

California Board of Accountancy

Peer Review Oversight Committee (PROC) Meeting



Friday May 3, 2019
11:00 a.m. – 1:00 p.m.

California Board of Accountancy
2450 Venture Oaks Way, Suite 420
Sacramento, CA 95833
Telephone: (916) 263-3680



California Board of Accountancy
2450 Venture Oaks Way, Suite 300
Sacramento, CA 95833

phone: (916) 263-3680 fax: (916) 263-3675 web: 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)

MEETING NOTICE & AGENDA

**Friday, May 3, 2019
11:00 a.m. – 1:00 p.m.**

California Board of Accountancy
2450 Venture Oaks Way, Suite 420
Sacramento, CA 95833
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. Action may be taken on any item on the agenda. 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) 263-3680 or access the CBA website at www.cba.ca.gov.

Call to Order, Roll Call, Establishment of Quorum, and Opening Remarks
(**Jeffrey De Lyser, CPA, Chair**).

- I. Report of the Committee Chair (**Jeffrey De Lyser**).
 - A. Approval of the February 15, 2019 Peer Review Oversight Committee Meeting Minutes.
 - B. Report on the March 21, 2019 California Board of Accountancy Meeting (**Katrina L. Salazar, CPA, CBA Member**).
 - C. Discussion of Emerging Issues and/or National Standards Regarding the Peer Review Program Impacting California.
- II. Report on Peer Review Oversight Committee Oversight Activities Since February 15, 2019 and Future Activities (**Jeffrey De Lyser**).
 - A. Report on the February 28, 2019 California Society of Certified Public Accountants Report Acceptance Body Meeting.
 - B. Report on the April 23, 2019 California Society of Certified Public Accountants Report Acceptance Body Meeting.
 - C. Report on the May 3, 2019 American Institute of Certified Public Accountants Peer Review Board Meeting.

- D. Discussion and Report on the Peer Review Oversight Committee Oversight of Out-of-State Administering Entities and Revised Process (Pennsylvania and Illinois).
 - 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. Assignment of Future Peer Review Oversight Committee Oversight Roles, Responsibilities, Activities, and Assignments (**Siek Run, Enforcement Analyst**).
- III. Report of the Enforcement Chief (**Dominic Franzella, Chief, Enforcement Division**).
- A. Discussion and Possible Action on Providing Comments to the California Board of Accountancy Regarding Proposed Revisions to the American Institute of Certified Public Accountants Chapter 3 of the Peer Review Oversight Handbook.
 - B. Discussion on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2017 Annual Report on Oversight, Issued November 14, 2018.
 - C. Discussion on the Results and Response Letters Regarding the Administrative Oversight of the American Institute of Certified Public Accountants' National Peer Review Committee.
 - D. Discussion Regarding the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force Oversight Visit to the California Society of Certified Public Accountants On November 28-29, 2018.
 - E. Discussion and Possible Action Regarding the Progress of the Development of a Proposed Framework to Monitor the California Peer Reviewer Population.
- IV. Closing Business (**Jeffrey De Lyser**).
- A. Public Comments for Items Not on the Agenda.
 - B. Agenda Items for Future Peer Review Oversight Committee Meetings.
- V. Adjournment.

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, or send a written request to the CBA office at 2450 Venture Oaks Way, Suite 300, Sacramento, CA 95833. 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
 California Board of Accountancy
 2450 Venture Oaks Way, Suite 300
 Sacramento, CA 95833

An electronic copy of this agenda can be found at www.cba.ca.gov.



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PROC Item I.A.
May 3, 2019

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

**MINUTES OF THE
February 15, 2019
PEER REVIEW OVERSIGHT COMMITTEE (PROC) MEETING**

California Board of Accountancy
2450 Venture Oaks Way, Suite 420
Sacramento, CA 95833
Telephone: (916) 263-3680

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

Jeffrey De Lyser, CPA, PROC Chair, called the meeting of the PROC to order at 10:00 a.m. on Friday, February 15, 2019. The meeting adjourned at 12:20 p.m.

Members

Jeffrey De Lyser, CPA, Chair	10:00 a.m. – 12:20 p.m.
Kevin Harper, CPA, Vice-Chair	10:00 a.m. – 12:20 p.m.
Renee Graves, CPA	10:00 a.m. – 12:20 p.m.
Alan Lee, CPA	10:00 a.m. – 12:20 p.m.
Iryna Oreshkova, CPA	10:00 a.m. – 12:20 p.m.
Sharon Selleck, CPA	10:00 a.m. – 12:20 p.m.
Fiona Tam, CPA	10:00 a.m. – 12:20 p.m.

CBA Member

Mary M. Geong, CPA, CBA Member Liaison

CBA Staff

Dominic Franzella, Chief, Enforcement Division
Kari O'Connor, Enforcement Manager
Siek Run, Enforcement Analyst
Ben Simcox, CPA, Deputy Chief, Enforcement Division

Other Participants

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

Mr. De Lyser 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.”

Mr. De Lyser thanked the CBA for appointing Ms. Geong and Ms. Salazar as CBA member liaisons to the PROC and Ms. Iryna Oreshkova, CPA, as a new member of the PROC.

I. Report of the Committee Chair.

A. Approval of the December 7, 2018 Peer Review Oversight Committee Meeting Minutes.

It was moved by Mr. Harper and seconded by Ms. Graves to approve the meeting minutes.

Yes: Mr. De Lyser, Ms. Selleck, Ms. Graves, Ms. Tam, Mr. Lee, Mr. Harper, and Ms. Oreshkova.

No: None.

Abstain: None.

Absent: None.

The motion passed.

B. Report on the January 17, 2019 California Board of Accountancy Meeting.

Ms. Geong noted that at the January 17, 2019 meeting, the CBA appointed Ms. Oreshkova to the PROC. She further noted that the CBA approved the 2020 CBA meeting dates and locations, announced 2019 CBA committee liaison assignments and approved the 2019-2021 CBA Strategic Plan.

Ms. Geong stated that the CBA received an update regarding the upcoming Sunset Review hearing on February 26, 2019. She further noted that President Famalett, Vice-President Silverman, and the CBA Executive Officer Patti Bowers will attend and provide testimony.

Ms. Geong indicated that the CBA reviewed proposed legislation and took positions on two bills. She concluded that the next CBA meeting will be held in San Diego on March 21-22, 2019.

C. Discussion of Emerging Issues and/or National Standards Regarding the Peer Review Program Impacting California.

None.

II. Report on Peer Review Oversight Committee Oversight Activities Conducted Since December 7, 2018 and Future Activities.

A. Report on the January 23, 2019 California Society of Certified Public Accountants Report Acceptance Body Meeting.

Ms. Selleck reported on this agenda item. She noted that the Report Acceptance Body (RAB) reviewed 25 system reviews, 36 engagement reviews, two corrective actions, and a disagreement panel took place at the beginning of the meeting. She concluded that 20 of the reviews resulted with pass, 13 pass with deficiencies, and 12 fail. Of the 12 failed reviews, nine were engagement reviews and failed due to issues related to headers. She noted that there were good discussions among members and practitioners.

B. Report on the January 30, 2019 American Institute of Certified Public Accountants Peer Review Board Meeting.

Mr. Lee reported on this agenda item. He noted that the meeting focused on the American Institute of Certified Public Accountants (AICPA) anticipated changes that would take place between the end of April and early May 2019.

Mr. Lee highlighted upcoming changes from AICPA that would impact the AICPA Oversight Handbook, access to information, policies and procedures developed by administering entities, and revisions to PROC member appointments and annual confidentiality requirement. He further noted changes that would impact independence and conflict of interest, quality control material, and consideration of continuing education courses as a corrective action or part of an implementation plan for accounting firms with failed peer review reports with significant deficiencies.

Mr. De Lyser indicated a need to follow-up on the proposed changes to the AICPA Oversight Handbook.

Mr. Franzella reported that the CBA will review the AICPA proposed revisions to the Oversight Handbook at an upcoming CBA meeting. He noted that the changes impact Chapter 3 of the Oversight Handbook, which focuses on the PROC membership appointment process and confidentiality. He further noted that the National Association of State Boards of Accountancy (NASBA) is seeking feedback from boards regarding the proposed revisions.

Mr. Franzella concluded that the CBA is waiting for a copy of the revised AICPA Oversight Handbook and may have the PROC review and consider potential impacts to the PROC.

C. Report on the February 5, 2019 California Society of Certified Public Accountants Report Acceptance Body Meeting.

Ms. Selleck reported on this agenda item. She noted that the RAB reviewed 41 reviews, of which 30 were engagement reviews and 11 were system reviews. Of the 41 reviews, 29 passed, seven passed with deficiencies, and five failed. She noted that the RAB discussed topics related to team captain feedbacks, corrective actions and implementation plans, and that a disagreement panel took place. Ms. Selleck concluded that the RAB discussions were robust.

D. 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.

Ms. Selleck reported on this agenda item. She highlighted the NASBA proposed revisions to the Uniform Accountancy Act and its June 30, 2019 deadline for comments.

E. Assignment of Future Peer Review Oversight Committee Oversight Roles, Responsibilities, Activities, and Assignments.

Mr. De Lyser presented this agenda item. He highlighted new 2019 PROC oversight activities and requested PROC members to participate and accept new assignments for upcoming PROC oversight activities.

The PROC briefly discussed out-of-state administering entities oversight selection procedures and proceeded to assign oversight activities.

Out-of-State Administering Entities:

- Pennsylvania – Mr. Harper
- Illinois – Ms. Graves

CalCPA RAB Meeting(s):

- February 28, 2019 – Mr. Lee at 2:00 p.m. (In-person)
- April 23, 2019 – Ms. Oreshkova at 2:00 p.m. (In-person)

CBA Meeting(s):

- March 21, 2019 – Mr. De Lyser (In-person)

AICPA NASBA/Website Updates

- Ms. Selleck

III. Report of the Enforcement Chief.

A. Discussion and Possible Action on the Draft 2018 Peer Review Oversight Committee Annual Report.

Mr. Franzella reported on this agenda item. He requested that the PROC provide any edits or suggestions to the PROC 2018 Annual Report, approve it for presentation at the CBA's March 2019 meeting, and to delegate authority for the PROC Chair to work with staff on additional revisions to the annual report prior to its presentation at the March 2019 CBA meeting.

The PROC discussed and provided edits and suggestions to the PROC 2018 Annual Report's format, language, context, and statistical information.

It was moved by Mr. Harper and seconded by Ms. Graves to accept the PROC 2018 Annual Report with edits and delegated authority for the Chair to work with staff on additional changes to the annual report prior to its presentation at the March 2019 CBA Meeting.

Yes: Mr. De Lyser, Ms. Selleck, Ms. Graves, Ms. Tam, Mr. Lee, Mr. Harper, and Ms. Oreshkova.

No: None.

Abstain: None.

Absent: None.

The motion passed.

B. Discussion and Possible Action Regarding the National Association of State Boards of Accountancy Revisions to the Uniform Accountancy Act's Model Rules, Published January 2019.

Mr. Franzella reported on this agenda item. He summarized the NASBA proposed revisions to the Uniform Accountancy Act (UAA) Model Rules, specifically section 7 as it relates to peer review. He requested that the PROC review and provide feedback to staff for inclusion in a presentation at the March 2019 CBA meeting.

The PROC discussed and considered the NASBA proposed revisions to the UAA Model Rules and potential impacts to the CBA's administration of its peer review program. The PROC and CBA staff determined that the NASBA proposed revisions to UAA Model Rules did not provide enhancements to the CBA's administration of its peer review program.

Mr. Franzella concluded his report by noting two areas within the proposed revisions to the UAA Model Rules that the CBA should further review. The two

areas are Model Rule 7-2, regarding submission of peer review documents and Model Rule 7-9, regarding attest documentation and retention.

C. Discussion and Possible Action Regarding the Progress of the Development of a Proposed Framework to Monitor the California Peer Reviewer Population.

Mr. Franzella reported on this agenda item. He requested that the PROC review multiple correspondences between the CBA, AICPA, CalCPA, a draft letter to AICPA regarding the California Peer Reviewer Population, and to provide feedback for inclusion in a presentation at the March 2019 CBA meeting.

Mr. Franzella summarized the PROC efforts and challenges over the past two years with collecting and evaluating peer reviewer population statistics obtained from AICPA. He concluded that the communication and statistics collected were insufficient and could not be used to accurately evaluate the California Peer Reviewer Population.

Mr. Franzella presented to the PROC, a set of staff developed data points, necessary to comprehensively monitor the California Peer Reviewer Population. The PROC reviewed and provided feedback to staff. The data points would be incorporated into a draft letter to AICPA.

Mr. Franzella noted that the draft letter requests AICPA to work with the CBA and the PROC to develop a revised framework to monitor the California Peer Reviewer Population, to initiate data collection by 2020, and to commence reporting to the CBA by 2021. He further noted that the PROC's efforts relating the California Peer Reviewer Population has received positive feedback from NASBA.

The PROC discussed and recognized the possibility of limited access to peer reviewer population statistics and decided to wait for results and findings from its communication with AICPA.

It was moved by Ms. Graves and seconded by Ms. Selleck to approve the staff proposed peer reviewer population framework with the PROC provided edits.

Yes: Mr. De Lyser, Ms. Selleck, Ms. Graves, Ms. Tam, Mr. Lee, Mr. Harper, and Ms. Oreshkova.

No: None.

Abstain: None.

Absent: None.

The motion passed.

IV. Closing Business.

A. Public Comments for Items Not on the Agenda.

Ms. McCrone reported that Ms. Marcia Hein from the AICPA will conduct peer reviewer trainings in July 2019 at the CalCPA Burlingame office. She noted that peer review training dates will be available at the May 2019 PROC meeting.

B. Agenda Items for Future Peer Review Oversight Committee Meetings.

None.

V. Adjournment.

Having no further business to conduct, Mr. De Lyser adjourned the meeting at 12:20 p.m. on Friday, February 15, 2019.

Jeffrey De Lyser, CPA, Chair

Siek Run, Enforcement Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-4366.



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PROC Item II.F.
May 3, 2019

Assignment of Future Peer Review Oversight Committee Oversight Roles, Responsibilities, Activities, and Assignments

Presented by: Siek Run, Enforcement Analyst

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 provider, 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 May 3, 2019 PROC Meeting and be prepared to accept assignments.

Background

None.

Comments

The 2019 CBA Meeting Dates and Locations and PROC Year-at-a-Glance calendars, the Activity Assignments, and the Roles and Responsibility Activity Tracking sheet (**Attachments 1, 2, 3 and 4**) are provided for the PROC to reference 2019 PROC activities to be assigned relating to the following entities:

- 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

Assignment of Future Peer Review Oversight Committee Oversight Roles, Responsibilities, Activities, and Assignments

Page 2 of 2

- National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

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

Attachment

1. 2019 CBA Meeting Dates/Locations
2. 2019 CBA PROC Year-at-a-Glance Calendar
3. 2019 Peer Review Oversight Committee (PROC) Activity Assignments
4. 2019 Peer Review Oversight Committee (PROC) Roles and Responsibilities Activity Tracking

Attachment 1

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
2019 MEETING DATES/LOCATIONS CALENDAR
(CBA MEMBER COPY)**

JANUARY 2019

S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17 NC	18	19
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27	28	29	30	31		

FEBRUARY 2019

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MARCH 2019

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APRIL 2019

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MAY 2019

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JUNE 2019

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JULY 2019

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28	29	30	31			

AUGUST 2019

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SEPTEMBER 2019

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OCTOBER 2019

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NOVEMBER 2019

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DECEMBER 2019

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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) CALENDAR 2019 Year-at-a-Glance Calendar (As of April 5, 2019)

JANUARY 2019

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FEBRUARY 2019

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MARCH 2019

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APRIL 2019

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MAY 2019

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JUNE 2019

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JULY 2019

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AUGUST 2019

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SEPTEMBER 2019

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OCTOBER 2019

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NOVEMBER 2019

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DECEMBER 2019

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- COMMITTEES**
- 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

- | | |
|--|--------------------------------------|
| | 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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Attachment 3

2019 Peer Review Oversight Committee (PROC) Activity Assignments

Date	Activity	Member Assigned
January 16-17, 2019	CBA Meeting, Northern California	De Lyser
January 23, 2019	CalCPA RAB 9:00 a.m. or 2:00 p.m.	Selleck
January 30, 2019	AICPA PRB Open Meeting (Scottsdale, AZ – Call)	Lee
February 5, 2019	CalCPA RAB 9:00 a.m. or 2:00 p.m.	Graves
February 15, 2019	PROC MEETING Assign Peer Review-Related Updates for May 2019 PROC Meeting	Selleck
	PROC MEETING Assign Two PROC Members to Oversight Out-of-State AEs (<i>Pennsylvania and Illinois</i>)	Harper Graves
February 28, 2019	CalCPA RAB 9:00 a.m. or 2:00 p.m.	Lee
March 21-22, 2019	CBA Meeting, Southern California	De Lyser
April 23, 2019	CalCPA RAB 9:00 a.m. or 2:00 p.m.	Oreshkova
May 3, 2019	PROC MEETING Assign Peer Review-Related Updates for August 2019 PROC Meeting	
	PROC MEETING Assign Two PROC Members to Oversight Out-of-State AEs (<i>Georgia and Massachusetts</i>)	
	PROC MEETING Assign Two PROC Members to Perform 2018 Administrative Site Visit	
May 3, 2019	AICPA PRB Open Meeting (Durham, NC – Call)	
May 17, 2019	CBA Meeting, Northern California	De Lyser
May 23, 2019	CalCPA PRC (In-person)	
June 11, 2019	CalCPA RAB 9:00 a.m. or 2:00 p.m.	
June 2019 (TBD)	CalCPA Preliminary Administrative Site Visit	
July 10, 2019	CalCPA PEER REVIEW TRAINING CalCPA Becoming an AICPA Peer Review Team or Review Captain 8:30 am to 4:00 pm (Burlingame, CA)	
July 11, 2019	CalCPA PEER REVIEW TRAINING Peer Review Update 10:00 am to 12:00 pm (Burlingame, CA)	
July 25-26, 2019	CBA Meeting, Southern California	De Lyser

August 8, 2019	AICPA PRB Open Meeting (Washington, DC – Call)	
August 16, 2019	PROC MEETING Assign Peer Review-Related Updates for December 2019 PROC Meeting	
	PROC MEETING Assign Two PROC Members to Oversight Out-of-State AEs (<i>Maryland and Ohio</i>)	
September 26-27, 2019	CBA Meeting, Northern California	De Lyser
October 24, 2019	AICPA PRB Open Meeting (Conference Call)	
November 21-22, 2019	CBA Meeting, Southern California	De Lyser
November 2019 (TBD)	NASBA CAC/PROC	
November 2019 (TBD)	CalCPA PRC (Yountville, CA) (In-person)	
December 13, 2019	PROC MEETING Assign Peer Review-Related Updates for February 2020 PROC Meeting	
	PROC MEETING Assign Two PROC Members to Oversight Out-of-State AEs (<i>North Carolina and Missouri</i>)	

Updated April 5, 2019

**Peer Review Oversight Committee (PROC) Roles and Responsibilities
Activity Tracking 2019 | As of April 5, 2019**

Activity*	Notes
PROC MEETINGS <ul style="list-style-type: none"> Conduct four one-day meetings. 	PROC 2019 Meetings: <ul style="list-style-type: none"> PROC Meetings Scheduled: 2/15, 5/3, 8/16, 12/13
ADMINISTRATIVE SITE VISITS <ul style="list-style-type: none"> Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	CalCPA Site Visits: <ul style="list-style-type: none"> 1. MAY 2019 – Assign PROC members: 2. MAY/JUN 2019 – Arrange Site Visit and Request Documents 3. JUNE 2019 – Preliminary ASV to CalCPA: 4. AUG 2019 - PROC Risk Assessment with All Members: 5. SEPT/OCT 2019 - Conduct CalCPA Administrative Site Visit: 6. DEC 2019 - Complete Summary Report:
PEER REVIEW COMMITTEE MEETINGS <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Board (PRB) and Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	American Institute of Certified Public Accountants (AICPA) PRB: <ul style="list-style-type: none"> Meetings Scheduled: 1/30, 5/3, 8/8, 10/24 Meetings Attended: 1/30 AL
PEER REVIEW SUBCOMMITTEE MEETINGS <ul style="list-style-type: none"> 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. Ensure that peer reviews are being accepted in a consistent manner. 	CalCPA Peer Review Subcommittees: <ul style="list-style-type: none"> RAB Meetings Scheduled: 1/23, 2/5, 2/28, 3/21, 4/23, 6/11 RAB Meetings Attended: 1/23 SS, 2/5 RG, 2/28 AL, 4/23 IO PRC Meetings Scheduled: 5/23, 11/TBD PRC Meetings Attended:
NATIONAL STATE BOARDS OF ACCOUNTANCY (NASBA) MEETINGS <ul style="list-style-type: none"> Attend and review the National State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) meetings Ensure effective oversight of compliance with professional standards by CPAs and their firms 	Meetings Attended: NASBA CAC/PROC: <ul style="list-style-type: none"> Meetings Scheduled: 11/TBD Meetings Attended:
REVIEW OF OUT-OF-STATE ADMINISTERING ENTITIES (AE) <ul style="list-style-type: none"> Each year, review AICPA oversight visit reports for a selection of out-of-state administering entities 	2018 Out-of-State Administering Entities: <ul style="list-style-type: none"> States and Assignment: 2/15 (PA, IL), 5/3 (GA, MA), 8/16 (MD, OH), 12/13 (NC, MO) Reviews Completed: 5/3 PA IL (KH RG),
REVIEW SAMPLING OF PEER REVIEWS <ul style="list-style-type: none"> Perform sampling of peer review reports. 	See Administrative Site Visit:
PEER REVIEWER TRAININGS <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	Training Scheduled: AICPA/CalCPA Peer Review Conference: <ul style="list-style-type: none"> Meetings Scheduled: Meetings Attended:
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS <ul style="list-style-type: none"> Develop policies and procedures for recommending approval to the CBA for new peer review providers. 	Evaluation of AICPA:
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA) <ul style="list-style-type: none"> Prepare an annual report to the CBA regarding the results of its oversight of the Peer Review program. 	2018 PROC Annual Report: <ul style="list-style-type: none"> Draft 2019 PROC Annual Report Review:
CBA MEETINGS	<ul style="list-style-type: none"> Meetings Scheduled: 1/17, 3/21-22, 5/16-17, 7/25-26, 9/26-27, 11/21-22 Meetings Attended: 1/17 JD, 3/21 JD
DATA REPORTING <ul style="list-style-type: none"> 2019 newly assigned PROC oversight task, relating to peer reviewer population 	Statistics: <ul style="list-style-type: none"> Peer Review-Related Statistics (PRRS) – AUG 2019: PRRS for PROC Annual Report – DEC 2019: Peer Reviewer Population (PRP) – Establish Framework

*Activities based on the February 15, 2018 PROC Meeting



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PROC Item III.A.
May 3, 2019

Discussion and Possible Action on Providing Comments to the California Board of Accountancy Regarding Proposed Revisions to the American Institute of Certified Public Accountants Chapter 3 of the Peer Review Oversight Handbook

Presented by: Dominic Franzella, Chief, Enforcement Division

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review proposed revisions to Chapter 3 of the American Institute of Certified Public Accountants (AICPA) Peer Review Program Oversight Handbook (Oversight Handbook) (**Attachment 1**) and provide feedback for presentation at the May 2019 California Board of Accountancy (CBA) meeting.

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 professional standards set by the CBA-approved Peer Review Program Provider, the AICPA. It is a high-priority for the CBA to evaluate all peer review-related changes proposed by the AICPA, as changes to policies, procedures, and the administration of the California Peer Review Program directly impacts the CBA's mission to protect consumers.

Action(s) Needed

The CBA has requested the PROC to review proposed changes to Chapter 3 of the Oversight Handbook and provide feedback regarding the Oversight Handbook to the CBA at its May 2019 meeting.

Background

The CBA recognizes the AICPA as the approved peer review program provider to oversee the administration of the California Peer Review Program with the administering entity being California Society of Certified Public Accountants (CalCPA).

As part of its peer review program, the AICPA has developed various guidance materials to aid in the overall administration of the program, including the Oversight Handbook, with the primary audience of the materials being the AICPA-approved administering entities.

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At the beginning of February 2019, the National Association of State Boards of Accountancy (NASBA) sent a communication to Executive Directors of the State Boards of Accountancy, noting that the AICPA has been considering changes to the Oversight Handbook since August 2018.

NASBA stated that the AICPA Peer Review Board does not follow a standard exposure draft review practice when it considers changes to the Oversight Handbook; however, NASBA and various State Boards of Accountancy have raised concerns with the proposed changes to Chapter 3 of the Oversight Handbook.

The AICPA has delayed implementing the revisions to Chapter 3 of the Oversight Handbook to provide NASBA and State Boards of Accountancy an opportunity to provide comments. NASBA indicated that it was seeking feedback by March 15, 2019.

Staff have informed NASBA that the CBA does not meet until after the feedback date but would report any observations to NASBA after the conclusion of its May 2019 meeting.

Comments

At its March 2019 meeting, the CBA reviewed the Oversight Handbook including concerns highlighted by NASBA (**Attachment 2**) and comment letters submitted by the North Carolina (**Attachment 3**) and Wyoming State Board of Accountancy (**Attachment 4**) that further reinforce the concerns noted by NASBA.

The CBA determined it was necessary for the PROC to review the AICPA proposed changes to the Oversight Handbook in order to provide effective feedback to NASBA and AICPA.

On April 3, 2019 the CBA sent a letter to the Vice-President of State Board Relations at NASBA and the Chair of the Peer Review Board at AICPA (**Attachment 5**), informing them that proposed revisions to the Oversight Handbook will be reviewed at the May 3, 2019 PROC meeting.

After the CBA's consideration of the Oversight Handbook at its March 2019 meeting, staff was provided a letter of response by the Nevada State Board of Public Accountancy (**Attachment 6**); staff have also provided the CBA Statutes and Regulations (**Attachments 7 and 8**) governing the California Peer Review Program.

Staff recognize that peer review began as an educational and remedial tool developed within the framework of a private membership organization. Over time, peer review was used as a buttress to move to a general licensure requirement, with most states moving away from requiring some level or hours of attest experience. Peer review would act to

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ensure that accounting firms that provide attest services do so in conformance with professional standards.

Over the past 20-plus years, peer review was thrust into a regulatory framework in support of continued uniformity of the accounting profession, most notably mobility. In California when the CBA issued its report on implementing mandatory peer review, it informed the Legislature that peer review needed to have elements of both education and enforcement.

The Oversight Handbook, while seeking to strike a balance, appears to continue to mischaracterize how peer review functions within a regulatory environment. While confidentiality is important to regulators, state boards, including California, have a responsibility to consumers first and consumer protection. Thus, those elements of the Oversight Handbook that could be perceived as placing confidentiality ahead of consumer protection would contradict with the mission of the CBA.

Staff have reviewed and identified areas within the AICPA proposed revisions to Chapter 3 of the Oversight Handbook for the PROC consideration:

Section A: Introduction and Background

Section C: Statutory/Regulatory Oversight Requirements

Sections A and C describes the AICPA perspective and interpretation of the relationship and agreement between the AICPA, state societies, and state boards concerning; peer review information and confidentiality. The proposed provisions supports collaboration between administering entities and state boards and at the same time caution the Peer Review Board and administering entities on the confidentiality of peer review information.

Similar to concerns raised by NASBA, the CBA recognizes the by-laws and confidential nature of the AICPA's peer review process. However, the CBA is charged by legal statutes with enforcing/overseeing its Peer Review Program requirements to ensure consumer protection and engender public trust. The AICPA proposed guidance fails to acknowledge that state law may mandate the administering entities compliance with state laws and rules that override the concepts contained in Chapter 3.

Section B: Peer Review Information – Publicly Available vs. Confidential

Section E: Confidentiality Letters

Section G: PROC Members – Violations of Confidentiality Letters

Sections B, E, and G specifies limitations administering entities have on disclosing peer review information to state board's PROC and committee staff liaisons. The provisions require submission of a signed confidentiality letter or a written request and permission

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granted by accounting firms in order to access expanded peer review information. It further specifies that PROC members recommending investigation of a specific licensee based on the peer review information gathered during the PROC oversight process of an administering entity as breach of confidentiality.

Business and Professions Code (BPC), section 5076.1 requires the CBA to establish and appoint qualified committee members to provide recommendations to the CBA on matters upon which it is authorized to act to ensure the effectiveness of the mandatory peer review.

In support of the AICPA and administering entity's confidentiality agreement, the CBA established Section I (E) – Confidentiality within the PROC Procedures Manual, which requires PROC members to sign a confidentiality agreement letter. The CBA committee staff liaison actively tracks and verifies that each PROC member sign the confidentiality agreement letter annually.

However, BPC section 5076.1(b) specifies that the PROC may request any information from the board-recognized peer review program provider deemed necessary to ensure the provider is administering peer reviews in accordance with standards adopted by the board in regulations.

The statute further notes that information obtained by the CBA, its representatives, or the PROC in conjunction with its review of peer review program provider shall not be a public record, and shall be exempt from public disclosure, provided, however, this information may be disclosed under any of the circumstances in connection with:

- (1) Disciplinary proceeding of the board
- (2) 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 subpoena or summons enforceable by court order
- (5) As otherwise specifically required by law

Furthermore, CBA Regulations section 48(e)(1)(L) specifies that as part of the requirement for a California-recognized peer review program, AICPA is required to provide the CBA PROC access to all material and documents required for the administration of peer reviews.

Section D: Independence and Conflict of Interest (for Peer Review Purposes)
Section F: Information Available to the PROC Members and Administrative Liaisons
Section H: Examples of Conflict of Interest

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Sections D, F, and H includes proposed provisions that guides administering entities on how to safeguard and eliminate threats from PROC members and state employed staff liaisons identified to have a conflict of interest or “impairments to independence from a regulatory perspective.”

Section I (F) – Conflict of Interests in the PROC Procedures Manual requires PROC members to file the Fair Political Practice Commission’s Statement of Economic Interests, Form 700 upon appointment, annually, and upon leaving office. The Form 700 requires PROC members to report all interest, real property and investment and business positions. Furthermore, PROC members identified to have association with a peer reviewed firm being considered for acceptance at a Report Acceptance Body meeting, is disqualified from the oversight activity.

The PROC Procedures Manual outlines the roles and oversight responsibilities of the PROC. It includes very specific oversight activities. Discussions and analysis regarding observed peer review administration process takes place during PROC meetings. Findings from the PROC oversight activities are reported to the CBA and specifically focuses on the administering entity peer review administration procedures and standards.

The PROC should review and identify any additional areas of concerns within the Oversight Handbook and focus on things that may conflict with the existing CBA Peer Review Program, statutes and regulations. Staff will collect all feedback from the PROC and present it for consideration at the May 2019 CBA meeting.

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

Staff recommend that the PROC identify areas within the Oversight Handbook that may conflict with the CBA’s consumer protection mandate.

Staff will collect all feedback from the PROC and present it for consideration at the May 2019 CBA meeting.

Attachments

1. Proposed Revisions to Chapter 3 of the American Institute of Certified Public Accountants Peer Review Program Oversight Handbook
2. National Association of State Boards of Accountancy’s Concerns Regarding Revisions to Chapter 3 of the American Institute of Certified Public Accountants Peer Review Program Oversight Handbook
3. Letter from the North Carolina State Board of Certified Public Accountants Examiners to the AICPA Peer Review Board, dated February 18, 2019

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4. Letter from the State of Wyoming Board of Certified Public Accountants, dated February 27, 2019
5. California Board of Accountancy Letter to the National Association of State Boards of Accountancy and the American Institute of Certified Public Accountants Regarding Revisions to Chapter 3 of the American Institute of Certified Public Accountants Peer Review Program Oversight Handbook, Dated April 3, 2019
6. Letter from the Nevada State Board of Accountancy, dated March 4, 2019
7. Business and Professions Code Sections 5076 and 5076.1
8. California Board of Accountancy Regulations Sections 38-48.6

CHAPTER 3

Confidentiality of Peer Review Information in the Regulatory Environment

This guidance should be followed by all administering entities (AEs).

A. Introduction and Background

1. When AICPA members passed a peer review bylaw requirement in 1988, it was done so with the understanding that, with few exceptions, information and results obtained from the peer review process would remain confidential. An implementing bylaw resolution allowed the AICPA Board of Directors to establish the “peer review board” to carry out peer review activities which do not conflict with the policies and standards of the AICPA.
2. Over time, recognizing the remedial value of the peer review process, ~~states~~ ~~boards of accountancy (SBOAs)~~ began incorporating peer review requirements into their ~~state~~ laws, regulations and administrative policies.
3. SBOAs also began recognizing that one way a firm may meet those requirements was by undergoing an AICPA peer review program (PRP) review administered by entities approved and oversighted by the AICPA.
4. Since SBOAs were relying on the effectiveness of the PRP and were requiring firm participation for licensure, some SBOAs communicated to the AICPA that they would like to perform due diligence over the PRP and its AEs.
5. Although the AICPA Peer Review Board (PRB) was bound by confidentiality provisions imbedded into the peer review process, it fully supported SBOAs need and ability to monitor the PRP.
6. With the confidentiality provisions in mind, and SBOAs communicating their objectives, the PRB was able to be transparent with peer review information to an individual or group monitoring the PRP for an SBOA with the mutual understanding and agreement that the PRB only has the authority to do this within the confidentiality parameters imbedded in the PRP.
7. Working collaboratively, AEs and SBOAs that requested to do so, entered into an oversight relationship with the AE that allowed the SBOAs to monitor the AEs’ performance and determine if peer reviews were being administered, performed and reported on in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews (*Standards*). The result of this collaboration was the establishment of SBOA peer review oversight committees (PROCs).
8. The fundamental confidentiality provisions have not changed and neither the PRB, nor the AEs, may violate these provisions. This Chapter serves to better articulate the AEs responsibilities in such matters.
9. SBOAs have information available through the PRP, such as the information provided in the AICPA Public File, through Facilitated State Board Access (FSBA) and permitted by *Standards* and related Interpretation 146-3. This Chapter’s focus is primarily on the types of confidential information that can be made available to PROCs solely for the purpose of oversighting an AE (information that would not otherwise be available to the PROCs).
10. PROCs are established by SBOAs. It is solely up to the SBOA to determine who serves on its PROC.

11. Since PROC members have access to information not otherwise provided to those not involved in the PRP, AEs must avoid providing confidential information to PROC members who have a conflict of interest. In addition, those who are provided confidential information ordinarily must sign a confidentiality letter prior to receiving access to such information.
12. The PRB does not expect a PROC member to sign a confidentiality letter if the PROC member is or may be required to divulge confidential information to the SBOA, administrative liaison or others. In such circumstances, the AE should not provide confidential information to a PROC member.
13. Note that the signing of a confidentiality letter and/or recusal from meetings where confidential information is discussed is not a sufficient safeguard against a conflict of interest. PROC members or others with a conflict of interest should notify the AE when it becomes aware of such conflicts, and not be provided confidential information or allowed to attend such meetings.
14. It is the policy and the goal of the PRB to assist SBOAs and PROC members in any way it can, provided the confidentiality requirements of the PRP are not violated.

B. Peer Review Information – Publicly Available vs. Confidential

1. Paragraph 146 of the *Standards* , indicates the AE and the AICPA may disclose the following information:
 - a) The firm's name and address,
 - b) The firm's enrollment in the program,
 - c) The date of acceptance and period covered by the firm's most recently accepted peer review; and
 - d) If applicable, whether the firm's enrollment in the program has been dropped or terminated.
2. Any information not contained in Section B. 1 of this Chapter is confidential and should not be provided to anyone except as permitted in this Chapter.
3. AEs must adhere to the paragraph 146 of the *Standards* and related interpretations. Communication, either verbal or written, of confidential information will result in non-compliance with the applicable benchmark and may result in the PRB Oversight Task Force (OTF) administering fair procedures.
4. Interpretation 146-3 allows firms to authorize the AE or AICPA to provide certain peer review information to third parties. The authorization must be in writing and information that may be provided to third parties must be objective. A toolkit has been developed to assist firms, (SBOAs and AEs with complying with the *Standards* and guidance.
5. State law or regulations may require, or allow SBOAs to request or require firms to submit or provide access to the following specific firm peer review documents to SBOAs:
 - a) Peer review report which has been accepted by the AE,
 - b) The firm's letter of response accepted by the AE (if applicable),
 - c) The acceptance letter from the AE,
 - d) Letter(s) accepting the documents signed by the firm with the understanding that the firm agrees to take any actions required by the AE, if applicable; and

- e) Letter signed by the AE notifying the firm that required actions have been appropriately completed, if applicable.
6. To facilitate firms complying with SBOA laws or regulations or requests to provide the information listed in B. 5, firms may authorize the AE to submit the above documents to the SBOAs through Facilitated State Board Access (FSBA). When laws/regulations mandate the submission of documents through FSBA, firms still must authorize the AE to do so or their peer reviews will not be scheduled. The authorization is ordinarily made during the peer review scheduling process, but may also occur at other times.

C. Statutory/Regulatory Oversight Requirements

1. As most SBOAs require firms to enroll in the AICPA PRP (or other SBOA approved peer review programs), certain SBOAs also have a statutory/regulatory requirement or Board Policy to oversight the sponsoring organizations/AEs peer review programs that are intended to meet the SBOA's peer review licensure requirements.
2. AEs should have an understanding of the statutory/regulatory peer review requirements for all states where it administers reviews. When there may be statutory/regulatory differences with the guidance contained in this Chapter, the AE should immediately contact the AICPA. Contact should occur prior to the AE providing confidential information to individuals or allowing attendance at meetings where confidential information is discussed.
3. SBOAs are encouraged to determine and communicate their oversight objectives to the AE along with the SBOA's process for achieving those objectives. This will assist AEs in providing sufficient support to SBOAs in meeting those stated objectives.
4. Ordinarily, SBOAs perform oversight through a peer review oversight committee (PROC). SBOAs determine the qualifications, selection and terms of PROC members.
 - a) The PRB fully supports the SBOAs' ability to establish an AE oversight process with the objective to report or make recommendations to SBOAs regarding AEs' ability to administer the PRP in accordance with *Standards* and guidance.
 - b) SBOA's may choose to designate PROCs or PROC members from other state boards or national/regional PROCs to achieve the oversight objectives. In such situations, AEs are not required to change the presentation of firms' peer reviews to RABs for acceptance, discussion, etc. even though the PROC member(s) may be representing SBOA(s) from states other than the state where the AE is located.
 - c) Ordinarily, employees of SBOAs may not have access to confidential information¹. However, SBOAs may choose to designate an individual (hereinafter referred to as an administrative liaison) ~~or liaisons~~ to facilitate the SBOAs ability to perform its oversight functions. The role of the administrative

¹ SBOAs generally are responsible for enforcement actions against CPAs and CPA firms. Accordingly, certain individuals associated with employees of such SBOAs may have a conflict of interest and may not be permitted access to confidential information. However, if an SBOA lacks such enforcement authority, and the individual employee otherwise has no conflict of interest, the AE may provide such individualemployee the same access to confidential information as a member of a PROC (who has no conflict of interest). Such an individualemployee would also be required to sign a confidentiality letter.

liaison is determined by the SBOA and may be an employee or designee of the state board. However, an AE may not provide confidential information to them or allow them to attend meetings where confidential information is discussed. When the administrative liaison is not a PROC member, they may only have access to peer review information in accordance with paragraph 146 of the *Standards* and certain documents and reports that do not contain confidential information.

- d) The guidance presented throughout this Chapter is not intended to prohibit a PROC member delegated the duty by SBOAs to read the documents in Section B.5. of this Chapter or use FSBA and report to the SBOA on the information contained in these documents. However, it would be considered a breach of confidentiality if a PROC member included information or made a recommendation to the SBOA regarding a specific licensee, firm or peer reviewer that was only available as a result of overlooking the AE.

D. Independence and Conflicts of Interest (for Peer Review Purposes)

1. AEs need to consider whether PROC members or potential PROC members have a conflict of interest or an impairment to independence. SBOAs may also want to consider what they believe may constitute a conflict of interest or impairments to independence from a regulatory perspective. AEs, SBOAs and, where appropriate, the AICPA should discuss these matters collaboratively when questions arise.
2. Independence
 - a) *Independence of mind (fact)* - The state of mind that permits those involved in the peer review process to not be affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
 - b) *Independence in appearance* – The avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity or professional skepticism of those involved in the peer review process had been compromised.
 - c) *Safeguards* – Controls that eliminate or reduce threats to independence and may include a range of partial to complete prohibitions.
3. Conflict of Interest
 - a) A conflict of interest is a set of circumstances or a situation that creates a risk that the professional judgment or actions by an individual may be influenced by a secondary party or interest. The individual may have a competing interest or loyalty to a secondary party that may influence their professional judgement or decision, or
 - b) A situation in which a person has a duty to more than one person or organization but cannot do justice to the actual or potentially adverse interests of both parties.

- c) If no safeguards are available to eliminate the risk of an unacceptable threat or reduce it to an acceptable level, this would be considered a conflict of interest.
 - i. In situations where the SBOA, AE or PRB determines that there is an unacceptable threat, then neither recusals, nor signing confidentiality letters are appropriate safeguards.

E. Confidentiality Letters

1. PROC members ~~(and administrative liaisons that ordinarily are not given access to confidential information)~~ are required to annually sign a confidentiality letter (Exhibit 3-1 ~~and Exhibit 3-2~~) indicating they will not divulge any information to the SBOA or others that would identify any licensee, firm or peer reviewer or other information obtained from the oversight of the AE.
2. AEs should maintain a current roster of PROC members ~~and administrative liaisons~~ as their signed confidentiality letters are subject to review during AE oversight visits, Report Acceptance Body (RAB) observations and other times deemed appropriate.
 - a) Except as provided in E.2.be), the AE may only provide a PROC member access to information allowed in paragraph 146 of the *Standards* and some statistical data/reports that do not contain confidential information when a PROC member fails to sign the confidentiality letter.
 - ~~b) Although administrative liaisons are not permitted to obtain confidential information, signing the confidentiality letter is an additional safeguard in case they inadvertently receive such information.~~
 - e)b) In rare circumstances where state law or regulation specifically prevents individuals from signing confidentiality letters, the matter should be discussed with the SBOA and, where appropriate, the AICPA as to what other safeguards can be put in place, if possible, such that the PROC members may still be able view certain confidential information and possibly attend meetings.

F. Information Available to PROC Members and Administrative Liaisons

1. The PRB determines what information may be made available to PROC members and administrative liaisons.
2. PROC members that have signed a confidentiality letter should have access to the same peer review information as those serving on AE peer review committees/RABs except in the following circumstances:
 - a) PROC members who are deemed by the SBOAs, AEs or PRB to have a conflict of interest (see Sections D and G of this Chapter).
 - i. Signing confidentiality letters or recusals are not deemed as appropriate safeguards when there is a conflict of interest.
 - b) PROC members who do not sign confidentiality letters (when state law or regulation doesn't specifically prohibit signing such letters).

- c) When situations occur such that conflicts of interest are encountered with PROC members who otherwise do not have a conflict of interest (such as when the peer review of a firm of which the PROC member is associated is being considered for acceptance by a RAB).
 - i. AEs should work collaboratively with SBOAs in identifying such situations.
 - ii. AEs should request that PROC members recuse themselves from these situations and not participate in those portions of the meetings (should not be present, on the phone, etc.).
3. PROC members and administrative liaisons may make reasonable requests for information that facilitates the PROC's ability to perform its oversight functions, including, but not limited to:
- a) *Standards*, procedures, guidelines, training materials and similar documents prepared for use by reviewers, reviewed firms and AEs.
 - b) AE peer review committee/RAB meeting schedules.
 - c) Statistical data available.
 - d) Benchmark, monitoring, RAB observation and various oversight reports and information (administrative liaisons may only obtain reports that do not contain specific identifying information).
 - e) Other Peer Review Integrated Management Application (PRIMA) generated reports (administrative liaisons may only obtain reports that do not contain specific identifying information).

G. PROC Members ~~and Administrative Liaisons~~ – Violations of Confidentiality Letters

- 1. AEs must immediately report to the SBOA and, where appropriate, the AICPA, any known or potential violations of signed confidentiality letters by PROC members ~~or administrative liaisons~~. For example, litigation against a firm or reviewer coming to the attention of the SBOA based solely on information the PROC member obtained as a result of AE oversight and reported to the SBOA would be a violation of the confidentiality letter. If the AE is aware of a potential situation and uncertain if there is a violation, it should discuss with the SBOA and, where appropriate, the AICPA.
 - a) Until a potential situation is resolved by the AE with the SBOA, and, where appropriate with AICPA Staff and/or the AICPA PRB OTF, individuals identified that may have potentially violated the confidentiality letter shall be considered to have a conflict of interest on all matters related to oversight and should not be given access to confidential information or be allowed to attend meetings where such information is discussed.

H. Examples of Conflict of Interest

- 1. The following is a list of examples where the PRB has determined the PROC member has a conflict of interest or independence is impaired and should not be given access to confidential information or be allowed to attend portions of the meetings where such

information is discussed.

- a) Active SBOA members have a conflict of interest. ~~Generally, a~~Due to practice mobility, a active SBOA member from one state is ~~likely deemed~~ to have a conflict of interest in all states, not just the state where serving on the SBOA.
- b) Individuals (employees, consultants, volunteers or others) who perform enforcement related work for regulatory or governmental bodies, professional organizations (including but not limited to an AICPA ethics committee, AICPA Joint Trial Board or state professional ethics committee) or similar groups or subgroups unless the individual can first demonstrate to the satisfaction of the PRB that:
 - i. They are not performing enforcement work or otherwise significantly involved in such work; and
 - ii. They are not involved in making recommendations to the SBOA, or have influence with the SBOA on any individual or firm licensure, enforcement, ethics or other similar matters or have access to such information; or
 - iii. They only assist SBOAs with administrative matters such as assisting with writing their laws and regulations.
- c) Ordinarily when a PROC member is from the same firm as the technical reviewer, committee or RAB members of the AE being oversighted, unless appropriate safeguards are in place such as the PROC member not attending portions of AE meetings where information is prepared by or discussed by those individuals. However, there may be situations when the PROC member's firm is from a different state and with appropriate safeguards the conflict of interest could be eliminated. AEs should discuss such situations with the SBOA or the PROC member's firm, as the resolution of some conflicts could be achieved by either changing the PROC member or AEs not having a technical reviewer, committee or RAB member from the PROC member's firm.
- d) A PROC member is deemed to have a conflict of interest when his or her firm's peer review or reviews performed by his or her firm are being discussed. When this or similar situations occur, the AE should ensure the PROC members recuse themselves completely and not be present for (or on the phone) or participate in any discussions. This would also be true when the PROC member has a conflict of interest with the reviewing firm, reviewer or the reviewed firm, etc. for other reasons. In these situations, PROC members should also not be given confidential materials, correspondences, etc. prepared by the AE for the RAB related to the specific conflict.
- e) If there is any question as to whether a PROC member may have a conflict of interest, the matter should be brought to the attention of the SBOA and, as appropriate, the AICPA who may discuss the question with the OTF. This must be done prior to making confidential information available or allowing someone to attend a meeting. All relevant information should be provided including what appropriate safeguards are in place as applicable.



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Attachment 2

According to NASBA the following are the substantive and outstanding issues/concerns raised regarding the present revisions to Chapter 3 of the Oversight Handbook:

- NASBA believes the new Introduction and Background language in (A) continues to mischaracterize the nature of state boards of accountancy obligations. While NASBA recognizes the by-laws and confidential nature of the AICPA's peer review process, peer review requirements and their enforcement are a legal requirement. They are not mandated by state boards of accountancy, but by state legislatures which have enacted these requirements in law. State boards of accountancy are charged by statute with enforcing/overseeing these requirements. The guidance fails to acknowledge that state law may mandate the administering entities compliance with state laws and rules that override the concepts contained in Chapter 3.
- Footnote 1 assumes that all state boards of accountancy employees have a conflict of interest regardless of the segregation of duties or safeguards in place that may occur within the structure of a state board of accountancy office. NASBA believes that the state boards of accountancy should determine that appropriate safeguards are in place to ensure their staff liaisons do not have any conflict of interest. This same theory impacts the rest of Chapter 3, also. The staff liaison should have access to the same information as the PROC, at the discretion of the state boards of accountancy, in consultation with its legal counsel.
- In response to Conflicts of Interest, the document should be consistent to only require non-attendance or access to confidential information for "those portions of meetings" where such information is discussed.



North Carolina State Board of Certified Public Accountant Examiners

February 18, 2019

AICPA Peer Review Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, North Carolina 27707-8110

Members of the AICPA Peer Review Board:

The AICPA Peer Review Board recently deferred its approval of revisions to Chapter 3 of the AICPA Oversight Handbook to provide additional time for state boards of accountancy to provide feedback. Chapter 3, entitled Confidentiality of Peer Review Information in the Regulatory Environment, provides guidance to be followed by the peer review program Administering Entities (AEs). The North Carolina State Board of CPA Examiners (Board) has reviewed the proposed changes and offers the following comments.

While the Board appreciates the fact that it is being given an opportunity to provide feedback for the proposed changes, it is concerning that state boards, as the entities charged with public protection and most impacted by these changes, were not engaged during the initial stages of the process.

The proposed language updates to Chapter 3 appear to be minimal and have no substantive changes to the content. Therefore, the Board does not object to the proposed changes. However, the more important matter discussed in Chapter 3 involves the transparency of the AICPA Peer Review Program (PR Program) and what type of information should be shared with state boards of accountancy. The stated purpose of the PR Program is the enhancement of the quality of accounting and auditing services by the CPA profession. The North Carolina Accountancy Act requires peer review for all registered firms performing attestation services and relies on information obtained through the peer review process to identify potential service quality issues with its registered firms.

The PR Program was originally designed to assist professionals in performing quality services and provide educational opportunities to address identified deficiencies. However, the perceptions and expectations of the PR Program have evolved over time. Governmental oversight agencies and other users of audited financial statements have come to rely on the results of the PR Program as an indicator of the quality of accounting and auditing services

performed by CPA firms. For example, the Government Auditing Standards speak to the PR Program in addressing CPA firms' systems of quality control and assurance. The Board itself also utilizes the PR Program to help identify firms that may need an independent review to make sure that those firms are in compliance with the standards and rules adopted by the Board. Chapter 3 affirms that the AEs and the PR Program can disclose to state boards of accountancy only the following information:

1. The firm's name and address,
2. The firm's enrollment in the program,
3. The date of acceptance and period covered by the firm's most recently accepted peer review; and
4. If applicable, whether the firm's enrollment in the program has been dropped or terminated.

Any other information than what is identified above is considered confidential and "should not be provided to anyone except as permitted in this Chapter". The above information is process oriented and provides limited information as to the quality outcomes of firms' PR Program results. In Chapter 3, B. 5, specific firm peer review documents are identified that may be shared with state boards of accountancy, but only after firms authorize the AE to allow access to that information, that include:

1. Peer review report which has been accepted by the AE,
2. The firm's letter of response accepted by the AE (if applicable),
3. The acceptance letter from the AE,
4. Letter(s) accepting the documents signed by the firm with the understanding that the firm agrees to take any actions required by the AE, if applicable; and
5. Letter signed by the AE notifying the firm that required actions have been appropriately completed, if applicable.

The above information speaks more to the firms' PR Program results and should readily be made available to all state boards of accountancy. This Board recommends that the AICPA Peer Review Board consider including this information as publicly available and disclosable to all state boards of accountancy upon request. This would be in addition to the processes already available through Facilitated State Board Access.

We are also aware of a concern of a potential conflict of interest and how state boards of accountancy perform oversight responsibilities to both the AEs and the PR Program activities from a regulatory perspective. The concern is whether state board of accountancy representative(s), who might also be involved in enforcement actions against CPAs and CPA

firms, should be allowed access to additional PR program information. While the role of the state board representative(s) is different when overseeing the PR Program activities versus determining whether a CPA firm requires some disciplinary action, the information necessary to make an informed decision is the same. Rather than restricting the flow of information due to a conflict of interest, the process should be transparent such that state boards of accountancy representative(s) have access to all information available to make informed, professional decisions. It should also be noted that information gathered from the PR Program related to CPA firm activities are just part of any evidence that state boards of accountancy would gather in reviewing a particular CPA firm's services.

The Board appreciates the AICPA Peer Review Board's efforts to improve the effectiveness of the peer review process by reviewing all aspects of the PR Program. The goal to improve the quality of CPA firms' accounting and auditing practices is one that is supported by this Board in its efforts to serve the public interest.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Samuel Williams, Jr.", written in a cursive style.

L. Samuel Williams, Jr., CPA
President

DRN



State of Wyoming Board of Certified Public Accountants

MARK GORDON, GOVERNOR

VIKKI G. NUNN, CPA
ROBERT B. DICKERSON, CPA
STEVEN R. LAIRD, PUBLIC MEMBER

ELIZABETH M. OTT CPA
ROXANNE P. OSTLUND, CPA
PAMELA IVEY, EXECUTIVE DIRECTOR

February 27, 2019

AICPA Peer Review Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Members of the AICPA Peer Review Board,

The AICPA Peer Review Board recently deferred its approval of revisions to Chapter 3 of the AICPA Oversight Handbook to provide additional time for state boards of accountancy to provide feedback. Chapter 3, entitled *Confidentiality of Peer Review Information in the Regulatory Environment*, provides guidance to be followed by the peer review program Administering Entities (AEs). The Wyoming Board of Certified Public Accountants (Board) has reviewed the proposed modifications and offers the following comments.

While the Board appreciates the fact that it is being given an opportunity to provide feedback regarding the proposed modifications, it is concerning that state boards, as the entities charged with public protection and most impacted by these changes, were not engaged during the initial stages of the project to craft modifications to the program.

The proposed language modifications appear to be minimal in nature and; therefore, do not appear to result in substantive content changes. The Board does not object to those proposed modifications.

The more critical topic discussed in Chapter 3 of the Handbook pertains to the transparency of the AICPA Peer Review Program (Program) and the kinds of information that should be shared with state boards of accountancy. The purpose of the Program is to enhance the quality of accounting and auditing services offered by the CPA profession. The Board's practice act and rules require all registered firms performing attestation services to submit to peer review. The Board is reliant upon the Program to identify areas of potential concern relative to service quality issues with respect to attestation services offered by CPA firms. The Board is interested in supporting an education process when appropriate; however, there will be times that stronger action may need to be taken in the interest of public protection.

It is widely misunderstood by CPA firms enrolled in the Program that the Board receives cooperation and information from the Program. CPA firms do not appear to understand that the information available to the Board is limited in nature and that the Program AEs are not required to cooperate with state boards.

Therefore, as an example, if a CPA firm has not completed its enrollment in the Program in a timely manner, is terminated from the Program and then subsequently meets the requirements for reenrollment, the CPA firm is often under the impression that the Program is forthcoming with information to evidence that the CPA firm is in the process of reenrollment. The Board office spends unnecessary time and resources chasing down information regarding reenrollment. This evidence could have and should have been made available to the Board through the AICPA Facilitated State Board Access (FSBA) platform. Obviously, if the CPA firm failed to maintain enrollment in the Program, the Board is charged with the responsibility to verify the word of the CPA firm that the enrollment process has been started.

All the Board asks is for cooperation with respect to things of this nature. The offer that CPA firms could authorize release of specific information is not always helpful since the CPA firm doesn't always know exactly what the Board office needs to evidence enrollment and compliance with the program. A modification of the program to open up additional information to the Board would help this agency that has limited staff and time to chase down evidence and it would help the CPA firms served by the Program by making the process easier for them.

With respect to the Board's Peer Review Oversight Committee (PROC) and constraints placed upon it by the Program, the Board asks the members of the AICPA Peer Review Board to consider the following comments:

Small states such as Wyoming do not have a large pool of qualified CPAs to serve as PROCs to the Board. A member of the Board serves as the sole member of the PROC based upon a two-year appointment. We have heard countless times how important it is for PROCs to attend Review Acceptance Board (RAB) meetings to ensure that the acceptance process is sufficient in order for the Board to rely on the Program's effectiveness and outcomes. We have also been told that a PROC member who serves also as a seated member of the Board is not welcome at RAB meetings owing to some sort of potential conflict of interest. The concern shared with the Board's Executive Director is that information potentially obtained during a RAB meeting that reflects poor service quality rendered by a CPA firm registered in Wyoming could be unfairly used against the firm in a disciplinary action. That response is insulting and demeaning and assumes that the Board is eager to discipline its licensees and seeks opportunities to do so.

There are a couple of areas of concern regarding that argument. First, the Board is bound by Wyoming statutes that require every licensee to be afforded due process and an impartial hearing of any matter that may come before the Board. The Office of Attorney General, State of Wyoming has strict procedures in place that require the attorneys assigned to support the Board, Board staff and seated members of the Board to maintain impartiality. If a PROC/Board member becomes aware of information that might lead to a complaint filed with the Board office, an investigation would ensue and the Board member appointed to investigate would be the PROC/Board member. In that way, the investigation could proceed without involvement from (or taint to) any other Board members. The information that a PROC/Board member may become aware of is the same sort of evidentiary information that would be gathered from the CPA firm during the course of any such investigation.

Secondly, if a PROC/Board member became aware of information that was of grave concern related to a CPA firm's attestation service quality, the PROC would be privy to the judgments made by the peer review team and the RAB which would provide a more complete context and information that would allow the PROC to understand the stances taken by the other professionals in the Program.. The purpose of the Program is to enhance the quality of accounting and auditing services offered by the CPA profession. This allows the Program to do just that while enhancing transparency with the PROC members in each jurisdiction, not just larger ones. No one would want the Program to be used as a shield to prevent critically important service quality or CPA firm personnel cooperation issues from being available to the regulating Board. However, that risk and the risk of bias on behalf of a Board member who also serves as a PROC, while small, are eroding trust between the Program and state boards when the risks are used to refute transparency. No one is served by a Peer review process if CPA firms are promised certain confidentiality protections that may prevent the state Board from being aware of issues that may require action. In fact, the Program is pushing for more transparency in such matters.

The Board does appreciate the opportunity to offer this feedback and thanks the AICPA Peer Review Board's efforts to improve the effectiveness of the peer review process by reviewing all aspects of the Program. The goal of improving the quality of CPA firms' accounting and auditing practices is one that this Board supports as an important element in its being able to meet its responsibility of public protection.

If the AICPA Peer Review Board wishes to explore the recommendations from this Board further, please do contact the Board office so that an appointment with pertinent Board members, Board staff and attorneys could be arranged.

Sincerely,



Pamela Ivey

Executive Director

Copy: Board Members
Office of Attorney General, State of Wyoming



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April 3, 2019

Attachment 5

Daniel Dustin, CPA
Vice-President of State Board Relations
National Association of State Boards of Accountancy
150 4th Avenue North
Nashville, TN 37219

Tom Parry, CPA
Chair, Peer Review Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Mr. Dustin and Mr. Parry:

The California Board of Accountancy (CBA) would like to thank the National Association of State Boards of Accountancy (NASBA) and American Institute of CPAs (AICPA) for the opportunity to review and provide feedback on the proposed revisions to Chapter 3 of the Oversight Handbook of the AICPA.

At its March 2019 meeting, the CBA reviewed the AICPA proposed revisions, concerns raised by NASBA, and two letters sent to the AICPA from boards of accountancy in North Carolina and Wyoming. After consideration of the materials, the CBA determined that to provide substantive feedback on the proposed revisions, it was necessary to have its Peer Review Oversight Committee (PROC) review the information. The PROC next meets on May 3, 2019 and will report back to the CBA its observations at the CBA's meeting on May 16-17, 2019.

The CBA appreciates the opportunity to provide feedback and comments regarding this matter. Should you have any questions regarding this matter, please direct them to Dominic Franzella, Chief, Enforcement Division by telephone at (916) 561- 4310 or by email at dominic.franzella@cba.ca.gov.

Sincerely,

A handwritten signature in black ink that reads 'George Famalett'.

George Famalett, CPA, President
California Board of Accountancy

Daniel Dustin, CPA

Tom Parry, CPA

April 3, 2019

Page 2

c: Members, California Board of Accountancy

John F. Dailey, Jr., CPA, Chair, National Association of State Boards of Accountancy,
Compliance Assurance Committee

Linda McCrone, CPA, California Society of Certified Public Accountants,
Director of Technical Services

Patti Bowers, Executive Officer



NEVADA STATE BOARD OF ACCOUNTANCY

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Attachment 6

March 4, 2019

American Institute of Certified Public Accountants
AICPA Peer Review Board
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Members of the AICPA Peer Review Board:

The Nevada State Board of Accountancy appreciates the opportunity to provide feedback to the AICPA Peer Review Board (PRB) in connection with the proposed changes to Chapter 3 of the AICPA Oversight Handbook, titled *Confidentiality of Peer Review Information in the Regulatory Environment*.

The proposed revisions to the chapter do not appear to be substantive or cause any outstanding issues based on the intent of the changes. The Board does not have any comments or concern with regard to the proposed revisions. However, the Board believes there are a number of outstanding issues that are not addressed with the proposed revisions. Specifically, those that involve the "transparency" of the Peer Review Program (PRP) and the type of information that should be available to the state boards of accountancy (SBOA).

The Board believes that the Peer Review Program is still educational when the firms are compliant with the peer review process, however there are firms that are continually non-compliant throughout the process which eventually ends in some type of enforcement intervention in order to gain compliance. There is also a misconception that firms believe all information is provided to the Board from the Administering Entity (AE).

The Board understands that the information provided by a firm to an SBOA needs to be objective and measurable and not subjective, however requesting a firm to provide the AE with specific information for release versus a blanket approval of communication is often difficult. Nevada requires any information relating to the peer review process to be sent to the Board that would indicate they are in compliance with peer review if the peer review report and letter of completion have not been finalized. The Board has numerous firms that we are waiting for that information and do not know where they are in the process other than they are extremely delayed and far past their due dates for a variety of reasons that might not be the firm's fault. When the Board contacts these firms we often hear comments such as: I thought it was finished, my peer reviewer has everything, what is a letter of completion, the Society is supposed to send that to you, etc. We indicate that the AE is unable to provide information to the Board without the specified consent of the firm. It is difficult to tell the firm what specific information they should authorize the AE to release when they do not know where in the process the peer review is themselves. Yet the examples of what a firm can submit authorizing the AE to release information is far more involved and detailed than the majority of firms will have knowledge of.

AICPA Peer Review Board

March 4, 2019

Page 2

While the information provided in Chapter 3 is somewhat helpful, it does not alleviate the communication loop holes that continue to occur. The Board sending non-compliance letters causing the firm to place pressure on the AE doesn't seem to be an efficient way of handling the process. The Board has utilized warning letters however without substantive information that would indicate compliance it often ends with formal disciplinary complaints. This ends up costing everyone a lot of time and possible legal expenses when the issue could have been avoided by the receipt of better information and communication between the firm, AE and Board.

The Board believes that additional information that could be provided to the SBOA may help resolve the communication issues. Information that would be helpful should include items such as a copy of the enrollment letter, the due date of the next required peer review, if the peer review has been scheduled, if any extensions have been authorized by the AE in connection with follow up or scheduling, any information that would indicate that the firm is in process or in compliance with the program.

The Board would be interested in seeing revisions to Chapter 3 that would add the sharing of additional information to assist the Boards in their charge and requirements for peer review. We appreciate the AICPA Peer Review Board's continued efforts in improving the peer review process and its further review of the peer review program.

If further clarification regarding the above is warranted, please do not hesitate to contact the Board through its President and/or Executive Director.

Sincerely,



Viki A. Windfeldt
Executive Director

cc: Nevada Board of Accountancy Members



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Attachment 7

BUSINESS AND PROFESSIONS CODE
DIVISION 3. Professions and Vocations Generally
CHAPTER 1. Accountants
ARTICLE 4. Applications, Registrations, Permits Generally

§ 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 that state.

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

(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 another 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 another 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 another comprehensive basis of accounting.

(J) A recommendation as to whether the preparation of nondisclosure compiled financial statements on another 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 8

CALIFORNIA CODE OF REGULATIONS **Title 16. Professional and Vocational Regulations** **DIVISION 1. Board of Accountancy Regulations** **ARTICLE 6. Peer Review**

§ 38. Purpose of this Article.

This Article implements Sections 5076 and 5076.1 of the Accountancy Act related to Peer Review.

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

§ 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.*

§ 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 preparation engagements (with or without disclaimer reports) 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. 11/17), 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. 11/17), which is hereby incorporated by reference.

(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. 11/17) 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 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:
 - (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.

(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.

§ 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 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.



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PROC Item III.B.
May 3, 2019

Discussion on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2017 Annual Report Oversight, Issued November 14, 2018

Presented by: Dominic Franzella, Chief, Enforcement Division

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), National Peer Review Committee (NPRC), 2017 Annual Report on Oversight (**Attachment**).

Consumer Protection Objectives

The California Board of Accountancy (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 professional standards set by the CBA-approved Peer Review Program Provider, the AICPA. The AICPA NPRC Annual Report on Oversight provides the PROC with important statistics and information pertaining to the AICPA Peer Review Program as the effectiveness of the program directly relates to the CBA's mission of consumer protection.

Action(s) Needed

It is requested that the PROC review the AICPA NPRC 2017 Annual Report on Oversight and come prepared to discuss and provide feedback.

Background

The AICPA NPRC Annual Report on Oversight provides a general overview including: statistics and information, results of NPRC's oversight procedures, and concludes whether the objective of the NPRC's oversight processes performed during a specified period of time complies with the requirements of the program and the NPRC policies and procedures.

The AICPA NPRC administers peer reviews for accounting firms meeting any of the following criteria:

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1. The accounting firm performed or played a substantial role in an engagement under the Public Company Accounting Oversight Board (PCAOB) standards with a period-ending during the peer review year.
2. The firm is a provider of quality control materials that are used by firms that it peer reviews.
3. The firm elected to have its review administered by the NPRC.

The NPRC's oversight function is managed by the AICPA Oversight Task Force (OTF). The OTF is responsible for establishment of oversight policies and procedures that complies with the AICPA Peer Review Board as set forth in the AICPA Peer Review Program Oversight Manual and the AICPA Peer Review Administrative Manual.

Comments

Although the AICPA Peer Review Program, National Peer Review Committee Report on Oversight was issued on November 14, 2018, it was made publicly available after the February 15, 2019 PROC meeting date.

The oversight report provides statistics and information about the NPRC's oversight process performed in 2017. As a result of the transition to the AICPA Peer Review Information Management Application system and technical difficulties, the 2017 AICPA NPRC Report includes only NPRC's oversight procedures in calendar year 2017 without statistics.

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

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

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

The external review of the AICPA NPRC administrative functions conducted by the AICPA PRB OTF recommended that procedures for issuing committee decision letters to firms should be reviewed to provide reasonable assurance that the letters are in compliance with current wording requirements.

The AICPA NPRC responded to this finding by training staff on how to properly modify committee decision letters.

The internal review of the administrative functions of the AICPA NPRC conducted by the AICPA NPRC OTF noted instances when peer review documents were retained longer than allowed by the peer review standards.

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

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

Staff do not have a recommendation on this agenda item.

Attachment

American Institute of Certified Public Accountant Peer Review Program, National Peer Review Committee, 2017 Annual Report on Oversight, Issued November 14, 2018



AICPA[®]

Peer Review
Program

National Peer Review Committee

2017 Annual Report on Oversight

Issued November 14, 2018

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of approximately thirty-one Administering Entities (AEs) of the AICPA Peer Review Program (AICPA PRP). The National PRC, unlike some other AEs of the AICPA PRP, does not administer any peer review programs other than the AICPA PRP.

The purpose of this Annual Report on Oversight (report) is to provide a general overview; including statistics and information; the results of the National PRC's oversight procedures; and to conclude whether the objectives of the National PRC's oversight processes performed in calendar year 2017 were in compliance with the requirements of the program and the National PRC Policies and Procedures.

As a result of the transition to the Peer Review Information Management Application (PRIMA) system, the software program is currently unable to generate certain quantitative statistics that were included in previous reports. Accordingly, this report only includes the results of the National PRC's oversight procedures in calendar year 2017. Overall National PRC statistics for 2017 are not included in the report.

This report also discusses the history, background, composition, and procedures of the National PRC as they differ substantially from those of the other AEs. Refer to Exhibit B for the history of the National PRC.

Scope

Oversight procedures and results reported are based on the peer reviews that commenced during the calendar year.

For more information on the AICPA PRP as a whole, including the AICPA PRP's Annual Report on Oversight (Annual Report), please visit the AICPA's website at this [link](#). The Annual Report provides an overview and further information on the AICPA PRP, definitions used in this report, and the AE's own oversight responsibilities.

Facilitated State Board Access

Since peer review became mandatory for AICPA membership in 1988, fifty-three State Board of Accountancy (SBAs) have adopted mandatory peer review requirements, and many require their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with SBA peer review document submission requirements, the AICPA created facilitated state board access (FSBA). FSBA allows firms to give permission to the AICPA or to their AEs to provide access to the firms' documents (listed in the following paragraph) to SBAs through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some SBAs now require their licensees to participate in FSBA while others recognize it as an acceptable process to meet the peer review document submission requirements.

The FSBA documents include the following:¹

- Peer review reports
- Letters of response (if applicable)
- Acceptance letters
- Letters signed by the reviewed firm accepting that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions (if applicable)
- Letters notifying the reviewed firm that required actions have been completed (if applicable)

Members of the National PRC

The National PRC is comprised of between fifteen to seventeen members who are public practitioners. Two of the members of the National PRC represent the state boards of accountancy. These two members are former state board of accountancy members and are recommended by the National Association of State Boards of Accountancy. Some of the members of the National PRC may also be members of the Peer Review Board (PRB), although it is not required. The largest four firms, when eligible, maintain seats on the National PRC, and the remaining seats represent a reasonable cross-section of those firms whose peer reviews are administered by the National PRC, which is a diverse constituency. The Chair of the National PRC is a member of the PRB's Planning Task Force and may also be a member of the PRB. See Exhibit A for a roster of the National PRC's members.

Staff of the National PRC

The National PRC's staff (staff) consists of the Chief Executive Officer; Executive Vice President, Public Practice; Vice President, Ethics and Practice Quality; Director – Peer Review Operations; Technical Director – Peer Review and CPA on Staff; Associate Directors; and an appropriate number of qualified senior managers, managers, associate managers, and administrative staff to support the activities of the National PRC and its task forces and subcommittees. The staff assists the members of the National PRC and its task forces and subcommittees in their responsibilities. The staff also assists in administration, presentation of reviews for acceptance, resolving reviewed firm/peer reviewer issues, and the oversight of processes. Additionally, the staff may be involved in other projects in cooperation with other teams at the AICPA. The National PRC is supported by AICPA peer review program staff.

¹ As of February 2015, a firm's currently accepted and prior peer review documents are available on FSBA. The documents are available if the state participated in FSBA for both review periods and the firm did not opt out of FSBA for either review.

Reviews Administered by the National PRC

The National PRC administers peer reviews for firms (and individuals) meeting any of the following criteria:

1. The firm performed or played a substantial role in (as used by the PCAOB) an engagement under PCAOB standards with a period-end during the peer review year
2. 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
3. Firms that elect to have their review administered by the National PRC

Based on the requirements above, there is a wide variety of firms with reviews administered by the National PRC that pose different risks. Some of the differences include:

- Size of the Firm – The National PRC administers for all sizes including sole practitioners and the largest CPA firms. Most of the larger firms (over 300 personnel) in the AICPA PRP have reviews administered by the National PRC.
- System of Quality Control – Some firms have simple systems while others have complex and robust systems.
- Internal Inspections – Some firms have robust internal inspections whereby the peer reviewer can rely on the inspection to reduce the scope of the peer review. However, extensive procedures are necessary to be able to place that reliance on the internal inspection results.
- Regulatory Oversight – Some firms are only subject to regulatory oversight by one entity while others are subject to oversight by all regulators including the PCAOB and Department of Labor.
- Size of the Review Team – Some reviews are performed by only a team captain while others involve a team captain, office captains, and more than 50 team members.
- Length of Time to Perform the Review – Some reviews may be able to be performed in one day while others make take months to perform.
- Office Locations – Some firms operate in multiple states, so the review may be performed in several states at the same time or at different times throughout the review.
- Licensing Jurisdictions – Each licensing jurisdiction may have different practice monitoring requirements.

National PRC Process Overview

In order to understand the National PRC's oversight procedures, it is first helpful to have an overview of the National PRC's processes.

Scheduling

As required by the *AICPA Standards for Performing and Reporting on Peer Reviews*, peer reviewers must timely complete and update a resume that accurately reflects their reviewer qualifications, including recent industry experience. The National PRC uses this information ensure the peer review team's experience appropriately matches the firm being reviewed.

Firms to be peer reviewed receive Peer Review Information (PRI) and Scheduling (SCH) forms that request information on the firm's management and structure, audit and attest engagements, peer reviewer information, as well as dates of planned commencement and the exit conference.

This information is entered by the firms and peer reviewers in PRIMA. Once this information is received, validations related to peer reviewer qualifications and other data are performed. Any issues identified through this process are addressed by the firm, review team, or both, with the assistance of staff as necessary until all issues are resolved. A scheduling verification is sent to the firm and the team or review captain upon completion of the scheduling process. Peer reviews are then monitored for timely submission of peer review documents.

Technical Review

Upon receipt of the peer review working papers from the team or review captain, they are ordinarily assigned to a technical manager on a first in, first out order. To appropriately address the various risks mentioned on the previous page that may be different from other administering entities, all peer reviews administered by the National PRC, including those selected for oversight, are subject to a full working paper review by AICPA technical staff.

The technical review includes review of a summary review memorandum describing the major aspects of the review, a sample of engagement profiles and checklists, quality control checklists (and documents, if available), focus group/staff interviews, and other working papers. This also includes review of Single Audit engagement profiles and related engagement checklists. The technical manager completes a comprehensive technical review checklist tailored to the National PRC to document his or her procedures.

The technical reviewer's role is to anticipate questions from the Report Acceptance Body (RAB) of the National PRC, seek answers from the team or review captain, firm, or both; address issues or problems that are noted during the working paper review; and consult with staff, consultants, and others in advance of RAB presentation. The technical reviewer advises the RAB of significant matters related to the review, provides certain working papers for the RAB's review, and recommends any corrective actions, implementation plans, or reviewer performance feedback, if any.

Peer reviews meeting certain criteria, such as current or immediately previous peer review report being issued with a rating of "pass with deficiency" or "fail," are subject to a concurring review. The concurring review is generally performed by a senior manager or associate director.

All peer reviews undergo a due diligence review by a senior manager or associate director. Technical staff will address comments and questions arising from this review before the peer reviews are provided to the RAB.

Report Acceptance

The entire National PRC serves as the RAB for the peer reviews of firms with 400 or more A&A personnel. However, most of peer reviews are presented via biweekly conference calls to smaller RABs, typically comprising approximately three to five National PRC members. Each RAB includes a chair. The technical reviewer that completed the technical review is available during the RAB meeting to answer any questions the members might have. National PRC members are assigned to the calls to obtain a cross-section of firm sizes and industry experience. The role of the RAB is to consider peer reviews for acceptance on behalf of the National PRC. One week prior to a scheduled call, the National PRC members assigned to that call receive an agenda consisting of a committee spreadsheet summarizing the items being presented, the RAB member responsible for presenting each peer review, and the relevant peer review documentation for each review being presented, which includes:

- A Form C-1 summarizing relevant information about the review, as well as staff findings, such as open items that may delay acceptance and recommendations
- The peer review report
- The letter of response, if applicable
- Finding for Further Consideration (FFC) forms, if applicable
- Matter for Further Consideration (MFC) forms, if applicable
- Prior peer review report and letter of response, if necessary
- Prior peer review FFC forms, if applicable
- Other supporting documents, if necessary

The RAB package does not include the following documents for each review as required by the RAB Handbook: Summary Review Memorandum (SRM), Single Audit engagement profile and Part A checklist, firm representation letter, and Explanation of No Answers for the Guidelines for Review and Testing Compliance of Quality Control Policies and Procedures. The SRM is made available to the RAB members for reference and the other documents are made available upon request. RAB members have an opportunity to discuss the peer review with the technical reviewer and others prior to presentation to the RAB on the scheduled conference call.

Firm Peer Review Oversight Process and Procedures

The National PRC's oversight function is managed through its Oversight Task Force (OTF). The OTF comprises a minimum of three members of the National PRC with additional members added as necessary. The OTF is responsible for establishing oversight policies and procedures at least as comprehensive as those necessary to comply with those established by the PRB as set forth in the *AICPA Peer Review Program Oversight Manual* and the *AICPA Peer Review Administrative Manual*. All policies and procedures established by the OTF must be approved by the National PRC. Along with the full National PRC, the OTF evaluates whether reviews are being conducted and reported upon in accordance with the *Standards for Performing and Reporting on Peer Reviews*, and that the results of reviews are being evaluated on a consistent basis. More specifically, the OTF--

- Oversees the development, implementation, and summarization of a risk-based, annual on-site oversight plan developed and performed by National PRC technical staff, who utilize a detailed work program.
- Establishes the process that utilizes panels comprising National PRC members to oversee the review of firms that meet certain criteria and other reviews when deemed appropriate. The process is approved by the National PRC.
- Discusses and reports on the results of the oversight process to the full National PRC and other interested parties.
- Oversees reviewer qualification and performance issues related to National PRC reviews and maintains a report of all reviewers with restrictions that are performing National PRC reviews.
- Coordinates and assists with the PRB's oversight of the National PRC's administrative functions.
- Performs internal administrative oversight for the National PRC, in the years in which the PRB does not perform oversight procedures.
- Oversees the preparation of an annual report on the oversight activities of the National PRC.

- Oversees revisions to the National PRC Oversight Program and other materials used in oversight activities.
- The chair of the National PRC provides reports on its activities to the PRB.

On-Site Oversight

Each year oversight is performed on a sample of peer reviews meeting one or more risk-based criteria. The risk-based criteria are developed or reevaluated annually by the OTF. Currently, approximately 25 risk-based criteria exist that firms and team/review captains are evaluated against to assess their potential for oversight. This evaluation is qualitative as well as quantitative, and some criteria are weighted more heavily than others. They include certain criteria that, if met, result in mandatory oversight of the peer review. Currently, mandatory review includes firms with over 400 accounting and auditing personnel and those having received a report rating of fail during their last peer review.

The oversight schedule is reviewed and approved by the OTF and National PRC at regular intervals.

Oversight is generally performed on-site during review fieldwork by the National PRC's technical staff and outside consultants, if necessary. Procedures include, but are not limited to, the review of planning (risk assessment, scope, and engagement selection); selecting a sample of engagements reviewed and reperforming the steps on the peer review engagement checklists completed by the peer review team; interviews/discussions with team members to assess their qualifications and whether they understand their responsibilities; and review of testing of quality control attributes completed by peer review team and participation in select engagement, office, and firm closing meetings. A detailed Oversight Program is utilized to assist in documenting the procedures.

A full technical review (see preceding discussion) of all peer review working papers is also performed by the individual who performed the oversight. The oversight and technical review processes complement and support each other.

Off-Site Oversight

Occasionally, due to scheduling or travel constraints the oversight procedures may be performed off-site. The involvement of the technical staff and procedures performed are the same as those during an on-site oversight.

Engagement Oversight

In addition to the on-site oversights discussed above, National PRC staff or RABs may choose to select additional reviews for off-site oversight prompted by issues or concerns identified during the technical review or acceptance process. These oversights focus on one or more selected engagements or procedures. Procedures include obtaining a full set of working papers for the selected engagements and reperforming the steps on the peer review engagement checklists completed by the peer review team.

Oversight of the Peer Reviews and Reviewers

The PRB has mandated that, at a minimum, each AE is required to conduct oversight on 2 percent of all reviews performed in a 12-month period of time. That 2 percent must be comprised of at least 2 system and 2 engagement peer reviews. In addition, a minimum of 2 system reviews must be conducted on-site. As described in the National PRC's plan of administration (POA) submitted to and approved by the PRB OTF, oversight of engagement reviews was not deemed necessary

due to the small number of engagement reviews performed and due to the full working paper technical reviews already performed on all reviews submitted.

The National PRC’s goal is to perform oversight of between 8% and 10% of all reviews performed in a calendar year. The National PRC requires oversight on all firms with 400 or more A&A professionals. All of these reviews are presented to the full committee with some of them requiring a panel (see following section) if the firm meets other established criteria. The number of reviews each year that fall into this category fluctuates based on the timing of the firms who meet the criteria. Since the required oversights on firms with 400 or more A&A professionals typically meet the minimum oversight requirements established by the PRB, the National PRC believes that performing oversight on 8-10% of all reviews performed appropriately addresses other risks present in those reviews.

Type	National PRC Oversights Conducted		
	2017	2016	2015
On-site requiring presentation to full committee	10	9	3
Other on-site	8	12	6
Off-site	1	1	2
Engagement	5	4	11
Total	<u>24</u>	<u>26</u>	<u>22</u>
% of peer reviews conducted during year	9.8%	12.4%	9.6%

During the oversight process, the oversight team provides informal feedback as a part of the ongoing exchange between AICPA staff and peer reviewers. Although these interactions are generally positive, the opportunity is taken, when warranted, to issue formal feedback in an attempt to educate and remediate future peer review performance.

Enhanced Oversight

The PRB requires enhanced oversights performed by Subject Matter Experts (SMEs). The objective of the enhanced oversights is to ensure that peer reviewers are identifying all material issues in must-select engagements, including whether engagements are properly identified as non-conforming. Each review selected for an enhanced oversight focuses exclusively on one must-select engagement from that review.

Reviews administered by the National PRC are included in the population of reviews subject to enhanced oversight. The sample of enhanced oversights completed each year includes a random sample designed to achieve a 90 to 95 percent confidence level and a targeted sample based on certain risk criteria established by the PRB OTF. If a reviewer was already selected twice in the random sample, they were not selected again in the targeted sample. The National PRC takes the results from the enhanced oversight into consideration when considering the acceptance of the review. Enhanced oversights with poor results indicate a risk factor for the reviewer and are taken into account when considering oversight by the National PRC. For more information about enhanced oversights please refer to the AICPA’s PRP Annual Oversight Report which can be found [here](#).

Use of Panels

A panel of at least three National PRC members oversees the peer reviews of firms annually inspected by the PCAOB and with more than 1,000,000 accounting and auditing hours for engagements not subject to PCAOB permanent inspection. In addition, panels are assigned to other reviews by the National PRC OTF when appropriate in other circumstances or when requested by a firm. Reviews with oversight panels assigned are also presented to the full National PRC for acceptance.

Panel members are appointed by the National PRC, its chair or the OTF with assistance from staff. Panel members are selected based on various factors, including size of firm and industry experience of the panel member's firm and of the firm under review. Panel members must be independent of the reviewed firm and the review team members.

The panel is supported by National PRC staff that assists it in carrying out its duties. This responsibility includes coordination and facilitation of discussions between the reviewed firm, its reviewers, and the panel. It includes the performance of the full technical review of the working papers.

The panel typically participates in calls to understand and provide feedback on the planning, interim, and final phases of the peer review. The scope of the peer review is ordinarily approved by the panel prior to the review's commencement. The panel may also consider the appropriateness of the review team's conclusions and may consult with the review team or the reviewed firm concerning matters resulting from the review. Generally, the panel chair will participate in the peer review exit conference to inform the reviewed firm and review team of the panel's recommendation on acceptance. Once the review is complete, the panel chair presents the review and the panel's conclusions, including whether the panel recommends its acceptance, to the National PRC.

Administrative Oversight

An external review of the administrative functions of the National PRC was conducted in September 2018 by Suzanne Heidenreich, a member of the Peer Review Board Oversight Task Force. Ms. Heidenreich is not a member of the National PRC nor is her firm's peer review administered by the National PRC. The objective of the oversight was to determine if the National PRC is following the administrative and report acceptance procedures established by the PRB for the AICPA PRP and the National Peer Review Committee Policies & Procedures Manual. A comprehensive oversight work program was utilized by the reviewer in the conduct of the review.

The oversight procedures included the following:

- Evaluation of various policies and procedures for administering the AICPA PRP.
- Evaluation of a sample of peer review documents and applicable working papers assembled by technical staff on a post-acceptance basis. This evaluation was focused on the accumulation of matters for RAB consideration.
- Inquiries of certain technical reviewers and key staff involved with administration.

The observations and recommendations of the administrative review are summarized as follows:

- Procedures for issuing committee decision letters to firms should be reviewed to provide reasonable assurance that the letters are in compliance with current wording requirements.

The National PRC has evaluated this observation and has reviewed the process for accepting reviews. Staff have been training on how to properly modify the committee decision letters.

An internal review of the administrative functions of the National PRC was conducted in September 2017 by the National PRC OTF. The review encompassed the calendar year ending December 31, 2016. The objective and procedures of the review were the same as those discussed above.

The observations and recommendations as a result of the internal inspection are summarized as follows:

- Instances were noted where peer review documents were retained longer than allowed by the Peer Review Standards.

The National PRC has evaluated this observation and revised procedures to address documents distributed to the National PRC that are included on the AICPA Extranet SharePoint. Existing documents were deleted and all documents going forward will be removed within 30 days of posting. Documents retained in PRIMA are outside the control of the National PRC.

The oversights were a valuable process that revealed opportunities to enhance the effectiveness and efficiency of the administration of the program. The National PRC will continue to assess opportunities to improve its processes and procedures.

All related letters and responses are available online on the [NPRC website](#).

Annual Verification of Reviewers' Resumes

A critical element in appropriately matching peer reviewers with reviewed firms is ensuring that reviewers' resumes are accurate and updated annually. Verification must include the reviewers' qualifications and experience related to must-select engagements. Specifically, the verification procedures must include, but are not limited to (1) calling or writing peer reviewers and requesting them to provide specific information, such as the number of engagements they are specifically involved with and in what capacity, (2) determining from the peer review computer system whether the peer reviewer's firm actually performed those engagements during its last peer review, (3) verification of license to practice, and (4) verification of continuing professional education (CPE) topics and credits. Ordinarily, an experienced technical reviewer or AE peer review committee member should perform the verification. Detailed procedures, along with practice aids such as forms, letters, and other materials are provided in the AICPA Peer Review Program Oversight Handbook, Administrative Manual, and other sources.

AEs are required to verify this information within a sample of reviewers' resumes on an annual basis, such that all resumes should be verified over a three-year period. At a minimum, one third of the active reviewer resumes must be reviewed in year one of the three-year cycle, a total of two thirds by year two, and 100% by year three. The population of reviewers to be verified by the National PRC includes reviewers within firms having 400 or more professionals and reviewers

performing exclusively National PRC peer reviews in the capacity of team captain, review captain, or team member.

<u>Disposition</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Suspended for noncooperation with verification process	8	7	9
Voluntarily removed/became inactive	20	15	14
Verified	126	88	116
Total	<u>154</u>	<u>110</u>	<u>139</u>
% of National PRC reviewers selected for verification	47%	30%	40%

In all three years, the process resulted in several modifications to reviewers' resumes.

Peer Reviewer Performance

Staff utilizes the peer review computer system to monitor the status of reviews, enrolled firms, and peer reviewer performance. Difficulties encountered on reviews with enrolled firms and peer reviewers are discussed during bi-weekly staff meetings, as well as with the Technical Director of Peer Review; RABs; the National PRC Chair; and the full PRC, as necessary. In considering peer review documents for acceptance, the National PRC evaluates the reviewer's performance on each peer review. In addition to the National PRC's evaluation, the PRB and AICPA staff also evaluate and track reviewers' performance on peer reviews.

On occasion, weaknesses will be noted in the performance of reviewers. In such circumstances, the National PRC or its RABs advise the reviewers of the weaknesses noted so that improvements are made on reviews performed in the future. Performance matters are initially communicated to the reviewer through the use of a reviewer feedback form issued by the National PRC or RAB. The reviewer feedback form is designed to give reviewers positive and constructive feedback directly from the National PRC or RAB. Reviewer feedback forms document a reviewer's performance on individual reviews and provide the National PRC and the OTF with useful evidence to determine whether a pattern of weaknesses is evident in the reviewer's performance. Formal reviewer feedback included, but was not limited to, issues noted related to documentation, underdeveloped risk assessments, low scope, failure to consult, inappropriate disposition of findings, and insufficient identification of systemic cause and engagements not performed or reported in conformity with professional standards in all material respects.

If serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the PRB or National PRC, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer through the issuance of the performance deficiency letter. If performance issues continue to be present once a performance deficiency letter is issued, then the National PRC will consider referring the reviewer to the PRB for removal.

Peer Reviews of Quality Control Materials (QCM)

The National PRC is responsible for the administration of QCM reviews, including acceptance of the resultant QCM review reports. QCM reviews have inherently higher risks due to firm use of and reliance on the QCM. In response to that higher risk and public interest in the process to evaluate QCM, the National PRC created the QCM Task Force for added involvement in the administration and acceptance process. The task force's involvement includes facilitating

oversights of QCM reviews, developing practice aids, and recommending enhancements to the standards, interpretations, and other guidance related to QCM reviews.

Oversight and Acceptance Process

Similar to peer reviews of firms, QCM reviews undergo full working paper technical reviews and concurring reviews. In addition, all QCM reviews are subject to oversight. Oversight is intended to corroborate the review team's overall review results to provide the National PRC (as the acceptance body) with comfort that the review team's overall procedures have detected any issues with the system to develop and maintain the materials or with the resultant materials. To provide this corroboration, oversight entails reviewing a sample of the QCM opined upon in the report, focusing on the areas of the materials that were reviewed or tested by the review team.

Oversight is performed by a panel that is typically composed of a chair and 2 – 4 other members. A member of the QCM Task Force is generally the chair of the panel. The other panel members can be solicited either from the task force, the National PRC, or the PRB on an as needed basis. Oversight encompasses reviewing and approving the review team's planned review procedures and scope prior to the commencement of fieldwork (including the risk assessment and planning portions of the Team Captain's Checklist and SRM), reviewing other peer review documentation as considered necessary, and performing a review of a sample of the QCM opined upon in the report.

In addition to panel oversight, staff will perform on-site oversight procedures on all QCM reviews. The on-site visit will include observing and reviewing the QCM reviewer's procedures for testing the functional aspects of the provider's system for developing and maintaining QCM. Staff on-site oversight is performed in addition to oversight by a panel. The panel may judgmentally determine that due to the higher risk nature of a QCM review, a panel member should perform the on-site oversight procedures.

Oversight was performed on three QCM reviews in 2017, two QCM reviews in 2016, and four QCM reviews in 2015.

Once technical, concurring, and oversight reviews are completed, QCM reviews are presented to the full National PRC for acceptance with a recommendation from the panel.

Exhibit A

NATIONAL PEER REVIEW COMMITTEE ROSTER

Michael Fawley, **Chair**
BDO USA, LLP
Atlanta, GA

Brian Bluhm
Eide Bailly LLP
Minneapolis, MN

John Edwardson
RSM US LLP
Minneapolis, MN

Erica Forhan
Moss Adams LLP
Seattle, WA

Vincent Gaudio
Buchbinder Tunick & Company LLP
New York, NY

Jeffrey J Gendreau
Baker Tilly Virchow Krause LLP
Minneapolis, MN

Daniel Goff
Goff Backa Alfera & Company, LLC
Pittsburgh, PA

Shawn Hanrahan
Deloitte & Touche LLP
Boston, MA

Mark Hobbs
The Hobbs Group, PA
Columbia, SC

Keith Malinowski
Grant Thornton LLP
Charlotte, NC

David Maraldo
Ernst & Young LLP
Cleveland, OH

Raymond Nowicki
Nowicki and Company, LLP
Buffalo, NY

Catherine M. Schweigel
CliftonLarsonAllen LLP
Milwaukee, WI

Arthur (Art) L. Sparks
Alexander Thompson Arnold PLLC
Union City, TN

Michael J Wagner
PricewaterhouseCoopers, LLP
New York, NY

Richard E. Wortmann
RW Group LLC
Kennett Square, PA

AICPA Staff

Barry C. Melancon, President & Chief Executive Officer

Susan S. Coffey, Executive Vice President – Public Practice

James W. Brackens, Jr., Vice President Ethics and Practice Quality

Gary Freundlich, Technical Director and CPA on Staff

Beth Thoresen, Director of Operations

Chris Ellis, Manager – Peer Review Operations

Frances McClintock, Associate Director

Sue Lieberum, Associate Director

Rachelle Drummond, Senior Manager

Tim Kindem, Senior Manager

LaVonne Montague, Senior Manager

David Andrews, Manager

Karen Aylor, Manager

Ivory Bare, Manager

Jaime Beasley, Manager

Brad Coffey, Manager

Jennifer Dintsch, Manager

Laurel Gron, Manager

Jennifer Gum, Manager

Lisa Joseph, Manager

Justin Long, Manager

Susan Rowley, Manager

Karl Ruben, Manager

Tracy Peterson, Manager

Tricia VanVliet, Manager

Andrew Volz, Manager

Exhibit B

History of the National PRC

A system of internal inspection was first used regularly in the early 1960s when a number of large firms used it to monitor their accounting and auditing practices and to make certain their different offices maintained consistent standards. Firm-on-firm peer review emerged in the 1970s. No real uniformity to the process existed until 1977, when the AICPA's Governing Council established the Division for CPA Firms to provide a system of self-regulation for its member firms. Two voluntary membership sections within the Division for CPA Firms were created, the SEC Practice Section (SECPS) and the Private Companies Practice Section (PCPS).

One of the most important membership requirements common to both Sections was that, once every three years, firms were required to have a peer review of their accounting and auditing practices to monitor adherence to professional standards. The requirements also mandated that the results of peer review information be made available in a public file. Each Section formed an Executive Committee to administer its policies, procedures, and activities and a peer review committee to create standards for performing, reporting, and administering the peer reviews.

AICPA members voted overwhelmingly to adopt, effective in January 1988, mandatory peer review and the AICPA Quality Review Program was created. Firms were given a choice between enrolling in the newly created AICPA Quality Review Program or becoming a member of the Division for CPA Firms and undergoing an SECPS or PCPS peer review. Firms enrolling in the AICPA Quality Review Program that had audit clients would now undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected audit and accounting engagements. Firms without audit clients that only performed engagements under the attestation standards or accounting and review services standards would undergo off-site peer reviews. The off-site peer reviews also included a review of selected engagements to determine if they were in compliance with professional standards.

From its inception, the peer review program has been designed to be educational and remedial in nature. The objective of the process is to identify and correct any deficiencies within the firms. For firms that perform audits and certain other engagements, the peer reviewer performs procedures that provide them with a reasonable basis for expressing an opinion on whether or not the reviewed firm's system of quality control for its accounting and auditing practice has been designed appropriately and whether the firm is complying with that system.

In 1990, a new amendment to the AICPA bylaws mandated that AICPA members who practice public accounting with firms that audit one or more SEC clients must be members of the SECPS. In 1994, AICPA Council approved a combination of the PCPS Peer Review Program and the AICPA Quality Review Program under the name AICPA Peer Review Program governed by the AICPA Peer Review Board (PRB), which became effective in 1995. Thereafter, the PCPS, which, as a result of this vote, no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the PCAOB as a private sector regulatory entity to replace the accounting profession's self-regulatory structure as it relates to public company

audits. One of the PCAOB's primary activities is the operation of an inspection program that periodically evaluates registered firms' SEC issuer audit practices.

As a result, effective January 1, 2004, the SECPS was restructured and renamed the AICPA Center for Public Company Audit Firms (CPCAF). The CPCAF Peer Review Program became the successor to the SECPS Peer Review Program, with the objective of administering a peer review program that evaluates and reports on the non-SEC issuer accounting and auditing practices of firms that are registered with, and inspected by, the PCAOB. Because many state boards of accountancy and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF Peer Review Program provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their state board of accountancy licensing and other state and federal governmental agency peer review requirements.

Because both programs (AICPA and CPCAF PRPs) were only peer reviewing non-SEC issuer practices, the PRB determined that the two programs could be merged and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved revised *AICPA Standards for Performing and Reporting on Peer Reviews (standards)* effective for peer reviews commencing on or after January 1, 2009. This coincided with the official merger of the programs at which time the CPCAF Peer Review Program was discontinued, and the AICPA PRP became the single program for all AICPA firms subject to peer review. Upon the discontinuance of the CPCAF Peer Review Program, the activities of the former program were succeeded by the National PRC, a committee of the AICPA PRB.

The National PRC became one of the forty-two administering entities of the AICPA PRP (now forty-one approximately 35 administering entities). The mission of the National PRC is achieved through supporting the PRB in meeting its mission, which is stated as follows:

The PRB is dedicated to enhancing the performance and quality of accounting, auditing and attestation engagements performed by AICPA members and their firms which are enrolled in the AICPA PRP. The PRB seeks to attain its mission through education and remedial corrective actions which serves the public interest and enhances the significance of AICPA membership.

The National PRC supports this mission by fulfilling its responsibilities as a task force of the PRB and as an AE.

Exhibit C

Common Acronyms

AE	Administering Entity
AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
CPE	Continuing Professional Education
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
EAQ	Enhancing Audit Quality
ECTF	Education and Communication Task Force
EQCR	Engagement Quality Control Review
ERISA	Employee Retirement Income Security Act
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FFC	Finding for Further Consideration
FSBA	Facilitated State Board Access
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office (U.S.)
IP	Implementation Plan
MFC	Matter for Further Consideration
NPRC	National Peer Review Committee
OTF	Oversight Task Force (AICPA Peer Review Board)
PCAOB	Public Company Accounting Oversight Board
PCPS	Private Companies Practice Section
POA	Plan of Administration
PRIMA	Peer Review Information Management Application
PRISM	Peer Review Information System Management
PRB	Peer Review Board (AICPA)
PRP	Peer Review Program
QCPP	Quality Control Policies and Procedures
RAB	Report Acceptance Body (Administering Entity Peer Review Committee)
SASs	Statements on Auditing Standards
SBA	State Board of Accountancy
SEC	Securities and Exchange Commission (U.S.)
SECPS	Securities and Exchange Commission Practice Section
SEFA	Schedule of Expenditures of Federal Awards
SOC	Service Organization Control
SME	Subject Matter Expert
STF	Standards Task Force
SQCS	Statements on Quality Control Standards
SRM	Summary Review Memorandum
SSAEs	Statements on Standards for Attestation Engagements
SSARS	Statements on Standards for Accounting and Review Services

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**PROC Item III.C.**

May 3, 2019

Discussion on the Results and Response Letters Regarding the Administrative Oversight of the American Institute of Certified Public Accountants' National Peer Review Committee

Presented by: Dominic Franzella, Chief, Enforcement Division

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review results from the American Institute of Certified Public Accountants (AICPA) Oversight Task Force (OTF) regarding its administrative oversight of the AICPA National Peer Review Committee (NPRC), issued September 28, 2018 (**Attachment 1**) and the response letter from the AICPA NPRC, issued November 14, 2018 (**Attachment 2**).

Consumer Protection Objectives

The California Board of Accountancy (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 professional standards set by the CBA-approved Peer Review Program Provider, the AICPA. The AICPA OTF report provides the PROC with valuable insight pertaining to the AICPA NPRC peer review administration process and provides reasonable assurance that consumer protection is a high priority.

Action(s) Needed

It is requested that the PROC review and discuss both the results and response letters issued by the AICPA OTF and the AICPA NPRC, regarding the NPRC's peer review administration procedures.

Background

The AICPA OTF conducts annual oversight of the AICPA NPRC in accordance with the administrative oversight procedures in the AICPA Peer Review Program Oversight Handbook. The administrative oversight program is designed to provide reasonable

Discussion on the Results and Response Letters Regarding the Administrative Oversight of the American Institute of Certified Public Accountants' National Peer Review Committee

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assurance that the AICPA Peer Review Program is being administered in accordance with the guidance as issued by the AICPA Peer Review Board.

Comments

During September 6-28, 2018, the AICPA OTF conducted both on and off-site administrative oversight activities of the AICPA NPRC peer review process including; review of its administrative procedures, website information, working paper retention, technical review procedures, and oversight program.

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

On November 14, 2018, James Brackens, Jr., CPA, AICPA Vice President – Ethics and Practice Quality, issued a response letter to the AICPA OTF internal review of the AICPA NPRC administrative procedures conducted between September 6-28, 2018.

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

Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

Staff do not have a recommendation on this agenda item.

Attachments

1. American Institute of Certified Public Accountants Oversight Task Force Administrative Oversight of the American Institute of Certified Public Accountants National Peer Review Committee (NPRC), Result Letter, Issued September 28, 2018
2. American Institute of Certified Public Accountants Response Letter to the American Institute of Certified Public Accountants Oversight Task Force, Response Letter, Issued November 14, 2018



September 28, 2018

Attachment 1

Michael Fawley, CPA
Peer Review Committee Chair
National Peer Review Committee
220 Leigh Farm Rd
Durham, NC 27707

Dear Mr. Fawley:

I have conducted the administrative oversight for the National Peer Review Committee (NPRC). The oversight visit was conducted according to the administrative oversight procedures in the *AICPA Peer Review Program Oversight Handbook*, except as discussed below. The administrative oversight program is designed to provide reasonable assurance that the AICPA Peer Review Program is being administered in accordance with guidance as issued by the AICPA Peer Review Board.

This oversight visit did not include observation of peer review report acceptance by the NPRC or its Report Acceptance Bodies (RABs). Regular RAB observations by the AICPA Peer Review Board Oversight Task Force are scheduled to commence in the near future.

In conjunction with the administrative oversight visit of the NPRC, an administering entity for the AICPA Peer Review Program conducted off-site between September 6th and the 28th, the following observations are being communicated.

Administrative Procedures

I conducted numerous phone conversations with an AICPA Peer Review Program Manager to review the program's administration. I believe the administrative processes were being handled in a manner consistent with peer review standards.

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

I also reviewed the policies and procedures for the granting of extensions. Extension requests up to 90 days can be approved by Staff. Longer term extensions are considered by the RAB.

I reviewed the timeliness of technical reviews and the preparation of committee decision letters. I noted instances where committee decision letters issued to firms were not in compliance with requirements.

I examined confidentiality agreements for all NPRC members to ensure they were retained and signed and noted no exceptions.

I reviewed the back-up plan to support the administrative and technical review process.

Website Information

I reviewed the information included on the NPRC's section of the AICPA website. I noted the administering entity maintains current information as it relates to the peer review program. In addition, the administering entity has individuals who are responsible for maintaining the website and monitors the website to ensure peer review information presented is accurate and timely.

Working Paper Retention

I reviewed the completed workpapers for several reviews accepted more than 120 days before my visit and found compliance with the working paper retention policies for completed reviews.

Technical Review Procedures

I had phone conversations with some technical reviewers to discuss procedures. I reviewed continuing education summaries and professional licenses of a sample of individuals performing technical reviews and reviewed information related to participation in a peer review. All individuals had participated in a peer review (including oversight of a peer review) during the period. Information related to required training was also reviewed without exception.

I reviewed the reports, letters of response, if applicable, and the working papers for several reviews. I believe that review issues were addressed properly by the technical reviewers before reviews were presented to the committee.

Oversight Program

The NPRC Oversight Task Force staff liaison administered the process for verification of reviewer resume information. The reviewer resume verification process appears to be in conformity with the AICPA Peer Review Program Oversight Handbook.

Summary

My observations to enhance NPRC's administration of the program are summarized as follows:

1. The procedures for issuing committee decision letters to firms should be reviewed to provide reasonable assurance that the letters are in compliance with current wording requirements.

Suzanne Heidenreich

Suzanne Heidenreich, CPA

cc: James Brackens, VP-Ethics & Practice Quality
Gary Freundlich, Director – Peer Review

Attachment 2

November 14, 2018

Oversight Task Force
National Peer Review Committee
American Institute of CPAs
220 Leigh Farm Rd
Durham, NC 27707

Dear Task Force Members,

This letter represents our response to the letter of procedures and observations issued in connection with the internal review of the administrative procedures of the National Peer Review Committee performed in September 2018. The matters discussed herein were brought to the attention of all NPRC members, AICPA administrative staff, and technical managers. In addition, the matters discussed in this letter will be monitored to ensure they are effectively implemented as part of our administration of the AICPA Peer Review Program.

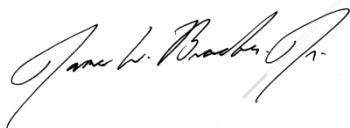
Committee Decision Letters

The circumstances under which the review in question was accepted are historically uncommon for reviews accepted by the National PRC Report Acceptance Bodies. Staff were not aware of changes to the acceptance letter for firms receiving a non-pass report accepted without corrective actions made with the introduction of PRIMA. We have reviewed the process for accepting these reviews in PRIMA and staff have been trained on how to properly modify this letter when accepting these reviews in the future.

We believe this fully addresses the observation noted during the inspection process applied to the administrative functions of the National Peer Review Committee. We found this to be a very valuable process that has allowed us the opportunity to improve our processes related to administering the AICPA Peer Review Program.

We appreciate Ms. Heidenreich's constructive advice and suggestions.

Sincerely,



James W. Brackens, Jr., CPA, CGMA
Vice President — Ethics and Practice Quality



California Board of Accountancy
2450 Venture Oaks Way, Suite 300
Sacramento, CA 95833

phone: (916) 263-3680 *fax:* (916) 263-3675 *web:* www.cba.ca.gov



PROC Item III.D.
May 3, 2019

Discussion Regarding the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force's Oversight Visit to the California Society of Certified Public Accountants on November 28-29, 2018

Presented by: Dominic Franzella, Chief, Enforcement Division

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review and discuss the American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Oversight Task Force procedures and observations report and Oversight Visit Report, issued on November 29, 2018 (**Attachments 1 and 2**).

Consumer Protection Objectives

The California Board of Accountancy (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 professional standards set by the Board-recognized Peer Review Program Provider, the AICPA. The PROC actively oversees the AICPA and its California administering entity, California Society of Certified Public Accountants (CalCPA), as a means to ensure the peer review program is administered in accordance with the standards adopted by the CBA and that consumers are protected.

Action(s) Needed

It is requested that the PROC review and be prepared to discuss: the AICPA PRB Oversight Task Force observations and procedures report, Oversight Visit Report, CalCPA acknowledgment letter, issued December 11, 2018 (**Attachment 3**) and the AICPA PRB Oversight Task Force report acceptance letter, issued January 14, 2019 (**Attachment 4**).

Background

On a biennial basis, the AICPA PRB Oversight Task Force conducts an oversight site visit to CalCPA, attends a Peer Review Committee (PRC) meeting and Report Acceptance Body meeting as part of its oversight of the CalCPA Peer Review Program. A report is produced and upon acceptance by the AICPA PRB, the report is made available to the public.

Discussion Regarding the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force's Oversight Visit to the California Society of Certified Public Accountants on November 28-29, 2018

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During alternating years, the CalCPA PRC performs its oversight of CalCPA, produces a report of its findings for the AICPA PRB to review and accept, however it is not available to the public.

The oversight program is designed to improve the administering entity's administration of the AICPA Peer Review Program through feedback on its policies and procedures, and to provide resource assistance from the AICPA PRB Oversight Task Force members on both technical and administrative matters. The oversight is conducted in conformity with the procedures contained in the *AICPA Peer Review Program Oversight Handbook*.

Comments

On November 28-29, 2018 the AICPA PRB Oversight Task Force conducted its oversight visit and observation of the CalCPA peer review administrative process. Following the oversight visit, the AICPA PRB Oversight Task Force issued both a procedures and observations report and an Oversight Visit Report on November 29, 2018 (**Attachments 1 and 2**).

The procedures and observations report provided an overview of key oversight procedures performed during the AICPA PRB Oversight Task Force oversight visit to CalCPA which included:

- Administrative Procedures
- Website Information
- Working Paper Retention
- Technical Review Procedures
- Review Presentation
- Committee Procedures

The November 29, 2018 Oversight Visit Report concluded that the CalCPA complied with the administrative procedures and standards as established by the AICPA PRB.

On December 11, 2018, CalCPA issued an acknowledgement letter (**Attachment 3**) to the AICPA PRB Oversight Task Force in response to the oversight observations and procedures report and Oversight Visit Report. The CalCPA was pleased to receive a report with no deficiencies.

On January 14, 2019, the AICPA PRB Oversight Task Force issued a letter (**Attachment 4**) noting acceptance of the procedures and observations report and Oversight Visit Report of the CalCPA and its peer review administrative procedures. The letter noted that CalCPA's next administering entity site visit will be in 2020.

Discussion Regarding the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force's Oversight Visit to the California Society of Certified Public Accountants on November 28-29, 2018

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Fiscal/Economic Impact Considerations

There are no fiscal/economic considerations.

Recommendation

Staff do not have a recommendation on this agenda item.

Attachments

1. The American Institute of Certified Public Accountants Peer Review Board Oversight Task Force Oversight Visit to the California Society of Certified Public Accountants Procedures and Observations Report, Issued November 29, 2018
2. The American Institute of Certified Public Accountants Peer Review Board Oversight Task Force Oversight Visit Report on the California Society of Certified Public Accountants, Issued on November 29, 2018
3. The California Society of Certified Public Accountants Letter of Response to the American Institute of Certified Public Accountants Peer Review Board Oversight Task Force Oversight Visit Report, Issued December 11, 2018
4. The American Institute of Certified Public Accountants Peer Review Board Acceptance Letter, Issued on January 14, 2019



November 29, 2018

To the California Society of CPAs
Peer Review Committee

We have reviewed California Society of CPAs' administration of the AICPA Peer Review Program as part of our oversight program and have issued our report thereon dated November 29, 2018. That report should be read in conjunction with the observations in this letter, which were considered in determining our conclusions. The observations described below were not considered to be of sufficient significance to affect the conclusions expressed in that report.

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

In conjunction with the oversight visit of the California Society of CPAs, the administering entity for the program, conducted on November 28 and 29, 2018, the following observations are being communicated.

Administrative Procedures

On the morning of November 28, 2018, Brian Bluhm, a member of the Oversight Task Force, and I met with the Division Director of Technical Services and Associate Director of Peer Review to review the program's administration. We believe the administrative processes were being handled in a manner consistent with peer review standards.

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

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

We also reviewed the timeliness of technical reviews and the preparation of committee decision letters. We found no problems in these areas.

The administering entity has developed a backup plan to support the administrators and technical reviewers if they become unable to serve in their respective capacities.

Website Information

We met with the website manager to review the administering entity's procedures to determine if the information disseminated regarding the AICPA Peer Review Program by the administering entity on their website is accurate and timely.

After the AICPA staff's review of the website material, we noted that the administering entity maintains current information as it relates to the peer review program. In addition, the administering entity has an individual who is responsible for maintaining the website and monitors the website on a weekly basis to ensure peer review information is accurate and timely.

Working Paper Retention

According to discussions with the Division Director of Technical Services, we found compliance with the working paper retention policies for completed reviews.

Technical Review Procedures

We met with four technical reviewers, to discuss procedures. They perform most of the technical reviews and two of them are also experienced reviewers.

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

Review Presentation

Reviews are brought to the committee without open technical issues. Accordingly, it was not necessary for the committee to spend a great deal of time reviewing specific technical issues.

Committee Procedures

We met with the committee chair and discussed their procedures for disseminating the comments resulting from RAB observation reports to the appropriate individuals.

On November 29, 2018, we attended the on-site peer review committee meeting, as well as the administering entity's executive committee meeting. We observed the committee's acceptance process and offered our comments at the close of discussions.

The on-site committee functioned as the report acceptance body (RAB), and the meeting was very orderly. It was apparent that the committee members had reviewed the reports and working papers prior to the meeting and had a good understanding of the program to reach an appropriate decision for each review.

Appropriate decisions were made in the acceptance process, including assigned corrective actions and reviewer monitoring. Reviews were being presented to the RABs on a timely basis.

Oversight Program

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

Summary

There are no further observations to be communicated to the California Society of CPAs.



Richard W. Hill, Member, Oversight Task Force
AICPA Peer Review Program



Oversight Visit Report

November 29, 2018

To the California Society of CPAs
Peer Review Committee

We have reviewed the California Society of CPAs' administration of the AICPA Peer Review Program (program) as part of our oversight program. The California Society of CPAs is responsible for administering the program in California, Arizona and Alaska. Our procedures were conducted in conformity with the guidance established by the AICPA Peer Review Board (board) as contained in the *AICPA Peer Review Program Oversight Handbook*.

Administering Entity's Responsibility

The administering entity is responsible for administering the AICPA Peer Review Program in compliance with the *AICPA Standards for Performing and Reporting on Peer Reviews*, interpretations, and other guidance established by the board.

Oversight Task Force's Responsibility

Our responsibility is to determine whether (1) administering entities are complying with the administrative procedures established by the board as set forth in the *AICPA Peer Review Program Administrative Manual*, (2) the reviews are being conducted and reported upon in accordance with the standards, (3) the results of the reviews are being evaluated on a consistent basis by all administering entity peer review committees, and (4) information disseminated by administering entities is accurate and timely.

Conclusion

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

As is customary, we have issued a letter of oversight visit procedures and observations that details the oversight procedures performed and sets forth recommendations that were not considered to be of sufficient significance to affect the conclusions expressed in this report.

A handwritten signature in blue ink that reads "Richard W. Hill".

Richard W. Hill, Member, Oversight Task Force
AICPA Peer Review Program

Attachment 3

December 11, 2018

Richard W. Hill, Member
Oversight Task Force
AICPA Peer Review Program
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Oversight Visit to California Society of CPAs Peer Review Committee

Dear Mr. Hill:

This letter represents our response to the report and letter of procedures and observations issued in connection with the review of the California Society of CPAs administration of the AICPA Peer Review Program performed on November 28-30, 2018. The oversight visit documents have been disseminated to all peer review program committee members, administrative staff, and technical reviewers. We are pleased to note there were no specific deficiencies or observations included in the oversight documents on which a written response was required. This letter represents our acknowledgement of the oversight visit.

We appreciate Mr. Hill's review of our administration of the AICPA Peer Review Program.

Sincerely,



Dawn E. Brenner, Chair
California Peer Review Committee



Loretta Doon, CEO
California Society of CPAs

c: Linda McCrone, Director



January 14, 2019

Loretta Doon, CPA, CGMA, Chief Executive Officer
Dawn Brenner, CPA, Peer Review Committee Chair
California Society of CPAs
1710 Gilbreth Road
Burlingame, CA 94010

Dear Ms. Doon and Ms. Brenner:

On January 10, 2019, the AICPA Peer Review Board Oversight Task Force accepted the report and letter of procedures and observations on the most recent oversight visit for the California Society of CPAs, the administering entity for the AICPA Peer Review Program, and the administering entity's response thereto. A copy of this acknowledgement, the two oversight visit documents, and your response have now been posted to the AICPA Peer Review Program website.

The next administering entity oversight visit will be in 2020.

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

Sincerely,

Brian Bluhm

Brian Bluhm, CPA
Chair – Oversight Task Force
AICPA Peer Review Board

cc: Vinit Shrawagi, CPA, CPA on Staff
California Society of CPAs

Laurel Gron, CPA, Senior Manager – Peer Review
AICPA Peer Review Program