

California Board of Accountancy

# Peer Review Oversight Committee (PROC) Meeting

August 19, 2016



**11:00 a.m. – 3:00 p.m.**

California Board of Accountancy  
2000 Evergreen Street  
Sacramento, CA 95815  
Telephone: (916) 263-3680



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



**CBA MISSION:** To protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards

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

**PROC MEETING  
NOTICE & AGENDA**

**August 19, 2016  
11:00 a.m. – 3:00 p.m.**

California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815  
Telephone: (916) 263-3680

**Important Notice to the Public**

All times indicated, other than those identified as "time certain," are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the PROC Chair. The meeting may be canceled without notice. For verification of the meeting, call (916) 561-4366 or access the CBA website at [www.cba.ca.gov](http://www.cba.ca.gov).

- I. Call to Order, Roll Call, Establishment of Quorum, and Opening Remarks (**Robert Lee, Chair**).
- II. Report of the Committee Chair (**Robert Lee**).
  - A. Approval of the May 6, 2016, Peer Review Oversight Committee Meeting Minutes.
  - B. Report on the May 19-20, 2016, and July 21-22, 2016, California Board of Accountancy Meetings (**Robert Lee**).
  - C. Discussion Regarding Proposed Peer Review Oversight Committee Meeting Dates for 2017.
  - D. Discussion of Emerging Issues and/or National Standards Regarding the Peer Review Program Impacting California.
- III. Report on Peer Review Oversight Committee Oversight Activities Conducted since May 6, 2016 (**Robert Lee**).
  - A. Report on the May 26-27, 2016, California Society of Certified Public Accountants Peer Review Committee Meeting.
  - B. Report on the July 19, 2016 National Association of State Boards of Accountancy Compliance Assurance Committee Meeting.
  - C. Report on the August 8-10, 2016, American Institute of Certified Public Accountants Peer Review Conference.

- D. Report on the August 11, 2016, American Institute of Certified Public Accountants Peer Review Board Meeting.
  - E. Report on Notices Posted on the American Institute of Certified Public Accountants' and National Association of State Boards of Accountancy's Websites Regarding Changes and Updates to the Peer Review Program.
  - F. Discussion on the Revisions to the Peer Review Oversight Committee Summary of Administrative Site Visit Checklist.
  - G. Discussion on the Peer Review Oversight Committee Summary of Peer Review Committee Meeting and Compliance Assurance Committee Meeting Checklists (**Ben Simcox, Enforcement Manager**).
  - H. Assignment of Future Peer Review Oversight Committee Oversight Roles, Responsibilities, Activities, and Assignments (**Siek Run, Enforcement Analyst**).
- IV. Report of the Enforcement Chief (**Dominic Franzella, Chief, Enforcement Division**).
- A. Discussion of Potential Items to Include in the 2016 Peer Review Oversight Committee's Annual Report.
  - B. Discussion on the American Institute of Certified Public Accountants Proposed Evolution of Peer Review Administration, Issued July 2016.
  - C. Discussion of the Peer Review Oversight Committee Oversight Roles and Responsibilities as Approved by the California Board of Accountancy.
- V. Closing Business (**Robert Lee**).
- A. Public Comments for Items Not on the Agenda.
  - B. Agenda Items for Future Peer Review Oversight Committee Meetings.
- VI. Adjournment.

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the PROC are open to the public. Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the PROC prior to the PROC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the PROC, but the PROC Chair may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the PROC to discuss items not on the agenda; however, the PROC can neither discuss nor take official action on these items at the time of the same meeting. CBA members who are not members of the PROC may be attending the meeting. However, if a majority of members of the full board are present at the PROC meeting, members who are not members of the PROC may attend the meeting only as observers.

The meeting is accessible to individuals with physical disabilities. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting Siek Run at (916) 561-4366, or by email at [Siek.Run@cba.ca.gov](mailto:Siek.Run@cba.ca.gov), or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

Siek Run, Enforcement Analyst  
(916) 561-4366 or [Siek.Run@cba.ca.gov](mailto:Siek.Run@cba.ca.gov)  
California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815

An electronic copy of this agenda can be found at [www.cba.ca.gov](http://www.cba.ca.gov).



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**PROC Item II.A.**  
 August 19, 2016

**DRAFT**

**DEPARTMENT OF CONSUMER AFFAIRS**  
**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)**

**MINUTES OF THE**  
**May 6, 2016**  
**PEER REVIEW OVERSIGHT COMMITTEE (PROC) MEETING**

Wyndham Irvine – Orange County Airport  
 17941 Von Karmen Avenue  
 Irvine, CA 92614  
 Telephone: (949) 863-1999

**I. Call to Order, Roll Call, Establishment of Quorum, and Opening Remarks.**

Robert Lee, CPA, PROC Chair, called the meeting of the PROC to order at 11:02 a.m. on Friday, May 6, 2016. The meeting adjourned at 12:45 p.m.

Mr. Lee read the following into the record:

“The CBA’s mission is to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards.

This mission is derived from the statutory requirement that protection of the public shall be the highest priority for the California Board of Accountancy in exercising its licensing, regulatory, and disciplinary functions. Whenever the protection of the public is inconsistent with other interests sought to be promoted, the protection of the public shall be paramount.”

Members

Robert Lee, CPA, Chair	11:02 a.m. – 12:45 p.m.
Jeffrey De Lyser, CPA, Vice-Chair	11:02 a.m. – 12:45 p.m.
Sherry McCoy, CPA	11:02 a.m. – 12:45 p.m.
Katherine Allanson, CPA	11:02 a.m. – 12:45 p.m.
Nancy Corrigan, CPA	11:02 a.m. – 12:45 p.m.
Kevin Harper, CPA	11:02 a.m. – 12:45 p.m.
Renee Graves, CPA	11:02 a.m. – 12:45 p.m.

CBA Staff

Dominic Franzella, Chief, Enforcement Division

Ben Simcox, CPA, Enforcement Manager

Siek Run, Enforcement Analyst

Other Participants

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

II. Report of the Committee Chair.

A. Approval of the January 29, 2016 PROC Meeting minutes.

Mr. Lee requested members to review and provide feedback or edits to the January 29, 2016 PROC Meeting minutes.

Members provided corrections to the minutes.

**It was moved by Mr. Lee and seconded by Mr. Harper to approve the meeting minutes as corrected.**

**Yes: Mr. Lee, Ms. McCoy, Ms. Allanson, Ms. Corrigan, Mr. De Lyser, Mr. Harper, and Ms. Graves.**

**The motion passed.**

B. Report on the March 17-18, 2016 CBA Meeting.

Mr. De Lyser provided the PROC a summary of the CBA March 17-18, 2016 meeting and highlighted actions taken on a wide variety of topics discussed during the meeting. Mr. Lee recommends that the PROC revisit the CBA's webcast for the January and March 2016 meetings and listen to presentations regarding the Peer Review Program by: Ian Dingwall, the Department of Labor (DOL) Chief Accountant, Jim Brackens from American Institute of Certified Public Accountants (AICPA), and Maria Caldwell, Chief Legal Officer and Director of Compliance Services from the National Association of State Boards of Accountancy (NASBA). Mr. De Lyser indicated that the next CBA meeting will be held in Los Angeles on May 19, 2016.

C. Discussion of Emerging Issues and/or Changes to the American Institute of Certified Public Accountants' (AICPA) Peer Review Standards in California Relating to Qualification and Training Requirements for Peer Reviewers, Effective May 1, 2016.

Mr. De Lyser presented findings from his research to the PROC. Mr. De Lyser explained that the AICPA website had good descriptions regarding the

May 1, 2016 changes or qualifications and training requirements for peer reviewers. He highlighted the website's Facts and Questions section, pertaining to the new standards as follows:

- Peer review training for initial qualification
- Becoming a Peer Review Team or Review Captain
- Ongoing qualification
- Must-Select

D. Discussion on the PROC Summary of Administrative Site Visit Checklist.

The PROC discussed the California Society of Certified Public Accountants (CalCPA) PROC Summary of Administrative Site Visit checklist, its origin, its current state, and whether the minimum requirements are sufficient for a site visit. Mr. Harper and Ms. McCoy recommended that future administrative site visits include:

- Committee risk assessment
- Gathering of information from AICPA and CalCPA as they relate to policies, procedures, administration, reports, samples, and operating statistics
- Develop an annual work plan

The PROC assigned Mr. Harper and Ms. McCoy to move forward with their research, develop a draft site visit checklist which would incorporate a risk assessment, include the minimum requirements, develop a work plan, and to coordinate with Ms. McCoy for a site visit. Ms. Graves volunteered to assist with research.

III. Report on PROC Oversight Activities Conducted since December 9, 2015.

A. Report on the February 24, 2016 California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body (RAB) Meeting.

Ms. Corrigan participated in this conference call and reported on the meeting. She described the RAB members as being attentive, very technological, and the number of reports appeared to have been reduced. She explained that the RAB meeting was good and impressive as usual.

B. Report on the February 25, 2016 CalCPA RAB Meeting.

Ms. Graves participated in this conference call and reported on the meeting. Ms. Graves observed 49 reports and noted that the failed reports were related to Employee Retirement Income Security Act audits and A-133 audits.

C. Report on the March 22, 2016 CalCPA RAB Meeting.

Mr. Harper participated in this conference call and reported on the meeting. He described the RAB members as knowledgeable, spent the appropriate amount of time, and he was impressed.

D. Report on the April 28, 2016 CalCPA RAB Meeting.

Mr. De Lyser participated in this conference call and reported on the meeting. He observed 45 reviews. He noted that the RAB worked well together to address their difference in opinions, issues, and concerns. He found this meeting very interesting.

E. Report on the May 3, 2016 AICPA Peer Review Board (PRB) Meeting.

Ms. Corrigan participated in this conference call and reported on the meeting. She explained that the PRB approved the AICPA Exposure Draft during the meeting. She noted that the meeting focused primarily on trainings to improve the RAB technical reviewers, in response to the high ratio of non-conforming reviews of the AICPA oversight must-select engagements.

Ms. McCoy explained that as part of the movement to enhance audit quality, discussions occurred between the AICPA and other state CPA societies regarding the future of peer review, a plan to reduce the existing 42 administering entities (AE) to eight to 10 AEs. She further explained that states have to decide if they will become a super AE and absorb over 1,000 reviews each year or go to other states.

F. Report on Peer Review-Related Updates from the AICPA's and National Association of State Boards of Accountancy's (NASBA) Websites.

Ms. Graves presented findings from her research to the PROC. Ms. Graves reviewed the AICPA monthly alerts for January, February, March, and April 2016. The April alert highlighted the DOL's finding during its assessment of employee benefit plan audits, which resulted in a high ratio of non-confirming engagements reviewed by experts. She further noted that the April alert highlighted that the DOL sent out a communication to firms advising firms that the DOL intends to conduct reviews of the selected firms.

G. Discussion on the PROC Summary of Peer Review Subcommittee RAB and Peer Review Board Meeting Checklists.

Mr. Simcox introduced this agenda item to the PROC. He explained that members of the PROC expressed a need to establish a standing agenda item to discuss ways to improve the PROC checklists, assignments, research policies and procedures outside of the PROC, present findings, and develop recommendations to better guide the PROC with their oversight activities.

H. Assignment of Future PROC Oversight Roles, Responsibilities, Activities, and Assignments.

Ms. Run introduced this agenda item to the PROC. She highlighted changes that were made since the January 29, 2016 PROC meeting.

Mr. Lee reviewed the PROC Assignment sheet as members volunteered for future PROC activities for the following dates and time:

#### CalCPA PRC Meeting

- May 26-27, 2016 – Ms. McCoy (Pasadena, CA)

#### NASBA Compliance Assurance Committee (CAC)

- July 19, 2016 – Mr. Lee and Ms. Allanson

#### AICPA Peer Review Conference

- August 8-10, 2016 – Mr. De Lyser and Mr. Harper (San Diego, CA)

#### CalCPA Administrative Site Visit

- August 2016 – Ms. McCoy and Mr. Harper (Northern California)

The PROC discussed CalCPA Administrative Site Visit and assigned Mr. Harper and Ms. McCoy to complete the task in addition to the administrative site visit checklist.

#### IV. Report of the Enforcement Chief.

- A. Discussion on the NASBA Compliance Assurance Committee (CAC) Oversight Report on the AICPA National Peer Review Committee (NPRC), Issued February 29, 2016.

Mr. Franzella introduced this report to the PROC. He explained that the report indicated that the NASBA CAC participated in 60 percent of the RABs and appears to be satisfied with the RAB.

Mr. Harper inquired as to why PROC oversight of the NASBA CAC consists of only reviewing a NASBA CAC Report on the AICPA NPRC. The PROC discussed Mr. Harper's question and explained that the PROC observe two phone calls annually in addition to reviewing the report. They further explained that historically, the PROC did not have access to the NASBA CAC meetings. The existing annual observance via phone call was a huge success.

- B. Discussion on the NASBA Response to AICPA Exposure Draft, *Proposed Changes to the AICPA Standards for Performing and Reporting on Peer*

*Reviews for Improving Transparency and Effectiveness of Peer Review*, Issued January 11, 2016.

Mr. Franzella introduced this agenda item to the PROC. He explained that NASBA's response letter is one of many the AICPA received regarding the AICPA Exposure Draft. He noted that NASBA's perspective and response affects CAC and requires the attention of the PROC.

He explained that NASBA supported the AICPA's initiative to improve audit quality and believe the efforts are aligned with the CBA's charge to protect consumers.

V. Closing Business.

A. Public Comments for Items Not on the Agenda.

Mr. Lee responded to a public comment regarding a newly introduced AICPA Exposure Draft addressing changes for the AE. He noted that the CBA requested that the PROC develop comments in response to the Exposure Draft for the July 2016 CBA meeting. He explained that a subcommittee of two members will form to develop opinions. Ms. Corrigan and Ms. Allanson volunteered and staff will forward necessary documents and webinar link to assist with the process.

B. Agenda Items for Future PROC Meetings.

Mr. Harper inquired and suggested for a centralized informational tool regarding the Peer Review Program, its process, and the roles of entities involved. The PROC discussed Mr. Harper's suggestion and will consider on developing a compilation of the Peer Review Program.

VII. Adjournment.

There being no further business, Mr. Lee adjourned the meeting at 12:45 p.m. on Friday, May 6, 2016.

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Robert Lee, CPA Chair

Siek Run, Enforcement Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-4343.

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**PROC Item II.C.**  
August 19, 2016

## **Discussion Regarding Proposed 2017 Peer Review Oversight Committee Meeting Dates**

**Presented by:** Robert Lee, CPA, Peer Review Oversight Committee Chair

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### **Purpose of the Item**

The purpose of this agenda item is to present the Peer Review Oversight Committee (PROC) with proposed PROC meeting dates for 2017.

### **Consumer Protection Objectives**

The PROC meets four times a year to discuss peer review related activities associated with the American Institute of Certified Public Accountants (AICPA), a Board-approved peer review program provider and the California Society of Certified Public Accountants (CalCPA), a peer review administering entity. During the meetings, members discuss peer review related publications, changes with regulations, review processes, and trainings. The PROC provides recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

### **Action(s) Needed**

The PROC may choose to adopt or modify the 2017 PROC proposed meeting dates.

### **Background**

The 2017 California Board of Accountancy (CBA) meeting dates are as follows:

- January 26-27, 2017 – Southern California
- March 23-24, 2017 – Northern California
- May 18-19, 2017 – Southern California
- July 20, 2017 – Northern California
- September 14-15, 2017 – Southern California
- November 16-17, 2017 – Northern California

### **Comments**

The proposed PROC meeting dates are:

- February 3, 2017 – Northern California
- May 5, 2017 – Southern California

## **Discussion Regarding Proposed 2017 Peer Review Oversight Committee Meeting Dates**

Page 2 of 2

- August 18, 2017 – Northern California
- December 8, 2017 – Northern California

The Enforcement Advisory Committee (EAC) and PROC meet concurrently, with the EAC meeting on Thursdays and PROC on Fridays. The approved EAC meeting dates for 2017 are:

- February 2, 2017 – Northern California
- May 4, 2017 – Southern California
- July 6, 2017 – Northern California
- October 19, 2017 – Southern California
- December 7, 2017 – Northern California

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

### **Recommendations**

Staff recommend the PROC adopt or modify the proposed dates. After adoption, the dates will be submitted to the CBA for approval.

### **Attachments**

1. 2017 Year-at-a-Glance California Board of Accountancy (CBA) and Peer Review Oversight Committee (PROC) Calendar
2. 2017 Year-at-a-Glance Peer Review Oversight Committee (PROC) Activity Calendar

# Attachment 1

## CALIFORNIA BOARD OF ACCOUNTANCY (CBA) PEER REVIEW OVERSIGHT COMMITTEE (PROC) (Year-at-a-glance - As of July 11, 2016)

**JANUARY 2017**

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**FEBRUARY 2017**

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**MARCH 2017**

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**APRIL 2017**

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**MAY 2017**

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**JUNE 2017**

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**JULY 2017**

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**AUGUST 2017**

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**SEPTEMBER 2017**

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**OCTOBER 2017**

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**NOVEMBER 2017**

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**DECEMBER 2017**

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**COMMITTEES**  
 EAC - Enforcement Advisory Committee  
 QC - Qualifications Committee  
 PROC - Peer Review Oversight Committee  
 MSG-Mobility Stakeholder Group

**GENERAL LOCATION**  
 NC-NORTHERN CALIFORNIA  
 SC-SOUTHERN CALIFORNIA

	CBA OFFICE CLOSED
	CBA MEETING
	EAC MEETING
	PROC MEETING
	QC MEETING
	MSG MEETING

# Attachment 2

## CALIFORNIA BOARD OF ACCOUNTANCY (CBA) PEER REVIEW OVERSIGHT COMMITTEE (PROC) ACTIVITY (2017 Year-at-a-Glance Calendar)

**JANUARY 2017**

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**FEBRUARY 2017**

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**MARCH 2017**

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**APRIL 2017**

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**MAY 2017**

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**JUNE 2017**

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**JULY 2017**

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**AUGUST 2017**

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**SEPTEMBER 2017**

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**OCTOBER 2017**

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**NOVEMBER 2017**

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**DECEMBER 2017**

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**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
- CAC - Compliance Assurance Committee

**GENERAL LOCATION**

- NC-NORTHERN CALIFORNIA
- SC-SOUTHERN CALIFORNIA
- T-TELECONFERENCE
- PR-PUERTO RICO
- D-DURHAM, NC
- NO-NEW ORLEANS, LA

- ON SHADED DATES CBA OFFICE IS CLOSED
- CBA MEETING
- PROC MEETING
- AICPA PRB MEETING
- CalCPA RAB MEETING
- CalCPA PRC MEETING
- PEER REVIEWER TRAINING
- ADMINISTRATIVE SITE VISIT
- NASBA CAC MEETING



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**PROC Item III.F.**  
August 19, 2016

## **Discussion on the Revisions to the Peer Review Oversight Committee Summary of Administrative Site Visit Checklist**

**Presented by:** Robert Lee, CPA, Peer Review Oversight Committee Chair

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review and identify ways to improve the Administrative Site Visit Checklist (Checklist) (**Attachment**).

### **Consumer Protection Objectives**

The California Society of Certified Public Accountants (CalCPA) is the primary administering entity of peer reviews conducted for California-licensed accounting firms under the American Institute of Certified Public Accountants (AICPA) Peer Review Program. Ensuring effective oversight of CalCPA's administration of the AICPA's Peer Review Program and the effectiveness of California's peer review requirement is paramount. The Checklist may require modification to ensure that the PROC effectively oversight the California Society of Certified Public Accountants' (CalCPA) Peer Review Program and provides consumer protection.

### **Action(s) Needed**

It is requested that members come prepared to discuss and contribute ideas to improve the Checklist.

### **Background**

As part of its oversight activities, the PROC is charged with conducting, at a minimum, an annual Administrative Site Visit of all Board-recognized peer review program providers and determine if the provider is administering peer review in accordance with standards adopted by the CBA.

At the January 29, 2016 PROC meeting, members expressed the need to improve the Checklist to better guide future PROC Administering Site Visits of CalCPA. PROC members Kevin Harper, CPA, and Sherry McCoy, CPA, were assigned to research other checklists, oversight policies and procedures, and to present their findings and recommendations to the PROC.

At the May 6, 2016 PROC meeting, Mr. Harper and Ms. McCoy presented their findings after reviewing peer review-related reports from AICPA, CalCPA, and Texas Board of

## **Discussion on the Revisions to the Peer Review Oversight Committee Summary of Administrative Site Visit Checklist**

Page 2 of 2

Accountancy. Members discussed the Checklist, its origin, its current state, and whether the minimum requirements are sufficient for a site visit. Mr. Harper and Ms. McCoy recommended that future administrative site visits include:

- PROC perform a risk assessment
- Gathering of information from AICPA and CalCPA as they relate to policies, procedures, administration, reports, samples, and operating statistics
- Develop an annual work plan

### **Comments**

During the May 6, 2016 PROC meeting, Mr. Harper and Ms. McCoy were asked to perform a risk assessment, draft a Checklist that would incorporate a risk assessment and the minimum requirements, develop a work plan, present their findings, and provide recommendations on how to improve the Checklist. They will be reporting on their progress at the August meeting.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

### **Recommendation**

Staff do not have a recommendation for this agenda item.

### **Attachment**

Peer Review Oversight Committee Summary of Administrative Site Visit



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Peer Review Oversight Committee

**Summary of Administrative Site Visit**

**Attachment**

**Purpose:** As part of its oversight activities, the Peer Review Oversight Committee (PROC) is charged with conducting, at a minimum, an annual administrative site visit of all Board-recognized peer review program providers. The visit will be to determine if the provider is administering peer reviews in accordance with the standards adopted by the California Board of Accountancy (CBA). The visit is then summarized and reported to the CBA as part of the PROC reporting.

Date of Visit: \_\_\_\_\_

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

PROC Members Performing Visit:  
 \_\_\_\_\_  
 \_\_\_\_\_

1. List program staff interviewed as part of the oversight visits:			
Name:	Title:		
<b>PEER REVIEW TYPES</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Does the Provider have a review designed to test a firm's system of quality control for firms performing engagements under SASs, SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB?			
2. Does the Provider have a review designed to test a cross-section of a firm's engagements to assess whether they were performed in conformity with applicable professional standards for firms performing engagements under SSARS or SSAEs not encompassed in #1 above?			
Comments:			

PEER REVIEW REPORT ISSUANCE	YES	NO	N/A
1. For each type of review above, does the Provider issue the following type of peer review reports:			
a. Pass? System of quality control was suitably designed, or engagements were performed in conformity with applicable professional standards.			
b. Pass with Deficiencies? System of quality control was suitably designed with the exception of a certain deficiency, or engagements were performed in conformity with applicable professional standards with the exception of a certain deficiency.			
c. Substandard? System of control is not suitably designed, or engagements were not performed in conformity with applicable professional standards.			
Comments:			
PEER REVIEWER QUALIFICATIONS	YES	NO	N/A
1. Has the Provider established minimum qualifications for an individual to qualify as a peer reviewer, to include:			
a. Having a valid and active license in good standing to practice public accounting by this state or another state?			
b. Being actively involved in practicing at a supervisory level in a firm's accounting and auditing practice?			
c. Maintaining a currency of knowledge of the professional standards related to accounting and auditing, including those expressly related to the type or kind of practice to be reviewed?			
d. Furnishing his/her qualifications to be a reviewer, including recent industry experience?			
e. Association with a firm that has received a peer review report with a rating of pass or pass with deficiencies as part of the firm's last peer review?			
Comments:			



<b>PLAN OF ADMINISTRATION AND ACCEPTING PEER REVIEWS (cont)</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
e. Ensuring adequate peer reviewers to perform peer reviews?			
f. Ensuring the pool of peer reviewers have a breadth of knowledge related to industry experience.			
g. Ensuring the qualifications of peer reviewers?			
h. Evaluating a peer reviewer's performance on peer reviews?			
3. Has the Provider established a training program(s) designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews?			
4. Does the Provider ensure that a firm requiring a peer review selects a peer reviewer with similar practice experience and industry knowledge, and the peer reviewer is performing a peer review for a firm with which the reviewer has similar practice experience and industry knowledge?			
5. Does the Provider require the maintenance of records of peer reviews conducted under the Program, including at minimum, written records of all firms enrolled in the peer review program and documents required for submission under Section 46, with these documents to be retained until the completion of a firm's subsequent peer review?			
Comments:			
<b>COMPOSITION OF THE PEER REVIEW COMMITTEE (PRC)</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Do the PRC members meet the peer reviewer qualification requirements as outlined in the Peer Reviewer Qualifications section above?			
2. In determining the size of the PRC, did the Provider consider the requirement for a broad industry experience and the likelihood that some members will need to recuse themselves from some reviews as a result of the member's close association to the firm or having performed the review?			
3. Is any PRC member currently serving as a member of the CBA?			
4. Do PRC members comply with all confidentiality requirements by annually signing a statement acknowledging their appointments and the responsibilities and obligations of their appointments?			
Comments:			

REPORTING RESPONSIBILITIES	YES	NO	N/A
1. Has the Provider made available, at a minimum, the following:			
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 Program has reviewed the quality of the reviewers' working papers in connection with the acceptance of reviews?			
c. Statistical data maintained by the Program related to its role in the administration of peer reviews?			
d. Information concerning the extent to which the Program has reviewed the qualifications of its reviewers?			
e. Sufficient documents to conduct sample reviews of peer reviews accepted by the Program? These may include, at minimum, the report; reviewer working papers prepared or reviewed by the Program's PRC in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.			
2. Has the Provider made available, in writing or electronically, the name of any California-licensed firm expelled from the peer review program and provided the reason for expulsion?			
a. If so, was the CBA notified within 30 days of notification of the firm's expulsion?			
Comments:			
<b>SUMMARY</b>			
1. Based upon a walkthrough, rate the administrative staff's knowledge of the Provider's program: <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations			

**SUMMARY (cont)**

2. Were any specific issues identified and discussed?

3. Has the Provider demonstrated improvement from any prior oversight visit?

4. Does the Provider administer peer reviews in accordance with the standards adopted by the CBA?

Meets Expectations       Does Not Meet Expectations\*

Comments:

The above checklist was prepared by:

\_\_\_\_\_

Print Name

\_\_\_\_\_

Signature

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



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**PROC Item III.G.**  
August 19, 2016

## **Discussion on the Peer Review Oversight Committee Summary of Peer Review Committee Meeting and Compliance Assurance Committee Meeting Checklists**

**Presented by:** Ben Simcox, CPA, Enforcement Manager

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to discuss the Summary of Peer Review Committee (PRC) Meeting and the Summary of Compliance Assurance Committee (CAC) Meeting checklists.

### **Consumer Protection Objectives**

By performing a routine review on recently used PROC checklists, members can ensure checklists remain relevant and assist the PROC in effective oversight of peer reviews. The PROC PRC and CAC checklists may require modifications to ensure that the PROC effectively oversees the meetings and provide consumer protection.

### **Action(s) Needed**

It is requested that all members come prepared to discuss and contribute ideas to make the checklists more comprehensive, and be ready to accept assignments.

### **Background**

As part of its oversight activities, the PROC observes selected PRC and CAC meetings. These meetings are summarized and presented to the California Board of Accountancy (CBA) as part of the PROC reporting.

During January 29, 2016 PROC meeting, members expressed the need to improve the PROC checklists to be more comprehensive for future PROC oversight activities. Members requested a standing agenda item to discuss and consider ways to improve all PROC oversight checklists, assign members to research, review policies and procedures outside of the PROC, and present their findings and recommendations to the PROC.

### **Comments**

The PROC PRC and CAC checklists (**Attachments 1 & 2**) allows members to summarize and report to the CBA.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

**Discussion on the Peer Review Oversight Committee Summary of Peer Review Committee Meeting and Compliance Assurance Committee Meeting Checklists**

Page 2 of 2

**Recommendation**

Staff do not have a recommendation on this agenda item.

**Attachments**

1. Peer Review Oversight Committee Summary of Peer Review Committee Meeting
2. Peer Review Oversight Committee Summary of Compliance Assurance Committee Meeting



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## Peer Review Oversight Committee

## Attachment 1

### Summary of Peer Review Committee Meeting

**Purpose:** As part of its oversight activities, the Peer Review Oversight Committee (PROC) observes selected Peer Review Committee (PRC) meetings as further described in the PROC's operating guidelines. The PRC meetings occur several times a year. PRC members are provided with the agenda and other meeting materials subject to discussion at the meeting and often cover appropriate handling of issues observed or encountered during peer reviews, to ensure consistency of treatment amongst peer reviewers. The objective of this aspect of PROC oversight is to observe how the PRC executes its duties in the meeting and determine whether or not this aspect of the peer review process is operating effectively in the state of California. These matters are then summarized and reported to the California Board of Accountancy (CBA) as part of the PROC reporting.

*Please note, PRC meetings generally include break-out sessions for 3 or 4 separate Report Acceptance Body (RAB) meetings; in these instances, the PROC member should refer to the Subcommittee Meeting checklist.*

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

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

<b>Evaluation of General Meeting Process</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Does it appear that the meeting has been adequately planned? Have members been provided an agenda and supporting materials in sufficient time to review and contribute to the meeting?			
2. Do the members appear prepared for the meeting? Does it appear that the members have reviewed the materials provided prior to attending the meeting?			
3. Are there a required minimum number of committee members present?			
4. Do the members appear knowledgeable about their responsibilities?			
5. Are technical reviewers available during the meeting to address issues as they arise?			
6. Do technical reviewers appear knowledgeable about their responsibilities?			
7. Were any specific problems or issues discussed?			
8. When issues arise in RAB meetings that cannot be resolved by the RAB, are all PRC members asked to discuss their position?			
9. Do the members consider how the AICPA National Peer Review Group or how other states handle the issues being discussed?			
10. Does it appear that appropriate decisions made regarding:			
Monitoring issues.			
Scope of the review.			
Revisions to review documents.			

<b>Evaluation of General Meeting Process (cont)</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
Corrective or monitoring actions.			
Requests for extension.			
Conclusions on problem review.			
<b>EVALUATION OF THE TECHNICAL ASPECTS OF THE MEETING CONTENT AND DISCUSSION</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
11. Does the Committee consider technical reviewers' recommendations and then come to its own decision?			
12. Has the Committee agreed to take any action on the problems or issues raised?			
13. Please comment on the Committee's knowledge of acceptance procedures and corrective/monitoring actions:  <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations*			
14. Does the Committee discuss the performance of Team Captains?			
15. Does the Committee provide adequate feedback to Team Captains when performance issues are identified?			
16. Does the Committee's feedback to Team Captains aid in improving the peer review program?			
17. Do the Committee members believe sufficient guidance is provided by the program and the various manuals and procedure documents?			
18. In what areas do committee members believe additional guidance is needed:			
19. Has the Committee demonstrated improvement from any prior oversight visit report?			
20. At the conclusion of the meeting discuss your findings with the organization's Peer Review Committee Chair and Program Director:  <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations*			
21. Comments:			

The above checklist was prepared by:

\_\_\_\_\_

Print Name

\_\_\_\_\_

Signature

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



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## Peer Review Oversight Committee

### Summary of Compliance Assurance Committee Meeting

### Attachment 2

**Purpose:** As part of its oversight activities, the Peer Review Oversight Committee (PROC) observes selected open meetings of the National Association of State Boards of Accountancy Compliance Assurance Committee (CAC) as further described in the PROC's operating guidelines. The CAC open meetings occur several times per year. The objective of this aspect of PROC oversight is to observe how the CAC provides oversight to the National Peer Review Committee (NPRC) and determine whether or not this aspect of the peer review process is operating effectively. These matters are then summarized and reported to the California Board of Accountancy (CBA) as part of the PROC reporting.

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

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

<b>Evaluation of General Meeting Process</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
1. Does it appear that the meeting has been adequately planned? Have members been provided an agenda and supporting materials in sufficient time to review and contribute to the meeting?			
2. Do the members appear prepared for the meeting? Does it appear that the members have reviewed the materials provided prior to attending the meeting?			
3. Do the members appear knowledgeable about their responsibilities?			
4. Are technical reviewers available during the meeting to address issues as they arise?			
5. Do technical reviewers appear knowledgeable about their responsibilities?			
6. Were any specific problems or issues discussed?			
7. Do the members consider how state Peer Review Groups handle the issues being discussed?			
8. Does it appear that appropriate decisions are made regarding:			
Monitoring issues.			
Scope of the review.			
Revisions to review documents.			
Corrective or monitoring actions.			
Requests for extension.			
Conclusions on problem review.			

EVALUATION OF THE TECHNICAL ASPECTS OF THE MEETING CONTENT AND DISCUSSION	YES	NO	N/A
9. Does the Committee consider technical reviewers' recommendations and then come to its own decision?			
10. Has the Committee agreed to take any action on the problems or issues raised?			
11. Does the Committee discuss the performance of Team Captains?			
12. Does the Committee provide adequate feedback to Team Captains when performance issues are identified?			
13. Does the Committee's feedback to Team Captains aid in improving the peer review program?			
14. Do the Committee members believe sufficient guidance is provided by the program and the various manuals and procedure documents?			
15. In what areas do committee members believe additional guidance is needed:			
16. Has the Committee demonstrated improvement from any prior oversight visit report?			
17. At the conclusion of the meeting, discuss your findings with the organization's CAC Chair : <input type="checkbox"/> Meets Expectations <input type="checkbox"/> Does Not Meet Expectations*			
18. Comments:			

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

The above checklist was prepared by:

\_\_\_\_\_

Print Name

\_\_\_\_\_

Signature

\_\_\_\_\_

Date



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**PROC Item III.H.**  
August 19, 2016

## **Assignment of Future PROC Oversight Roles, Responsibilities, Activities, and Assignments**

**Presented by:** Siek Run, Enforcement Analyst

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review and assign members to specific PROC oversight activities.

### **Consumer Protection Objectives**

By performing oversight activities of the California Board of Accountancy's (CBA) recognized peer review program providers, the PROC is able to provide recommendations to the CBA on the effectiveness of the peer review program, which furthers the CBA's mission of consumer protection.

### **Action(s) Needed**

It is requested that all members bring their calendars to the August 19, 2016, PROC Meeting and be prepared to accept assignments.

### **Background**

None.

### **Comments**

The 2016 CBA Meeting Dates/Locations and 2016 PROC Year-at-a-Glance calendars and the Activity Assignments and the Roles and Responsibility Activity Tracking sheets (**Attachments 1, 2, 3, and 4**) include meetings and activities that are currently scheduled for the following:

- CBA
- PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board
- California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body
- CalCPA Peer Review Committee
- National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee

## **Assignment of Future PROC Oversight Roles, Responsibilities, Activities, and Assignments**

Page 2 of 2

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

### **Recommendation**

It is recommended that members continue to use the four documents provided as resources when accepting assignments to participate in meetings and activities held by the AICPA, CalCPA, and NASBA.

### **Attachments**

1. 2016 CBA Meeting Dates/Locations Calendar
2. 2016 CBA PROC Year-at-a-Glance Calendar
3. 2016 Peer Review Oversight Committee (PROC) Activity Assignments
4. 2016 Peer Review Oversight Committee (PROC) Roles and Responsibilities Activity Tracking

# Attachment 1

## CALIFORNIA BOARD OF ACCOUNTANCY (CBA) 2016 MEETING DATES/LOCATIONS CALENDAR (CBA MEMBER COPY)

**JANUARY 2016**

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 SC	21 SC	22 SC	23
24	25	26	27	28 NC	29 NC	30
31						

**FEBRUARY 2016**

S	M	T	W	Th	F	S
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28	29					

**MARCH 2016**

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13	14	15	16	17 NC	18 NC	19
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**APRIL 2016**

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17	18	19	20	21	22	23
24	25	26	27 NC	28	29	30

**MAY 2016**

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

**JUNE 2016**

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26	27	28	29	30		

**JULY 2016**

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17	18	19	20	21 NC	22	23
24	25	26	27 SC	28	29	30
31						

**AUGUST 2016**

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**SEPTEMBER 2016**

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**OCTOBER 2016**

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**NOVEMBER 2016**

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**DECEMBER 2016**

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**COMMITTEES**

- EAC - Enforcement Advisory Committee
- QC - Qualifications Committee
- PROC - Peer Review Oversight Committee
- MSG - Mobility Stakeholder Group

**GENERAL LOCATION**

- NC - NORTHERN CALIFORNIA
- SC - SOUTHERN CALIFORNIA

	CBA OFFICE CLOSED
	CBA MEETING
	EAC MEETING
	PROC MEETING
	QC MEETING
	MSG MEETING

# Attachment 2

## CALIFORNIA BOARD OF ACCOUNTANCY (CBA) PEER REVIEW OVERSIGHT COMMITTEE (PROC) 2016 Year-at-a-Glance Calendar (As of July 12, 2016)

**JANUARY 2016**

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**FEBRUARY 2016**

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**MARCH 2016**

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**APRIL 2016**

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**MAY 2016**

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29	30	31				

**JUNE 2016**

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**JULY 2016**

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31						

**AUGUST 2016**

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28	29	30	31			

**SEPTEMBER 2016**

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**OCTOBER 2016**

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30	31					

**NOVEMBER 2016**

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**DECEMBER 2016**

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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

**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
- CAC - Compliance Assurance Committee

**GENERAL LOCATION**

- NC-NORTHERN CALIFORNIA
- SC-SOUTHERN CALIFORNIA
- T-TELECONFERENCE
- PR-PUERTO RICO
- D-DURHAM, NC
- NO-NEW ORLEANS, LA

- ON SHADED DATES CBA OFFICE IS CLOSED
- CBA MEETING
- PROC MEETING
- AICPA PRB MEETING
- CalCPA RAB MEETING
- CalCPA PRC MEETING
- PEER REVIEWER TRAINING
- ADMINISTRATIVE SITE VISIT
- NASBA CAC MEETING



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## 2016 Peer Review Oversight Committee (PROC) Activity Assignments

Attachment 3

Date	Activity	Member Assigned
January 11, 2016	NASBA CAC/PROC 12:00 p.m. Call	Harper
January 13, 2016	AICPA Peer Review Board Meeting (FL)	De Lyser
January 21-22, 2016	<b>CBA Meeting (SC)</b>	Lee
January 26, 2016	CalCPA RAB 2:00 p.m. Call	Harper
February 24, 2016	CalCPA RAB 2:00 p.m. Call	Corrigan
February 25, 2016	CalCPA RAB 9:00 a.m. Call	Graves
March 17-18, 2016	<b>CBA Meeting (NC)</b>	De Lyser
March 22, 2016	CalCPA RAB 2:00 p.m. Call	Harper
April 28, 2016	CalCPA RAB 2:00 p.m. Call	De Lyser
May 3, 2016	AICP Peer Review Board Meeting, Call (Durham, NC)	Corrigan
May 19-20, 2016	<b>CBA Meeting (SC)</b>	Lee
May 26-27, 2016	CalCPA PRC 8:30 a.m. - 3:00 p.m. (Pasadena, CA)	McCoy
May 27, 2016	CalCPA PRC 8:00 a.m. - 10:00 a.m. (Pasadena, CA)	McCoy
July 19, 2016	NASBA CAC/PROC 10:00 a.m. Call	Lee/Kathy
July 21-22, 2016	<b>CBA Meeting (NC)</b>	Lee
August 8-10, 2016	AICPA Peer Review Conference (San Diego, CA)	Lee/Harper
August 11, 2016	AICPA Peer Review Board Meeting (San Diego, CA)	Lee/De Lyser
August 23, 2016	CalCPA RAB 2:00 p.m. Call	
September 26, 2016	CalCPA Administrative Site Visit	Harper/Graves
September 15-16, 2016	<b>CBA Meeting (SC)</b>	
September 20, 2016	CalCPA RAB 2:00 p.m. Call	
September 21, 2016	CalCPA RAB 9:00 a.m. and 2:00 p.m. Call	
September 27, 2016	AICPA Peer Review Board Meeting Call	Graves
October 2016	PROC Oversight of Out-of-State Administering Entities	

October 18, 2016	CalCPA RAB 9:00 a.m. and 2:00 p.m. Call	
November 17-18, 2016	CalCPA PRC (Yountville, CA)	
November 17-18, 2016	<b>CBA Meeting (NC)</b>	
December 15, 2016	CalCPA RAB 9:00 a.m. and 2:00 p.m. Call	

Updated July 18, 2016

## Peer Review Oversight Committee (PROC) Roles and Responsibilities

## Activity Tracking – 2016

As of July 12, 2016

Activity*	Notes
<b>PROC MEETINGS</b> <ul style="list-style-type: none"> <li>Conduct four one-day meetings.</li> </ul>	<b>PROC 2016 Meetings:</b> <ul style="list-style-type: none"> <li>PROC Meetings Scheduled: 1/29, 5/6, 8/19, 12/9</li> <li>PROC Meetings Attended: 1/29, 5/6, 8/19</li> </ul>
<b>ADMINISTRATIVE SITE VISITS</b> <ul style="list-style-type: none"> <li>Conduct, at a minimum, an annual administrative site visit of the peer review program provider.</li> </ul>	<b>CalCPA Site Visits:</b> <ul style="list-style-type: none"> <li>CalCPA Administrative Site Visit Scheduled: 9/26 KH and RG</li> <li>CalCPA Administrative Site Visit Attended:</li> </ul>
<b>PEER REVIEW COMMITTEE MEETINGS</b> <ul style="list-style-type: none"> <li>Attend all peer review program providers' Peer Review Board (PRB) and Peer Review Committee (PRC) meetings.</li> <li>Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees.</li> <li>Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards.</li> </ul>	<b>American Institute of Certified Public Accountants (AICPA) PRB:</b> <ul style="list-style-type: none"> <li>Meetings Scheduled: 1/13 JD, 5/3 NC, 8/11 RL and KH, 9/27 RG</li> <li>Meetings Attended: 1/13 JD, 5/3 NC, 8/11 RL and KH</li> </ul>
<b>PEER REVIEW SUBCOMMITTEE MEETINGS</b> <ul style="list-style-type: none"> <li>Attend and review at least four of each peer review program provider's peer review Report Acceptance Body (RAB) subcommittee meetings to observe the acceptance of peer review reports.</li> <li>Ensure that peer reviews are being accepted in a consistent manner.</li> </ul>	<b>CalCPA Peer Review Subcommittees:</b> <ul style="list-style-type: none"> <li>RAB Meetings Scheduled: 1/26 KH, 2/24 NC, 2/25 RG, 3/22 KH, 4/28 2PM JD</li> <li>RAB Meetings Attended: 1/26 KH, 2/24 NC, 2/25 RG, 3/22 KH, 4/28 JD</li> <li>PRC Meetings Scheduled: 5/26-27 SM</li> <li>PRC Meetings Attended: 5/26-27 SM</li> </ul>
<b>NATIONAL STATE BOARDS OF ACCOUNTANCY (NASBA) MEETINGS</b> <ul style="list-style-type: none"> <li>Attend and review the National State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) meetings</li> <li>Ensure effective oversight of compliance with professional standards by CPAs and their firms</li> </ul>	<b>Meetings Attended: NASBA CAC/PROC:</b> <ul style="list-style-type: none"> <li>Meetings Scheduled: 1/11 KH, 7/19 RL and KA</li> <li>Meetings Attended: 1/11 KH, 7/19 RL</li> </ul>
<b>REVIEW OF OUT-OF-STATE ADMINISTERING ENTITIES</b> <ul style="list-style-type: none"> <li>Each year, review AICPA oversight visit reports for a selection of out-of-state administering entities</li> </ul>	<b>Not yet scheduled</b>
<b>REVIEW SAMPLING OF PEER REVIEWS</b> <ul style="list-style-type: none"> <li>Perform sampling of peer review reports.</li> </ul>	<b>See Administrative Site Visit</b>
<b>PEER REVIEWER TRAININGS</b> <ul style="list-style-type: none"> <li>Ensure that peer reviewers are properly qualified.</li> </ul>	<b>Training Scheduled: AICPA Peer Review Conference</b> <ul style="list-style-type: none"> <li>Meetings Scheduled: 8/8-10 RL and KH</li> <li>Meetings Attended: 8/8-10 RL and KH</li> </ul>
<b>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</b> <ul style="list-style-type: none"> <li>Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers.</li> </ul>	<b>Evaluation of AICPA:</b>
<b>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA)</b> <ul style="list-style-type: none"> <li>Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program.</li> </ul>	<b>2016 PROC Annual Report:</b> <ul style="list-style-type: none"> <li>Initiate in August 2016</li> </ul>
<b>CBA MEETINGS</b>	<ul style="list-style-type: none"> <li>Meetings Scheduled: 1/21-22, 3/17-18, 5/19-20, 7/21, 9/15-16, 11/17-18</li> <li>Meetings Attended: 1/21-22 RL, 3/17-18 JD, 5/19-20 RL, 7/21 RL</li> </ul>
<b>ADDITIONAL ACTIVITIES</b>	<ul style="list-style-type: none"> <li></li> </ul>

\*Activities based on the May 6, 2016 PROC Agenda Item III.F. – Role of the PROC.



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**PROC Item IV.A.**  
August 19, 2016

## **Discussion on Potential Items to Include in the 2016 Peer Review Oversight Committee Annual Report**

**Presented by:** Dominic Franzella, Chief, Enforcement Division

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review the 2015 PROC Annual Report (**Attachment**) and identify opportunities to improve or modify the 2016 PROC Annual Report to the California Board of Accountancy (CBA).

### **Consumer Protection**

Each year, the PROC presents its Annual Report to the California Board of Accountancy (CBA). The report includes information on various activities and accomplishments, information on the oversight functions it performs, and various statistical information. The PROC Annual Report provides the CBA with an important initiative regarding the effectiveness and continued relevance of the California Peer Review Program, which is an important component to the CBA's Consumer Protection mandate.

### **Action(s) Needed**

It is requested that the PROC review the 2015 PROC Annual Report, and advise staff of any topics, areas for inclusion, or formatting changes to the 2016 report.

### **Background**

The PROC derives its authority from Business Professions Code (BPC) section 5076.1. The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review. One of the responsibilities of the PROC as defined by the CBA, is to prepare an Annual Report to the CBA regarding the results of its oversight.

### **Comments**

A draft of the 2016 PROC Annual Report will be provided for member discussion in advance of the December 2016 meeting. The final report will be adopted at the PROC's January 2017 meeting. A report will be submitted to the CBA at its March 2017 meeting. The additions that staff have identified for possible inclusion includes:

- Addition of the following standing agenda items:
  - Review and discussions on recently used PROC checklists

## **Discussion on Potential Items to Include in the 2016 PROC Annual Report**

Page 2 of 2

- Discussion regarding review of American Institute of Certified Public Accountants (AICPA) and National Association of State Boards of Accountancy websites related to peer review releases
- Comprehensive review of the PROC's Administrative Site Visit for CalCPA
- Updates regarding changes to the AICPA peer review standards relating to qualification and training requirements for peer reviewers, effective May 1, 2016
- Updates on the PROC oversight of the AICPA Oversight of Out-of-State Administering Entities
- Discussions regarding the AICPA Proposed Evolution of Peer Review Administration, Issued July 2016

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

### **Recommendations**

Staff recommend that the PROC review items included in the 2015 PROC Annual Report and identify if improvements or changes are necessary at the August 19, 2016 PROC meeting.

### **Attachment**

2015 PROC Annual Report

# CALIFORNIA BOARD OF ACCOUNTANCY



PEER REVIEW OVERSIGHT COMMITTEE

**ANNUAL REPORT**  
**2015**

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

I am pleased to present to the CBA the Peer Review Oversight Committee's (PROC) 2015 Annual Report. I would like to thank the CBA for its continued trust in my leadership and stewardship of the PROC by re-appointing me as Chair. I would also like to extend my sincerest appreciation to Ms. Sherry McCoy, CPA, who served a two-year term as Vice-Chair of the PROC. Ms. McCoy has served on the PROC since its inception and continues to serve the CBA and consumers of California forthrightly and conscientiously. Mr. Jeffrey De Lyser, CPA, will now transition to the role of Vice-Chair.

This year also represents the first time in almost two years that the PROC has had its full complement of members. With the appointments by the CBA of Mr. Kevin Harper, CPA, and Ms. Renee Graves, CPA, the PROC now has all seven members. I look forward to working with Mr. Harper and Ms. Graves and the other valuable members of the PROC to continue to improve the work of the PROC.

Even with the new appointments, an eye towards the future must be maintained. Four of the original PROC members are set to reach their maximum eight-year term in July and September 2017. With this in mind, I will be working with Patti Bowers, CBA Executive Officer, and her staff on a transition plan which will be designed to minimize the loss of institutional knowledge and services of the PROC.

The PROC's presence as an active oversight body continues to flourish and grow. In addition to performing its routine oversight functions, including its annual oversight of the California Society of CPAs administration of peer reviews conducted using the American Institute of CPAs (AICPA) Peer Review Program, I had the opportunity to personally attend and actively participate in three National Association of State Boards of Accountancy (NASBA) sponsored events.

In July 2015, Governor Brown approved an out-of-state travel request for my attendance and participation at the NASBA PROC Summit. I participated in a panel session, including an active question and answer session. This provided me the opportunity to share with other states and NASBA the activities and practices used in California and to hear how other oversight committees perform their respective roles. Additionally, I was able to attend NASBA's Western Regional and Annual Meetings. At both meetings, discussions on changes to peer review and audit quality were discussed.

Based on the information gathered during the PROC activities and my attendance at the three NASBA events, the PROC is expecting the landscape for peer reviews to change dramatically over the next several years. The beginning of these changes can be seen in the launching of the AICPA Enhancing Audit Quality initiative in 2014 and the release of the AICPA 6-Point Plan of implementation in 2015. These changes are certain to affect all CPAs performing attest functions.

On a final note, an area that the PROC would like to bring to the CBA's attention is

the limited pool of qualified peer reviewers. Over the course of the PROC's oversight activities the topic of the population of peer reviewers, including the recruitment of new peer reviewers, has been a consistent point of discussion. The PROC expects that the new changes being implemented by the AICPA to the peer review program have the potential to further constrict the ability to attract new qualified peer reviewers. While the PROC is responsible for ensuring that administering entities adequately train and monitor peer reviewers, recruitment falls outside of its present scope of activities.

Ensuring an adequate population of qualified peer reviewers is of paramount importance to ensuring the effectiveness, thoroughness, and timeliness of peer reviews. The PROC stands ready to assist in this area as the CBA may see fit.

I look forward to another successful year and the opportunity to serve the CBA together with the highly qualified members of the PROC and CBA staff.

Respectfully,

Robert Lee, CPA

## **II. Background**

In 2009, the CBA sponsored Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010. AB 138 requires all California-licensed firms, including sole proprietorships, providing accounting and auditing services, to undergo a peer review once every three years as a condition of license renewal. Effective January 1, 2012, Senate Bill 543 (Chapter 448, Statutes of 2011) removed the sunset language included in the original enabling legislation, making mandatory peer review permanent in California. Peer review, as defined by Business and Professions Code (BPC) section 5076(b)(1), is a study, appraisal, or review conducted in accordance with professional standards of the professional work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the board in regulations. The peer review report shall be issued by an individual who has a valid and current license, certificate, or permit to practice public accountancy from this state or another state and is unaffiliated with the firm being reviewed.

## **III. PROC Responsibilities**

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

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

- Hold meetings as necessary in order to conduct business and report to the CBA

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

#### IV. Committee Members

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

<u>Current members</u>	<u>Term Expiration Date</u>	<u>Maximum Term Date</u>
Robert Lee, CPA, Chair	September 30, 2017	September 30, 2017
Sherry McCoy, CPA, Vice-Chair	July 31, 2017	July 31, 2017
Jeffrey De Lyser, CPA	March 31, 2017	March 31, 2021
Katherine Allanson, CPA	July 31, 2017	July 31, 2017
Kevin Harper, CPA	March 31, 2017	March 31, 2023
Nancy J. Corrigan, CPA	July 31, 2017	July 31, 2017
Renee Graves, CPA	November 19, 2017	November 30, 2023

At its November 19, 2015 meeting the CBA re-appointed Robert Lee, CPA, as Chair and appointed Jeff De Lyser, CPA, as Vice-Chair of the PROC. Additionally, the CBA appointed two new members to the PROC, Kevin Harper, CPA, and Renee Graves, CPA. The PROC is now fully staffed.

#### V. Board-Recognized Peer Review Program Providers

##### **American Institute of Certified Public Accountants (AICPA)**

The AICPA Peer Review Program is currently the only CBA-recognized Peer

Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in Title 16, CCR section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA Peer Review Program provides for a triennial review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System Reviews are designed for firms that perform audits or other similar engagements. Engagement Reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

**a. California Society of Certified Public Accountants (CalCPA)**

CalCPA administers the AICPA Peer Review Program in California. As an administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's Performing and Reporting on Peer Reviews (*Standards*). The CalCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews. CalCPA administers the largest portion of peer reviews to California-licensed firms.

**b. National Peer Review Committee (NPRC)**

The National Peer Review Committee (NPRC) administers the AICPA peer review program for firms that meet any of the following three criteria:

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

The NASBA Compliance Assurance Committee (CAC) provides oversight of the NPRC.

**c. Other State Societies**

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

## **VI. Activities and Accomplishments**

Following are the activities and accomplishments of the PROC during 2015.

### **a. Administrative Functions**

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

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

The PROC held the following meetings:

- January 30, 2015 – Berkeley, CA
- May 1, 2015 – Los Angeles, CA
- August 21, 2015 – Sacramento, CA
- December 9, 2015 – San Diego, CA

A representative of the PROC attended five CBA meetings and reported on PROC activities.

#### **ii. Oversight Checklists**

The PROC has developed oversight checklists which serve to document the members' findings and conclusions after performing specific oversight activities. The checklists, listed here-in, are included in the PROC Procedures Manual and additional checklists will be developed as necessary.

Present Checklists:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Peer Review Board Meeting Checklist
- Peer Review Program Provider Checklist
- Summary of Oversight of Out-of-State Peer Review Administering Entity
- Summary of Compliance Assurance Committee Meeting

Members submit the completed checklists to staff for future reference to demonstrate PROC activities.

#### **iii. Approval of CBA-Recognized Peer Review Program Providers**

At such time that the CBA receives an Application to Become a CBA-recognized Peer Review Program Provider, the PROC will review the

application and documentation using the Peer Review Program Provider Checklist and determine if the program meets the requirements outlined in Title 16, CCR section 48. Based on the review, the PROC will provide a recommendation to the CBA that the application be approved or denied.

#### **iv. Withdrawal of Board Recognition of a Peer Review Program Provider**

The PROC has not made any recommendations to the CBA concerning the withdrawal of CBA recognition of a peer review program provider.

### **b. Program Oversight**

The PROC is charged with providing oversight of all CBA-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA. During 2015, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

#### **i. AICPA**

##### **A. AICPA Peer Review Board (PRB)**

The AICPA PRB is responsible for maintaining, furthering and governing the activities of the AICPA Peer Review Program, including the issuance of peer review standards, and peer review guidance, while being mindful of the profession's covenant to serve the public interest with integrity and objectivity.

During 2015, PROC members observed each AICPA PRB meeting as part of the PROC oversight activity.

##### **B. AICPA Peer Review Program Annual Report on Oversight**

The AICPA Annual Report on Oversight provides a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and concludes on whether the objectives of the oversight process were met.

The PROC reviewed the AICPA Annual Report on Oversight issued on September 30, 2014, for the calendar year 2013, at its January 2015 meeting. Based on the oversight procedures performed, the AICPA Oversight Task Force concluded that in all material respects (1) the administering entities were complying with the administrative procedures established by the AICPA, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all administering entities

and peer review committees, and (4) the information provided via the Internet or other media by administering entities was accurate and timely.

### **C. AICPA PRB Oversight Visit to CalCPA**

Biennially, the AICPA PRB performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member from the AICPA PRB Oversight Task Force reviews files and interviews staff at the administrative office. In addition, the member attends a peer review committee meeting and observes the report acceptance process of the committee members.

In the year that the AICPA PRB is not performing oversight, a member of the California PRC performs an administrative oversight. A report is issued and approved by the AICPA PRB.

## **ii. CalCPA**

### **A. CalCPA Peer Review Committee PRC**

During 2015, PROC attended both CalCPA PRC meetings, which took place in May and November 2015.

### **B. CalCPA Report Acceptance Body (RAB)**

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

During 2015, PROC members observed six RAB meetings.

### **C. CalCPA PRC Oversight Visit to CalCPA**

In the year where the AICPA Peer Review Board is not performing oversight, a member of the California PRC performs an administrative oversight of CalCPA.

The PROC reviewed an AICPA PRB approved report issued on May 4, 2015 of an oversight visit to the CalCPA conducted by a member of the PRC on November 19-21, 2014. The report had no findings or recommendations for the administration of the program.

#### **D. CalCPA Administrative Site Visit**

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

On August 12, 2015, the PROC reviewed CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA Standards, interpretations, and other guidance established by the CBA. The PROC's responsibility is to determine whether the peer review program complies with the minimum requirements for a Peer Review Program, pursuant to Title 16, CCR, section 48.

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

- Reviewed policies and procedures used by CalCPA to govern its peer review program process.
- Read correspondence and other available documentation from other oversight activities performed at CalCPA.
- Reviewed the RAB assignment binder.
- Reviewed a sample of peer review reports and associated files for review.
- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and selected a sample for inspection of resumes and other documentation.

#### **E. CalCPA Sample Reviews**

The PROC conducts reviews of peer reviews accepted by a provider on a sample basis. The review may include, but is not limited to, the peer review report; reviewers' working papers prepared or reviewed by the provider's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.

This oversight activity was completed on August 12, 2015, in conjunction with the Administrative Site Visit.

#### **F. CalCPA Peer Reviewer Training**

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's

currency of knowledge related to performing and reporting on peer reviews. The CalCPA Education Foundation offers two types of peer reviewer trainings. Each year, the CalCPA Education Foundation offers a two-day course for new peer reviewers and a one-day refresher course for existing peer reviewers.

During 2015, PROC members attended the one-day training course *AICPA Peer Review Program Advanced Course* on May 20, 2015.

## **G. CalCPA Annual Report on Oversight**

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

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2013, issued October 17, 2014. The oversight report summarizes the results of the mandated oversight of two percent of all reviews processed during the year and verification of the resumes and continuing professional education of one third of peer reviewers.

### **iii. NPRC**

#### **A. NASBA CAC**

The charge of the NASBA CAC is to promote effective oversight of compliance with professional standards by CPAs and their firms. As such, the focus of the NASBA CAC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to boards of accountancy – PROCs. The NASBA CAC provides oversight of the NPRC.

The PROC observed the NASBA CAC meeting held on May 13, 2015.

#### **B. NASBA CAC Report on the AICPA NPRC**

The PROC reviewed the NASBA CAC report on the AICPA NPRC dated June 15, 2015 at its August 2015 meeting. Based on the oral reports provided at each CAC meeting by the NASBA representatives serving as members on the AICPA NPRC, as well as reviewing the comprehensive oversight report prepared by the AICPA NPRC issued October 31, 2014 and the administrative oversight report issued by a third party on October 10, 2014, the NASBA CAC is satisfied and can report that the AICPA

NPRC has operated appropriately for the period of November 1, 2013 to October 31, 2014.

#### **iv. Other State Societies**

##### **A. Other State Societies**

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

The PROC reviews, on a sample basis, the AICPA oversight visit reports as part of the oversight activity of out-of-state administrative entities each year. All AICPA oversight visit reports are reviewed and accepted by the AICPA PRB Oversight Task Force. For 2015, the PROC reviewed the AICPA's oversight reports for Washington, New York, Florida and Texas.

#### **c. Other Activities**

##### **i. NASBA Western Regional Meeting**

PROC Chair, Robert Lee, CPA, attended the June 17-19, 2015 NASBA Western Regional Meeting in Coronado, California. The meeting primarily focused on consumer protection and provided a forum to receive and share information regarding various topics, including peer review compliancy, the Uniform Accountancy Act, Uniform CPA Examination, the Accountancy License Database, education, and continuing professional education standards.

##### **ii. NASBA 108<sup>th</sup> Annual Meeting**

PROC Chair, Robert Lee, CPA, attended the NASBA October 25-28, 2015 108<sup>th</sup> Annual Meeting in Dana Point, California. Panelists discussed key elements of the exposure draft for the next version of the Uniform CPA Examination; how schools and accreditors are recognizing changes in education; state boards' enforcement efforts and their response to the Department of Labor's findings; what state boards can do now to get the most out of the peer review program; ways to bring diversity into the profession; and updates on NASBA's activities.

##### **iii. NASBA PROC Summit**

The NASBA PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all boards of accountancy. The conference is intended

to assist boards of accountancy in learning how to establish a new PROC and also share experiences among existing PROCs to help each board of accountancy be more effective with peer review oversight. Sessions and content are formed based on the most requested information by accountancy board members and PROC members considering the goals and objectives of the NASBA CAC.

PROC Chair, Robert Lee, CPA, received authorization to travel out-of-state to attend the NASBA PROC Summit held on July 10, 2015 in Nashville, Tennessee. He participated in a panel session and answered questions related to peer review. There were informational updates on the AICPA, release of a six-point plan to improve audit quality, the results of 90 surprise reviews, and a discussion about a May 1, 2016 reset of the educational material.

#### **iv. U.S. Department of Labor (DOL)**

The PROC reviewed, the Office of the Chief Accountant (OCA), Employee Benefit Security Administration (EBSA), U.S. DOL report titled, “Assessing the Quality of Employee Benefit Plan Audits,” released on May 2015. The report assessed the level and quality of audits performed by CPAs of the Employee Retirement Income Security Act (ERISA) covered employee benefit plans.

### **VII. AICPA Exposure Draft on Standards for Performing and Reporting on Peer Reviews, *Improving Transparency and Effectiveness of Peer Review*.**

On November 10, 2015, the AICPA released an exposure draft titled, “*Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review*” (AICPA Exposure Draft).

The proposed changes to the AICPA Standards issued by the PRB are as follows:

- Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer and RAB responsibilities for nonconforming engagements.
- Enhance the peer review of the firm’s system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and systemic weaknesses.
- Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation.
- Clarify the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies.
- Clarify the peer review report model and provide greater transparency on the results of the review.
- Clarify the required firm representations for System and Engagement Reviews.
- Clarify information the AICPA and administering entities may provide about a review to third parties.

At its December 9, 2015 meeting, the PROC discussed the AICPA Exposure Draft and made the following observations for presentation and consideration by the CBA at its January 2016 meeting:

- Places increased responsibility on firms being peer reviewed
- Offers information, including reforming future complementary and clarifying changes to come
- Shifts peer review to a more remedial environment

The PROC supports the clarifying changes presented in the AICPA Exposure Draft.

## VIII. Statistics

The data in the following table reflects the number of peer reviews performed by the AICPA and CalCPA from 2011 through 2014 and provides perspective on the size of the peer review program in California. The table provides statistics based off the most recent approved CalCPA Peer Review Annual Report as of October 22, 2015 reporting data from 2014. The table does not include statistics for peer reviews accepted by the NPRC or out-of-state administering entities.

<b>Results of Peer Reviews Performed During 2011-2014*</b>				
<b>Type of Review</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
System	612	595	507	582
Engagement	1,118	1,265	1,102	1,077
Total	1,730	1,860	1,609	1,659

\*Data received from CalCPA as of October 22, 2015 for 2011-2014.

## IX. Observations

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

### **AICPA**

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

## **CaICPA**

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

## **NPRC**

The PROC found the NPRC to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and the NPRC to execute their duties in a knowledgeable and professional manner under the importance of the peer review program to the accounting profession and the public that it serves.

## **X. Conclusion**

Based on its oversight activities, the PROC concluded that the AICPA Peer Review Program, including its administering entities, CaICPA and NPRC, function effectively. The PROC recommends that the CBA continue to recognize the AICPA Peer Review Program as a Board-recognized Peer Review Program Provider.



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**PROC Item IV.B.**  
August 19, 2016

## **Discussion on the American Institute of Certified Public Accountants Proposed Evolution of Peer Review Administration, Issued July 18, 2016**

**Presented by:** Dominic Franzella, Chief, Enforcement Division

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review the American Institute of Certified Public Accountants' (AICPA) paper titled *Proposed Evolution of Peer Review Administration* (**Attachment 1**) and the supplemental discussion paper (**Attachment 2**).

### **Consumer Protection Objectives**

The CBA Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with applicable professional standards. The CBA Peer Review Program is administered through Board-recognized peer review program providers. The AICPA Peer Review Program is presently the only recognized provider in California, so ensuring its overall effectiveness is crucial to the effectiveness of the CBA Peer Review Program.

### **Action(s) Needed**

The PROC is being asked to review the papers and provide comments to the PROC Chair and staff to present to the CBA at its September 2016 meeting.

### **Background**

In 2009, the CBA sponsored Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009) implementing mandatory peer review. AB 138 was signed into law and became effective on January 1, 2010. AB 138 requires all California-licensed firms, including sole proprietorships, providing accounting and auditing services, to undergo a peer review once every three years as a condition of license renewal. Peer review is a study, appraisal, or review conducted in accordance with professional standards of the professional work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the CBA in regulations.

The CBA established in regulations the requirements necessary for the administration of peer review in California, and made a determination that the AICPA Peer Review Program meets these requirements. The regulations authorize the AICPA Peer Review Program to administer peer reviews in California.

## **Discussion on the American Institute of Certified Public Accountants Proposed Evolution of Peer Review Administration, Issued July 18, 2016**

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To aid the CBA in its oversight of its Peer Review Program, the Legislature established the PROC. The purpose of the PROC is to engender confidence and ensure effectiveness in the peer review process. The PROC provides recommendations to the CBA on any matter upon which it is authorized to act.

In May 2014, the AICPA launched the Enhanced Audit Quality (EAQ) initiative, the goal of which is to align the objectives of all audit-related AICPA efforts to improve audit performance. As part of the EAQ, in May 2015, the AICPA released a six-point plan to improve audits. One of the points included in the plan related to peer review. This point of the plan outlines the efforts to improve peer review by focusing on greater risk areas/industries, more significant remedial actions, and terminating firms from the program after repeat quality issues.

In November 2015, the AICPA released an exposure draft titled *Proposed Changes to AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review*. The CBA reviewed this exposure draft at its January 2016 meeting. The CBA submitted a comment letter supporting the changes.

In February 2016, the AICPA released a paper titled *Proposed Evolution of Peer Review Administration*. The paper “discusses a proposed plan to increase the quality, consistency, efficiency and effectiveness in the administration of peer review ....” The feedback period for this paper closed on August 1, 2016. In discussions with AICPA representatives, staff was informed that this initial paper was the first of two papers regarding the evolution of peer review administration. Further, staff was told that the audience for the first paper was for various state societies that administer the AICPA Peer Review Program.

### **Comments**

As noted earlier, the AICPA Peer Review Program is the only Board-recognized peer review program provider authorized by the CBA to administer peer reviews in California. Reviewing changes to the AICPA Peer Review Program is crucial and necessary to determine what, if any, impact the changes may have in relation to continued oversight of the AICPA Peer Review Program and the CBA Regulations governing the peer review process.

On July 18, 2016, AICPA released a second paper to supplement the discussion on the AICPA’s *Proposed Evolution of Peer Review Administration*. This supplemental paper seeks input from state boards of accountancy for further consideration and feedback. The paper provides responses to initial comments from the first paper released in February 2016, thoughts on additional issues of importance to boards, including oversight of the AICPA Peer Review Program and access to peer review information. Below is a

## **Discussion on the American Institute of Certified Public Accountants Proposed Evolution of Peer Review Administration, Issued July 18, 2016**

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brief overview of key items:

- Background and focus on improvements to the current peer review program
- Process improvement
- Achieving greater consistency, relating to high-level summary of the duties administering entities (AE) staff perform
- Noted inconsistencies
- Initial proposed criteria for AEs of the future
- Oversight
- Initial feedback on the discussion paper relating to:
  - Continuing as AEs
  - Cost of peer review
  - Peer reviewer pool
  - Performance by a peer
  - Proposed number of AEs (8-10) and administering 1,000 annual reviews
  - Report Acceptance Bodies (RABs) and RAB Members
  - Timeline
  - Board Involvement

One of the primary purposes for the evolution, as included by the AICPA, is the need for greater consistency in peer review administration and acceptance. As noted in both papers, the AICPA is considering a significant reduction of AEs from the 43 present AEs to between eight to 10 AEs, with a volume of at least 1,000 peer reviews annually.

Within the supplemental document, AICPA expressed its understanding that proposed changes to the peer review administration will have an impact on the current model for board oversight of the program and may necessitate changes by boards of the current PROC process. The AICPA, and members of the Peer Review Board (PRB) and its Oversight Task Force, are cooperating with National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee and NASBA leadership to assist boards in considering and vetting new potential models for board oversight based on the proposed new administration model. All AEs under a new model will continue to have designated personnel charged with responding to board questions.

The AICPA is asking state boards of accountancy, including the CBA, to consider the proposed criteria and structure for the AICPA Peer Review Program administration in the future and to consider the following questions when formulating responses:

- Considering the information presented in the proposed model, what changes do you believe will best increase consistency in peer review acceptance results?
- Considering the information presented in the proposed model, what changes do you believe will best promote proper and timely application of Standards and guidance?

## **Discussion on the American Institute of Certified Public Accountants Proposed Evolution of Peer Review Administration, Issued July 18, 2016**

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- How do you believe the familiarity threat in the peer review acceptance process can best be minimized?

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

### **Recommendations**

Staff do not have a recommendation on this agenda item.

### **Attachments**

1. *Proposed Evolution of Peer Review Administration*, Released February 22, 2016
2. *Proposed Evolution of Peer Review Administration, A Supplemental Discussion Paper Seeking Input from State Boards of Accountancy*, Released July 18, 2016

# Proposed Evolution of Peer Review Administration

*A discussion paper seeking input from state CPA society leaders.*

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## Introduction

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest.

In the current business environment, the rapid pace of change is driving complexity, and that trend is not likely to abate. Increased complexity presents challenges to practitioners in public accounting as they strive to perform high-quality accounting and auditing engagements for entities not subject to Public Company Accounting Oversight Board (PCAOB) permanent inspection. The public's reliance on these services is based on CPAs' integrity, objectivity and competence. The goal of the AICPA Peer Review Program (Program) is to promote quality in the accounting and auditing services provided by the CPA firms.

With that in mind, in May 2014, the American Institute of CPAs (AICPA) launched its [Enhancing Audit Quality](#) (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

EAQ is being implemented through a multi-phased approach. The initial phase involves planned and proposed efforts that will begin to improve quality in the near term. The long-term vision focuses on the transformation of the current peer review program into a near real-time practice monitoring process that marries technology with human oversight.

This paper discusses a proposed plan to increase the quality, consistency, efficiency and effectiveness in the administration of peer reviews, while providing for appropriate cost recovery, as one of the long-term changes under the EAQ initiative. The proposal was developed with direct input from more than a dozen state CPA society leaders and is being shared with executive leadership of all state CPA societies for the purpose of obtaining additional feedback before finalizing a formal plan for execution.

In developing the evolution of peer review administering entities (AEs), the following guiding principles were followed:

- Improve quality of CPA firms' accounting and auditing practices
- Maximize opportunities to support firms in their quality efforts
- Provide appropriate cost recovery for administration
- Enable state societies to provide member value and service to firms, by maintaining involvement in the program
- Position state societies for appropriate interchange with federal and state regulators
- Support EAQ initiatives

Each of the state CPA societies and all peer review administering entities (AEs) have been integral to the success of the peer review function, which is enormous in both scope and size across the country. Their commitment to meeting the needs of practitioner members and regulators has been, and continues to be, tremendous. The

need for an evolution of peer review administration as outlined in this discussion paper is the direct result of how peer review has grown and matured over the past 35 years in the marketplace, in the regulatory environment and in the technological environment, and does not diminish the contributions of any state CPA society or AE.

## Executive Summary

The AICPA Peer Review Program (Program) has represented the profession's ongoing commitment to enhancing the quality of accounting and auditing services for more than 35 years. It has served the public interest while simultaneously delivering numerous benefits to thousands of CPA firms. The Program is governed by the AICPA Peer Review Board (PRB), which is comprised of public practitioners, state CPA society chief executive officers and a regulatory representative.

Currently, 41 administering entities (AEs), including the National Peer Review Committee (National PRC), administer the Program for public accounting firms within the 50 states, the District of Columbia and the U.S. territories (see Exhibit 1). The AEs also administer peer reviews for public accounting firms enrolled in a state society peer review program (non-AICPA member firms and non-state society member firms). In total, the AEs administer about 34,000 peer reviews over a three-year period.

Effective and consistent peer review administration is critical to help ensure the quality of the accounting and auditing services performed by CPA firms. The AEs vary in the number of peer reviews that they administer, ranging from approximately 100 to as many as 5,250 peer reviews over a three-year period. As a result, they differ in structure, policies, the composition and involvement of employees, use of contractors, Report Acceptance Body (RAB) criteria, and Peer Review Committee (Committee) criteria.

The PRB, at a national level, performs oversight of the AEs and RABs. Past oversight has frequently identified inconsistencies in the effectiveness of peer review administration. Oversight consists of reviewing the procedures conducted by the AEs and RABs to ensure peer reviews are being performed and accepted in accordance with the AICPA's *Standards for Performing and Reporting on Peer Reviews (Standards)*. Oversight has revealed that a significant level of investment (time, money and volunteer and staff commitments) is necessary to maintain the technical and administrative competence required to administer the Program, and to efficiently and effectively incorporate changes in guidance and technology into AE administrative processes.

Other than through technological advances, the administration of peer reviews has remained largely unchanged since the inception of the Program. To help improve overall accounting and auditing quality, enhancements to and greater consistency in peer review administration are required. Accordingly, an evolution of the structure and criteria for AEs is being proposed for input and discussion.

The proposed criteria would decrease the number of AEs to approximately eight to ten in total, each of which would have the capacity to effectively administer at least 1,000 peer reviews per year. Consolidating AEs will provide greater consistency in the Program's administration.

Each AE would be required to have a Director-level professional with primary responsibility for peer review and at least one full-time staff in each of the following roles:

- Administrator
- Technical Reviewer
- Manager

In addition, each AE would have an appropriately structured Committee and RAB(s). The Committee would meet at least quarterly and include 15-20 members who are team captain qualified from the states administered. RABs would be comprised of approximately five members and would meet every two weeks. RAB members would be assigned to the meetings to obtain a cross section of industry experience, including at least one member with experience in any must-select industry included in a review to be presented. A minimum of three RAB members must accept any review. Most meetings could be conducted using technology, rather than in-person.

Feedback on the proposed criteria and structure is requested by August 1, 2016. Once criteria are established, AEs wishing to continue to administer the program will be asked to communicate to the AICPA no later than January 31, 2017 their commitment to and plans for meeting the criteria. The goal is to have the revised structure in place by December 28, 2018. The AICPA is committed to providing resources to all AEs to help ease the transition to becoming an AE of the future, or to transitioning administration responsibilities to another AE.

## Evolution of Administering Entities

As designated by the PRB, the Oversight Task Force (OTF) conducts onsite oversight of AEs every other year. The process includes meetings with administrators, technical reviewers, and RAB members to understand their policies and procedures to ensure compliance with the Program.

OTF members and/or AICPA staff conduct RAB observations three times per year per AE to ensure RABs are performing all of their responsibilities. The observations include a review of materials provided to the RAB from a sample of AICPA peer reviews to consider the risk assessment, scope, peer review report, letter of response, management representation letter, corrective actions, implementation plans and other peer review documents before the RAB meeting. During its meeting, RAB members deliberate each review. If, after the deliberation, there are items the observer noted that were not discussed, the observer brings them to the RAB's attention for discussion. Observers also analyze certain administrative procedures to ensure the AE administered the peer review in accordance with Program *Standards*.

An enhanced oversight program of AE administration and RAB activity began in the fall of 2014 as part of the EAQ initiative. This program engages subject-matter experts (SMEs) to oversee peer reviews, primarily focusing on "must-select" engagements. Must-select engagements<sup>1</sup> are industries and practice areas from which at least one

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<sup>1</sup> Must-select engagements currently include engagements performed under *Governmental Auditing Standards (GAS)*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of carrying broker-dealers and examinations of Service Organization Control (SOC) 1 and 2 engagements.

engagement must be selected as part of the peer review, if applicable. The enhanced oversight includes a review of the financial statements and engagement working papers to verify that peer reviewers are identifying all issues in must-select engagements, including whether engagements are properly identified as non-conforming. The oversight increases confidence in the peer review process and identifies areas that need improvement, such as peer reviewer training. Engagements are selected on a random basis to establish a statistically valid quality measure, and additional targeted selections focus on specific areas of concern, such as high-volume reviewers.

The oversight process has captured and highlighted areas of concern for the effectiveness, efficiency and consistency of the Program across AEs, regardless of state society size.

Noted inconsistencies from the oversights and RAB observations include (but are not limited to):

- Finding for Further Consideration forms (FFCs) lack all required elements in the firm's response – meaning, the firm's response does not include how it intends to implement changes to prevent future occurrences of the finding, the person responsible for implementation, the timing of implementation and, if applicable, additional procedures to ensure the finding is not repeated in the future
- The peer reviewer failed to identify the systemic causes of quality issues identified in the FFCs and deficiencies/significant deficiencies in the peer review report were not clearly articulated by the reviewer
- The appropriateness of the firms' taken or planned remediation of engagements not performed in accordance with professional standards was not discussed by the RAB – meaning, an incorrect or ineffective remediation plan could have been undertaken by the reviewed firm, and, if the firm's actions were not appropriate, could have resulted in a significant change to a negative report rating (pass with deficiencies or fail)
- Peer review overdue notices were not sent on a timely basis resulting in peer reviews that were not performed timely and noncooperation procedures delayed or not begun on firms – meaning, quality issues could remain undetected and firms could be violating licensing requirements
- SMEs identified a much higher rate of non-conforming engagements (engagements not performed in accordance with professional standards) than peer reviewers. The 2014 statistically-valid sample revealed a 43% deficiency rate versus a 9% rate detected by the peer reviewers. Targeted selections, which were high-volume reviewers, resulted in a 50% versus 0% rate.

While these items support the need to strengthen the qualifications and support of peer reviewers, which have and will continue to be addressed by various EAQ initiatives, they also support the need for technical reviewers to perform more thorough evaluations of peer reviews and AEs to perform more effective (and possibly more frequent) oversights. In addition, peer reviewers and RAB members should more closely consider the details of a review and contemplate the implications of the information provided, including the determination of whether:

- The firm has complied with professional standards
- The firm's planned remediation (for engagements and its system of quality control) is appropriate
- The firm's corrective actions are an appropriate remediation

- The firm is cooperating and if not, terminating the firm's enrollment, which in turn can jeopardize the firm's license to practice public accountancy

To help improve audit quality and consistency across peer review administration, the following criteria (more fully described below) are proposed for AEs to be most effective and to continue to administer the Program. The criteria are based upon discussions with state society leaders, meetings with AEs and the results of AE and RAB oversights:

- Administration of at least 1,000 peer reviews annually
- Effective AE peer review management, employee and consultant structure, qualifications and responsibilities
- Effective performance of Committee and RABs

### **Administration of at least 1,000 Peer Reviews Annually**

While many lower volume AEs excel at Program administration, oversight data and RAB observations indicate large volume AEs generally operate with greater consistency, achieving administration that is cost effective and efficient. Achieving more consistency in peer review administration is key to improving peer review and enhancing audit quality in the profession.

With deeper resources, the AEs that administer a larger volume of reviews typically administer reviews more quickly, more frequently address reviewer performance issues at the appropriate level, when required, conduct highly deliberative RAB meetings, demonstrate thorough reviews in their RAB conclusions, and overall, receive fewer oversight comments. The yearly cost to administer 1,000 peer reviews annually, based on a team of one Director, six Administrators, one Manager and four full-time equivalent Technical Reviewers would be approximately \$1,015,000 (see Exhibit 2 for assumptions and the section immediately following this one for staffing rationale). As occurs today, AEs of the future will charge administrative fees to enrolled firms to recover all costs associated with Program administration. Larger volume AEs also tend to have more flexibility and expertise to incorporate changes in technology and guidance when changes are required. Additionally, the oversight and communications functions between and among the AICPA and the AEs can be enhanced to create more opportunities to provide members and state society value, and minimize inconsistencies.

Accordingly, we propose the administration of at least 1,000 peer reviews annually by each AE.

### **Effective Administering Entity Peer Review Management, Employee and Consultant Structure, Qualifications and Responsibilities**

AEs that administer a large volume of reviews generally have the most effective and consistent administrative processes. Such AEs have similar structures, including dedicated full-time staff. Staffing specifics vary, however each has *at least* one full-time administrator, manager and technical reviewer who were identified as important aspects to the administration of the peer reviews. Further, these AEs have dedicated management focusing exclusively on peer review and sometimes on other audit quality initiatives; examples include ethics enforcement and staffing technical A&A committees. Also, as peer review continues to evolve, dependency on technology for all steps of the

process, including administration, has increased (and will continue to increase). The ability to adapt and work effectively with changing technology has been considered critical in determining the qualifications necessary to perform these roles.

The proposed structure of an AE would consist of a Director-level professional with primary responsibility for peer review and full time staff should include at least one of each of the following:

- Administrator
- Technical Reviewer
- Manager-level employee

The AE should have additional staff of dedicated technical reviewers or consultants to administer at least 1,000 peer reviews annually. Our estimates indicate 1,000 peer reviews will require 9,000 administrator and 7,100 technical reviewer hours (see Exhibit 2), and the AE should be structured accordingly.

### Director

The Director would be responsible for overseeing the operations of the Peer Review Program administration and ensuring quality and consistency. The Director would provide assistance to peer review firms and reviewers, including technical assistance in areas such as accounting, auditing and independence. The Director would be accountable for ensuring that the Committee and RABs act in compliance with the Program and the RAB Handbook. The Administrators, Managers and Technical Reviewers would report to the Director, who would have the authority to assign and reprioritize tasks for these positions. A Director's time would not need to be 100% allocated to peer review, but he/she should have sufficient experience and involvement to maintain an efficient and effective Program. See Exhibit 3 for additional responsibilities and recommended qualifications for this position.

### Administrator

The Administrator(s) would be responsible for the scheduling aspects of the Program. The Administrator(s) would:

- Confirm that all enrolled firms schedule their reviews in accordance with AICPA *Standards* and state board requirements
- Maintain information for firms enrolled in the program that do not require peer reviews
- Assist firms to resolve any scheduling errors or issues
- Work with peer reviewers to coordinate the submission of peer review documents to the AE
- Process the submitted review documents to ensure that all required documentation is received
- File review work papers received from peer reviewers and reviewed firms so they are accessible for the Technical Reviewers
- Maintain Facilitated State Board Access records in a timely manner
- Ensure the AE Plan of Administration is submitted annually to the AICPA by the stated deadline

Our estimates indicate six full-time equivalent Administrators would be needed to effectively administer 1,000 peer reviews annually based upon an assumption of 9,000 total hours of Administrator time (see Exhibit 2 for further information on assumptions). See Exhibit 4 for additional responsibilities and recommended qualifications for this position.

### Manager

The Manager(s) would be responsible for the operation and maintenance of all administrative functions of the Peer Review Program. The Manager(s) would:

- Develop processes and procedures for the scheduling and processing of reviews, maintain information on the status of reviews and monitor compliance with deadlines
- Coordinate the review of working papers with Technical Reviewers, and coordinate and document activities of the RAB

See Exhibit 5 for additional responsibilities and recommended qualifications for this position.

### Technical Reviewer

The Technical Reviewer(s) would be responsible for performing the work paper review before the presentation of a peer review to the RAB. The Technical Reviewer(s) should be capable of performing a full work paper review, which includes a review of all of the engagement checklists and the quality control policies and procedures documents. The Technical Reviewer(s) would:

- Work closely with peer reviewers and public accounting firms to identify and resolve questions and issues prior to RAB presentation
- Assist the RAB member responsible for presenting the review by providing additional detailed information as necessary

Our estimates indicate four full-time equivalent Technical Reviewers would be needed to administer effectively full working paper reviews of 1,000 peer reviews annually based upon an assumption of 7,100 total hours of technical reviewer time (see Exhibit 2 for further information on assumptions). See Exhibit 6 for additional responsibilities and recommended qualifications for this position.

Full-time Administrators and Technical Reviewers may serve in a limited capacity in other areas with prior approval and periodic review by the OTF. Any known additional responsibilities should be provided to the AICPA as part of the AE's proposed plan for continuing as an AE (see discussion below under Administering Entities of the Future).

The AICPA will consider exceptions to the required criteria for AEs, by grandfathering Directors, Administrators, Managers and Technical Reviewers currently engaged in the Program and performing at a high level of quality in their area of expertise. An objective of the final plan is to retain experienced and qualified peer review staff members, and Program technology will enable telecommuting where appropriate.

## Effective Performance of Peer Review Committee and Report Acceptance Body

Each AE will be responsible for establishing a Committee and RAB(s) having the collective knowledge and expertise key to the Program's success and the profession's self-regulation. Through assigning and following up on corrective actions, Committee and RAB members help improve audit quality and support firms by holding them accountable. Finally, the Committees and RABs ascertain the right information is included in the system to support improvement and changes to professional standards, as appropriate.

The Committee would include:

- 15-20 members who are team captain qualified
- Members from each of the states administered by the AE

Committee members would ordinarily serve five one-year terms that are dependent upon satisfactory performance with the ability to extend beyond five years for one or more additional one-year terms depending upon the Committee's needs.

The full Committee should meet at least quarterly, in whichever format the AE deems effective (in-person, web-based, telephonic), with at least one in-person meeting per year. The Committee is ultimately responsible for the following:

- Discussing AICPA PRB proposals to the Program and comment, as appropriate
- Discussing and executing changes to the Program *Standards*, interpretations and related guidance issued by the AICPA PRB
- Communicating guidance changes to RAB members who are not on the Committee
- Discussing the AE Plan of Administration, including effectiveness of technical reviews and oversights and approval before submission to the PRB
- Resolving concerns raised during RAB meetings
- Resolving disagreements (or where no resolution can be made, referring unresolved issues to the PRB for final determination)
- Monitoring the status of reviews administered (e.g., overdue scheduling forms, length of time since work papers were received, firms undergoing hearings, etc.)
- Evaluating the qualifications and competencies of technical reviewers on an annual basis
- Performing other tasks as discussed in the RAB Handbook

An Executive Committee may be formed and would be responsible for the tasks previously listed, delegating certain tasks to sub-committees or other groups who then report back to the Executive Committee.

RAB meetings would follow these criteria:

- Organized and hosted by AE on a regular cycle, scheduled, at a minimum, every two weeks (meeting may be canceled if there are not six peer reviews (or a reasonable number) to accept)
- Active participation by approximately five members in each meeting

- A minimum of three RAB members must accept any particular review
- A mix of experience of industries with at least one member who has experience in any must-select industry in which such engagements are included in a review to be presented
- Members presenting or voting on system reviews must be team captain qualified
- Members presenting or voting on engagement reviews must be review captain qualified
- Meetings may be separated between system and engagement reviews based upon qualification of the RAB members
- When conducting conference calls, the number and complexity of reviews should be considered so that the calls are expected to last approximately two hours

A Committee member would chair each RAB meeting. This allows for consistency in RAB decisions and the identification of overarching concerns to be brought back to the Committee for discussion and resolution. It would also aid in increasing the effectiveness of the technical review process and oversight. The RAB Chair would also communicate Committee decisions, changes in guidance and other information during RAB meetings, as necessary.

The AE should maintain a RAB pool large enough to rotate members so that each RAB does not consist of the same individuals. The pool should include an estimated 49 members, which considered the following:

- 59 meetings per year,
- Five RAB members involved in each call and
- Six calls per year per RAB member.

Each RAB member would contribute approximately 50 hours per year. (See Exhibit 2 for assumptions). The RAB member pool should consist of individuals from each of the states administered by the AE. The AE should avoid RABs comprised of all individuals from one particular market especially when that market's reviews are being presented. It is possible and acceptable that a RAB may not have a member from all markets being administered.

For each RAB meeting, the reviews being presented would be assigned to RAB members based on their industry experience, RAB members should commit sufficient time prior to the meeting to familiarize themselves with the details of the reviews they are assigned to present and if necessary, discuss the review with the Technical Reviewer. For reviews the RAB member would not be responsible for presenting, they should *at least* have a general understanding of the results and issues prior to the meeting so a robust discussion can occur and the RAB can reach the right conclusion about the review.

For each review, the RAB would consider whether it was performed in accordance with the *Standards*, interpretations and other related guidance. RAB members should also consider whether Matters for Further Consideration (MFCs), FFCs, reports and letters of response are substantive and prepared in accordance with the *Standards*. The RAB should determine whether the firm's remedial actions for non-conforming engagements and systemic issues are appropriate, and whether any corrective actions or implementation plans are necessary. The RAB should follow up on any corrective

actions or implementation plans to ensure that they are completed to the satisfaction of the RAB.

It is critical to the efficacy of the Program that Committee and RAB members exercise the appropriate degree of skepticism in discharging their responsibilities. Our combined and collaborative ability to continue to administer the Program on behalf of stakeholders - and to satisfy the needs of regulators - requires that Committee members, RAB participants, and AE and AICPA staff be willing to execute on the values of the CPA profession, even when faced with difficult or uncomfortable decisions.

## **National Peer Review Program**

### **National Peer Review Committee**

The National PRC currently meets the proposed criteria, except for administering 1,000 reviews per year. Approximately 700 firms have their peer reviews administered by the National PRC either voluntarily or due to meeting any of the following criteria:

- 1) The firm is required to be registered with and subject to permanent inspection by the PCAOB,
- 2) The firm performs any engagement under PCAOB standards or
- 3) The firm is a provider of Quality Control Materials (QCM) (or affiliated with a provider of QCM) that are used by firms that it peer reviews

Due to the unique nature of the firms administered by the National PRC with special requirements and their need for more rigorous oversight, these firms would continue to be administered by the National PRC to ensure that they will be supported effectively.

### **New National AE**

The AICPA would create an additional national AE that would meet this proposal's criteria to administer peer review for firms that do not meet National PRC criteria, and to provide another option for state societies that choose not to administer the program in their state. As with the current Program, firms may request approval for their reviews to be administered by the AE primarily responsible for their home state or by another newly-approved AE, upon approval by that AE after evaluating the reasons for the request.

## **Administering Entities of the Future**

As occurs today, the AICPA will evaluate and approve AEs administering the program in the future. A commitment to meet the criteria by a certain date, as finally determined after input from stakeholders, would be a prerequisite to such approval, but not be the sole deciding factor. The AICPA would work with the approved AEs on transition, including how the AEs can establish best practices regarding cost and quality issues. The AICPA will provide policy communications through state society committees to ease the transition by outlining the ongoing role of the society. Multiple state societies have outsourced their own peer reviews for many years (See Exhibit 1), with effective and efficient results for members.

The AICPA and the PRB will continue to serve in an oversight role for AEs and will not actively participate in the RAB and Committee meetings.

Currently, peer reviews of non-AICPA member firms are administered by the state societies where their home office is located, and they are not officially part of the Program. The AICPA's *Standards* and related Interpretations are expected to be revised so that non-AICPA member firms and non-state society member firms must be enrolled in the AICPA Program to receive a peer review through an AE.

Feedback on the proposed criteria and structure is requested by August 1, 2016. Once criteria are established, AEs wishing to continue to administer the program will be asked to communicate to the AICPA no later than January 31, 2017 their commitment to and plans for meeting the criteria. The goal is to have the revised structure in place by December 28, 2018. The AICPA is committed to providing resources to all AEs to help ease the transition to becoming an AE of the future, or to transitioning administration responsibilities to another AE.

## Transitioning out of Administering Entity Role

If a state society does not plan to administer reviews going forward or chooses not to meet the criteria by the end of 2018, all of the reviews administered by that state society must be transitioned to another AE, either:

1. A newly-approved AE or
2. The new national AE established by the AICPA.

As with the current Program, firms may request approval for their reviews to be administered by the AE primarily responsible for their home state or by another newly-approved AE, upon approval by that AE after evaluating the reasons for the request.

Throughout this transition, there will likely be change management issues for members, peer reviewers, firms and AICPA and state society staff. The AICPA is committed to helping ease transition issues, and will work to find ways to retain the skills and knowledge of participants at all levels of the current AE structure, whenever feasible and appropriate.

## Stakeholder Feedback Requested by August 1, 2016

Feedback is integral to the progress of evolving peer review administration. All input will be considered, and it will inform and shape how the AICPA and state CPA societies move forward with this proposal.

Please consider the following questions when commenting on this discussion paper.

- Is the proposed timeline feasible?
  - Is January 31, 2017 sufficient time to make decisions regarding the role your state CPA society will play in peer review in the future?
  - Is December 28, 2018 a feasible timeframe for full transition to the new model assuming appropriate technology is in place?

- Are there other qualifications of Administrators, Technical Reviewers, Directors, RAB members or Committee members that should be included in the required criteria?
- Are there procedures that should be standardized at the Committee vs. the RAB level?
- Are there any additional issues for consideration?
- If you disagree with any aspects of the proposed plan, please share alternative suggestions for meeting the quality objectives.

Comments and responses should be sent to Beth Thoresen, Director – Peer Review Operations, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 or [prsupport@aicpa.org](mailto:prsupport@aicpa.org) and are requested by August 1, 2016.

**Thank you in advance for your thoughtful consideration of the issues facing Peer Review administration, and your commitment to enhancing audit quality throughout the CPA profession.**

## Exhibit 1 – Administering Entities Approved to Administer the AICPA Peer Review Program

<b>Administering Entity</b>	<b>Licensing Jurisdiction</b>
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois, Iowa
Indiana CPA Society	Indiana
Kansas Society of CPAs	Kansas
Kentucky Society of CPAs	Kentucky
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota
Mississippi Society of CPAs	Mississippi
Missouri Society of CPAs	Missouri
Montana Society of CPAs	Montana
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Wyoming, Nebraska, Utah
New England Peer Review, Inc.	Maine, New Hampshire*, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New Mexico Society of CPAs	New Mexico
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
South Carolina Association of CPAs	South Carolina
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington
West Virginia Society of CPAs	West Virginia
Wisconsin Institute of CPAs	Wisconsin

\*New Hampshire firms will be administered by the Massachusetts Society of CPAs beginning May 1, 2016.

## Exhibit 2 – Assumptions in Calculations

The proposed criteria for the new AEs is based on administering 1,000 peer reviews annually, having effective AE employee structure, qualifications and responsibilities, and having an effective Committee and RAB structure as described on pages 5-9. As occurs today, AEs of the future will charge administrative fees to enrolled firms to recover all costs associated with administration of the Program. Assumptions used in calculating the number of technical reviewers and RAB members include:

- For 2012-2014, there were 14,355 engagement reviews and 12,081 system reviews
- All firms with 100 or more professionals are administered by the National PRC. The calculations excluded firms whose peer review was administered by the National PRC
- All firms with more than 10 professionals have a system review.
- For firms with 10 or fewer professionals, 39% are system reviews and 61% are engagement reviews
- The number of firms with more than 10 professionals are spread evenly across the AEs
- Based upon performing 1,000 technical reviews annually, 427 would be system reviews and 573 would be engagement reviews.
- Estimated hours of technical review time per review
  - System reviews – 8 hours
  - Engagement reviews – 2.5 hours
- Technical reviewers to spend an estimated 190 hours per month (excluding time per reviews) on RAB meetings and preparation, follow-up on corrective actions, on-site and off-site oversights and other trainings
- Technical reviewers are able to accept 30% of the engagement reviews (approximately 172 out of 1,000) without presenting to the RAB.
- Of the reviews presented to the RAB per year, 427 would be system reviews and 401 would be engagement reviews
- Of the reviews that require RAB acceptance, 30% are included on the consent agenda (128 would be system reviews and 120 would be engagement reviews).
- System and engagement reviews discussed by the RAB were divided into easy, moderate and difficult reviews for each type of review with different amounts of time allocated to each to estimate that 118 hours of RAB meeting time would be required per year
- RAB Meetings should not extend longer than 2 hours
- Administrators spend on average 9 hours per review administered, assuming a small increase in efficiency provided by self-service background form
- Full-time employee equivalent calculations for the administrators and technical reviewers are based upon 1,800 hours, which would *exclude* vacation, continuing education, etc.

## **Exhibit 3 – Proposed Peer Review Director Responsibilities and Qualifications**

### Responsibilities:

- Oversee the technical and operational aspects of the Peer Review Program
- Maintain the quality and consistency of the Peer Review Program
- Ensure the Committee and the RAB(s) act in compliance with the Peer Review Program Manual and RAB Handbook
- Assign and reprioritize tasks for Manager, Administrator and Technical Reviewer
- Provide assistance (technical and general) to firms, peer reviewers and staff
- Assist in the review of CPE materials, monitor CPE courses and, as necessary, write CPE materials for courses
- Ensure the Peer Review Program website is up to date and accurate
- Approve and ensure peer review communications are accurate

### Qualifications:

- Bachelor's degree in accounting, finance or related field
- CPA designation and active license
- Minimum of eight years of professional experience in accounting or auditing
- Strong knowledge of accounting, auditing and quality control standards
- Ability to multi-task in a time-sensitive environment
- Excellent verbal and written communication skills
- Strong interpersonal skills with ability to work well with CPAs
- Strong knowledge of the state peer review regulatory requirements in the states it administers and a familiarity with the peer review requirements of other state boards

## Exhibit 4 – Proposed Peer Review Administrator Responsibilities and Qualifications

### Responsibilities:

- Manage the scheduling aspects of the Peer Review Program ensuring that all enrolled firms schedule their reviews in accordance with standards
- Provide assistance to CPA firms in the preparation and scheduling of their review, the scheduling of the review in the AICPA computer system, the selection and approval of reviewers
- Assist firms to resolve any scheduling errors or issues
- Coordinate with peer reviewers the submission of peer review documents to the AE
- Process submitted documents to ensure completeness of information provided before review by a Technical Reviewer
- Coordinate with Technical Reviewers to provide peer review documents for review
- Assist firms and reviewers by answering questions and providing information about the Peer Review Program
- Help individuals understand the licensing requirements of peer review and enroll firms that are not already enrolled in the Peer Review Program
- Evaluate and process firm change requests through research and discussion with members
- Maintain current knowledge of the Peer Review Program standards and guidance and Administrative Handbook

### Qualifications:

- Bachelor's degree in a related field
- Two to three years of work experience in the administration of a compliance or regulatory program
- Ability to support web based applications or other software support technology
- Ability to multi-task in a time-sensitive environment
- Proficiency in Microsoft Word, PowerPoint and Excel
- Ability to work independently and with minimal supervision
- Ability to work non-traditional hours on a flexible basis
- Proficiency in time management, organization and problem solving skills
- Strong interpersonal skills with ability to work well with CPAs
- Knowledge of state board peer review requirements related to the scheduling, completion and state board document submission

## Exhibit 5 – Proposed Peer Review Manager Responsibilities and Qualifications

### Responsibilities:

- Maintain the day to day operations of the Peer Review Program
- Develop processes and procedures for the scheduling and processing of reviews
- Maintain information on the status of reviews in progress to ensure timely completion
- Document and follow-up on the receipt of review materials, letters of response and remedial action documentation
- Monitor compliance with deadlines for scheduling information, completed reviews, and follow-up information
- Ensure the timely mailing of communications (i.e. request for scheduling, acceptance/deferral letters, follow-up letters, etc.)
- Assist in planning the budget for the Peer Review Program
- Coordinate the performance of technical reviews
- Assist the Report Acceptance Body by preparing meeting materials and answering questions
- Coordinate and document the decisions of the Report Acceptance Body
- Develop and disseminate Peer Review Program information
- Respond to inquiries regarding billing charges incurred during the review process
- Maintain current knowledge of the Peer Review Program standards and guidance and Administrative Handbook
- Assist in the preparation of the Annual Plan of Administration
- Actively participate in conference calls scheduled by the AICPA to receive training and other information

### Qualifications:

- Bachelor's degree in related field
- Minimum of three years of experience in the administration of a compliance or regulatory program, or equivalent experience
- Ability to support web-based applications or other software support technology
- Proficiency in Microsoft Word, PowerPoint, and Excel
- Ability to work independently and with minimal supervision
- Ability to multi-task in a time-sensitive environment
- Ability to work non-traditional hours on a flexible basis
- Proficiency in time management, organization, and problem-solving skills
- Excellent written and verbal communication skills
- Strong interpersonal skills with ability to work well with CPAs

## Exhibit 6 – Proposed Technical Reviewer Responsibilities and Qualifications

### Responsibilities:

- Perform a full working paper review (includes all engagement checklists and quality control policies and procedures documents) before presentation to the Report Acceptance Body
- Work closely with peer reviewer and firms to identify any questions or issues before presenting a review to the Report Acceptance Body
- Provide assistance to the Report Acceptance Body member responsible for presenting the review and provide any additional information as necessary
- Participate in at least one peer review each year, which may include participation in an on-site oversight of a system review
- Maintain current knowledge of Peer Review Program standards and guidance
- Obtain appropriate CPE annually to maintain an appropriate level of accounting and auditing knowledge including necessary CPE needed to review must-select engagements
- Acquire and maintain an in-depth knowledge of the technical aspects of the Peer Review Program

### Qualifications:

- Bachelor's degree in accounting, finance or related field
- CPA designation and active license
- Minimum of five years of current public accounting experience, including preferred experience with Government and/or ERISA engagements
- Strong knowledge of accounting, auditing and quality control standards
- Ability to multi-task in a time-sensitive environment
- Proficiency in Microsoft Word, PowerPoint, and Excel
- Ability to work independently and with minimal supervision
- Ability to work non-traditional hours on a flexible basis
- Proficiency in time management, organization and problem-solving skills
- Strong interpersonal skills with ability to work well with CPAs



Peer Review Program

# Proposed Evolution of Peer Review Administration

*A supplemental discussion paper seeking input from  
State Boards of Accountancy.*

## Background

During a strategic planning session held in October 2010, the AICPA Peer Review Board (PRB) focused on enhancements and improvements in five key areas of the AICPA Peer Review Program (Program). One key area was improving the peer review administrative process. The PRB observed that the existing processes remained largely the same since the inception of the Program in 1985, despite dramatic changes in the environment and in technology. Historically administering entities (AEs) have administered the Program on behalf of the AICPA. Through annual Plans of Administration (POAs), AEs agree to:

- Administer the Program in compliance with the [AICPA Standards for Performing and Reporting on Peer Reviews](#) (Standards) and other guidance established by the PRB
- Ensure staff and all others involved in the Program comply with the Standards and other guidance established by the PRB
- Appoint a peer review committee to oversee the administration, acceptance and completion of peer reviews to ensure the Program is performed in accordance with the Standards and other guidance established by the PRB
- Employ staff who meet the requirements defined in the Standards to perform technical reviews on all peer reviews administered

Based on surveys and focus groups conducted in 2011 and 2012 with enrolled firms, peer reviewers and AEs, stakeholder feedback indicated various opportunities to improve the administration of the Program, including consistency and quality of the:

- Report Acceptance Body (RAB) process,
- Resume verification process,
- Reviewer qualification on must-select engagements,
- Firm reenrollment/reinstatement,
- Firm change of venue,
- Administrative fee structures, and
- Managerial skills needed to run a complex technology driven process.

Consideration of this feedback led the PRB to conclude that fewer entities administering the program would result in greater consistency in peer reviews, and hence, greater quality. Further, the PRB noted the importance of consistent peer review administration and acceptance processes across AEs as states move to adopt firm mobility, as the public is best served when peer reviews are consistently administered in accordance with the Standards, regardless of where the peer review takes place.

The PRB's work was temporarily suspended, pending the work of the AICPA Board of Directors authorized Practice Monitoring of the Future (PMoF) initiative. The initiative conceptualizes a future technology-driven system, much different from today's peer review process. Upon the realization that PMoF will take several years – and the input of many stakeholders – to achieve actualization, the PRB resumed its focus on improvements to the current Program.

In 2015, a group of state CPA society (society) staff leaders was engaged to advise and assist in designing a potential new administration model (referred to as the Evolution of Peer Review

Administration). The group offered a variety of suggestions that shaped the model developed by AICPA staff, and though they did not offer consensus on proposed criteria for AEs they all agreed a reduction in the number of AEs was needed to ensure consistency.

The proposed model was presented to the society CEOs (the Program administrators) in a discussion paper on February 22, 2016, as a first step in gathering feedback from the Program's key stakeholders. The paper primarily focused on issues directly impacting the societies that administer the Program, including staffing, Peer Review Committees and RABs. The objective was to first gather feedback on the proposal from societies, then solicit input from state boards of accountancy (boards) after consideration of initial feedback.

The proposed model was next introduced to board executive directors at the National Association of State Boards of Accountancy (NASBA) Executive Directors conference in March 2016, with the Evolution paper distributed more broadly to boards shortly thereafter. Further discussions were held at the June 2016 NASBA Regional Meetings.

This follow-up discussion paper is being provided for further consideration and feedback by boards. It includes responses to initial comments as well as thoughts on additional issues of importance to boards, including oversight of the Program and access to peer review information.

## Process Improvement

The goal of the proposed model is to enhance quality by reducing inconsistencies in peer review administration and acceptance, enhance objectivity and professional skepticism in the report acceptance process and improve timeliness of review acceptance.

All AEs are required to administer the Program in accordance with the Standards and other guidance established by the PRB. Any issues identified during the AICPA's annual administrative oversight process are noted in the [AE oversight report](#) and are required to be rectified for the state to remain an AE. However, many inconsistencies exist with the way the Program guidance is applied. Improving consistency is important for quality and supports the profession's overall efforts to increase mobility in the profession.

## Achieving Greater Consistency

History has demonstrated that it is difficult to achieve consistency among 40 or more AEs, and consistency is critical. Firms and their regulators should expect the same peer review results regardless of where the peer review is conducted and administered. While some lower volume AEs excel at Program administration, AEs that administer a larger volume of reviews generally have more effective and consistent administrative processes. Such AEs have important attributes, including full-time staff dedicated to peer review. Although staffing specifics vary, each has *at least* one full-time administrator, manager and technical reviewer with appropriate qualifications. Further, these AEs have dedicated management focusing exclusively on peer review. As the profession and the assurance services it performs continues to evolve and become more complex, the Program continues to evolve with it, becoming increasingly complex and making it more challenging for staff to remain fully versed on the Program if they are also focused on non-peer review related responsibilities. Throughout the rapid changes in the Program, dependency on technology for all steps of the process, including administration, has

increased (and will continue to increase). The ability to adapt and work effectively with changing technology has been considered critical in determining the qualifications of staff necessary to perform these roles.

A high-level summary of the duties AE staff perform is outlined below.

#### Administrator

- Confirm all enrolled firms schedule reviews in accordance with Standards and board requirements and assist firms to resolve scheduling errors or issues
- Work with peer reviewers to coordinate the submission and processing of peer review documents to the AE to ensure that all required documentation is received and work papers are accessible for Technical Reviewers
- Maintain Facilitated State Board Access (FSBA) records in a timely manner

#### Manager

- Develop processes and procedures for the scheduling and processing of reviews, maintain information on the status of reviews and monitor compliance with deadlines
- Coordinate the review of working papers with Technical Reviewers, and coordinate and document activities of the RAB

#### Technical Reviewer

- Perform full work paper reviews before the presentation of a peer review to the RAB
- Work closely with peer reviewers and public accounting firms to identify and resolve questions and issues prior to RAB presentation
- Assist the RAB member responsible for presenting the review by providing additional detailed information as necessary

AEs that administer a larger volume of reviews also have a greater pool of available volunteer committee and RAB members with the expertise needed to accurately assess high risk reviews. Coupled with a proportionately lower number of technical reviewers (since full-time technical reviewers are employed), these AEs are able to have more frequent RAB meetings, resulting in a more efficient and consistent process, and are more easily able to minimize the threat of being overly familiar with the reviewers whose reports they consider.

### **Noted Inconsistencies**

The nature of some of the inconsistencies across the current structure include how the following are identified and addressed.

- Peer review report ratings – inconsistency in identifying and/or requiring a modification to a report (e.g., from pass to pass with deficiency or fail)
- Corrective actions and implementation plans – inconsistently imposing appropriate corrective action or implementation plans on the reviewed firm

- Reviewer performance matters (including feedback) – inconsistency in appropriately addressing reviewer performance issues and reluctance to eliminate reviewer from the pool when warranted
- Firms with consecutive non-pass reports – inconsistencies among AEs referring such firms to the PRB for non-cooperation
- Determination of pervasiveness (and impact on the firms as a whole) – inconsistencies in requiring expansion of scope or study when problems encountered in a review
- Determination of systemic cause – inconsistencies in requiring peer reviewer to determine (and opine on) systemic cause
- Inconsistencies in implementation of and compliance with new and existing Standards
- Inconsistent treatment of documentation issues – verbal acceptance that audit work was completed where no or little documentation exists
- Engagement selection – scope and reasonable cross-section – inconsistency in challenging the reviewer on the number or scope of engagements selected
- Inconsistent timeliness of presentation to RABs, following-up with overdue reviews and firms with corrective action – general timeliness due to staffing priorities
- Matter for Further Consideration (MFC) and Finding for Further Consideration (FFC) – inconsistency in properly elevating a matter to a finding where remediation should be monitored and implementation plans required
- Accuracy of information input into peer review database (PRISM)

### Initial Proposed Criteria for AEs of the Future

To help improve audit quality, a peer review process is needed that appropriately and consistently detects and corrects issues by providing feedback in a timely manner. This means that peer review staff must be thoroughly versed on the rapidly changing Standards and processes, and the pool of volunteer participants must be large enough to support frequent RAB meetings and provide the expertise needed for appropriate review and acceptance of reviews.

Accordingly, the following criteria were initially proposed for AEs to be most effective and to continue to administer the Program. The criteria are based upon discussions with society leaders, meetings with AEs and the results of AE and RAB oversights. The criteria have been proposed as a “straw-man” to begin the discussion and are expected to change based on stakeholder feedback received.

- Consistent AE peer review management, employee and consultant structure, qualifications and responsibilities
- Effective performance of Peer Review Committee and RABs
- Administration of at least 1,000 peer reviews annually to improve efficiencies

### Oversight

The PRB has always recognized and supported the value of oversight to boards and is an active partner with NASBA in promoting the board Peer Review Oversight Committee (PROC) process.

By way of this paper and other means, the AICPA expresses its understanding that proposed changes in peer review administration will have an impact on the current model for board oversight of the program and may necessitate changes by boards of the current PROC process. The AICPA, and members of the PRB and its Oversight Task Force, are cooperating with NASBA's Compliance Assurance Committee and NASBA leadership to assist boards in considering and vetting new potential models for board oversight based on the proposed new administration model and will continue to work with boards to ensure an effective board oversight process is implemented.

## **Initial Feedback on Discussion Paper:**

Provided below is clarification for questions and commentary received on a number of issues.

### **Continuing as AEs**

*Many states currently and successfully have their states' peer reviews administered by an AE outside of their state. Additionally, prior to the release of the discussion paper, some societies had already been considering transitioning out of Program administration due to the exit of an employee or other factors, and had begun conversations with other states independent of the discussion paper proposed model. As a result of the discussion paper, societies have advised us that they are considering continuing to be an AE, transitioning administration to another state (or AICPA) or are unsure. A process for states to transition to another state (or AICPA) will be developed once final criteria and structure are determined. Societies have been advised to engage in discussions with their respective boards regarding their future vision for peer review administration.*

### **Cost of Peer Review**

*The reduction in the number of AEs should not, in and of itself, cause a rise in administrative fees. However, the cost of peer review for firms will increase moderately with or without the Evolution of Administration, as a result of enhancements to the program designed to better detect and correct deficiencies. Peer Review administrative fees have always been expected to be based on cost recovery, and this will continue to be the expectation.*

### **Peer Reviewer Pool**

*The current active reviewer pool is larger than ever before. In addition, many reviewers already perform reviews for firms administered in multiple states. Some reviewers may choose to discontinue reviewing due to changes in the Program, but many qualified reviewers are available and ready to handle reviews if some leave the pool. The AICPA remains committed to monitoring and taking action to ensure an appropriate pool of reviewers remains available.*

### **Performance by a Peer**

*The Evolution of Administration does not change the review process as articulated in the Standards, including having peers performing the peer review, considering and accepting the review and determining the appropriate remedial action, when necessary. Some states have statutes and other state-specific considerations, and future guidelines will address this concern.*

## **Proposed Number of AEs (8-10) and Administering 1,000 Annual Reviews**

*The straw-man suggested in the initial discussion paper is a proposal, as are the other criteria and timeline. None of the proposed criteria including the total number of AEs or annual reviews are fixed. It is possible the final number of AEs and the number of annual reviews administered will be different, if stated at all. In addition, though the discussion paper indicates the AICPA will develop a new national AE to provide an additional option for societies that choose not to administer the program in their state, the AICPA is encouraging societies to look first to other societies to share administration.*

## **RABs and RAB Members**

### **Inconsistencies among RABs**

*Achieving consistency among 40+ AEs has been difficult and costly. PRB oversights have noted inconsistencies in the RAB process from state to state and peer reviewers who perform reviews in multiple states have voiced concerns about this as well. Firms and regulators should be able to expect the same review results regardless of the state in which they are based.*

### **Commitment required of RAB Members**

*The commitment effort for individual volunteers is not expected to change from the current program. The 50 hours per year estimate was developed by AICPA staff based on the time anticipated volunteers would need to prepare for and participate in RAB meetings. Though the proposed model articulates more frequent RAB meetings than are currently held by lower-volume AEs to better assist firms in meeting state licensing requirements, the increased frequency will be possible due to the larger number of volunteers participating in the consolidated AE.*

### **Pool of RAB Members**

*The majority of the current volunteers will continue to play a significant role in the new RAB structure. Society CEOs are already having discussions with existing peer review committees, indicating their value and need for their continued service. In addition, as they do now, states that administer peer review and those that do not will be involved in the active recruitment of both peer reviewers and volunteers.*

## **Timeline**

*The original proposed model suggested a timeline for implementation of the new model. However, initial feedback has clearly indicated that more time will be needed for the proposed changes, and it is now assumed the previously proposed implementation dates will be pushed back.*

## **Board Involvement**

### **Choosing Future AEs**

*Virtually all of the laws or regulations of states that mandate peer review provide the board the ability to withdraw its recognition of a program or AE if it is shown to be ineffective. The AICPA fully supports such provisions and are confident that all AEs formed from the evolution initiative will be as or more effective than existing AEs.*

## Oversight

*The AICPA and the PRB recognize and support the value of oversight to boards. The AICPA is an active partner with NASBA in promoting the board PROC process. The PRB and members of the PRB Oversight Task Force are cooperating with NASBA's Compliance Assurance Committee to assist boards in developing an effective board oversight model under Evolution.*

## Resources, Support and Transparency

*All AEs under a new model will continue to have designated personnel charged with responding to board questions. In addition, recognizing the need of boards to have such information, the AICPA has requested the assistance of several board executive directors to join a working group to develop a standardized information reporting form. Representatives from 10 boards have agreed to participate. Also, a representative of NASBA staff will participate to facilitate communication with all boards. This group will have its initial meeting in July 2016.*

## Working with State Societies

*Just as happens today with states that currently do not administer peer review, societies will continue to be the first point of contact with boards for their members, including issues and concerns regarding the Program. The AICPA has encouraged societies to engage in a dialogue with the board in their states.*

## **Board Feedback Requested by October 31, 2016**

With the distribution of this paper, the AICPA is asking boards to consider the proposed criteria and structure for Program administration in the future. All input will be considered and will inform and shape how the AICPA and societies move forward with this initiative.

Please consider the following questions when formulating your response.

- Considering the information presented in the proposed model, what changes do you believe will best increase consistency in peer review acceptance results?
- Considering the information presented in the proposed model, what changes do you believe will best promote proper and timely application of Standards and guidance?
- How do you believe the familiarity threat in the peer review acceptance process can best be minimized?

Comments and responses should be sent to Beth Thoresen, Director – Peer Review Operations, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 or [prsupport@aicpa.org](mailto:prsupport@aicpa.org) and are requested by October 31, 2016.

Thank you in advance for your thoughtful consideration of the issues facing Peer Review administration, and your commitment to enhancing audit quality throughout the CPA profession.



Peer Review Program



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**PROC Item IV.C.**  
August 19, 2016

## **Discussion of the Peer Review Oversight Committee Roles and Responsibilities as Approved by the California Board of Accountancy**

**Presented by:** Dominic Franzella, Chief, Enforcement Division

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to retrospectively review their roles and responsibilities to oversight California's peer review program.

### **Consumer Protection Objectives**

As the California Board of Accountancy's (CBA) approved peer review provider, the American Institute of Certified Public Accountants (AICPA) regulates and monitors the peer review program through the existing administering entity, the California Society of Certified Public Accountants (CalCPA). The CBA adopted peer review Standards regulated by AICPA and the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of the mandatory peer review program, which furthers the CBA's mission of consumer protection.

### **Action(s) Needed**

No specific action is required on this agenda item.

### **Background**

At the PROC May 6, 2016 Meeting, members requested staff provide the PROC with its roles and responsibilities.

### **Comments**

The PROC derives its authority from Business and Professions Code (BPC) section 5076.1 (**Attachment 1**). The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

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

- Hold meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.

## **Discussion of Peer Review Oversight Committee Roles and Responsibilities as Approved by the California Board of Accountancy**

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

In addition to the PROC roles and responsibilities as adopted by the CBA, staff have provided the PROC with the statutes (BPC sections 5076 and 5076.1) and (CBA regulations section 39-48.6) (**Attachment 2**) that govern California's Peer Review Program.

At its recent July 2016 meeting, the CBA directed the PROC to evaluate a new topic related to the peer reviewer population. Staff will work with the PROC Chair on next steps for future PROC discussion regarding this topic.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

### **Recommendation**

Staff do not have a recommendation on this agenda item.

### **Attachments**

1. Business and Professions Code Section 5076 and 5076.1
2. CBA Regulations Sections 39-48.6

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**Attachment 1****Business and Professions Code  
Section 5076 and 5076.1****§ 5076. Peer Review.**

(a) In order to renew its registration in an active status or convert to an active status, a firm, as defined in Section 5035.1, shall have a peer review report of its accounting and auditing practice accepted by a board-recognized peer review program no less frequently than every three years.

(b) For purposes of this article, the following definitions apply:

(1) "Peer review" means a study, appraisal, or review conducted in accordance with professional standards of the professional work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the board in regulations. The peer review report shall be issued by an individual who has a valid and current license, certificate, or permit to practice public accountancy from this state or another state and is unaffiliated with the firm being reviewed.

(2) "Accounting and auditing practice" includes any services that were performed in the prior three years using professional standards defined by the board in regulations.

(c) The board shall adopt regulations as necessary to implement, interpret, and make specific the peer review requirements in this section, including, but not limited to, regulations specifying the requirements for board recognition of a peer review program, standards for administering a peer review, extensions of time for fulfilling the peer review requirement, exclusions from the peer review program, and document submission.

(d) Nothing in this section shall prohibit the board from initiating an investigation and imposing discipline against a firm or licensee, either as the result of a complaint that alleges violations of statutes, rules, or regulations, or from information contained in a peer review report received by the board.

(e) A firm issued a substandard peer review report, as defined by the board in regulation, shall submit a copy of that report to the board. The board shall establish in regulation the time period that a firm must submit the report to the board. This period shall not exceed 60 days from the time the report is accepted by a board-recognized peer review program provider to the date the report is submitted to the board.

(f) (1) A board-recognized peer review program provider shall file a copy with the board of all substandard peer review reports issued to California-licensed firms. The board shall establish in regulation the time period that a board-recognized peer review program provider shall file the report with the board. This period shall not exceed 60 days from the time the report is accepted by a board-recognized peer review program provider to the date the report is filed with the board. These reports may be filed with the board electronically.

(2) Nothing in this subdivision shall require a board-recognized peer review program provider, when administering peer reviews in another state, to violate the laws of the state.

(g) The board shall, by January 1, 2010 define a substandard peer review report in regulation.

## **Business and Professions Code Section 5076 and 5076.1**

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(h) Any requirements imposed by a board-recognized peer review program on a firm in conjunction with the completion of a peer review shall be separate from, and in addition to, any action by the board pursuant to this section.

(i) Any report of a substandard peer review submitted to the board in conjunction with this section shall be collected for investigatory purposes.

(j) Nothing in this section affects the discovery or admissibility of evidence in a civil or criminal action.

(k) Nothing in this section requires any firm to become a member of any professional organization.

(l) A peer reviewer shall not disclose information concerning licensees or their clients obtained during a peer review, unless specifically authorized pursuant to this section, Section 5076.1, or regulations prescribed by the board.

(m) (1) By January 1, 2015, the board shall provide the Legislature and Governor with a report regarding the peer review requirements of this section that includes, without limitation:

(A) The number of peer review reports completed to date and the number of reports which were submitted to the board as required in subdivision (e).

(B) The number of enforcement actions that were initiated as a result of an investigation conducted pursuant to subdivision (i).

(C) The number of firms that were recommended to take corrective actions to improve their practice through the mandatory peer review process, and the number of firms that took corrective actions to improve their practice following recommendations resulting from the mandatory peer review process.

(D) The extent to which mandatory peer review of accounting firms enhances consumer protection.

(E) The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.

(F) A recommendation as to whether the mandatory peer review program should continue.

(G) 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.

(H) 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.

(I) 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.

(J) A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

(2) A report to the Legislature pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.

*(Amended by Stats. 2012, Ch. 661, Sec. 5. Effective January 1, 2013.)*

**§ 5076.1. Peer Review Oversight Committee.**

(a) The board 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 board on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

(b) The committee may request any information from a board-recognized peer review program provider deemed necessary to ensure the provider is administering peer reviews in accordance with the standards adopted by the board in regulations. Failure of a board-recognized peer review program provider to respond to the committee shall result in referral by the committee of the provider to the board for further action. Any information obtained by the board, its representatives, or the peer review oversight committee in conjunction with its review of peer review program providers shall not be a public record, and shall be exempt from public disclosure, provided, however, this information may be disclosed under any of the following circumstances:

(1) In connection with disciplinary proceedings of the board.

(2) In connection with legal proceedings in which the board is a party.

(3) In response to an official inquiry by a federal or state governmental regulatory agency.

(4) In compliance with a subpoena or summons enforceable by court order.

(5) As otherwise specifically required by law.

(c) The members of the committee shall be appointed to two-year terms and may serve a maximum of four consecutive terms.

(d) The board may adopt, as necessary, regulations further defining the minimum qualifications for appointment as a committee member and additional administrative elements designed to ensure the effectiveness of mandatory peer review.

*(Amended by Stats. 2011, Ch. 448, Sec. 9. Effective January 1, 2012.)*



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**Attachment 2**

## **CBA Regulations Sections 39-48.6**

### **§ 39. Definitions.**

The following definitions shall apply to Article 6 - Peer Review:

(a) Accounting and Auditing Practice: Any services that are performed using the following professional standards: Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARS), Statements on Standards on Attestation Engagements (SSAEs), Government Auditing Standards, and audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

(b) Peer Review Report: A report issued to the peer reviewed firm which documents the findings and conclusions reached by a qualified peer reviewer and issued in accordance with Section 48(b) of this Article.

(c) Pass Peer Review Report: A report issued to the peer reviewed firm in accordance with either Section 48(b)(1)(A) or 48(b)(2)(A) of this Article.

(d) Pass With Deficiencies Peer Review Report: A report issued to the peer reviewed firm in accordance with either Section 48(b)(1)(B) or 48(b)(2)(B) of this Article.

(e) Substandard Peer Review Report: A report issued to the peer reviewed firm under either Section 48(b)(1)(C) or 48(b)(2)(C) of this Article.

(f) Peer Reviewer: A certified public accountant holding a valid and active license to practice public accounting in good standing issued by this state or some other state who (1) maintains a currency of knowledge in professional standards governing accounting and auditing engagements, (2) meets the qualifications of Section 48(c) of this Article, and (3) is unaffiliated with the firm being reviewed.

(g) Peer Review Team: One or more individuals who collectively conduct a peer review, at least one of whom is a qualified peer reviewer.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

### **§ 40. Enrollment and Participation**

(a) A firm performing services as defined in Section 39(a) shall have a peer review report accepted by a Board-recognized peer review program once every three years in order to renew its license.

(b) A firm performing services as defined in Section 39(a) for the first time shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the date it completes those services.

*Note Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

## **CBA Regulations Section 39-48.6**

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### **§ 41. Firm Responsibilities.**

A firm shall enroll with a Board-recognized peer review program provider, and shall cooperate with the Board-recognized peer review program provider with which the firm is enrolled to arrange, schedule, and complete a peer review, in addition to taking and completing any remedial or corrective actions prescribed by the Board-recognized peer review program provider.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

### **§ 42. Exclusions.**

(a) The following shall be excluded from the peer review requirement:

(1) Any of a firm's engagements subject to inspection by the Public Company Accounting Oversight Board as part of its inspection program.

(2) Firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provisions of the Statements on Standards for Accounting and Review Services (SSARS).

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

### **§ 43. Extensions**

(a) Should an extension of time be needed to have a peer review report accepted by a Board-recognized peer review program such request shall be submitted to the Board-recognized peer review program with which the firm is enrolled for consideration and approval or denial.

(b) If the extension granted extends past the firm's reporting date, the firm shall notify the Board of the extension and provide proof of the extension. The firm shall report the results of the peer review to the Board on form PR-1(Rev. 1/12), as referenced in Section 45, within 45 days of the peer review report being accepted by a Board-recognized peer review program.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code*

### **§ 44. Notification of Expulsion.**

A firm that is expelled by a Board-recognized peer review program shall notify the Board in writing within 30 days and provide the name of the Board-recognized peer review program and reason(s) given to the firm by the peer review program for the expulsion.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

### **§ 45. Reporting to the Board.**

(a) Beginning on January 1, 2014, at the time of renewal, a licensee shall report to the Board specific peer review information as required on Form PR-1 (Rev. 1/12), which is hereby incorporated by reference.

## **CBA Regulations Section 39-48.6**

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(b) Prior to January 1, 2014, the date for existing California licensees to report peer review results, on the form indicated in subsection (a), shall be based on the licensee's license number according to the following schedule: for license numbers ending with 01-33 the reporting date is no later than July 1, 2011; for license numbers ending with 34-66 the reporting date is no later than July 1, 2012; for license numbers ending with 67-00 the reporting date is no later than July 1, 2013.

(c) A licensee's willful making of any false, fraudulent, or misleading statement, as part of, or in support of, his/her peer review reporting shall constitute cause for disciplinary action pursuant to Section 5100(g) of the Accountancy Act. Failure to submit a completed Form PR-1 (Rev. 1/12) shall be grounds for non-renewal or disciplinary action pursuant to Section 5100(g) of the Accountancy Act.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.  
Reference: Sections 5076 and 5100, Business and Professions Code.*

### **§ 46. Document Submission Requirements.**

(a) A firm receiving a peer review report issued under Section 48(b)(1)(C) or (b)(2)(C) shall submit a copy of the peer review report to the Board including any materials documenting the prescription of remedial or corrective actions imposed by a Board-recognized peer review program provider within 45 days of the peer review report being accepted by a Board-recognized peer review program provider. A firm shall also submit to the Board, within the same 45-day reporting period, any materials, if available, documenting completion of any or all of the prescribed remedial or corrective actions.

(b) Upon request by the Board, a firm shall submit to the Board all requested documents related to the peer review including:

(1) If the firm received a peer review report issued under Section 48(b)(1)(A) or (b)(2)(A) it shall submit the copy of the peer review report including materials documenting the acceptance of the report.

(2) If the firm received a peer review report issued under Section 48(b)(1)(B) or (b)(2)(B) it shall submit the copy of peer review report including any materials documenting the prescription of remedial or corrective actions imposed by a Board-recognized peer review program provider. In addition, a firm shall also submit any materials, if available, documenting completion of any or all of the prescribed remedial or corrective actions.

(c) Any documents required for submission as part of this section may be submitted electronically.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.  
Reference: Section 5076, Business and Professions Code.*

### **§ 47. Peer Review Oversight Committee.**

(a) The Peer Review Oversight Committee shall be comprised of not more than seven licensees. The licensees shall maintain a valid and active license to practice public accounting in California issued by the Board.

(b) No member of the committee shall be a current member or employee of the Board.

(c) The committee shall hold meetings as necessary in order to conduct business and shall report to the Board regarding the effectiveness of mandatory peer review. This

shall include an annual report to the Board regarding the results of its oversight, and shall include the scope of work, findings, and conclusions regarding its oversight.

(d) The committee is authorized to request from a Board-recognized peer review program provider those materials necessary to perform its review.

(e) Should a Board-recognized peer review program provider fail to respond to any request, the committee shall refer the matter to the Board.

(f) The committee shall review and recommend to the Board for approval peer review program provider applications for recognition by the Board.

*Note: Authority cited: Sections 5010 and 5076.1, Business and Professions Code.*

*Reference: Section 5076.1, Business and Professions Code.*

**§ 48. Minimum Requirements for a Peer Review Program.**

For a peer review program provider to receive Board recognition and be authorized to administer peer reviews in California, the peer review program provider shall submit evidence to the satisfaction of the Board that the peer review program is comprised of a set of standards for performing, reporting on, and administering peer reviews. A peer review program shall include the following components:

(a) Peer Review Types A peer review program shall have a minimum of two types of peer reviews that include the following:

(1) For firms performing engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards, examinations of prospective financial statements under the Statements on Standards on Attestation Engagements (SSAEs), or audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB), the firm shall undergo a peer review designed to test the firm's system of quality control. The scope of the peer review shall be such that it provides a peer reviewer with a reasonable assurance that a firm's system of quality control was designed in accordance with professional standards and was complied with by a firm's personnel.

(2) For firms only performing engagements under the Statements on Standards for Accounting and Review Services (SSARS) or under Statements on Standards on Attestation Engagements (SSAEs) not encompassed in review performed under subsection (a)(1), the firm shall undergo a peer review designed to test a cross-section of a firm's engagements to assess whether the engagements were performed in conformity with the applicable professional standards.

(b) Peer Review Report Issuance

(1) For firms undergoing peer reviews pursuant to subsection (a)(1), one of the following three types of peer review reports shall be issued:

(A) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control was suitably designed and complied with by the firm's personnel, which provides the firm with reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(B) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control was suitably designed and complied with by the firm's personnel with the exception of a certain deficiency or deficiencies that are described in the report. The deficiencies are such that the firm's design of or compliance with its system could create a situation in which the firm would have less than

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reasonable assurance of performing and/or reporting on engagements in conformity with applicable professional standards.

(C) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control is not suitably designed or complied with by the firm's personnel, and thus, does not provide the firm with reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(2) For firms undergoing peer reviews pursuant to subsection (a)(2), one of the following three types of peer review reports shall be issued:

(A) A peer review report indicating that a peer reviewer or peer review team concluded that there was no evidence which would cause the peer reviewer to believe that the engagements performed by the firm were not performed in conformity with applicable professional standards.

(B) A peer review report indicating that a peer reviewer or peer review team concluded that, with the exception of a certain deficiency or deficiencies, nothing would cause the peer reviewer to believe that the engagements performed by the firm and submitted for review were not performed in conformity with applicable professional standards. The deficiencies identified were such that the peer reviewer concluded they were material to the understanding of the report or financial statements or represented omission of critical procedures required by applicable professional standards.

(C) A peer review report indicating that a peer reviewer or peer review team concluded that the engagements reviewed were not performed and/or reported on in conformity with applicable professional standards. In issuing such report, the peer reviewer shall assess both the significance of the deficiencies identified and the pervasiveness of the deficiencies.

(c) Peer Reviewer Qualifications A peer review program shall include minimum qualifications for an individual to qualify as a peer reviewer. The qualifications shall, at a minimum, include the following:

(1) Have a valid and active license in good standing to practice public accounting issued by this state or other state.

(2) Be actively involved and practicing at a supervisory level in a firm's accounting and auditing practice.

(3) Maintain a currency of knowledge of the professional standards related to accounting and auditing, including those expressly related to the type or kind of practice to be reviewed.

(4) Provide the Board-recognized peer review program provider with his/her qualifications to be a reviewer, including recent industry experience.

(5) Be associated with a firm that has received a peer review report issued in accordance with subsection (b)(1)(A) or (b)(2)(A) of this section or has received a peer review rating of pass or unmodified as part of the American Institute of Certified Public Accountants Peer Review Program as part of the firm's last peer review.

(d) Planning and Performing Peer Reviews A peer review program shall include minimum guidelines and/or standards for planning and performing peer reviews commensurate with the type of peer review being performed to include, but not limited to, the following:

(1) For peer reviews performed in accordance with subsection (a)(1) of this section, a peer review program's guidelines and/or standards shall include the following:

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(A) Ensuring that prior to performing a peer review, a peer reviewer or a peer review team takes adequate steps in planning a peer review to include the following: (i) obtain the results of a firm's prior peer review (if applicable), (ii) obtain sufficient understanding of the nature and extent of a firm's accounting and auditing practice, (iii) obtain a sufficient understanding of a firm's system of quality control and the manner in which the system is monitored by a firm, and (iv) select a representative cross-section of a firm's engagements.

(B) In performing a peer review, the peer reviewer or peer review team shall test the reviewed engagements while assessing the adequacy of and compliance with a firm's system of quality control. The peer review is intended to provide the peer reviewer or peer review team with reasonable basis for expressing an opinion as to whether a firm's system of quality control is suitably designed and complied with by a firm's personnel such that the firm has reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(2) For peer reviews performed in accordance with subsection (a)(2) of this section, a peer review program's guidelines and/or standards shall include the following:

(A) Ensuring that prior to performing a peer review, a peer reviewer or peer review team select a representative cross-section of a firm's accounting and auditing engagements to include at a minimum one engagement for each partner, shareholder, owner, principal, or licensee authorized to issue reports.

(B) In performing a peer review, the peer reviewer or peer review team shall review the selected engagements to determine if the engagements were performed in conformity with the applicable professional standards.

(3) Nothing in a peer review program provider's guidelines and/or standards shall prohibit a peer reviewer or peer review team from disclosing pertinent peer review-related information regarding a firm to a subsequent peer reviewer.

(e) Peer Review Program Plan of Administration and Accepting Peer Review Reports

(1) The administration plan shall clearly outline the manner in which the peer review program provider intends on administering peer reviews and shall, at a minimum, include the following:

(A) Identify a peer review committee, and if necessary subcommittees, and employ knowledgeable staff for the operation of the review program as needed.

(B) Establish and perform procedures for ensuring that reviews are performed and reported on in accordance with the program's established standards for performing and reporting on peer reviews.

(C) Establish a program to communicate to firms participating in the peer review program the latest developments in peer review standards and the most common findings in peer reviews conducted by the Board-recognized peer review program provider.

(D) Establish and document procedures for an adjudication process designed to resolve any disagreement(s) which may arise out of the performance of a peer review, and resolve matters which may lead to the dismissal of a firm from the provider's peer review program.

(E) Establish guidelines for prescribing remedial or corrective actions designed to assure correction of the deficiencies identified in a firm's peer review report.

(F) Establish guidelines for monitoring the prescribed remedial and corrective actions to determine compliance by the reviewed firm.

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(G) Establish and document procedures for ensuring adequate peer reviewers to perform peer reviews. This shall include ensuring a breadth of knowledge related to industry experience.

(H) Establish and document procedures to ensure the qualifications of peer reviewers and to evaluate a peer reviewer's performance on peer reviews.

(I) Establish a training program or training programs designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews.

(J) Establish and document procedures to ensure that a firm requiring a peer review selects a peer reviewer with similar practice experience and industry knowledge, and peer reviewer is performing a peer review for a firm with which the reviewer has similar practice experience and industry knowledge.

(K) Require the maintenance of records of peer reviews conducted under the program. Such records shall include, at a minimum, written records of all firms enrolled in the peer review program and documents required for submission under Section 46, with these documents to be retained until the completion of a firm's subsequent peer review.

(L) Provide to the Board's Peer Review Oversight Committee access to all materials and documents required for the administration of peer reviews.

(2) As required by subsection (e)(1)(A) of this section, the peer review program provider shall establish a peer review committee to assist in the review and acceptance of peer review reports. The peer review program provider's committee shall: (A) Meet regularly to consider and accept peer review reports.

(B) Assist the peer review program provider in resolving instances in which there is a lack of cooperation and agreement between a peer reviewer and/or reviewed firm in accordance with the peer review program's adjudication process.

(C) Make a final determination on a peer review report pursuant to subdivision (b).

(f) The peer review committee established by the peer review program provider shall comply with the following in relation to the composition of the committee:

(1) All committee members shall meet the peer reviewer qualification requirements established in Section 48(c).

(2) In determining the size of the committee, consideration shall be given to the requirement for broad industry experience, and the likelihood that some members will need to recuse themselves from some reviews as a result of the member's close association to the firm or having performed the review.

(3) No committee member may concurrently serve as a member of the Board.

(4) A committee member may not participate in any discussion or have any vote with respect to a reviewed firm when the member lacks independence as defined by California Code of Regulations Section 65 or has a conflict of interest. Examples of conflicts of interest include, but are not limited to:

(A) the member's firm has performed the most recent peer review of the reviewed firm's accounting and auditing practice.

(B) the member served on the review team which performed the current or the immediately preceding review of the firm.

(C) the member believes he/she cannot be impartial or objective.

(5) Each member of the committee shall comply with all confidentiality requirements.

The peer review program provider shall annually require its committee members to sign

a statement acknowledging their appointments and the responsibilities and obligations of their appointments.

*Note: Authority Cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.9*

**§ 48.1. Board-Recognition of the American Institute of Certified Public Accountants, Inc. Peer Review Program.**

The American Institute of Certified Public Accountants, Inc. Peer Review Program is hereby recognized as meeting the minimum peer review program requirements as outlined in Section 48 of this Article and is authorized to administer peer reviews in California. If in the future the Board deems the American Institute of Certified Public Accountants, Inc. Peer Review Program to no longer meet the minimum qualifications specified in Section 48 of this Article, the Board shall rescind its recognition pursuant to Section 48.5 of this Article.

*Note: Authority cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

**§ 48.2. Applying to Become a Board-Recognized Peer Review Program.**

Prior to receiving Board recognition to perform peer reviews in California, a peer review program provider shall submit the following application: Application to Become a Board-Recognized Peer Review Program (1/10), which is hereby incorporated by reference. With the application, the firm shall submit materials evidencing the program meets the requirements outlined in Section 48.

*Note: Authority Cited: Sections 5010 and 5076, Business and Professions Code.*

*Reference: Section 5076, Business and Professions Code.*

**§ 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.*

**§ 48.4. Reconsideration of a Denied Applicant.**

(a) An applicant pursuant to Section 48.2 whose peer review program has been denied by the Board may request an informal hearing of such action to the Board. The request for an informal hearing shall be filed within six months of the denial or the mailing of written notification, whichever is later. The appeal shall contain the following information:

(1) The name and business address of the provider making the appeal.

(2) The action being appealed and the date of any written notification by the Board.

(3) A summary of the basis for the request for an informal hearing, including any information which the provider believes was not given adequate consideration by the Board.

(b) The Board will consider only requests based on information previously submitted. If the provider submits for reconsideration additional evidence or information not previously submitted to the Board, such additional information should be submitted directly to the Peer Review Oversight Committee with the request that its previous recommendation be reconsidered. A request based on evidence or information not previously submitted to the Board will be referred by the Board to the Peer Review Oversight Committee for further consideration.

*Note: Authority cited: Sections 5010, 5076 and 5076.1, Business and Professions Code. Reference: Sections 5076 and 5076.1, Business and Professions Code.*

**§ 48.5. Withdrawal of Board Recognition.**

(a) The Board may rescind and withdraw its recognition of a peer review program if it is determined that the peer review program is not in compliance with the requirements of this Article, the provider failed to respond to an informational request by the Board or the Peer Review Oversight Committee, or the provider made any material

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misrepresentation of fact related to any information required to be submitted to the Board or the Peer Review Oversight Committee.

(b) The order of withdrawal of Board recognition shall be issued by the Board or its executive officer, without prior notice or hearing, and is effective immediately when mailed to the peer review program provider's address of record.

(c) The order of withdrawal of Board recognition shall contain the following:

(1) The reason for the withdrawal, including the specific statutes and regulations with which the program showed non-compliance.

(2) A statement that the peer review program provider has the right, within 30 days, to request an informal hearing to appeal the withdrawal of Board recognition.

(3) A statement that any informal hearing shall be scheduled before the Board or its designee, at which time a peer review program provider shall be afforded the opportunity to be heard.

(d) To maintain recognition, the burden of proof shall be placed on the peer review program provider to demonstrate both qualifications and fitness to perform peer reviews in California by producing proof at a hearing before the Board.

(e) If the peer review program provider fails to notify the Board's executive officer in writing and in a timely manner that it desires to contest the written withdrawal of Board recognition, the decision to withdraw approval shall become final.

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

### **§ 48.6. Records of Proceedings.**

For any informal hearings conducted by the Board pursuant to Sections 48.4 and 48.5 of this Article, the Board shall maintain a record of its proceedings, such as the minutes of the meeting or an audio recording of the meeting.

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