a notice by email that they need to complete a peer review scheduling form available at the web site. In this form, the firm gives us information about their accounting and auditing practice and who will be their peer reviewer. A peer review cannot be performed until the peer reviewer and the firm receives an email from the program confirming the peer reviewer.

If a firm is late in starting the peer review process, the peer review program will give the firm 90 days to get the peer review done and sent to us. For firms calling after January 1, 2011 that are due to report July 1, 2011, we have been using this timeline. We inform them to get their peer review done as quickly as possible.

After the peer review is received by our office, a staff person reviews the information for completeness and logs the peer review into the system.

The peer review is technically reviewed by a CPA and a technical review packet is completed. If revisions are needed, the peer reviewer is sent technical review notes. After the revisions are received, a CPA reviews them to ensure that they are complete.

After the peer review is complete, the peer review information is entered into the computer system and the peer review is assigned a RAB date. A RAB packet is assembled for each peer review containing the technical review packet, the report, the firm's letter of response if the report was a pass with deficiency or fail, findings for further consideration, matters for further consideration, summary review memorandum (only for system peer reviews), prior year's peer review report, and the captain checklist.

Approximately two weeks prior to the RAB, the members of the RAB receive a listing of engagements and the packets described above on a CD. They review the material. During the teleconference they decide whether the reviews should be accepted as presented or if any changes should be made. They process 30 to 60 reviews each teleconference.

## Peer Review Process

Linda McCrone, CPA, Director Technical Services,  
California Society of CPAs

Jim Breckens, CPA, VP – Firm Quality & Practice  
Monitoring, AICPA



## Who administers peer review

- National Peer Review Committee
- California Peer Review Committee

2



## National Peer Review Committee

- Firms required to be registered with and inspected by the PCAOB
- Firms perform audits of non-SEC issuers pursuant to the standards of the PCAOB
- Excludes audits inspected by PCAOB

3



## CalCPA Administrators

- All other firms with home offices in California.
- Approved by the AICPA

4



## Peer Review Process

- Firms enroll when they start performing accounting and auditing engagements.
- Due date is ordinarily 18 months from the year end of the first engagement.
- Due date is the latest date for the peer reviewer to complete the peer review and submit it to the administering entity.

5



## Peer Review Process

- Firm and reviewer choose an appropriate year end that will comply with due date.
- Next peer review will be due 3 years and 6 months after the current year end.

6



### Peer Review Process

- Important to choose an appropriate peer review year end so that the firm can complete its work and have the peer review done within the 6 months after the year end.

7 

### Peer Review Process

- Engagement reviews (compilation and review practice) don't use a 12/31 year end.
- May – August good year ends

8 

### Peer Review Process

System reviews (firm performs audits)

ERISA audit practice: May-August year end

GAGAS audits – often June 30 year ends for clients. If clients slow in providing information consider May year end.

9 

### Peer Review Process

- To enroll
- [www.calcpa.org](http://www.calcpa.org)
- Peer Review Program section
- Firm section
- Enrollment forms for AICPA member and non-member

10 

### Peer Review Process

- Usually when firms enroll they need the peer review done soon. They have been late in contacting us. They will complete the Information Required for Scheduling Reviews form (Scheduling Form) on the web site shortly after enrolling.

11 

### Peer Review Process

- Continuing firms will be notified by us by in the month of their year end to complete the Scheduling form.

12 

## Peer Review Process

- In the scheduling form the firm will give us the name of their peer reviewer.
- A peer review cannot begin until we confirm that the peer reviewer is acceptable. For system reviews, team must match firm in certain industries.

13



## Peer Review Process

- Extensions of due date only if requested in writing two months prior to due date and for valid reasons.
- No extension for engagement reviews
- Up to 2 months for system reviews
- Longer for medical or disaster

14



## Peer Review Process

- Two types of reviews
- Engagement review for firms that only perform compilations or reviews
- System reviews for firms that perform audits
- Attestation engagements: only examinations of prospective financial statements require system review. All others engagement review.

15



## Peer Reviewers

- Peer reviewers must be AICPA members, currently active at supervisory level in accounting or auditing, be associated with a firm that has received a peer review rating of pass, have at least five years experience.
- Peer reviewers complete a resume that lists current or within the last five years audit industry experience.

16



## Peer Reviewers

- Team captains for system reviews must be a partner or owner in a firm. They take a two day class and every three years after take an update class.
- Review captains for engagement reviews have similar but not as stringent requirements.

17



## Engagement Reviews

- For an engagement review, the firm sends a listing of engagements to the peer reviewer and the peer reviewer chooses the engagements. The firm completes an engagement checklist and submits the financial statements. The firm also submits work papers required by professional standards.

18



## Engagement Reviews

- For an engagement review, the peer reviewer will perform and document the review. The reviewer will call the firm to ask questions and to discuss issues noted.
- CalCPA has a CART program for engagement reviews.

19



## Engagement Reviews

- A "no" answer to one or more questions on the various peer review checklists will be documented on a Matter for Further Consideration Form (MFC).
- May be resolved or may be elevated to a finding, a deficiency, or a significant deficiency.

20



## Engagement Reviews

- Deficiency: a matter results in an engagement that has not been performed or reported in conformity with applicable professional standards in all material respects.

21



## Engagement Reviews

- Pass – Nothing came to the peer reviewer's attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with professional standards.

22



## Engagement Reviews

- Pass with deficiencies – Peer reviewer finds a deficiency in one or more of the engagements submitted. If the same deficiency in all engagements, a pass with deficiencies is still appropriate.

23



## Engagement Reviews

- Fail – deficiencies are noted in all of the engagements submitted.
- For fail or pass with deficiency firm must submit a letter of response.

24



### Engagement Reviews

- Matters that are not deficiencies but are not in conformity with professional standards will be described on a Finding for Further Consideration (FFC) form.

25



### Engagement Reviews

- FFCs have a finding and recommendation for improvement.
- The firm responds and signs the form.
- FFCs are kept until the next peer review is complete.

26



### System Reviews

- For firms that perform audits
- The firm's system of quality control over the A&A practice is evaluated.
- Looks at engagements representative of firm's practice.
- Interviews staff and partners.
- Review usually done at firm's office.

27



### System Reviews

- A "no" answer to one or more questions on the various peer review checklists will be documented on a Matter for Further Consideration Form (MFC).
- May be resolved or may be elevated to a finding, a deficiency, or a significant deficiency.

28



### System Reviews

- In system peer reviews the peer reviewer is also looking at the firm's compliance with the quality control standards.

29



### System Reviews

- In reviewing the matters, the peer reviewer determines whether a matter is isolated by asking the firm to show the peer reviewer several engagements where the matter was handled correctly. If the peer reviewer determines it is isolated it will usually not be in the report or FFC.

30



## System Reviews

- Deficiency: a matter indicates a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects.

31



## System Reviews

- Pass – firm's system is suitably designed and firm has complied with its policy and procedures so that it has a reasonable assurance of performing and reporting in conformity with applicable professional standards.

32



## System Reviews

- Pass with deficiencies – system is suitably designed and the firm has complied except for a certain deficiency or deficiencies that are described in the report.

33



## System Reviews

- Fail – system is not suitably designed or has not been complied with. The firm does not have reasonable assurance of performing or reporting in conformity with professional standards in all material respects. The peer reviewer would have found and reported significant deficiencies.

34



## System Reviews

- FFCs required for matters where there is more than a remote possibility that applicable professional standards will not be followed.
- FFCs signed by firm and kept until after next peer review.

35



## Peer Review

- Correlating peer reviews to audit engagements.
- Peer review similar to SAS 115 in that significant issues are communicated in a written document – terminology, though, has different meanings.
- FFCs are similar to management recommendation letters

36



## Peer Review Process

- After the administering entity receives the peer review it usually takes 2 to 3 months to process.
- A technical reviewer who is a CPA reviews the engagement and if issues are noted she communicates these to the peer reviewer who will respond.

37



## Peer Review Process

- After technical review, the peer review is submitted to 3 or 4 committee members who are peer reviewers. They will accept or request changes.

38



## Peer Review Process

- If the peer review report is a pass it will be accepted.
- If there are FFCs with repeat findings, the committee members could decide on an implementation plan – these are few and far between.

39



## Peer Review Process

- If the peer review report is pass with deficiency or fail, corrective action will be required such as: preissuance review of an audit, postissuance review of an audit, team captain revisit, monitoring report, education.

40



## Peer Review Process

- After 120 days from acceptance only the following are kept:
- Report (and letter of response)
- FFCs
- Signed corrective action letter
- Signed implementation plan letter
- Acceptance letter

41



## Peer Review Process

There is a secure web site, Facilitated State Board Access (FSBA) where the California Board of Accountancy has access to the report (and letter of response), acceptance letter and corrective action letter for firms that do not opt out.

42



## Peer Review Process

- FSBA was implemented for California for reviews accepted by the Peer Review Committee starting in November 2009.
- State boards will only have access to firms with their main office in their state unless the firm requests other states have access.

43



## Peer Review Process

- When firms complete their Scheduling form they indicate whether they are opting out of FSBA.
- If a firm opts out, the site will only list the name of the firm and date of its last peer review.

44



## Peer Review Process

- Firms with failed peer review reports cannot opt out. They are informed of this in the scheduling form at the start of the peer review process.

45



## Peer Review Process

- Firms are reminded on the Scheduling form that depending on the rules of the state board of accountancy they still may need to submit peer reviews to the state board of accountancy.

46



## Peer Review Process

- The following voluntary AICPA Centers have members peer reviews in public file:  
Employee Benefit Plan Audit Quality Center,  
Governmental Audit Quality Center and  
Private Companies Practice Section.
- GAGAS Section 3.61 peer review report should be publicly available.

47



## Engagement Oversight

- For engagement reviews, peer reviewers must submit the financial statements and work papers of the firm.
- An overseighter reviews the work and prepares a report. If changes are required the peer reviewer must make them prior to the review going to committee members.

48



### System Review Oversight (two types)

- Oversight goes to firm during peer review, looks at work papers and results of peer review.
- Oversight looks at firm's work papers and financial statement for a selected audit with a focus on pension plan or A-133.
- Report prepared. If needed, reviewer must make changes before acceptance.

49



### Reviewer Resume

- Every third year, a peer reviewer is asked to verify the industries on their AICPA peer review resume and to submit a summary of CPE taken in the last three years.

50



### Oversight

- Every other year a member of the AICPA Peer Review Oversight Subcommittee comes to the administering entity office, reviews the administrative process, and attends a committee meeting to review the acceptance process.

51



### Oversight

- In October 2008, CalCPA was oversighted and issued a clean opinion with no findings.
- This oversight report is on CalCPA's peer review website.
- All administering entities oversight reports are on AICPA's peer review website.

52



### Oversight

- In the year that CalCPA is not oversighted by the AICPA, a member of the California Peer Review Committee performs the oversight.

53



### Other Oversight

- Periodically throughout the year, the AICPA performs desk oversight on reviews. The administering entity submits their work papers and the reviewer's work papers for reviews requested by the AICPA.
- Comments from the desk oversight are discussed at peer review committee meetings.

54



## Oversight

- AICPA annually prepares an oversight report that summarizes administering entities and AICPA activities. It is available on their website.
- Starting this year administering entities will prepare annual oversight reports.

55



## AICPA Peer Review Web Resources

- Peer review Standards
- Peer review Standards Interpretations
- Report Acceptance Body Handbook
- Peer Review Alerts
- System and Engagement review checklists

56



## CaICPA Web Resources

- Webcasts and articles from our magazine *California CPA*
- E-newsletter articles to peer reviewers

57



## California Completed System Reviews

### 2008

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	19	26%	51	33%	30	39%	23	52%	24	47%	147	37%
Unmod w/LOC	41	57%	88	56%	41	54%	20	45%	26	51%	216	54%
Modified	9	13%	16	10%	5	7%	1	2%	1	2%	32	8%
Adverse	3	4%	1	1%	0	0%	0	0%	0	0%	4	1%
<b>Total</b>	<b>72</b>	<b>100%</b>	<b>156</b>	<b>100%</b>	<b>76</b>	<b>100%</b>	<b>44</b>	<b>100%</b>	<b>51</b>	<b>100%</b>	<b>399</b>	<b>100%</b>

### 2007

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	38	33%	56	35%	34	44%	21	45%	15	47%	164	38%
Unmod w/LOC	49	42%	94	59%	39	50%	25	53%	17	53%	224	52%
Modified	26	22%	8	5%	5	6%	1	2%	0	0%	40	9%
Adverse	3	3%	1	1%	0	0%	0	0%	0	0%	4	1%
<b>Total</b>	<b>116</b>	<b>100%</b>	<b>159</b>	<b>100%</b>	<b>78</b>	<b>100%</b>	<b>47</b>	<b>100%</b>	<b>32</b>	<b>100%</b>	<b>432</b>	<b>100%</b>

### 2006

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	51	46%	75	38%	46	49%	19	45%	18	55%	210	44%
Unmod w/LOC	49	44%	104	51%	36	39%	19	45%	15	45%	223	46%
Modified	6	5%	15	8%	8	9%	4	10%	0	0%	33	7%
Adverse	5	5%	5	3%	3	3%	0	0%	0	0%	13	3%
<b>Total</b>	<b>111</b>	<b>100%</b>	<b>199</b>	<b>100%</b>	<b>93</b>	<b>100%</b>	<b>42</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>479</b>	<b>100%</b>

### 2005

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	32	33%	62	34%	35	50%	23	58%	21	54%	173	40%
Unmod w/LOC	39	40%	102	55%	28	40%	17	43%	18	46%	204	47%
Modified	21	21%	18	10%	7	10%	0	0%	0	0%	46	11%
Adverse	6	6%	3	2%	0	0%	0	0%	0	0%	9	2%
<b>Total</b>	<b>98</b>	<b>100%</b>	<b>185</b>	<b>100%</b>	<b>70</b>	<b>100%</b>	<b>40</b>	<b>100%</b>	<b>39</b>	<b>100%</b>	<b>432</b>	<b>100%</b>

## California Completed Engagement Reviews

### 2008

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	47	31%	39	35%	9	45%	0	0%	0	0%	95	34%
Unmod w/LOC	90	60%	66	60%	9	45%	1	100%	1	100%	167	59%
Modified	13	9%	4	4%	2	10%	0	0%	0	0%	19	7%
Adverse	0	0%	1	1%	0	0%	0	0%	0	0%	1	0%
<b>Total</b>	<b>150</b>	<b>100%</b>	<b>110</b>	<b>100%</b>	<b>20</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>282</b>	<b>100%</b>

### 2007

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	62	37%	39	36%	4	33%	2	50%	0	0%	107	37%
Unmod w/LOC	92	55%	60	55%	8	67%	1	25%	1	50%	162	55%
Modified	11	7%	8	7%	0	0%	1	25%	1	50%	21	7%
Adverse	1	1%	1	1%	0	0%	0	0%	0	0%	2	1%
<b>Total</b>	<b>166</b>	<b>100%</b>	<b>108</b>	<b>100%</b>	<b>12</b>	<b>100%</b>	<b>4</b>	<b>100%</b>	<b>2</b>	<b>100%</b>	<b>292</b>	<b>100%</b>

### 2006

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	72	38%	48	41%	4	27%	0	0%	0	0%	124	38%
Unmod w/LOC	98	52%	59	50%	11	73%	1	100%	1	100%	170	52%
Modified	17	9%	10	8%	0	0%	0	0%	0	0%	27	8%
Adverse	3	2%	1	1%	0	0%	0	0%	0	0%	4	1%
<b>Total</b>	<b>190</b>	<b>100%</b>	<b>118</b>	<b>100%</b>	<b>15</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>325</b>	<b>100%</b>

### 2005

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
Unmod no/LOC	59	38%	35	34%	7	54%	1	100%	0	0%	102	37%
Unmod w/LOC	84	54%	63	61%	6	46%	0	0%	0	0%	153	56%
Modified	11	7%	5	5%	0	0%	0	0%	0	0%	16	6%
Adverse	3	2%	1	1%	0	0%	0	0%	0	0%	4	1%
<b>Total</b>	<b>157</b>	<b>100%</b>	<b>104</b>	<b>100%</b>	<b>13</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>0</b>	<b>0%</b>	<b>275</b>	<b>100%</b>

## California Completed Report Reviews

### 2008

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
No Comments	108	72%	31	63%	1	100%	1	50%	1	100%	142	70%
With Comments	34	23%	17	35%	0	0%	1	50%	0	0%	52	26%
Significant Comments	7	5%	1	2%	0	0%	0	0%	0	0%	8	4%
<b>Total</b>	<b>149</b>	<b>100%</b>	<b>49</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>2</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>202</b>	<b>100%</b>

### 2007

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
No Comments	115	60%	30	70%	5	56%	0	0%	0	0%	150	62%
With Comments	54	29%	10	23%	2	22%	1	50%	0	0%	67	27%
Significant Comments	20	11%	3	7%	2	22%	1	50%	1	100%	27	11%
<b>Total</b>	<b>189</b>	<b>100%</b>	<b>43</b>	<b>100%</b>	<b>9</b>	<b>100%</b>	<b>2</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>244</b>	<b>100%</b>

### 2006

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
No Comments	97	57%	30	64%	2	100%	1	100%	0	0%	130	59%
With Comments	52	31%	13	28%	0	0%	0	0%	0	0%	65	30%
Significant Comments	20	12%	4	9%	0	0%	0	0%	0	0%	24	11%
<b>Total</b>	<b>169</b>	<b>100%</b>	<b>47</b>	<b>100%</b>	<b>2</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>0</b>	<b>0%</b>	<b>219</b>	<b>100%</b>

### 2005

# of Professionals	<u>Sole-Practit.</u>		<u>2 - 5</u>		<u>6 - 10</u>		<u>11 - 19</u>		<u>20 +</u>		<u>Total</u>	
No Comments	110	60%	27	59%	2	67%	1	100%	0	0%	140	60%
With Comments	57	31%	13	28%	1	33%	0	0%	1	100%	72	31%
Significant Comments	17	9%	6	13%	0	0%	0	0%	0	0%	23	10%
<b>Total</b>	<b>184</b>	<b>100%</b>	<b>46</b>	<b>100%</b>	<b>3</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>235</b>	<b>100%</b>

## How to Become a Peer Reviewer

Performing peer reviews provides members with a way to "give back to the profession." To become a peer reviewer, an individual must -

- Be a member of the AICPA in good standing, (that is, AICPA membership in active, non-suspended status) licensed to practice as a CPA.
- Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner<sup>1</sup> of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.
- Be associated with a firm (or all firms if associated with more than one firm) that has received a report with the peer review rating of *pass*<sup>2</sup> for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months<sup>3</sup>.
- Possess current knowledge of professional standards applicable to the kind of practice to be reviewed, including quality control and peer review standards. This includes recent experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the engagements that the individual will be reviewing.
- Have at least five years of recent experience in the practice of public accounting in the accounting or auditing function<sup>4</sup>.
- Have provided the administering entity with information that accurately reflects the qualification of the reviewer including recent industry experience, which is updated on a timely basis.

### Additional requirements that individuals must meet to be a Team Captain or Review Captain.

- To be a System Review team captain, a reviewer must be a partner. To be a review captain on an Engagement Review, it is not necessary to be a partner.
- Have completed peer review training that meets the requirements established by the AICPA Peer Review Board.

### Additional requirements that individuals must meet to perform peer reviews of firms required to be administered by the National Peer Review Committee (National PRC).

- A reviewer ordinarily must currently be with a firm whose most recent review was administered by the National PRC or the Center for Public Accounting Firms' Peer Review Program. Note: this is not a requirement for a peer reviewer on a review of a firm that elects (but is not required) to have their peer review administered by the National PRC.

For additional information, please refer to [AICPA Standards for Performing and Reporting on Peer Reviews and other related guidance](#).

If you are interested in becoming a peer reviewer or have any questions about peer review, please send an email to [BecomeARviewer@aicpa.org](mailto:BecomeARviewer@aicpa.org). We look forward to hearing from you!

<sup>1</sup> If the peer reviewer's firm's most recent peer review was an Engagement or Report then the peer reviewer is not eligible to be a System Review Team Captain.

<sup>2</sup> A peer review report with a rating of *pass* was previously referred to as an unmodified report (with or without a letter of comments). If a firm's most recent peer review rating was a *pass with deficiencies or fail*, the firm's members are not eligible to perform peer reviews.

<sup>3</sup> If a firm's most recent review was a report review, then the firm's members are not eligible to perform peer reviews.

<sup>4</sup> For this purpose, *recent* means having experience within the last five years in the industries and related levels of service for which engagements are reviewed. However, a reviewer should be cautious of those high-risk engagements or industries in which new standards have been issued. For example, in those cases in which new industry standards or practices have occurred in the most recent year, it may be necessary to have *current* practice experience in that industry in order to have *recent* experience.

AAA



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**Peer Review Program**

February 2, 2009

Thomas Parry  
Benson & Neff, CPAs  
1 Post St., #2150  
San Francisco, CA 94104

Dear Mr. Parry:

On January 16, 2009, the AICPA Peer Review Board - Oversight Task Force accepted the letters on the most recent oversight visit for the California Society of CPAs, the Administering Entity for the AICPA Peer Review Program, and the Administering Entity's response thereto. A copy of this acknowledgement, the two oversight visit letters and your response have now been posted to the AICPA Peer Review Program web site.

The next state oversight visit will be in 2010.

The AICPA Peer Review Board appreciates your cooperation and efforts in making the peer review program a success.

Sincerely,

*Robert C. Bezgin*

Robert C. Bezgin, Chair  
AICPA Peer Review Board  
Oversight Task Force

cc: Loretta Doon, Executive Director, California Society of CPAs  
Linda McCrone, Director of Technical Services, California Society of CPAs  
Susan Allison, AICPA Peer Review Program Technical Manager

**Peer Review Program**

October 24, 2008

Thomas J. Parry, Chair, Peer Review Committee  
California Society of CPAs  
1235 Radio Road  
Redwood City, California 94065-1217

Re: Oversight Visit to the California Society of CPAs

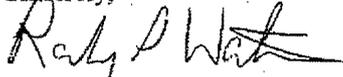
Dear Mr. Parry:

On October 22-24, 2008, we performed oversight procedures on the California Society of CPAs' administration of the AICPA Peer Review Program. An oversight visit is designed to evaluate and enhance the peer review program and includes testing the administrative entity's compliance with administrative procedures established by the AICPA Peer Review Board (Board) and determine whether the peer reviews are being conducted and reported on consistently and in accordance with the *Standards for Performing and Reporting on Peer Reviews* (standards) promulgated by the board.

In performing our procedures, we considered the objectives of the oversight program. Those objectives state there should be reasonable assurances that: 1) administering entities are complying with the administrative procedures established by the Board as set forth in the *Administering Entity Peer Review Program Administrative Manual*, 2) the reviews are being conducted and reported upon in accordance with the standards, 3) the results of the reviews are being evaluated on a consistent basis in all jurisdictions, and 4) the information provided via the internet and other media by State CPA Societies is accurate and timely. The oversight was conducted according to the procedures in the *AICPA Peer Review Program Oversight Handbook*.

Based on the work performed, we concluded that the California Society of CPAs has complied with the administrative procedures and standards in all material respects as established by the Board.

Sincerely,



Randy S. Watson, Oversight Task Force  
AICPA Peer Review Program

cc: Loretta Doon, Executive Director  
Linda McCrone, Director of Technical Services  
Robert C. Bezgin, Chair, Oversight Task Force  
Susan W. Allison, Technical Manager, AICPA Peer Review Program

**Peer Review Program**

October 24, 2008

Thomas J. Parry, Chair, Peer Review Committee  
California Society of CPAs  
1235 Radio Road  
Redwood City, California 94065-1217

Re: Oversight Visit to the California Society of CPAs

Dear Mr. Parry:

The oversight visit was conducted according to the procedures in the *AICPA Peer Review Oversight Handbook*. An oversight program is designed to improve the Administering Entity's administration of the AICPA Peer Review Program (program) through feedback on its policies and procedures, and to provide resource assistance from an AICPA Peer Review Board (Board) member on both technical and administrative matters.

In conjunction with the oversight visit of the California Society of CPAs, the Administering Entity for the program, conducted on October 22-24, 2008, the following observations are being communicated.

Administrative Procedures

On the morning of October 22, 2008, we met with the Director and the Supervisor to review the program's administration. We believe the administrative processes were being handled in a manner consistent with peer review standards.

We reviewed the files, which were still open due to follow-up actions, which had not yet been completed. We found that the follow-up actions were being effectively monitored for completion by the administrative staff and the Peer Review Committee.

We also reviewed the policies and procedures for the granting of extensions. We found that the Director handles short-term extension requests with discussion from the committee when the circumstances warrant.

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

The California Society of CPAs has developed a good backup plan to support the Director of Technical Services and Technical Reviewers should any of them become unable to serve in that capacity.

## Peer Review Program

### Web-Site and Other Media Information

We met with the Director and Supervisor to review the administering entity's procedures to determine if the information disseminated regarding the AICPA Peer Review Program by the administering entity on their web-site and other media information is accurate and timely.

After reviewing the web-site material and other media information, we noted that the administering entity maintains current information as it relates to the peer review program. In addition, the administering entity has an individual who is responsible for maintaining the web-site on a current basis to ensure peer review information is accurate and timely.

### Working Paper Retention

We reviewed the completed working papers and found substantial compliance with the working paper retention policies.

### Technical Review Procedures

We met with one of the two technical reviewers to discuss procedures. Together, they perform virtually all of the technical reviews. The technical reviewers are very experienced reviewers.

We reviewed the reports, letters of comment, letters of response, and the working papers for thirty eight reviews. I believe that all review issues were addressed by the technical reviewers properly before reviews were presented to the committee. This helped the acceptance process to be effective and efficient.

### Review Presentation

The reviews brought to the Report Acceptance Body (RAB) had complete technical reviews performed. Open issues had been disposed of to the extent possible. Team Captains had been contacted as needed by the technical reviewer prior to presentation to the RAB.

### Committee Procedures

We met with the committee chair and discussed their procedures for disseminating the comments resulting from the AICPA working paper oversights to the appropriate individuals. It was determined the committee issued reviewer feedback when appropriate.

On October 23-24, 2008, we attended the on-site peer review committee meeting as well as the Executive Committee meeting. We observed the committee's acceptance process and we offered our comments at the close of discussions.

## Peer Review Program

There were three concurrent RAB meetings. We requested that each RAB hold their discussion on selected reviews until one of us were present. The meetings were very orderly. It was apparent that the committee members had reviewed the reports and working papers thoroughly prior to the meeting and had a good understanding of the program to reach an appropriate decision for each review.

Appropriate decisions were made in the acceptance process, appropriate follow-up actions were assigned and reviewers were being appropriately monitored. Reviews were being presented to the RAB on a timely basis.

The Committee was giving appropriate consideration to the problem reviewers.

Team Captain feedback forms were being sent as appropriate.

### Oversight Program

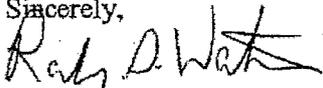
The California Society of CPAs' peer review committee has adopted a formal oversight program which is well documented. We reviewed the document and found it to be comprehensive.

### Summary

Noting no matters or concerns, we concluded the California Society of CPAs has complied with the administrative procedures and standards in all material respects as established by the board.

The foregoing matters were considered in determining our conclusion set forth in our letter dated October 24, 2008 and these matters do not change our conclusion.

Sincerely,



Randy S. Watson, Member, Oversight Task Force  
AICPA Peer Review Program

cc: Loretta Doon, Executive Director  
Linda McCrone, Director of Technical Services  
Robert C. Bezgin, Chair, Oversight Task Force  
Susan W. Allison, Technical Manager, AICPA Peer Review Program

December 11, 2008

Robert C. Bezgin, Chair  
AICPA Peer Review Board  
Oversight Task Force  
Palladian I Corporate Center  
220 Leigh Farm Road  
Durham, NC 27707-8110

Re: Oversight Visit to California Society of CPAs

Dear Mr. Bezgin:

We have received and reviewed the oversight visit letters issued in connection with the AICPA Peer Review Board's oversight visit to the California Society of CPAs by Oversight Task Force members, Robert C. Bezgin and Randy S. Watson, on October 22-24, 2008. The oversight visit letters have been disseminated to all peer review program committee members, administrative staff, and technical reviewers. We are pleased to note there were no specific observations or comments included in the oversight letters on which a written response was required. This letter represents our acknowledgement of the oversight visit.

We appreciate the review by Robert C. Bezgin and Randy S. Watson of our administration of the AICPA Peer Review Program.

Sincerely,

Thomas J. Parry, Chair  
California Society of CPAs Peer Review Committee

c: Loretta Doon, CEO  
Susan W. Allison, Technical Manager, AICPA Peer Review Program

## Memorandum

PROC Agenda Item VI.  
March 4, 2011

To : PROC Members

Date : February 16, 2011  
Telephone: (916) 561-1731  
Facsimile : (916) 263-3673  
E-mail : rixta@cba.ca.gov

From :   
Rafael Ixta, Chief  
Enforcement Division

Subject : 2011 Year-at-a-Glance PROC Calendar

The attached 2011 Year-at-a-Glance California Board of Accountancy Peer Review Oversight Committee (PROC) Calendar has been updated since the January 20, 2011, PROC meeting.

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

- California Board of Accountancy (CBA)
- CBA Peer Review Oversight Committee
- American Institute of Certified Public Accountants' Peer Review Board
- California Society of Certified Public Accountants' Report Acceptance Body
- California Society of Certified Public Accountants' Peer Review Committee
- National Association of State Boards of Accountancy PROC Summit

This calendar is provided to assist you in assigning members to participate in meetings held by the Board-recognized peer review program and its administering entity.

Please bring your 2011 calendars to the meeting to facilitate the scheduling process.

Attachment

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
PEER REVIEW OVERSIGHT COMMITTEE (PROC)  
2011 MEETING DATES/LOCATIONS**

(as of January 21, 2011)

**JANUARY 2011**

S	M	T	W	Th	F	S
						1
2	3	4		6	7	8
9	10	11	12	T-9am	13	14
16	17	18	19	20	SJ	21
23	24	25	26	27	FL	28
30	31		T-2pm	SC	SC	

**FEBRUARY 2011**

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

**MARCH 2011**

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

**APRIL 2011**

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17	18	19	20	21	22	23
24	25	26	T-9am	27	28	29
						30

**MAY 2011**

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15	16	17	18	19	20	21
22	TN	23	24	NC	NC	25
29	30	31				

**JUNE 2011**

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

**JULY 2011**

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

**AUGUST 2011**

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

**SEPTEMBER 2011**

S	M	T	W	Th	F	S
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11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	SC	SC	29
						30

**OCTOBER 2011**

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

**NOVEMBER 2011**

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

**DECEMBER 2011**

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

 10-day Meeting Notice Date  
 Deadline for Exec Suriname

**COMMITTEE/TASK FORCE**

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

**GENERAL LOCATION**

- NC-NORTHERN CALIFORNIA
- SC-SOUTHERN CALIFORNIA
- SJ-SAN JOSE
- FL-FLORIDA
- TN-TENNESSEE
- PS - PALM SPRINGS
- NCar - NORTH CAROLINA
- T-TELECONFERENCE

-  ON SHADED DATES CBA OFFICE IS CLOSED
-  CBA MEETING
-  PROC MEETING
-  AICPA PRB MEETING
-  CalCPA RAB MEETING
-  CalCPA PRC MEETING
-  NASBA PROC SUMMIT

## Memorandum

PROC Agenda Item VIII.

March 4, 2011

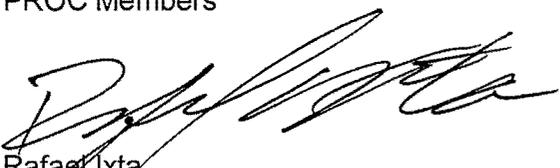
To : Nancy Corrigan, Chair, PROC  
PROC Members

Date: February 18, 2011

Telephone : (916) 561-1731

Facsimile : (916) 263-3673

E-mail: rixta@cba.ca.gov

From :   
Rafael Ixta  
Chief, Enforcement Division

Subject : AICPA Peer Review Program Exposure Draft, January 31, 2011

On January 31, 2011 the AICPA issued an Exposure Draft titled "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Peer Reviews of Compilations Performed under SSARS 19."

The proposal revises the Standards such that applicable documentation required by professional standards for compilation engagements performed under SSARS should be reviewed in an engagement review.

The Exposure Draft has been referred to the CBA Peer Review Oversight Committee (PROC) to prepare comments for consideration by the California Board of Accountancy (CBA) at its March 24-25, 2011 meeting. The CBA's written comments are due to AICPA by April 29, 2011.

Attached to this memorandum is a copy of the AICPA Peer Review Exposure Draft, dated January 31, 2011.

Staff will be at the meeting to answer any questions PROC members might have.

Attachment

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# **EXPOSURE DRAFT**

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## **PROPOSED REVISIONS TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS**

### ***PERFORMING AND REPORTING ON PEER REVIEWS OF COMPILATIONS PERFORMED UNDER SSARS 19***

**January 31, 2011**

**Comments are requested by April 29, 2011**

Prepared by the AICPA Peer Review Board for comment from persons interested  
in the AICPA Peer Review Program.

Comments should be received by April 29, 2011 and addressed to  
Rachelle Drummond, Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)

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January 31, 2011

This exposure draft has been approved for issuance by the AICPA Peer Review Board, and contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the *Standards for Performing and Reporting on Peer Reviews* ("*Standards*").

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Rachelle Drummond, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by April 29, 2011. Electronic submissions of comments or suggestions in Microsoft Word should be sent to PR\_expdraft@aicpa.org by April 29, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program and will be available for public inspection at the offices of the AICPA after April 29, 2011 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* are struck through, and new items are underlined).

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

***Daniel J. Hevia***

Daniel J. Hevia  
Chair  
AICPA Peer Review Board

**AICPA Peer Review Board  
2010-2011**

Daniel J. Hevia, Chair\*  
Tracey C. Golden, Vice Chair\*  
Frank Boutillette\*  
Betty Jo Charles  
J. Phillip Coley  
Richard DelGaudio  
Jake D. Dunton\*  
Scott W. Frew  
G. William Graham\*  
Jerry W. Hensley

Clayton Lynn Holt  
James N. Kennedy  
Henry J. Krostich\*  
John J. Lucas  
David J. Moynihan  
Stephanie R. Peters  
J. Clarke Price  
Robert Rohweder  
Michael Solakian\*  
Randy Watson

*\*Standards Task Force Member*

**Non-PRB Standards Task Force Members  
2010-2011**

Jerry Cross

Heather Reimann

**AICPA Staff**

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Senior Vice President  
Member Quality and International Affairs

James Brackens, Jr.  
Vice President  
Firm Quality & Practice Monitoring

Gary Freundlich  
Technical Director  
AICPA Peer Review Program

Susan Lieberum  
Senior Technical Manager  
AICPA Peer Review Program

Fran McClintock  
Senior Technical Manager  
AICPA Peer Review Program

Rachelle Drummond  
Technical Manager  
AICPA Peer Review Program

## Explanatory Memorandum

### Introduction

This memorandum provides background to the proposed revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews* ("Standards"). The proposed revisions are for paragraphs 102, 107, and 108 of the Standards.

### Background

In December 2009, the AICPA's Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 19, *Compilation and Review Engagements*. SSARS 19 is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010. The purpose of SSARS No. 19 was to provide a conceptual underpinning that clarifies performance and reporting standards for compilation and review engagements. Among other items, SSARS No. 19 established enhanced documentation requirements for compilation and review engagements.

Prior to the issuance of SSARS 19, SSARS were silent as to the documentation requirements for compilation engagements. With its issuance, however, accountants are now required to include the following documentation for all compilation engagements:

- The written communication with management establishing an understanding regarding the services to be performed or justification for the lack of written communication and how alternative procedures performed were sufficient.
- Any findings or issues that, in the accountant's judgment, are significant; for example, the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings, and, to the extent the accountant had any questions or concerns as a result of his or her compilation procedures, how those issues were resolved.
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.

With the issuance of SSARS No. 19, the ARSC recodified AR Section 100, *Compilation and Review of Financial Statements*, into separate AR sections for compilation and review engagements. In addition, SSARS No. 19 superseded AR section 20, *Defining Professional Requirements in Statements on Standards for Accounting and Review Services* and AR section 50, *Standards for Accounting and Review Services*. In place of AR sections 20, 50, and 100, the requirements and guidance were separated into the following sections:

- AR Section 60 - Framework for Performing and Reporting on Compilation and Review Engagements
- AR Section 80 - Compilation of Financial Statements
- AR Section 90 - Review of Financial Statements

### Effective Date

The proposed revisions would be effective for peer reviews commencing on or after July 1, 2011.

### Changes From Existing Standards

Under current Standards for an Engagement Review, documentation is not reviewed for compilation engagements performed under SSARS. However, paragraph 108d does state that a review captain may request to review all other documentation on compilation engagements performed under SSARS if the firm has represented that the documentation is appropriate but the review captain has cause to believe that the documentation may not have been prepared in

accordance with applicable professional standards, or to support presentation or measurement issues relating to the financial statements or information, if necessary.

The proposed revisions will revise the Standards such that applicable documentation required by professional standards for compilation engagements performed under SSARS, should be reviewed.

### **Guide for Respondents**

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. When a respondent agrees with proposals in the exposure draft, it will be helpful for the PRB to be made aware of this view.

Comments and responses should be sent to Rachelle Drummond, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by April 29, 2011. Electronic submissions of comments or suggestions in Microsoft Word should be sent to PR\_expdraft@aicpa.org by April 29, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program and will be available for public inspection at the offices of the AICPA after April 29, 2011 for a period of one year.

### **Comment Period**

The comment period for this exposure draft ends on April 29, 2011.

## Exposure Draft

### Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews of Compilations Performed Under SSARS 19

.102 The objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations and, ~~except for compilation engagements performed under SSARS,~~ the applicable documentation required by professional standards.

.107 For each engagement selected for review, the reviewed firm should submit the appropriate financial statements or information and the accountant's report, masking client identity if it desires, along with specified background information, representations about each engagement and, ~~except for compilation engagements performed under SSARS,~~ the firm's documentation required by applicable professional standards for each of these engagements. There is a presumption that all engagements otherwise subject to the peer review will be included in the scope of the review. However, in the rare situations when exclusions or other limitations on the scope of the review are being contemplated, a reviewer should carefully consider the implications of such exclusion. This includes communicating with the firm and the administering entity the effect on the review and on the ability of the reviewer to issue a peer review report.

.108 The evaluation of each engagement submitted for review includes:

- a. Consideration of the financial statements or information and the related accountant's report on the compilation and review engagements performed under SSARS and engagements performed under SSAEs.
- b. Consideration of the documentation on the engagements performed via reviewing background and engagement profile information, representations made by the firm, and inquiries.
- c. ~~For engagements other than compilation engagements performed under SSARS, review~~ Review of all other documentation required by applicable professional standards on the engagements.
- d. ~~The review captain may request to review all other documentation on compilation engagements performed under SSARS if the firm has represented that the documentation is appropriate but the review captain has cause to believe that the documentation may not have been prepared in accordance with applicable professional standards, or to support presentation or measurement issues relating to the financial statements or information, if necessary.~~

## Memorandum

PROC Agenda Item IX.  
March 4, 2011

To : PROC Members

Date : February 22, 2011  
Telephone : (916) 561-1720  
Facsimile : (916) 263-3673  
E-mail : [afreeman@cba.ca.gov](mailto:afreeman@cba.ca.gov)

From :   
April Freeman  
Peer Review Analyst

Subject : Follow-up Letters to Licensees

Attached are the final drafts of two letters that will remind individual licensees, partnerships, and corporations with license numbers ending in 01-33 that they are subject to the peer review reporting requirement in the current year.

Staff incorporated the suggestions made by PROC members at the January 20, 2011 meeting, making the reminder letter more clear and using stronger language. In an effort to keep the letters as clear and concise as possible, individual licensees will receive a different letter than corporations and partnerships. This will alleviate the need to explain the reporting requirements for both firms and sole proprietors in a single letter.

Further, an "if/then" table outlining the report requirements has replaced much of the narrative language. This format allows licensees to easily determine their reporting requirement based on their specific circumstances.

The letter to individual licensees is **Attachment 1**. The letter to corporations and partnerships is **Attachment 2**.

It is anticipated that these letters will be mailed towards the end of March.

Enforcement staff will be available at the meeting to respond to questions.

Attachments



DEPARTMENT OF CONSUMER AFFAIRS  
 CALIFORNIA BOARD OF ACCOUNTANCY  
 2000 EVERGREEN STREET, SUITE 250  
 SACRAMENTO, CA 95815-3832  
 TELEPHONE: (916) 263-3680  
 FACSIMILE: (916) 263-3675  
 WEB ADDRESS: <http://www.cba.ca.gov>



DATE

Name  
 Firm  
 Address  
 City, State Zip

Dear (Firm or Full Licensee Name):

License #:

PIN:

California-licensed Certified Public Accountants with an individual license number ending in 01-33 are required to report their peer review status to the California Board of Accountancy (CBA) by July 1, 2011. **Reporting of peer review status is required even if you are not required to undergo peer review.**

You may use the following chart to determine your peer review reporting requirement:

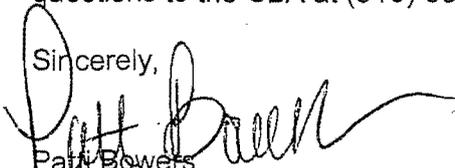
IF YOU:	THEN YOU ARE:	AND YOU MUST:	AND:
Work for a firm (e.g. sole proprietor, partnership or corporation) as an employee, partner or shareholder.	Not subject to peer review.	Report this information to the CBA by 7/1/11.	
Have not provided accounting and auditing services since 1/1/10.			
Provided accounting and auditing services since 1/1/10.	Subject to peer review.	Have a peer review report accepted by a Board-recognized peer review program.	Report the peer review results to the CBA by 7/1/11.

The *Peer Review Reporting Form* is available for online submission via the CBA Web site at [www.cba.ca.gov](http://www.cba.ca.gov). The PIN number provided above will enable you to log-in and fulfill your reporting requirements. You can also download a hard copy of the *Peer Review Reporting Form* from the Web site or request it directly from the CBA.

Sole proprietors requiring a peer review that have not already enrolled in the California Society of Certified Public Accountants' (CalCPA) Peer Review Program, should enroll immediately as the process can be lengthy. CalCPA can be contacted by telephone at (650) 522-3094 or by e-mail at [peerreview@calcpa.org](mailto:peerreview@calcpa.org). Their Web site is [www.calcpa.org](http://www.calcpa.org).

**Failure to report may result in enforcement action and impact your license renewal.**

For additional information, please refer to the FAQs on the CBA Web site. You can also direct questions to the CBA at (916) 561-1706 or [peerreviewinfo@cba.ca.gov](mailto:peerreviewinfo@cba.ca.gov).

Sincerely,  
  
 Paul Bowers  
 Executive Officer

**ATTACHMENT 1**



DEPARTMENT OF CONSUMER AFFAIRS  
 CALIFORNIA BOARD OF ACCOUNTANCY  
 2000 EVERGREEN STREET, SUITE 250  
 SACRAMENTO, CA 95815-3832  
 TELEPHONE: (916) 263-3680  
 FACSIMILE: (916) 263-3675  
 WEB ADDRESS: <http://www.cba.ca.gov>



DATE

Name  
 Firm  
 Address  
 City, State Zip

Dear (Firm or Full Licensee Name):

License #:

PIN:

All California-licensed accountancy partnerships and corporations with license numbers ending in 01-33 are required to report their peer review status to the California Board of Accountancy (CBA) **by July 1, 2011. Reporting of peer review status is required even if you are not required to undergo peer review.**

You may use the following chart to determine your peer review reporting requirement:

IF THE FIRM:	THEN IT IS:	AND IT MUST:	AND:
Operates under the umbrella of another partnership or corporation.	Not subject to peer review.	Report this information to the CBA by 7/1/11.	
Has not provided accounting and auditing services since 1/1/10.			
Provided accounting and auditing services since 1/1/10.	Subject to peer review.	Have a peer review report accepted by a Board-recognized peer review program.	Report the peer review results to the CBA by 7/1/11.

The *Peer Review Reporting Form* is available for online submission via the CBA Web site at [www.cba.ca.gov](http://www.cba.ca.gov). The PIN number provided above will enable you to log-in and fulfill your reporting requirements. You can also download a hard copy of the *Peer Review Reporting Form* from the Web site or request it directly from the CBA.

Firms requiring a peer review that have not already enrolled in the California Society of Certified Public Accountants' (CalCPA) Peer Review Program should enroll immediately as the process can be lengthy. CalCPA can be contacted by telephone at (650) 522-3094 or by e-mail at [peerreview@calcpa.org](mailto:peerreview@calcpa.org). Their Web site is [www.calcpa.org](http://www.calcpa.org).

**Failure to report may result in enforcement action and impact your license renewal.**

For additional information, please refer to the FAQs on the CBA Web site. You can also direct questions to the CBA at (916) 561-1706 or [peerreviewinfo@cba.ca.gov](mailto:peerreviewinfo@cba.ca.gov).

Sincerely,

 A handwritten signature in black ink, appearing to read 'Patti Bowers'.
 

Patti Bowers  
 Executive Officer

**ATTACHMENT 2**