



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

**PROC MEETING
 NOTICE & AGENDA**

**Friday, June 15, 2012
 9:30 a.m. – 3:30 p.m.**

San Jose Marriott
 301 South Market Street
 San Jose, CA 95113
 Telephone: (408) 280-1300
 FAX: (408) 278-4444

PROC Purpose Statement

To provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

- I. Roll Call and Call to Order (**Nancy Corrigan, Chair**).
- II. Report of the Committee Chair (**Nancy Corrigan**).
 - A. Approval of the April 20, 2012 PROC Minutes.
 - B. Report on the May 24-25, 2012 CBA Meeting.
 - C. Discussion and Possible Action to Recommend to CBA the Appointment of a Committee Person as Vice Chair for PROC.
- III. Report on PROC Activities (**Nancy Corrigan**).
 - A. Report on the February 16, 2012 Administrative Site Visit to the California Society of Certified Public Accountants (CalCPA).
 - B. Report on the April 26, 2012 CalCPA Peer Review Committee Meeting.
 - C. Report on the May 8, 2012 American Institute of Certified Public Accountants' (AICPA) Peer Review Board Meeting.
 - D. Report on the May 17, 2012 CalCPA Report Acceptance Body (RAB) Meetings.
 - E. Report on the May 23, 2012 CalCPA Peer Reviewer Training.
 - F. Assignment of Future PROC Activities.
- IV. Discussion Regarding the National Peer Review Committee (NPRC).
 - A. Presentation by the National Association of State Boards of Accountancy Compliance Assurance Committee (CAC) Regarding Oversight of the NPRC (**Janice Gray, Chair, CAC**).

- B. Discussion and Possible Action Regarding Oversight of the NPRC Administration of the AICPA Peer Review Program (**Nancy Corrigan**).

LUNCH

- V. Reports and Status of Peer Review Program.
 - A. Statistics of Licensees Who Have Reported Their Peer Review Information to the CBA (**Kathy Tejada, Enforcement Manager**).
 - B. Status of Correspondence to Licensees Regarding Peer Review Reporting (**April Freeman, CBA Staff**).
 - C. Status of PROC Roles and Responsibilities Activity Tracking (**April Freeman**).
 - D. Draft Table of Contents for 2012 PROC Annual Report (**April Freeman**).
- VI. Discussion and Possible Action On Making Recommendations For Displaying Peer Review Information on the California Board of Accountancy's Website (**Rafael Ixta, Enforcement Chief**).
- VII. Discussion and Possible Action Regarding Recommendations For Changes to the PROC's Roles and Responsibilities (**Nancy Corrigan**).
- VIII. Educational Presentation on California Practice Privilege Requirements (**Rafael Ixta**).
- IX. Discussion of Title 16, California Code of Regulations, Section 40 Regarding Peer Review Due Dates (**Rafael Ixta**).
- X. Discussion and Possible Action Regarding Suggestions for Addressing The Length Of Time It Takes To Complete the Peer Review Process (2011 PROC Annual Report Item) (**Nancy Corrigan**).
- XI. Future Agenda Items (**April Freeman**).
- XII. Public Comment for Items Not on the Agenda.
- XIII. Adjournment.

Please note: Action may be taken on any item on the agenda. All times are approximate. In accordance with the Bagley-Keene Open Meetings 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. (Government Code sections 11125, 11125.7(a).) 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 April Freeman at (916) 561-1720, or by email at afreeman@cba.ca.gov, or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

April Freeman, Peer Review Analyst
(916) 561-1720 or afreeman@cba.ca.gov
California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

An electronic copy of this agenda can be found at <http://www.dca.ca.gov/cba/calendar.shtml>.



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PROC Item II.A.
June 15, 2012

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

**MINUTES OF THE
April 20, 2012
PROC MEETING**

Hilton Los Angeles North/Glendale
100 W. Glenoaks Boulevard
Glendale, CA 91202
Telephone: (818) 551-4005

PROC Members:

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

Staff and Legal Counsel:

Rafael Ixta, Chief, Enforcement Division
April Freeman, Peer Review Analyst

Other Participants:

Linda McCrone, California Society of Certified Public Accountants (CalCPA)
Hal Schultz, CalCPA
Jim Brackens, American Institute of Certified Public Accountants (AICPA)

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 9:32 a.m.

II. Report of the Committee Chair.

A. Approval of February 10, 2012 Minutes.

Ms. Corrigan asked members if they had any changes or corrections to the minutes of the February 10, 2012 PROC meeting. Ms. Corrigan asked that a statement be added to Item VII to clarify that member appointment forms would be mailed to members in addition to being available to them in the meeting materials.

It was motioned by Katherine Allanson, seconded by Robert Lee, and unanimously carried by those present to adopt the minutes of the February 10, 2012 PROC meeting with revisions.

B. Report on the March 22-23, 2012 CBA Meeting.

Ms. Corrigan stated that her report to the CBA included highlights from the January 20, 2012 AICPA Peer Review Board meeting; however, the focus was the presentation of the 2011 PROC Annual Report. The CBA deemed the report well done and requested a press release documenting the early accomplishments of the PROC. She added that the recommendation that the CBA assign an appropriate record retention period for report acceptance body (RAB) meeting materials has been assigned to the Committee on Professional Conduct (CPC). The CPC will address the issue at its May 24, 2012 meeting.

C. Report on Conflicts of Interest Issue.

Ms. Corrigan reported that the remaining conflict of interest questions have been answered by the Department of Consumer Affairs' (DCA) Legal Office. She advised the CBA of the resolution of this issue during her report at the March 22-23, 2012 CBA meeting.

Rafael Ixta suggested adding all of the conflict of interest questions and answers to the PROC Procedure Manual. Katherine Allanson suggested it also be captured in the 2012 PROC Annual Report as an accomplishment.

III. Reports and Status of Peer Review Initial Implementation.

A. Statistics of Licensees Who Have Reported Their Peer Review Information to the CBA.

April Freeman reported that as of March 27, 2012, over 34,000 peer review reporting forms have been submitted to the CBA. The reporting forms are categorized as follows:

Licenses Ending in 01-33

Peer Review Required	2,210
Peer Review Not Required (firms)	4,206
Peer Review Not Applicable (non-firms)	15,377

Licenses Ending in 34-66

Peer Review Required	896
Peer Review Not Required (firms)	2,527
Peer Review Not Applicable (non-firms)	9,346

Gary Bong requested clarification on firms that might fall through the cracks and asked if CBA is looking at the whole licensee population. Mr. Ixta explained that the staff is looking at the entire licensee population and is also verifying the information on a percentage of Peer Review Reporting Forms.

Seid Sadat raised the issue of the disconnect between the renewal process and the submission of reporting forms. Both Mr. Sadat and Mr. Bong believe that the public should have access to peer review information, including whether a firm is subject to peer review and the date of their last peer review.

Mr. Ixta reminded members that the CBA has approved proposed regulations that will require reporting forms be submitted at the time of renewal beginning in 2014. He added that due to the transition to the Breeze system, DCA has placed a moratorium on modifying existing databases and creating new databases. This prevents CBA from modifying the current licensing database to capture peer review information.

Ms. Corrigan requested that the issue of making peer review information available to the public be formally raised to the CBA. Mr. Ixta stated that staff would research the issue and bring it back to the PROC prior to raising it to the CBA.

B. Status of Correspondence to Licensees Regarding Peer Review Reporting and Updates to License Renewal Application.

Ms. Freeman reminded members that on January 27, 2012, 10,545 reminder letters were mailed to licensees who are required to report peer review information by July 1, 2012. She added that in May, staff will begin preparing the notification letters for the third group of licensees that are due to report by July 1, 2013.

C. Status of PROC Roles and Responsibilities Activity Tracking.

Ms. Freeman stated that the chart has been updated to capture recently attended activities and upcoming events, including the peer reviewer training courses.

Ms. Corrigan called attention to the AICPA Peer Review Board meeting that is scheduled for May 8, 2012. This event will be added to the PROC calendar and the activity tracking chart.

D. Discussion of UPDATE Articles Regarding Peer Review.

Ms. Freeman advised members that four articles concerning peer review have been submitted for the next edition of UPDATE. The articles include the following subjects: reporting form verification process, citations issued for non-response to CBA inquiries, the importance of reading CBA correspondence, and the benefits of peer review to consumers. She added that the articles are still being reviewed by management and the DCA Legal Office.

E. Discussion Regarding Appeals Received by Licensees Cited for Failing to Respond to Peer Review Notification Letters.

Ms. Freeman reminded members that 872 citations were issued in February 2012 to licensees who failed to respond to CBA inquiries concerning peer review. She explained the appeal process and indicated that approximately 500 appeals had been received. The majority of appeals were based on the licensee's misunderstanding of the reporting requirements, not receiving the notifications, and confusing the CBA with the CalCPA.

Mr. Ixta reminded members that the citations were not issued for failing to submit the reporting form, but rather for failing to respond to the CBA's letters.

IV. Discussion of the National Peer Review Committee (NPRC).

A. Discussion Regarding the National Association of State Boards of Accountancy's (NASBA) Report on Oversight of the NPRC.

Mr. Ixta discussed NASBA's Compliance Assurance Committee (CAC) Report on the AICPA NPRC, dated February 25, 2012. California firms that are SEC issuers are peer reviewed by the NPRC. Recently, NASBA has established a process to provide oversight to the NPRC. The oversight process includes: (1) having two NASBA representatives on the NPRC which report back to the CAC, (2) reviewing NPRC's oversight report, and (3) having an independent third party provide an administrative oversight report.

Mr. Ixta reiterated that the PROC is legislatively mandated to provide oversight to any organization administering peer reviews to California firms. The PROC is responsible for determining if NASBA's oversight process is sufficient.

B. Presentation by AICPA Regarding the NPRC.

Jim Brackens explained that the NPRC administers peer reviews for firms that are required to be registered with and inspected by the Public Company Accounting Oversight Board. Large, multi-state firms also sometimes volunteer to be reviewed by the NPRC. He discussed the different set of professional standards for audit issuers used by the NPRC and stated that the AICPA has always been concerned with oversight of all administering entities.

Mr. Brackens explained various aspects of NPRC oversight, including:

- The overlap in membership between the AICPA Peer Review Board (PRB) and the NPRC;
- The Chair of the NPRC attends both the closed and open sessions of the AICPA PRB to be accountable to AICPA and state boards;
- The AICPA PRB performs the oversight on NPRC (whereas other administering entities' oversight is performed by the Oversight Task Force);
- The AICPA PRB engages a third-party firm to perform an administrative review of NPRC's processes;
- The availability of the NPRC's annual oversight report;
- The members of the CAC and PRB meet separately once a year to determine if the NPRC is working effectively.
- NPRC oversights 8-10% of peer review reports, which is higher than the 2% of reports reviewed by state societies.
- NPRC oversights the same percentage of peer reviewers as the state societies, but only oversight NPRC-only reviewers. Resumes of peer reviewers who do both NPRC and state society reviews are reviewed by the state society.

Mr. Brackens explained that the CAC is a committee of NASBA and that the Chair is usually a member of NASBA's Board of Directors. All other committee members are current or former state board members. Their current initiative is to get all states to

have a PROC, but also provide oversight to the NPRC, review peer review exposure drafts, and weigh in on policy issues. He suggested inviting Janice Gray, the Chair of the CAC, to a future PROC meeting to give more detailed information about the CAC.

Mr. Brackens distributed and explained statistical data on the NPRC. He stated pass rates are higher because the larger firms have a more robust system of control, and also because they are subject to SEC rules which are stricter than AICPA.

Mr. Brackens explained that the report acceptance process is the same, but can take much longer. The peer review team can be up to 50 members and take seven months or longer to do the field work. Depending on the size of the firm, an NPRC panel will approve a plan of action and oversee the entire peer review.

Mr. Bong questioned whether smaller firms are held to a higher standard than larger firms. Mr. Brackens stated that there is no difference in the standards, in fact, peer review teams that review large firms are typically made up of senior managers who are considered experts in their fields and hold their clients to a very high standard. He added that the significance of a finding on an engagement is usually going to be very insignificant as compared to the firm's system of control as a whole.

Ms. Corrigan stated that the PROC has yet to determine what level of oversight to give the NPRC. She indicated that discussions with the Texas state PROC revealed that they do not currently review peer reviews performed by NPRC, although they are considering changing that policy. Texas currently relies on AICPA to oversight the NPRC. A discussion with Nevada revealed that they do not have an active oversight process.

Members agreed that out-of-state firms should be held to the same peer review standards as California-licensed firms. The PROC agreed to research the following categories to determine what level of oversight is needed for each:

1. Firms peer reviewed by CalCPA;
2. Firms peer reviewed by NPRC;
3. Firms peer reviewed by other AICPA administering entities;
4. Firms peer reviewed by peer review providers other than the AICPA.

Ms. Allanson questioned whether an out-of-state firm is required to provide a copy of their peer review report prior to practicing in California. Mr. Ixta clarified that the individual practicing in California would be required to obtain a Practice Privilege. Robert Lee asked if the holder of a Practice Privilege is required to undergo peer review before practicing in California or if they are subjecting themselves to peer review by practicing in California. Mr. Ixta recommended that staff research this topic and bring it back to a future meeting.

Ms. Allanson questioned how other state's PROCs oversight the NPRC. Mr. Bracken stated that all of them rely on NASBA. He added that no state PROC observes NPRC RAB meetings and that it is not practical to have 55 jurisdictions watching each other. He was not in a position to say whether the AICPA would be open to a state PROC participating in an NPRC RAB meeting.

Ms. Allanson questioned whether the CBA has a representative at NASBA and, if so, could they observe the CAC on the PROC's behalf. She stated that the PROC should encourage CBA participation on the CAC. Staff will find out what, if any, representation the CBA has at NASBA.

V. Report on PROC Activities.

A. Report on the February 16, 2012 Administrative Site Visit at the CalCPA.

Ms. Corrigan reported that she and Sherry McCoy performed an Administrative Site Visit at the CalCPA office. She gave an overview of the visit and advised members that the written summary of the visit is currently with CBA staff for review prior to PROC approval. She stated the visit went very well; there were no exceptions or issues. The visit helped them understand the process.

Ms. McCoy further explained that they reviewed checklists, warning letters, on-site procedures, and files. She stated they also researched how other state societies, such as Texas, perform administrative site visits. She added that it was a lot of work for one day and suggested allocating more time in the future.

Ms. Allanson suggested that as the PROC becomes more familiar with CalCPA's processes, the focus of the administrative visit could rotate from year to year.

B. Report on CalCPA Report Acceptance Body (RAB) Meetings.

T. Ki Lam attended the February 5, 2012 and March 6, 2012 RAB meetings at the CalCPA's San Mateo office and reviewed materials prior to the teleconference. She stated the dialogue was good and the participants were very knowledgeable.

Mr. Bong reported that he was unable to attend the RAB meeting on February 15, 2012, due to medical reasons.

Ms. Corrigan reminded members to let her or CBA staff know if they are unable to attend a scheduled assignment so that another member can be assigned.

C. Assignment of Future PROC Activities.

Ms. Corrigan made/confirmed the following assignments:

- April 26, 2012 CalCPA Peer Review Committee Meeting – Nancy Corrigan & Sherry McCoy
- May 8, 2012 AICPA PRB Meeting – T. Ki Lam & Seid Sadat
- May 17, 2012 2 p.m. CalCPA RAB Meeting – Seid Sadat
- May 23, 2012 CalCPA Peer Reviewer Training – Katherine Allanson (CBA-sponsored) & T. Ki Lam.
- June 27-28, 2012 CalCPA Peer Reviewer Training – Seid Sadat (CBA-sponsored) & Gary Bong
- July 24, 2012 2 p.m. CalCPA RAB Meeting – Katherine Allanson

VI. Discussion Regarding Possible Changes to the PROC's Roles and Responsibilities.

Ms. Corrigan summarized the reviewed roles and responsibilities and asked if members had any comments or questions.

Members discussed the difference between a peer review program provider and an administering entity and decided that the term used in the roles and responsibilities should be broad enough to reference any future providers.

Members discussed the need for attending all peer review board and committee meetings for each provider, and suggested that meetings be attended as needed.

CBA staff was directed to edit the roles and responsibilities and bring a copy showing the edits to the June 15, 2012 PROC meeting.

VII. Discussion of Title 16 California Code of Regulations Section 40(b) Regarding Peer Review Due Dates.

Mr. Ixta reminded members that Linda McCrone distributed information at the February meeting outlining the rules that the AICPA uses to determine the peer review due dates for firms that have undergone a change in firm structure.

Mr. Ixta explained that Title 16, California Code of Regulations, Section 40(b) clearly states that firms licensed after January 1, 2010 are required to have a peer review accepted within 18 months of completion of their first accounting and auditing engagement. Even in the case of firm mergers, dissolutions, etc., the CBA bases the peer review due date on the license number. This means that if a firm splits, the new firm must obtain a new license number and have a peer review accepted within 18 month of completion of services. The firm that keeps the existing license number remains on the same peer review schedule. Mr. Ixta clarified that it is the firm's decision as to which firm keeps the existing license number and which firm applies for a new license number.

Ms. Allanson questioned if the CBA could consider using the rules that AICPA uses to determine peer review due dates. She added that the purpose of peer review is to protect the consumer, and right now there is an added burden to firms that have a structural change. Mr. Sadat felt that firms considering changes in firm structure should take peer review due dates into account prior to making changes. Mr. Bong stated that the possibility of having a second peer review in less than three years is just the cost of doing business and that most new firms would want a new peer review. Mr. Brackens added that most state boards defer the issue to their AICPA administering entity.

Ms. McCrone explained that the average peer review takes about six months to complete and that a peer review must cover an entire year. This means that new firms cannot always have a peer review report accepted within 18 months of the completion of their first accounting and auditing engagement. The AICPA rules state that new firms must have a peer review submitted, not accepted, within 18 months of the year-end of their first engagement. Ms. McCrone added that firms are extremely confused by the inconsistent policies.

Mr. Ixta stated that the PROC has the option of recommending modifying regulations to address the following two issues: (1) does a firm need 24 months, instead of 18 months, to get their first peer review accepted, and (2) should there be any exceptions of the 18-month rule for firms undergoing a change in firm structure.

VIII. Future Agenda Items.

Agenda items for future meetings:

- Publicizing peer review information
- Discussion of 18-month rule, mergers and dissolutions (CCR Section 40)
- Follow-up on 2011 PROC Annual Report recommendations
- Continued discussion of oversight of the NPRC and other administering entities
- Information on practice privilege peer review requirements
- Written summary of administrative site visit
- Edited roles and responsibilities of PROC

IX. Public Comment for Items Not on the Agenda.

Mr. Brackens advised members that the January 2013 AICPA Peer Review Board meeting will be held in San Diego.

X. Adjournment.

There being no further business, the meeting was adjourned at 2:00 p.m.

Nancy J. Corrigan, Chair

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



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PROC Item II.C.
June 15, 2012

**Discussion and Possible Action to Recommend to CBA
the Appointment of a Committee Person as Vice Chair for PROC**

Presented by: Nancy J. Corrigan, PROC Chair
Date: June 5, 2012

Purpose of the Item

The purpose of this agenda item is to discuss establishing a Vice Chair position for the Peer Review Oversight Committee (PROC).

Action(s) Needed

PROC members interested in being appointed to Vice Chair should express their interest to the PROC Chair. Members may also nominate other committee members.

Background

At the May 24-25, 2012 meeting, the California Board of Accountancy (CBA) recommended that the PROC establish a Vice Chair position. Establishing a Vice Chair will assist with succession planning, and also establish a process for someone to act as the PROC chair in their absence.

The CBA also voted to modify the re-appointment terms of current PROC members to one year. This was done in order to bring the PROC reappointment time in line with the other CBA statutory committees, the Enforcement Advisory Committee and Qualifications committee. After this year, all PROC appointments will be for two years.

Comments

The PROC Chair will take all interested and nominated members into consideration and consult with the CBA Vice President on appointment. If any PROC members are interested in serving as the Vice Chair, they are requested to inform the PROC Chair in writing by June 29, 2012. The CBA Vice President will make a recommendation for appointment at the July 26, 2012 CBA meeting.

Recommendation

None

Attachment

None



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PROC Item III.F.
June 15, 2012

Assignment of Future PROC Activities

Presented by: Nancy J. Corrigan, PROC Chair

Date: May 10, 2012

Purpose of the Item

The purpose of this agenda item is to assign members to specific oversight activities.

Action(s) Needed

It is requested that all members bring their calendars to the meeting and be prepared to accept assignments.

Background

None

Comments

The PROC's 2012 Year-at-a-Glance calendar (**Attached**) includes meetings and activities that are currently scheduled for the following:

- CBA
- PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board
- California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body
- CalCPA Administrative Site Visit
- CalCPA Peer Review Committee
- CalCPA Peer Reviewer Training

Recommendation

It is recommended that members continue to use the calendar as a resource when being assigned to participate in meetings and activities held by the AICPA and CalCPA.

Attachment

2012 Year-at-a-Glance CBA PROC Calendar, updated May 9, 2012.

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)
2012 Year-at-a-Glance Calendar**
(as of May 9, 2012)

JANUARY 2012

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

FEBRUARY 2012

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

MARCH 2012

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

APRIL 2012

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

MAY 2012

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

JUNE 2012

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

JULY 2012

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

AUGUST 2012

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

SEPTEMBER 2012

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

OCTOBER 2012

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

NOVEMBER 2012









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

DECEMBER 2012

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

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

- GENERAL LOCATION**
- NC** - NORTHERN CALIFORNIA
 - SC** - SOUTHERN CALIFORNIA
 - SJ** - SAN JOSE
 - SM** - SAN MATEO
 - OC** - ORANGE COUNTY
 - SAC** - SACRAMENTO
 - LA** - LOS ANGELES
 - T** - TELECONFERENCE

-  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



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PROC Item IV.
June 15, 2012

Discussion Regarding the National Peer Review Committee

Presented by: Rafael Ixta, Enforcement Chief

Date: May 22, 2012

Purpose of the Item

The purpose of this agenda item is to provide members with information regarding the National Peer Review Committee (NPRC).

Action(s) Needed

No specific action is required on this agenda item.

Background

The NPRC is one of the forty two Administering Entities (AEs) of the American Institute of Certified Public Accountants (AICPA) Peer Review Program (AICPA PRP). The NPRC administers the AICPA PRP for AICPA firms (and individuals) meeting certain criteria, specifically when the firm is required to be registered and inspected by the Public Company Accounting Oversight Board (PCAOB), and/or the firm performs audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB. Firms that are not required to have their peer review administered by the NPRC may choose to have the NPRC conduct its peer review. The NPRC only administers peer reviews of AICPA firms (and individuals) in which at least one partner is a member of the AICPA.

Firms subject to peer review by the NPRC are located in every state. To provide transparency in the operations of the NPRC such that individual state boards of accountancy and their Peer Review Oversight Committees (PROCs) may rely on the effectiveness of the NPRC, the National Association of State Boards of Accountancy (NASBA) and the AICPA developed a process by which the activities of the NPRC may be monitored and reports issued.

In 2009, an agreement was reached between NASBA and the AICPA to provide a mechanism by which the operation of AICPA's NPRC could be monitored by NASBA's Compliance Assurance Committee (CAC).

By agreement, two committee member positions on the NPRC are designated to be filled by NASBA representatives. Currently two former state board members sit in these positions on the NPRC. The members are selected from a list of qualified individuals

recommended by NASBA. The individuals serve on the NPRC as fully-participating members with full voting rights and the same responsibilities as other NPRC members.

Those NPRC members representing NASBA report periodically to NASBA's CAC as to whether:

- The NPRC is complying with the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) and other Guidance issued by the AICPA Peer Review Board and the NPRC;
- The NPRC has an appropriate oversight process in place for the reviews it administers and its peer reviewers;
- Results of the oversight process are transparent;
- Reviews are being conducted and reported upon in accordance with the Standards;
- Results of reviews are being evaluated on a consistent basis;
- The AICPA Peer Review Program is achieving its objectives based on the administration by the NPRC; and
- Comments, suggestions and other input from these two members are given full consideration as other such matters would be from any NPRC members.

On February 23, 2012, the chair of NASBA's CAC, Ms. Janice Gray, issued the first annual monitoring report of the NPRC by the CAC (**Attachment 1**) concluding that the NPRC operated appropriately for the period of November 1, 2010 to October 31, 2011. The CAC's report references the NPRC's 2010 Annual Report on Oversight (**Attachment 2**) and the administrative oversight report issued by Regier Carr & Monroe, LLP (**Attachment 3**). The AICPA responded to the administrative oversight report in a letter dated February 2, 2011 (**Attachment 4**).

Comments

Ms. Gray will be present at the June 15, 2012 PROC meeting to provide additional details and answer questions regarding the process by which the CAC monitors the NPRC.

Recommendation

None

Attachments

1. National Association of State Boards of Accountancy Compliance Assurance Committee Report on the American Institute of CPA's National Peer Review Committee, with February 23, 2012 cover letter from Janice Gray, Chair, NASBA Compliance Assurance Committee.
2. AICPA Peer Review Program 2010 Annual Report on Oversight for the National Peer Review Committee, Issued September 14, 2011.
3. Letter from Regier Carr & Monroe, LLP, dated December 10, 2010, regarding the Administrative Oversight Visit to the National Peer Review Committee.
4. Letter from the AICPA Peer Review Program, dated February 2, 2011, to the Oversight Taskforce of the National Peer Review Oversight Committee

NASBA

National Association of State Boards of Accountancy

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February 23, 2012

Dear Members of the 55 State Boards of Accountancy and
the respective Peer Review Oversight Committees:

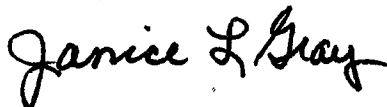
Enclosed is the first annual monitoring report of the National Peer Review Committee (NPRC) of the American Institute of CPAs (AICPA) by the NASBA Compliance Assurance Committee (CAC).

In 2009, an agreement was reached between NASBA and the AICPA to provide a mechanism by which the operations of the NPRC could be monitored and reported on by the CAC. We are pleased to provide you with our first report.

For more information about the NPRC, refer to the NPRC website at <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/COMMUNITY/NATIONALPRC/Pages/NationalPeerReviewCommittee.aspx>. This site includes the 2010 Oversight Report, which was approved by the NPRC in September 2011.

I am happy to discuss this matter further with you. I can be reached at (405) 360-5533.

Sincerely,



Janice Gray, CPA, CVA, CFF
Chair, NASBA Compliance Assurance Committee

NASBA Compliance Assurance Committee Report on the AICPA National Peer Review Committee

The American Institute of CPAs (AICPA) National Peer Review Committee (NPRC) administers peer reviews for (i) all firms who serve SEC issuer clients and, accordingly, are required to be registered with and inspected by the Public Company Accounting Oversight Board, and (ii) other firms who elect to have their peer review administered by the NPRC. The NPRC has firms that are located in every state. These are firms that provide audit services and assurance services. To provide transparency in the operations of the NPRC such that individual state boards of accountancy and their peer review oversight committees (PROCs) may rely on the effectiveness of the NPRC, NASBA and the AICPA developed a process by which the activities of the NPRC may be monitored and reports issued.

By agreement, two spots on the NPRC are designated to be filled by NASBA representatives. Currently two former state board members sit in these positions on the NPRC. The members are selected from a list of qualified individuals recommended by NASBA. The individuals serve on the NPRC as fully-participating members with full voting rights and the same responsibilities as other NPRC members.

Those NPRC members representing NASBA report periodically to NASBA's Compliance Assurance Committee (CAC) as to whether:

- The NPRC is complying with the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) and other Guidance issued by the AICPA Peer Review Board and the NPRC;
- The NPRC has an appropriate oversight process in place for the reviews it administers and its peer reviewers;
- Results of the oversight process are transparent;
- Reviews are being conducted and reported upon in accordance with the Standards;
- Results of reviews are being evaluated on a consistent basis;
- The AICPA Peer Review Program is achieving its objectives based on the administration by the NPRC; and
- Comments, suggestions and other input from these two members are given full consideration as other such matters would be from any NPRC members.

Based on our discussions with our representatives on the NPRC, as well as reviewing the comprehensive oversight report prepared by the NPRC and the administrative oversight report issued by a third party, we are satisfied and can report that the NPRC has operated appropriately for the period of November 1, 2010 – October 31, 2011.

Janice L. Gray, CPA, CVA, CFF
Chair, NASBA Compliance Assurance Committee
February 25, 2012



Peer Review Program

National Peer Review Committee

2010 Annual Report on Oversight

Issued September 14, 2011

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Introduction and Purpose

The National Peer Review Committee (National PRC) is one of the forty two Administering Entities (AEs) of the AICPA Peer Review Program (AICPA PRP). It administers the AICPA PRP for AICPA firms (and individuals) meeting certain criteria, specifically when the firm is required to be registered and inspected by the Public Company Accounting Oversight Board (PCAOB), and/or the firm performs audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB. Firms that are not required to have their review administered by the National PRC may choose to do so. The National PRC, unlike some other AEs of the AICPA PRP, does not administer any peer review programs other than the AICPA PRP. Therefore, the National PRC only administers peer reviews of AICPA firms (and individuals) in which at least one partner is a member of the AICPA.

This Report on Oversight is intended to provide statistics and information about the National PRC's 2010 and 2009 oversight years, which are more fully discussed in the following text, but also discusses the history, background, composition, and procedures of the National PRC as they differ substantially from those of the other forty one AEs.

Scope

Statistical information presented in this report is determined by the actual date of the peer review, that is, when the peer review was performed. Oversight procedures are to be performed and results reported on a calendar year. All statistical information is presented to provide an understanding of the National PRC individually and as a part of the AICPA PRP. The results of the peer reviews administered for the calendar years 2010 and 2009, the first years the National PRC operated under the AICPA PRP's standards and guidance, are presented to aid understanding.

This report presents information and data related to the firms administered by the National PRC only. Any other data provided, including that presented for the AICPA PRP as a whole, is for comparative purposes only.

For more information on the AICPA PRP as a whole, including the AICPA PRP's Annual Report on Oversight (Annual Report), go to www.aicpa.org/INTERESTAREAS/PEERREVIEW/RESOURCES/TRANSPARENCY/Pages/default.aspx. The Annual Report provides further background information on the AICPA PRP, including an overview of the AICPA PRP, definitions of terminology used in this report (such as *system* and *engagement review*; *pass*, *pass with deficiency*, and *fail reports*; and *engagements not being performed and/or reported in accordance with professional standards in all material respects*), and a further understanding of an AE's responsibilities to perform oversight on their procedures.

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, which 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. Deficiencies identified within firms through this process are then corrected. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether 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 Peer Review Program and the CPCAF Peer Review Program) were now only peer reviewing non-SEC issuer practices, it was determined that the programs could be merged into one and have one set of peer review standards for all firms subject to peer review. In October 2007, the PRB approved revised Standards for Performing and Reporting on Peer Reviews 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 is now 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. 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 an AE.

The National PRC has the responsibility to oversee all of the functions of an AE, including the entire peer review process for firms' peer reviews subject to its administration. The peer review process includes administration, acceptance of reviews, resolving reviewed firm/peer reviewer issues and oversight of the process. In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually, as well as submit a plan of administration (POA) and an annual request to administer AICPA PRP peer reviews. Oversight procedures performed by the AEs in accordance with the AICPA Peer Review Program Oversight Handbook include the following procedures:

- Oversight of various reviews, based upon reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. (See the "Oversight of the Peer Reviews and Reviewers" section that follows).
- Verification of reviewers' resumes. (See the "Annual Verification of Reviewers' Resumes" section that follows).

- Administrative oversight, which encompasses the National PRC's administrative functions and select technical functions. (See the "Administrative Oversight" section that follows).

Oversight of the peer review process is intended to provide reasonable assurance that peer reviews are being performed and reported on in accordance with the applicable peer review standards and to promote consistency among reviewers. It is this oversight of the peer review process that is the focus of this report.

Members of the National PRC

The National PRC is comprised of between fifteen to seventeen members who are public practitioners, two of whom represent state boards of accountancy recommended by the National Association of State Boards of Accountancy. Some of these members may also be members of the PRB, although it is not required. The largest four firms 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 consists of the Senior Vice President, Public Practice and Global Affairs; Vice President, Ethics and Practice Quality; Directors; and an appropriate number of qualified senior technical managers, technical 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, including the AICPA PRP. The National PRC is supported by all the AICPA peer review program staff.

Firms Administered by the National PRC

Firms whose peer reviews are administered by the National PRC range from sole practitioners to the largest CPA firms (see the following table). However, all the larger firms (over 300 personnel) in the AICPA PRP are administered by the National PRC. These larger firms typically have extensive audit and accounting practices that demand a greater internal investment of resources devoted to the quality control function. This positions these firms to develop more rigorous internal quality control systems. In addition, many of these firms are subject to additional regulatory oversight by the PCAOB, the Department of Labor, and others.

Number of Administered/Enrolled Firms by Number of Personnel¹ as of November 1, 2010

Firm Size (by # of personnel ¹)	Administered by National PRC		² Enrolled in AICPA Peer Review Program	
	# of Firms	% of Total	# of Firms	% of Total
Sole Practitioners	25	3.44%	9,704	33.17%
2 to 5	75	10.32%	11,921	40.75%
6 to 10	80	11.00%	4,159	14.22%
11 to 19	102	14.03%	1,852	6.33%
20 to 49	179	24.62%	1,105	3.78%
50 to 99	129	17.74%	333	1.14%
100 to 199	82	11.28%	116	.41%
200 to 299	17	2.34%	23	.08%
300 to 399	10	1.38%	10	.03%
400 to 999	11	1.51%	11	.04%
1,000 to 9,999	13	1.79%	13	.04%
10,000 +	4	.55%	4	.01%
Total Enrolled Firms	727	100.00%	29,251	100.00%

Due to the variety of firm sizes administered by the National PRC, some of the reviews occur over one day and others over a number of months. Some of the reviews are performed by only a team captain, whereas others may also involve office captains and as many as 50 or more team members. Firms whose reviews are administered by the National PRC cover 55 licensing jurisdictions, each of which may have different practice monitoring requirements. Further, some firms are multistate, which means that the review may be performed in several states at the same or different times. As a result of these and other related circumstances of the member firms that are administered, these peer reviews are diverse and complex, encounter different risks, and include firms subject to close scrutiny by various regulators.

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.

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 to determine whether peer review resources are appropriately matched to peer review firms needing them.

¹ Personnel is defined per Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control*, (AICPA, *Professional Standards*, QC sec. 10), as "all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs." This would include all personnel performing audits, reviews, compilations, or other attest engagements; those professionals who have partner or manager level responsibility for the overall supervision or review of such engagements; and leased and per diem employees who devote at least 25 percent of their time in performing such engagements.

² At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

Firms to be peer reviewed receive background and scheduling information 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 exit conference. Once this information is received, it is entered into the peer review computer system and validations related to peer reviewer qualifications and other data are performed. Any issues identified through this process are addressed by staff with the firm or team, or both, or review captain until issues are resolved. A scheduling verification is sent to the firm and the team captain upon completion of the scheduling process. Staff evaluates background and scheduling information received to determine fit with oversight strategies, in general. Panel assignments (see the "Use of Panels" section that follows) for large firms, if necessary, are determined and participation requested. Peer reviews are then monitored for timely submission of peer review documents. The results of this monitoring are reported periodically to both the Oversight Task Force of the National PRC and the full National PRC.

Upon receipt of the peer review working papers from the team or review captain, they are assigned to a technical manager on a first in, first out order, adjusted by risk (reports having other than a pass rating or other circumstances). 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. This includes review of a summary review memorandum describing the major aspects of the review, engagement checklists, quality control checklists (and documents, if available), focus group/staff interviews, and other working papers. This also includes review of A-133 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 manager's role is to anticipate questions from the Report Acceptance Body (RAB) of the National PRC, seek answers from the team or review captain or firm, or both; address issues or problems; and consult with staff, consultants, and others in advance of RAB presentation. The technical reviewer must advise the RAB of significant matters related to the review, provide certain working papers for the RAB's review, and recommend 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" (or "modified" or "adverse" under the former standards), are subject to a concurring review. The concurring review is performed by technical staff independent of the technical review. The technical and concurring reviews cover a majority of the items reviewed during desk reviews generally conducted by the AICPA.

The National PRC as a whole serves as the RAB for the peer reviews of firms meeting certain criteria. However, the majority of peer reviews are presented via semimonthly conference calls to smaller RABs, typically comprising approximately five National PRC members (excluding the National PRC chair and the PRB chair if also on the National PRC, due to their other peer review responsibilities), including a RAB chair. The technical reviewer having 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. Approximately three to five days 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, including open items that may delay acceptance, and recommendations
- The peer review report
- Finding for Further Consideration (FFC) forms, if applicable
- The letter of response, if applicable
- Matter for Further Consideration forms, if necessary
- Prior peer review report, letter of comment, or letter of response, if necessary

The RAB member responsible for presenting each peer review then has 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 performs the oversight process 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*. Along with the full National PRC, it determines that 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.
- 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.
- 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.
- coordinates and assists with the PRB's oversight of the National PRC's administrative functions.
- provides reports on its activities to the PRB.

On-Site Oversight

Annually, oversight is performed on a sample of peer reviews meeting one or more of a number of risk-based criteria. The risk-based criteria are developed and/or reevaluated annually by the OTF. Currently, approximately 25 risk-based criteria exist that firms and team/review captains are evaluated for 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 criteria that, if met, result in mandatory oversight of the peer review. Currently, mandatory review includes firms with over 400 accounting and auditing personnel¹ and those having received a report grade of fail (or adverse) in their last peer review.

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

Oversight is predominately 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 checklist completed by the peer review team; interviews/discussions with team members to assess their qualifications and whether they understand their procedures; 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 workpapers is also performed by the individual who performed the oversight. The oversight and technical review processes complement and support each other.

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.

<u>Type</u>	<u>National PRC Oversights Conducted</u>	
	<u>2010</u>	<u>2009</u>
On-site by panel (see following section) or presented to full committee	10	3
Other on-site	11	15
Off-site	1	4
Total	<u>22</u>	<u>22</u>
% of peer reviews conducted during year	10%	8%

These oversights afforded contact with peer review teams ranging from 1–50 peer reviewers and a number of accounting personnel with the firms themselves. Through the 44 oversights conducted in the past two years, National PRC staff and committee members interacted with 41 peer reviewers serving in the capacity of team captain. These 41 team captains served in that role in approximately 166 of the 430 reviews administered by the National PRC during 2009 and 2010. During this process, the oversight team provides ongoing formal and informal feedback as a part of the ongoing exchange between AICPA staff and peer reviewers. Although these interactions were generally positive, the opportunity is taken, when warranted, to issue formal feedback in an attempt to educate and remediate future peer review performance.

As previously described, and in the National PRC's POA submitted to and approved by the PRB, on-site oversight of engagement reviews was not deemed necessary due to the small proportion of engagement reviews performed and due to the full working paper reviews already performed on all reviews submitted.

Use of Panels

A panel of at least three members of the National PRC oversees the peer reviews of firms that meet certain criteria and other reviews when deemed appropriate. In addition, panels are assigned to other reviews by the National PRC, its chair, or a RAB when appropriate in other circumstances. When assigned, a determination may be made that the review is also required to be presented to the full National PRC for acceptance. Reviews that have oversight panels assigned to them may also undergo oversight by National PRC technical staff.

Panel members are appointed by the National PRC, its chair, the OTF, or a RAB, 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 participates in calls or meetings, or both, to understand and provide feedback on the planning, interim, and final phases of the peer review, including panel chair participation at the exit conference. The scope of the peer review is ordinarily approved by the panel prior to the review's commencement. The panel also considers the appropriateness of the review team's conclusions and may consult with the review team and/or the reviewed firm concerning matters resulting from the review. The panel orally reports to the National PRC at its meetings to provide updates on the status of the review. 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.

Annual Verification of Reviewers' Resumes

Determining that reviewers' resumes are updated annually and are accurate is a critical element in appropriately matching them to peer review firms needing them. Verification must include the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards, audits of employee benefit plans under the Employee Retirement Income Security Act (ERISA), and audits of insured depository institutions subject to the FDIC Improvement Act of 1991. 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) attendance 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.

AEs are required to verify this information within a sample of reviewers' resumes on an annual basis, such that all should be verified over a three-year period (at least one-third per year). During 2010 and 2009, the National PRC was required to verify the resumes of those peer reviewers performing exclusively National PRC reviews in the capacity of team captain, review captain, or team member.

<u>Disposition</u>	<u>2010</u>	<u>2009</u>
Suspended for noncooperation with verification process	6	1
Voluntarily removed/became inactive	14	1
Verified	46	58
Total	<u>66</u>	<u>60</u>
% of peer reviewers performing exclusively National PRC peer reviews	39%	35%

In both years, the process resulted in several minor modifications to reviewers' resumes but these modifications were relatively insignificant in impact. None of these modifications or actions affected peer reviews performed previously by the reviewers.

Peer Reviewer Performance

Staff utilizes the peer review computer system and various spreadsheets to monitor the status of reviews, enrolled firms, and peer reviewer performance. Difficulties encountered with reviews, enrolled firms, and peer reviewers are discussed during weekly staff meetings, as well as with the Director, 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 similar errors are not made on reviews performed in the future. As previously noted, 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 forms were issued as a result of technical review which included, but were not limited to, issues noted related to documentation, underdeveloped risk assessments, low scope, failure to consult, and inappropriate disposition of findings.

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.

Results of Firm Peer Reviews

As provided for in the *Standards for Performing and Reporting on Peer Reviews*, firms can receive a rating of pass, pass with deficiency(ies), or fail. In a system review, this rating relates to whether or not the firm's system of quality control has been suitably designed and complied

with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In an engagement review, this rating relates to whether or not the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2010

	National PRC ^{3,4}		AICPA Peer Review Program ⁵	
	Number	% of Subtotal	Number	% of Subtotal
System Reviews:				
Pass	220	97.35%	3421	89.32%
Pass with deficiencies	6	2.65%	320	8.36%
Fail	0	- %	89	2.32%
Subtotal – System	226	100.00%	3830	100.00%
Engagement Reviews:				
Pass	2	100.00%	4704	91.30%
Pass with deficiencies	0	- %	397	7.71%
Fail	0	- %	51	0.99%
Subtotal – Engagement	2	100.00%	5152	100.00%

Results, by Type and Report Issued, of Peer Reviews Performed during the Year 2009

	National PRC ^{3,6}		AICPA Peer Review Program ⁵	
	Number	% of Subtotal	Number	% of Subtotal
System Reviews:				
Pass	189	94.03%	3989	88.33%
Pass with deficiencies	8	3.98%	438	9.70%
Fail	4	1.99%	90	1.97%
Subtotal – System	201	100.00%	4517	100.00%
Engagement Reviews:				
Pass	4	100.00%	4166	90.53%
Pass with deficiencies	0	- %	387	8.41%
Fail	0	- %	49	1.06%
Subtotal – Engagement	4	100.00%	4602	100.00%

The number of peer review reports issued for National PRC and AICPA PRP is significantly less than the number of firms “administered by the National PRC” and the number of firms “enrolled

³ Data as of June 10, 2011.

⁴ Includes 9 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 16 underway and 4 pending commencement and are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

⁵ Data as of September 8, 2011.

⁶ Includes 5 National Peer Review Committee reviews which have been accepted but are not complete due to open corrective actions. Incomplete reviews include 2 underway which are not included in the preceding totals. The ultimate results of these reviews may affect these statistics.

in the AICPA PRP” presented earlier in this report. Administered or enrolled firms represent the total number of firms that have peer reviews, but peer reviews are due only every three years. Therefore, the number of peer reviews performed during any annual period will be approximately one-third of the number of administered or enrolled firms, depending upon timing (some peer review years being “heavier” than others).

As discussed earlier in this report, National PRC firms generally are larger firms that typically have extensive audit and accounting practices. Therefore, engagement reviews represent a very small part of National PRC’s administered reviews. Further, as previously discussed, larger firms typically are more heavily regulated, necessitating more developed internal quality control systems and more resources devoted to this function. Therefore, the National PRC administers fewer peer reviews in which a report other than pass is issued by the nature of its firm population.

Number and Reasons for Deficiencies in the Year 2010

	National PRC ^{3,4}	AICPA Peer Review Program ⁵
Leadership responsibilities for quality within the firm	0	35
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	0	12
Engagement performance	5	318
Human resources	0	86
Acceptance and continuance of client relationships and specific engagements	0	23
Monitoring	1	169
Totals	6	643

Number and Reasons for Deficiencies in the Year 2009

	National PRC ^{6,7}	AICPA Peer Review Program ⁸
Leadership responsibilities for quality within the firm	0	28
Relevant ethical requirements (for example, independence, integrity, objectivity, concern for the public interest)	0	13
Engagement performance	6	423
Human resources	2	98
Acceptance and continuance of client relationships and specific engagements	0	25
Monitoring	3	191
Totals	11	778

The number of deficiencies noted with reports is higher than the number of reports with deficiencies due to reports with multiple deficiencies.

Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards in the Year 2010

Engagement type	National PRC ^{3,4,7}			AICPA Peer Review Program ⁵		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	313	15	5%	1486	174	12%
Audits – Governmental	169	0	-%	1374	126	9%
Audits – ERISA	686	6	1%	1832	104	6%
Audits – FDICIA	42	0	-%	27	0	-%
Audits – Other	1,418	19	1%	4449	208	5%
Reviews	453	0	-%	5571	202	4%
Compilations with disclosures	263	0	-%	3892	92	2%
Compilations without disclosures	335	3	1%	11608	313	3%
Financial forecast and projections	13	0	-%	74	2	3%
Agreed upon procedures	158	0	-%	780	14	2%
Other SSAEs	54	2	4%	305	18	6%
Totals	3,904	45	1%	31398	1253	4%

⁷ Does not include engagements subject to internal inspections and relied upon by peer reviewers to reduce scope as permitted in the peer review standards.

Number of Engagements Not Performed and/or Reported on in Conformity with Applicable Professional Standards in the Year 2009

Engagement type	National PRC ^{6,7,9}			AICPA Peer Review Program ⁸		
	# of Engagements		%	# of Engagements		%
	Reviewed	Not in Conformity		Reviewed	Not in Conformity	
Audits – Single Audit (A133)	161	5	3%	1775	141	8%
Audits – Governmental	108	1	1%	1530	127	8%
Audits – ERISA	293	6	2%	1886	122	6%
Audits – FDICIA	21	0	-%	27	2	7%
Audits – Other	616	7	1%	4921	293	6%
Reviews	335	1	-%	5894	199	3%
Compilations with disclosures	187	0	-%	3966	93	2%
Compilations without disclosures	271	1	-%	11960	364	3%
Financial forecast and projections	9	0	-%	80	1	2%
Agreed upon procedures	98	0	-%	768	15	2%
Other SSAEs	25	0	-%	385	24	6%
Totals	2124	21	1%	33192	1381	4%

When a peer review report other than pass is issued, the firm should respond in writing to the deficiencies or significant deficiencies and related recommendations to indicate what appropriate actions it will take in response. Per the *Standards for Performing and Reporting on Peer Reviews*, the National PRC may require certain remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. During 2010 and 2009, the National PRC required 12 corrective actions in each year of a wide variety, such as agreement to take or submit proof of certain continuing professional education, agreement to preissuance reviews, agreement to hire a consultant for inspections, oversight of inspections via a review, and oversight of inspections via visitation.

The lower rate of report ratings other than pass (discussed previously) lends itself to a lower rate of corrective actions. As noted, a firm may be asked to complete more than one corrective action, so experience rate comparability may be somewhat skewed.

The National PRC strives to achieve the goal of being educational and remedial. To that end, firms are sometimes requested to complete an implementation plan to address findings noted in FFC forms issued as a result of their peer review. Implementation plans requested by the National PRC adhere to the actions allowable by guidance, such as submission of internal inspection reports, etc. At September 8, 2011, the National PRC had requested eight implementation plans on 2010 reviews and seven on 2009 reviews. Although this mechanism is available to all AICPA PRP AEs as indicated in the *Standards for Performing and Reporting on Peer Reviews*, no data was readily available showing how widely it was used by other AEs.

Peer Reviews of Quality Control Materials (QCM)/ CPE

The National PRC is also responsible for the administration of quality control material (QCM) and CPE peer reviews, including acceptance of the resultant peer review reports. QCM peer reviews embody a higher degree of risk from an AE perspective. Because of that heightened risk, QCM peer reviews receive a correlating level of scrutiny, like that given to the larger firm peer reviews. While there is much less risk associated with CPE programs, CPE program peer reviews receive a similar level of scrutiny because the system used to develop QCM and CPE programs are often related. The National PRC created the QCM & CPE Task Force for added involvement in the administration and acceptance process for QCM and CPE program reviews. The task force's involvement includes performing oversight reviews prior to acceptance, developing practice aids, and recommending enhancements to the guidance related to QCM and CPE peer reviews.

Oversight and Acceptance Process

Similar to peer reviews of firms, QCM and CPE peer reviews undergo full working paper technical reviews and concurring reviews. QCM and CPE peer reviews are potentially subject to three differing levels of oversight:

Task Force Oversight

Oversight is performed by a QCM & CPE Task Force member. At a minimum, all QCM and CPE peer reviews are subject to task force oversight. Oversight encompasses reviewing the Team Captain's Checklist, Summary Review Memorandum (SRM), and a sample of the QCM and/or CPE materials opined upon in the report. The task force can judgmentally elect to perform additional oversight procedures as deemed necessary.

Panel Oversight

In certain situations, it may be necessary to assign a panel to a QCM or CPE peer review. When any of the following risk criteria are met, the task force will consider the necessity of assigning a panel to the peer review:

- New publisher or provider
- Peer reviewer performing a QCM or CPE peer review for the first time
- Size of the provider client base
- Materials are for complex or high risk industries
- Judgmental referral (for example, by staff, the task force, or the National PRC) of the team captain or provider for oversight
- Concerns from users or other affected parties

Panels are typically composed of a chair and two other members; members of the QCM & CPE task force are expected to chair the panels. The other panel members can be solicited either from the task force, the National PRC, or the PRB on an as needed basis. The panel will perform the procedures ordinarily covered by a task force oversight, plus review the planning documentation for the peer review prior to the commencement of fieldwork (including the planning portions of the Team Captain's Checklist and SRM). In addition, the panel may elect to review a larger sample of QCM or CPE materials.

Staff On-Site Oversight

Staff will perform an on-site oversight visit during the peer review when deemed necessary by either the task force or a panel. The on-site visit will include observing and reviewing the peer reviewer's procedures to test the functional aspects of the provider's system to develop and maintain QCM and/or CPE programs. Staff on-site oversight is performed in addition to oversight by either the task force or a panel and does not take the place of either. The QCM & CPE task force determined that staff should perform on-site oversight of the functional testing of all QCM peer reviews under the new criteria. Due to the timing of when this criterion was established versus the peer review procedures for these reviews, staff was unable to perform on-site oversight on all 2009 peer reviews. However, that level of oversight will be performed on the next peer review cycle.

During 2010, three QCM/CPE peer reviews were subject to on-site oversight. During 2009, four QCM/CPE peer reviews were subject to oversight. One was conducted by a task force member, two of these were performed on-site by a panel, and one employed a panel and staff on-site.

Once technical, concurring, and oversight reviews are completed, QCM and CPE peer reviews are presented to the full National PRC for acceptance with the task force's recommendation.

Administrative Oversight

A review of the administrative functions of the National PRC was conducted in October 2010, the objective of which was to determine if the National PRC is following the administrative and report acceptance procedures established by the PRB for the AICPA PRP. The review encompassed the National PRC's tenure as an AE of the AICPA PRP by testing the most relevant data available, within applicable limits. The review was performed by a prior CPCAFA peer review committee member, who is familiar with National PRC's policies and procedures and served in the past on the PRB as well as the PRB's OTF. The reviewer is currently neither a member of the National PRC nor the PRB.

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 directed at evaluation of the accumulation of matters for RAB consideration.
- Performance of face-to-face interviews with the administrator and a sample of technical reviewers.

As part of the visit, the reviewer received an Information Sheet documenting policies and procedures in the areas of administration, technical review, and oversight processes employed by the National PRC in administering the AICPA PRP. The reviewer evaluated the Information Sheet, POA, and the National PRC's policies and procedures to develop a risk assessment. A comprehensive oversight work program was utilized by the reviewer in the conduct of the review.

The reviewer has issued a letter to the National Peer Review Committee discussing the purpose and scope of the oversight visit as well as providing observations and recommendations for enhancement. These observations and recommendations are summarized as follows:

- Formalization of documentation pertaining to certain matters, such as issuing formalized noncooperation letters to team captains in the event of a lack of response to questions arising during the technical review process and retention of confidentiality agreements for all National PRC members
- Implementation of a centralized filing system for FFC forms, separate from those documents subject to the 120-day document retention rules so as to allow for easier retention of only those documents required to be retained past 120 days
- Retention of record of letters sent to team captains regarding working paper retention.

The National PRC has evaluated these recommendations, identified policies to address them, and implemented them.

Exhibit A

2009/2010 NATIONAL PEER REVIEW COMMITTEE ROSTER (effective 10/10)

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MEMBERS OF
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
THE DIVISION FOR CPA FIRMS

December 10, 2010

National Peer Review Committee
American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707

Re: Administrative Oversight Visit to National Peer Review Committee

Dear Committee Members:

Oversight procedures were conducted with respect to the administrative function of the National Peer Review Committee (National PRC) in place as of October 18, 2010. The objective of the procedures was to evaluate whether the National PRC's administrative functions were being conducted in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews and the National PRC policies and procedures, which are approved by the AICPA Peer Review Board (PRB) through inclusion in the National PRC's Plan of Administration.

It is important to note that the National PRC administered peer reviews are subject to involvement of AICPA technical staff and oversight of National Peer Review Committee members. The National PRC consists of several members who serve on both the PRB and the National PRC, as well as two former state board regulatory representatives. Additionally, the National PRC chair attends meetings of the PRB, reporting National PRC activity on a quarterly basis. Accordingly, as a result of the additional scrutiny surrounding National PRC administered reviews, further procedures related to the peer review report acceptance procedures are not considered necessary.

In conjunction with the oversight procedures, the following observations are being communicated.

Administrative Procedures

On October 18-19, 2010, I met with Francis McClintock, Senior Technical Manager and Christopher Ellis, Manager - Operations 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 peer review committee.

I also reviewed the policies and procedures for the granting of extensions. I found that the Manager of Operations handles short-term extension requests with discussion from the Senior Technical Manager when the circumstances warrant.

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

- Follow up with Team Captains related to delinquent response to inquiries resulting from the technical review process is primarily through informal e-mail communication. While such communication would generally appear to be appropriate for the initial request, continued use of informal e-mail to follow-up on requests is not consistent with the more formal letter process outlined in the administrative manual. The more formal letter process is required to support placing restrictions on reviewers for non-cooperation. A delay in utilizing the more formal process

has the potential to delay appropriate actions for non-cooperation. In discussion, some technical reviewers were not aware of the letter process as outlined in the administrative manual.

- It should be noted that as a result of implementation issues related to the PRISM system, certain administrative functions, such as initiation of actions to drop a firm, were not functional from September, 2009 to June, 2010. The issues appear to have been resolved as of June, 2010 and effective June, 2010 follow up on those delayed actions was initiated.

I requested copies of recent confidentiality agreements for committee members.

- Confidentiality agreements could not be located for approximately one-half of the committee members.

I reviewed the back-up plan to support the administrative and technical review process. The functions related to administrative and technical review were reorganized during the past year to provide for more cross-training of the respective functions utilizing staff that formerly were separately assigned to the National PRC and as support for the AICPA Peer Review Program.

Web Site and Other Media Information

I reviewed the National PRC information on the AICPA Web site material and other media information (if applicable), I noted that 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 Web site and monitors the Web site to ensure peer review information is accurate and timely.

Working Paper Retention

I reviewed the completed working papers and found compliance with the working paper retention policies, except as follows:

- There is no centralized filing system to maintain FFC forms. Currently, FFCs are stored with the electronic version of the RAB acceptance package, which can include information that should be purged 120 days after completion of the review. Accordingly, while the paper version of documents are being purged 120 days after completion of the review, the same is not true with the electronic version of documents included in RAB packages, which should also be purged.
- Copies or other record of letters to team captains regarding working paper retention is not maintained.

Technical Review Procedures

I met with technical reviewers, to discuss procedures. I reviewed summary resumes of all individuals performing technical reviews and reviewed information related to participation in a peer review. All technical reviewers had either participated in a peer review or were scheduled to participate during the next twelve months. Information related to required training was also reviewed without exception.

I reviewed the reports, letters of response, if applicable, and the working papers for four reviews. All review issues appear to have been addressed properly by the technical reviewer before reviews were presented to the committee. Note that there were no engagement reviews administered by the National PRC.

Oversight Program

Lisa Joseph, Technical Manager, administers the process for verification of reviewer resume information. Reviewer resume verification was requested for approximately sixty reviewers in 2009. The reviewer

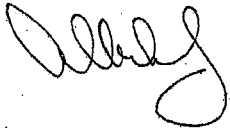
resume verification process appears to be in conformity with the AICPA Peer Review Program Oversight Handbook.

Summary

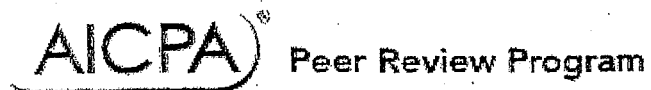
My observations to enhance the administration of the program are summarized as follows:

- In the event of a lack of response by a team captain to an informal e-mail with questions rising during the technical review process, the technical reviewer should follow-up with non-cooperation letters outlined in the Administrative Manual.
- There should be follow up regarding confidentiality agreements not yet received from National PRC committee members and a system established to ensure such agreements are obtained on an annual basis and maintained for ready retrieval.
- A centralized filing system should be established to maintain FFC forms until the subsequent peer review. Currently, FFCs are stored with the electronic version of the RAB acceptance package, which can include information that should be purged 120 days after completion of the review.
- Copies or other record of letters to team captains regarding working paper retention should be maintained.

Sincerely,



Albert R. Denny, CPA



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

February 2, 2011

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

Dear Task Force Members:

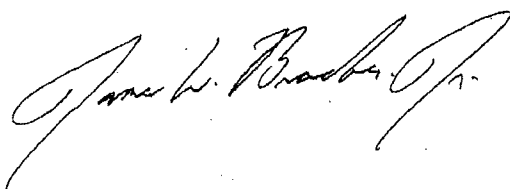
We received the attached letter as a result of the oversight procedures of the administrative functions performed by Albert Denny at the request of the National Peer Review Committee. The staff of the National Peer Review Committee has addressed the findings identified in the letter as follows.

- In the event of no response to an initial e-mail request to a team captain for delinquent peer reviews, guidance in the RAB Handbook should be followed and any subsequent request should utilize the letters outlined in the manual. NPRC RESPONSE: Going forward, NPRC technical reviewers will follow the guidelines required in the RAB Handbook by using the appropriate letters at the appropriate time. Specifically, NPRC technical reviewers will send an informal email, followed up with a phone call. If a response is not received within a week, a follow-up email and phone call will be made. If a response is not received within a week following the second phone call, formal letters will be issued to the team captain. The technical staff was trained on this during the technical staff meeting on January 11, 2011. A senior technical manager will monitor reviews in technical review status on a monthly basis to verify that staff is following up with the team captains according to the RAB handbook.
- There should be follow up regarding confidentiality agreements not yet received from NPRC committee members. NPRC RESPONSE: The operations team has mailed confidentiality agreements to all NPRC members for the 2010-2011 year, which began October 1, 2010. Some of these letters have been received and staff is actively following up on those that have not. Once returned, the confidentiality letters will be housed in a central repository to allow easy reference and retrieval. Going forward, staff will verify that a signed confidentiality agreement has been received from a member before transmitting committee or RAB documents to him/her. Additionally, the NPRC Policies and Procedures Manual has been updated to indicate that NPRC members cannot vote if their confidentiality agreement has not been signed and returned to staff.

- A centralized filing system should be established to maintain FFC forms until the subsequent peer review. Currently, FFCs are stored with the electronic version of the RAB acceptance package, which can include information that should be purged 120 days after completion of the review. NPRC RESPONSE: Operations staff has created an electronic repository for the FFC forms and has destroyed all inappropriately preserved documents. Following each RAB, operations staff will file all FFC forms on the shared drive. Staff will then determine which reviews were completed more than 120 days in the past, destroy the working papers associated with those reviews, and send the proper letter informing the Team Captain of the retention requirements of the AICPA PRP. A copy of the retention letter will be placed in the review folder. The review folder will then be placed in our files and the appropriate destruction date marked on the outside of the folder. All electronic working paper documents and copies of review documents will be purged from our team's shared drives. RAB packages will be destroyed 120 days after the RAB date. This process will be monitored by the Operations Manager on a quarterly basis.
- Copies or other record of letters to team captains regarding working paper retention should be maintained. NPRC RESPONSE: As noted above, a copy of the letter sent to the team captain will be retained in the review folder for all working papers returned in the future. This process will be monitored by the Operations Manager on a quarterly basis.

We believe these steps fully address the findings of the oversight procedures applied to the National PRC administrative functions. 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 for firms that have their reviews administered by the National Peer Review Committee.

Sincerely,

A handwritten signature in cursive script, appearing to read "James W. Brackens, Jr.", written in dark ink.

James W. Brackens, Jr., CPA
VP—Firm Quality and Practice Monitoring



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PROC Item V.
 June 15, 2012

Reports and Status of Peer Review Program

Presented by: Kathy Tejada, CBA Staff

Date: May 21, 2012

Purpose of the Item

The purpose of this agenda item is to provide a status of the peer review program and an overview of peer review statistics.

Action(s) Needed

Members are encouraged to provide feedback on Item D – Draft Table of Contents for the 2012 Peer Review Oversight Committee (PROC) Annual Report.

Background

None

Comments

A. Statistics of Licensees Who Have Reported Their Peer Review Information to the CBA

As of May 16, 2012, 35,487 peer review reporting forms have been submitted to the California Board of Accountancy (CBA). This is an increase of 835 since the April 2012 PROC meeting. The reporting forms are categorized as follows:

Licenses Ending in 01-33

Peer Review Required	2,231
Peer Review Not Required (firms)	4,216
Peer Review Not Applicable (non-firms)	15,429

Licenses Ending in 34-66

Peer Review Required	986
Peer Review Not Required (firms)	2,698
Peer Review Not Applicable (non-firms)	9,927

B. Status of Correspondence to Licensees Regarding Peer Review Reporting

Staff is preparing the notification letter for the third group of licensees that are due to submit a Peer Review Reporting Form (PR-1) by July 1, 2013. It is anticipated that the 20,000 – 25,000 letters will be mailed no later than July 1, 2012.

C. Status of PROC Roles and Responsibilities Activity Tracking

The Roles and Responsibilities Activity Tracking chart has been updated to reflect 2012 activities (**Attachment 1**).

D. Draft Table of Contents for 2012 PROC Annual Report

Staff has prepared a draft Table of Contents (**Attachment 2**) for the 2012 PROC Annual Report. The draft Table of Contents is identical to the Table of Contents from the 2011 PROC Annual Report. Members are encouraged to provide feedback. Once the Table of Contents is approved, staff will use it as an outline to begin developing the report.

Recommendation

None

Attachments

1. PROC Roles and Responsibilities Activity Tracking 2012
2. Draft Table of Contents – 2012 PROC Annual Report

Peer Review Oversight Committee (PROC) Roles and Responsibilities
Activity Tracking – 2012
As of May 17, 2012

Activity	Notes
PROC MEETINGS <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meetings Held: 2/10, 4/20 PROC Meetings Scheduled: 6/15, 8/24, 10/19, 12/4
ADMINISTRATIVE SITE VISIT <ul style="list-style-type: none"> Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	<ul style="list-style-type: none"> California Society of Certified Public Accountants (CalCPA) Administrative Site Visit: 2/16
PEER REVIEW COMMITTEE MEETING <ul style="list-style-type: none"> Attend all peer review program providers' 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. 	<ul style="list-style-type: none"> Attended the American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Meeting: 1/20; 5/8 Attended CalCPA PRC Meeting: 4/26
PEER REVIEW SUBCOMMITTEE MEETING <ul style="list-style-type: none"> Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports. Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Attended CalCPA Report Acceptance Body (RAB) Meetings: 1/5, 1/24, 3/6, 5/17
REVIEW SAMPLING OF PEER REVIEWS <ul style="list-style-type: none"> Perform sampling of peer review reports. 	<ul style="list-style-type: none"> CalCPA Administrative Site Visit: 2/16
PEER REVIEWER TRAINING <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Attended: 5/23 Scheduled: 6/27-28
EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	TBD
ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY <ul style="list-style-type: none"> Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program. 	

*Activities based on the November 9, 2010 PROC Agenda Item IV – Role of the PROC.

**Peer Review Oversight Committee (PROC)
2012 Annual Report**

Table of Contents

I. Message from the Committee Chair

II. Background

III. PROC Responsibilities

IV. Committee Members

V. Legislation and Regulations.....

VI. Reporting Requirements

VII. Statistics

VIII. Peer Review Voluntary Survey

IX. Board-recognized Peer Review Program Providers

X. Activities and Accomplishments

XI. Findings

XII. Conclusions and Recommendations

XIII. Future Considerations



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PROC Item VI.
June 15, 2012

Discussion and Possible Action On Making Recommendations For Displaying Peer Review Information on California Board of Accountancy's Website

Presented by: Rafael Ixta, Enforcement Chief
Date: June 5, 2012

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with an opportunity to discuss possible recommendations to the California Board of Accountancy (CBA) regarding displaying peer review related information on the CBA website.

Action Needed

It is requested the PROC decide whether or not to recommend to the CBA that peer review information be displayed on the CBA website.

Background

The CBA website provides an avenue for outreach to consumers and licensees regarding peer review. The website features Frequently Asked Questions related to peer review, a brochure, and directs consumers to ask their CPA for a copy of their peer review. For CPAs, the website contains multiple *UPDATE* articles, a how-to video, and Frequently Asked Questions all aimed to educate CPAs about their reporting requirements.

The website also has a license look-up feature. License look-up allows consumers to verify the license status of Certified Public Accountants (CPAs) licensed in California, as well as accountancy firms and partnerships. However, the results of an individual CPA or firm's peer review, including pass, pass with deficiencies, and fail, is not currently available.

Comments

There are policy, technical, and legal issues that should be considered when determining whether a recommendation should be made to the CBA regarding displaying peer review information on the CBA website.

Policy Issues

At the September 27-28, 2007 CBA meeting, the CBA members voted to adopt the Committee on Professional Conduct's recommendation that peer review information reviewed by the CBA not be made public unless disclosure is based on an accusation being filed (**Attachment 1**). Peer review was intended to be a way to educate California CPAs, and was not intended to be punitive in nature.

Further, the 2008 Peer Review Report presented to the California Legislature (**Attachment 2**) recommended that a mandatory peer review requirement be instituted based on several broad policy decisions. Specifically, the issue of transparency stated: "However, substandard reports received or requested by the Board shall be collected for the purposes of conducting an investigation, and, therefore, are exempt from public purview pursuant to Government Code Section 6254(f) of the Public Records Act." The report also mentions the CBA should employ active measures to ensure that consumers are informed about Peer Review. As discussed in the background section, the CBA maintains a website with multiple points of reference for licensees and consumers regarding peer review.

Technical Issues

The license look-up feature on the CBA website draws information from an antiquated Consumer Affairs System (CAS) database. The California Department of Consumer Affairs (DCA) is in the process of replacing the CAS system with a new system named BreEZe. While BreEZe is being developed and implemented, modifications to the CAS system are restricted by the DCA, and therefore it is not feasible to modify the website to include peer review information.

The CBA is scheduled to transition to the BreEZe system in 2014. It is anticipated that with the creation of the new system, the CBA will have input as to the layout and information included in BreEZe. It is possible that peer review reporting information could be included after the CBA has transitioned to the BreEZe system.

In order to report peer review status, licensees are able to enter information directly into the Peer Review database via the CBA website. Unfortunately, this database is designed only to collect information, and as a result of the BreEZe transition, there is a freeze on creating or making significant changes to existing databases.

Legal Issues

Whenever the CBA Enforcement Division receives a failed peer review report, an investigation is opened. Opening an investigation also allows the CBA Enforcement Division to ensure the licensee completed the required remediation, and to pursue administrative action if the violations found in the report are egregious, or if the licensee fails to complete remediation.

However, once an enforcement investigation is opened, it is subject to Government Code Section 6254, which exempts public disclosure from any of the following:

- (f) Records of complaints to, or investigations conducted by, or records of intelligence information or security procedures of, the office of the Attorney General and the Department of Justice, the California Emergency Management Agency, and any state or local police agency, or any investigatory or security files compiled by any other state or local police agency, or any investigatory or security files compiled by any other state or local agency for correctional, law enforcement, or licensing purposes.

Therefore, guidance from the CBA legal counsel would be needed to determine whether the CBA could legally display a "fail" rating.

Other States

Staff reviewed the websites of ten other state boards of accountancy to ascertain what level of peer review information they provide consumers. The list of surveyed websites included Washington, Illinois, New York, New Jersey, Texas, Nevada, Utah, Georgia, Oregon and Florida. Of the ten, only Nevada included mention of peer review related to any individual licensee. The Nevada website includes the date that the next peer review is required, and does not display a peer review score or pass/fail designation.

Recommendation

Due to multiple issues related to posting individual peer review information on the CBA website, it is recommended PROC members delay making a recommendation to the CBA regarding displaying licensee peer review information on the CBA website.

Attachments

1. Excerpt from the September 27-28, 2007, CBA Minutes
2. Excerpt from the California Board of Accountancy *2008 Peer Review Report*.

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**Attachment 1**

DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY

FINAL

**MINUTES OF THE
 SEPTEMBER 27-28, 2007
 BOARD MEETING**

Westin San Diego
 400 West Broadway
 San Diego, CA 92101
 Telephone: (619) 239-4500
 Facsimile: (619) 239-3274

I. Call to Order.

President David Swartz called the meeting to order at 2:03 p.m. on Thursday, September 27, 2007, at the Westin San Diego and the Board heard Agenda Items III., IV., V., X.A., VI., VII., IX.A., and IX.D. The meeting adjourned at 3:22 p.m. Mr. Swartz again called the meeting to order at 9:35 a.m. on Friday, September 28, 2007, and the Board and ALJ Gary Brozio heard Agenda Item XII.A. The Board convened into closed session at 10:17 a.m. to deliberate and also to consider Agenda Items XII.B-F. The meeting reconvened into open session at 11:00 a.m. and adjourned at 11:46 a.m.

Board MembersSeptember 27, 2007

David Swartz, President	2:03 p.m. to 3:22 p.m.
Donald Driftmier, Vice President	2:03 p.m. to 3:22 p.m.
Robert Petersen, Secretary-Treasurer	2:03 p.m. to 3:22 p.m.
Sally Anderson	2:03 p.m. to 3:22 p.m.
Rudy Bermúdez	2:03 p.m. to 3:22 p.m.
Richard Charney	2:03 p.m. to 3:22 p.m.
Angela Chi	2:03 p.m. to 3:22 p.m.
Sally Flowers	2:03 p.m. to 3:22 p.m.
Lorraine Hariton	2:03 p.m. to 3:22 p.m.
Leslie LaManna	2:03 p.m. to 3:22 p.m.
Bill MacAloney	Absent
Marshal Oldman	2:03 p.m. to 3:22 p.m.
Manuel Ramirez	2:03 p.m. to 3:22 p.m.
Lenora Taylor	2:03 p.m. to 3:22 p.m.
Stuart Waldman	2:03 p.m. to 3:22 p.m.

Board MembersSeptember 28, 2007

David Swartz, President	9:35 a.m. to 11:46 a.m.
Donald Driftmier, Vice President	9:35 a.m. to 11:46 a.m.
Robert Petersen, Secretary-Treasurer	9:35 a.m. to 11:46 a.m.

approximately two-thirds being received that relate to publicly traded entities.

VIII. Regulations.

A. Update on Regulations.
(See Attachment 1.)

IX. Committee and Task Force Reports.

A. Administrative Committee (AC).

Mr. Khanna stated that the AC's next meeting would be on November 1, 2007, in Burbank.

1. Proposed Resolution for Retiring AC Member, Mr. Barry Franzen.

Mr. Khanna stated that Mr. Franzen had served on the AC Committee for 10 years and had provided a tremendous contribution to the AC.

It was moved by Ms. Flowers, seconded by Mr. Oldman, and unanimously carried to approve the proposed resolution.

B. CPA Qualifications Committee (QC).

1. Minutes of the April 25, 2007, QC Meeting.

The minutes of the April 25, 2007, QC meeting were adopted on the Consent Agenda (See Agenda Item XIII.B.)

C. Committee on Professional Conduct (CPC)

1. Minutes of the July 19, 2007, CPC Meeting.

The minutes of the July 19, 2007, CPC meeting were adopted on the Consent Agenda (See Agenda Item XIII.B.)

2. Report on the September 27, 2007, CPC Meeting.

Mr. Driftmier reported that the CPC held an in-depth discussion of the some of the critical issues related to the implementation of mandatory peer review in California. Ms. Delvey-Williams and Mr. Franzella provided an excellent presentation and issue paper. **(See Attachment 2.)**

3. Discussion of Critical Policy Issues Related to Mandatory Peer Review.

Mr. Driftmier reported the CPC recommended that all licensed California firms and sole proprietors that provide any services in accordance with the following professional standards undergo peer review a minimum of once every three years as a requirement for license renewal. The services provided include Statements on Auditing Standards, Statements on

Standards for Accounting and Review Services, Statements on Standards of Attestation Engagements, and Government Auditing Standards.

Mr. Driftmier stated that the CPC recommended the following be excluded from a California mandatory peer review program:

- Any work inspected by the PCAOB
- Any licensed firms and sole proprietors who perform Statements on Standards for Accounting and Review Services 8 engagements as the highest level of work
- Any out-of-state firm that performs compilations as its highest level of work.

It was moved by Mr. Oldman, seconded by Dr. Charney, and unanimously carried to approve the CPC's recommendations.

Mr. Driftmier reported that the CPC recommended that information the Board receives through the peer review program could be used for enforcement purposes. The Board could discipline the firm or impose remedial measures in addition to corrective actions required by the Administering Entity. This option would allow the Board to be proactive by taking action before the consumer is harmed.

Ms. Flowers questioned whether this policy would be punitive. Mr. Driftmier stated that the policy would give the Board the ability to discipline a firm if the Board's Enforcement Division received notification of a modified or adverse peer review report. Mr. Swartz stated that the Enforcement Division receives complaints from consumers and others, and the Board disciplines licensees and/or firms if warranted. He further stated that by requiring mandatory peer review, modified and adverse reports would be available to the Enforcement Division for investigation. This gives the Board the ability to take action against a licensee or firm that is not practicing under the standards rather than waiting until a complaint is received.

Ms. Bowers stated that at the January 2008 Board meeting, staff will provide a recommendation to the CPC and Board for its consideration of the types of documents that licensees might be required to initially submit in addition to noting such on their renewal form.

Mr. Petersen stated that at the CPC meeting, Mr. Brackens reported that when the AICPA expels a firm from the peer review program, it is the equivalent of revoking its certificate. Mr. Petersen further stated that he believed the Board should not delegate to any private organization the ability to usurp this Board's authority to revoke or discipline its licensees. As peer review is considered, he believed that the Board should ensure that due process is built in so that a certificate is not automatically revoked.

Ms. Fellmeth stated the CPIL is in favor of disclosure of adverse reports to the public.

It was moved by Mr. Ramirez, seconded by Mr. Bermúdez, and unanimously carried to approve the CPC's recommendations.

Mr. Driftmier reported that the final question the CPC considered was the level of transparency in a California peer review program. He indicated that Mr. Brackens provided an update on the AICPA's Facilitated State Board Access Program which is intended to provide boards the ability to have access to peer review results of firms participating in the AICPA peer review program. Attorneys from the CPIL, DCA's Legal Office, and the Attorney General's Office provided comments on the privacy of licensees' information and due process versus the Board's consumer protection responsibilities. Regarding transparency, the CPC recommended that peer review information reviewed by the Board not be made public unless disclosure is based on an accusation being filed.

Mr. Driftmier stated that with regard to the CPC's recommendations, supplemental discussions will be held at the January 2008 meeting including the following:

- Legal opinions on the recommended disclosure of documents
- The Board's role in program oversight
- Impact on licensing renewals
- Licensing sole proprietors as firms
- Which documents the reviewed firms shall be required to submit
- Proposed modifications to statutory and regulatory provisions

Mr. Swartz stated supplemental discussion items also include Ms. Fellmeth's suggestions that educational peer review information for consumers and information related to the requesting of peer review reports be added to the Board's Web site. Ms. Anderson stated that the educational information on the Board's Web site should indicate that the consumer may request the peer review report from the practitioner, not from the Board.

It was moved by Mr. Ramirez, seconded by Ms. LaManna, and unanimously carried to adopt the CPC's recommendations.

D. Legislative Committee.

1. Update on Legislation.

Mr. Waldman reported that October 14, 2007, is the last day for Governor Schwarzenegger to sign or veto bills passed by the Legislature.

AB 721 (Maze) – Public Records: Request from Legislature.

Mr. Waldman reported that AB 721 requires state agencies to respond within three business days when a member of the Legislature requests a public record. AB 721 currently remains in the Assembly Committee on Appropriations. The Board's position on this bill is "watch."

AB 865 (Davis) – State Agencies: Live Customer Service Agents.

CALIFORNIA BOARD OF ACCOUNTANCY

2008 PEER REVIEW REPORT

Presented to the California Legislature

Senate Committee on Business,
Professions and Economic Development

&

Assembly Committee on
Business and Professions

Prepared in compliance with
Business and Professions Code Section 5076
Submitted: October 1, 2008



broad/generic standards be adopted in regulation that allow additional peer review programs to become authorized by the Board. Finally, the oversight provided by the PROC will provide the Board and consumers of California with appropriate safeguards for maintaining a high level of standards for peer review.

The Board also believes that its policy decisions related to participation and enforcement greatly enhance the existing peer review requirement prescribed by Business and Professions Code Section 5076. By recommending the removal of the exclusions from peer review for sole proprietors, small firms, and compilations, coupled with creating an enforcement component to mandatory peer review that will allow the Board to discipline firms found to have violated the California Accountancy Act, the Board believes the maximum consumer benefits related to a mandatory peer review requirement will be achieved.

In short, the California Board of Accountancy, therefore, recommends that a mandatory peer review requirement be instituted based on the following broad policy decisions reached by the Board:

- **Participation** – All California-licensed firms performing accounting and auditing services must complete a peer review. Only those firms, who as their highest level of service, perform work on non-disclosure financial statements where no report is issued, or any of a firm's work subject to review as part of the PCAOB inspection program will be excluded.
- **Enforcement** – Based on guidelines developed by the Board, the Administrative Committee in concert with the Board's Enforcement Division will review all peer reviews with a substandard rating to determine a course of action. Firms receiving a second consecutive substandard report or a first substandard report which shows high levels of incompetence, or are so egregious that disciplinary action is warranted, will be investigated by the Board's Enforcement Division.
- **Transparency** – The Board will employ active measures to ensure that consumers are informed about firms' peer review requirement. Using its Web site, the Board will encourage consumers to actively request peer review results and will identify and provide contact information for other resources, such as the AICPA and PCAOB, where consumers can obtain certain firms' peer review and inspection reports. However, substandard reports received or requested by the Board shall be collected for the purposes of conducting an investigation and, therefore, are exempt from the public purview pursuant to Government Code Section 6254(f) of the Public Records Act.
- **Program Administration** – The Board will establish broad/generic standards in regulation, whereby organizations can apply for recognition by the Board to provide peer review services in California. In addition, through regulation the Board will establish that the AICPA Peer Review Program has met these



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PROC Item VII.
June 15, 2012

**Discussion and Possible Action Regarding Recommendations
For Changes to the PROC's Roles and Responsibilities**

Presented by: Nancy J. Corrigan, Chair
Date: June 5, 2012

Purpose of the Item

The purpose of this agenda item is to review the roles and responsibilities of the Peer Review Oversight Committee (PROC) as recommended by the California Board of Accountancy (CBA) at its November 17-18, 2011 meeting.

Action(s) Needed

Deliberate the current and proposed roles and responsibilities of the PROC for recommendation to the CBA at the July 26, 2012 meeting.

Background

During the November 17-18, 2011 CBA meeting, members recommended to the PROC that they review the roles and responsibilities of the committee to ensure they adequately represent the current operations of the PROC.

At the April 20, 2012 PROC meeting, staff presented to the PROC members revised roles and responsibilities for the PROC. The proposed roles and responsibilities remain consistent with Business and Professions Code Section 5076.1 and Title 16, California Code of Regulations Sections 47 and 48.3, which provide a broad framework of roles for the PROC (**Attachment 1**).

Comments

Based on discussion and direction from PROC members at the April 20, 2012 meeting, staff has modified the roles and responsibilities as requested (**Attachment 2**). The majority of changes to the PROC roles and responsibilities center around ensuring Peer Review Providers administer peer reviews in accordance with CBA Regulations Section 48. If the revisions are approved, the updated roles and responsibilities will replace the current roles outlined in the PROC Procedures Manual (**Attachment 3**).

Recommendation

Staff recommends that the PROC finalize the roles and responsibilities and recommend the revisions to the CBA for placement into the PROC Procedures Manual and CBA Guidelines and Procedures Manual.

Attachments

1. Business and Professions Code Section 5076.1, Title 16, California Code of Regulations Sections 47 and 48.3.
2. Peer Review Oversight Committee Roles and Responsibilities, Revised May 10, 2012.
3. Current Peer Review Oversight Committee Roles and Responsibilities, as defined by the Peer Review Oversight Committee Procedures Manual, Section III(A); page 5.

Business and Professions Code

5076.1. (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.

Title 16, California Code of Regulations

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 of peer review program provider applications for recognition by the Board.

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.

PROPOSED
Peer Review Oversight Committee
Roles and Responsibilities

Revised May 10, 2012

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

SECTION III – ROLES AND RESPONSIBILITIES

A. ROLES & RESPONSIBILITIES

The PROC shall evaluate the responsibilities adopted for the PROC by the CBA to determine if the responsibilities are sufficient for the PROC to fulfill its purpose. Any recommendations for changes to the PROC's responsibilities shall be presented to the CBA for consideration and approval. Broadly stated, the PROC shall have the following roles and responsibilities (the specific oversight duty(ies) used to accomplish these goals are listed below each item):

- Oversee the activities of Board-recognized peer review program providers (Provider) related to how peer reviews are processed and evaluated
 - Administrative Site Visits
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Ensure the Provider is administering peer reviews in accordance with the standards adopted by the CBA
 - Administrative Site Visits
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Ensure that peer reviewers are properly qualified
 - Administrative Site Visits
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
 - Peer Reviewer Training
- Ensure that peer reviews are being accepted in a consistent manner by the Provider
 - Peer Review Subcommittee Meetings
- Conduct site visits of the Provider and their peer review committees
 - Administrative Site Visit
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Review sampling of peer review reports
 - Review Sampling of Peer Reviews
- Represent the CBA at Provider's peer review meetings
 - Administrative Site Visit
 - Peer Review Committee Meetings
 - Peer Review Subcommittee Meetings
- Evaluate organizations outside the AICPA structure that desire to administer peer reviews in California.
 - Evaluation of Board-Recognized Peer Review Program Providers



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PROC Item VIII.
June 15, 2012

Educational Presentation on California Practice Privilege Requirements

Presented by: Rafael Ixta, Enforcement Chief

Date: June 5, 2012

Purpose of the Item

The purpose of this agenda item is to provide Peer Review Oversight Committee (PROC) members with information regarding the California Practice Privilege (PP) requirements, notification process, and audit process.

Action(s) Needed

No specific action is needed.

Background

Effective January 1, 2006, the California Board of Accountancy (CBA) began granting a practice privilege to Certified Public Accountants (CPAs) licensed by another state that wished to practice in California. The PP requirements are codified in Business and Professions (B&P) Code sections 5096 through 5069.15, and CBA Regulations Sections 26 through 35.1.

Comments

Practice Privilege Requirements

Licenses who wish to practice in California, but that are not licensed in California, may work here provided they obtain a practice privilege from the CBA. To be eligible for a practice privilege, an out-of-state licensee cannot have a principal place of business located in California and must meet one of the following requirements:

- Possess a valid and active license, certificate, or permit from a state deemed by the CBA as substantially equivalent.
- Possess individual education, examination, and experience qualifications that have been determined by the CBA to be substantially equivalent.
- Have continually practiced public accountancy as a Certified Public Accountant (CPA) under a current, valid license issued by any state for four of the last 10 years.

Currently, the licensure requirements of 52 jurisdictions have been deemed substantially equivalent to California's licensure requirements by the CBA.

An out-of-state licensee may obtain the practice privilege either with or without the authorization to sign attest reports. To sign an attest report under the practice privilege, the holder must have completed a minimum of 500 hours of experience in attest services as similarly required of California licensure applicants requesting licensure with the attest authority.

Temporary and Incidental

There is a narrow exemption for out-of-state licensees to practice in California without a practice privilege. Specifically, an individual holding a valid and current license, certificate, or permit to practice public accountancy from another state is exempt from the requirement to obtain a permit to practice public accountancy issued by the CBA or to secure a California Practice Privilege if all of the following conditions are satisfied:

- The individual's client is located in another state.
- The individual's engagement with the client relates to work product to be delivered in another state.
- The individual does not solicit California clients, or have his or her principal place of business in this state.
- The individual does not assert or imply that he or she is licensed to practice public accountancy in California.
- The individual's practice of public accountancy in this state on behalf of the client located in another state is of a limited duration, not extending beyond the period required to service the engagement for the client located in another state.
- The individual's practice of public accountancy in this state specifically relates to servicing the engagement for the client located in another state. (Section 5057 of the Accountancy Act)

Notification Process

In order to obtain a California Practice Privilege, out-of-state licensees are required to submit the *Notification and Agreement to Conditions for the Privilege to Practice Public Accounting in California Pursuant to California Business and Professions Code Section 5096 and Title 16, Division 1, Article 4 of the California Code of Regulations* (Notification Form) **(Attachment 1)**. Practice rights are automatic upon submission of the Notification Form, unless prior CBA approval is required.

An out-of-state licensee may not practice under a practice privilege without prior approval of the CBA if the individual has, or acquires at any time during the term of the practice privilege, any of the following disqualifying conditions:

- Conviction of a crime other than a minor traffic violation.
- Having a license or other authority to practice a profession issued by a state, federal, or local agency or court or the Public Company Accounting Oversight Board (PCAOB) revoked, suspended, denied, surrendered, put on probationary status, or otherwise sanctioned or limited, except for the following occurrences:
 - An action by a state board of accountancy, in which the only sanction was a requirement that the individual complete specified continuing education courses.
 - The revocation of a license in Item 3 of the Qualification Requirements on the Notification Form is solely because of failure to complete continuing education or failure to renew.
- Being the subject of an investigation, inquiry, or proceeding by or before a state, federal, or local court or agency (including the PCAOB) involving his or her professional conduct.
- Holding a practice privilege that expired while under administrative suspension or with an unpaid fine.
- Failing to respond to the satisfaction of the CBA to a request for information regarding a matter related to a current or prior practice privilege.
- Notification by the CBA that prior approval is required before practice may commence.
- Having a judgment or arbitration award in an amount greater than \$30,000 entered against the licensee in a civil matter involving the professional conduct.

A practice privilege holder who acquires a disqualifying condition during the term of his or her practice privilege must cease practicing immediately and notify the CBA in writing of the disqualifying condition within 30 days of its occurrence.

The CBA requires notification prior to the out-of-state licensee beginning practice in California; however, California maintains a five day "safe harbor" for licensees to apply for practice privilege. If the Notification Form is submitted after practice begins, even if it is submitted within the five-day "safe harbor" period, the out-of-state licensee is required to provide a reason why the notice was submitted after the date practice began in California. A qualified individual who properly submits the Notification Form to the CBA within the five-day period shall be deemed to have a practice privilege from the first day of practice in California, unless they fail to timely remit the required fee.

The privilege is valid for a maximum of one year from the date of submission of the form, at which time the holder can either let the privilege expire or resubmit a new Notification Form.

Audit Process

As previously mentioned, a practice privilege holder is not required to provide any supporting documentation at the time the Notification Form is submitted. However, the CBA has the authority to request documentation from the out-of-state licensee and verify any of the information that was provided on the Notification Form, including whether the attest experience requirement has been fulfilled.

Staff verify the following information during an audit:

- Licensee name and address of record;
- License information and status;
- Qualification requirements;
- Disciplinary actions;
- Qualification of attest authority.

Staff attempts to verify as much information as possible via other state boards' of accountancy websites, and the National Association of State Boards of Accountancy's Accountancy Licensee Database (ALD). Under the practice privilege provisions, the CBA is authorized to take immediate action against anyone who violates the notification requirements or applicable laws. Specifically, the CBA may administratively suspend, without notice or hearing, an individual's practice privilege pursuant to B&P Code Section 5096.4.

Practice Privilege Handbook

The CBA maintains a handbook to assist out-of-state licensees with applying for California PP. It is included as **Attachment 2** for reference.

Recommendation

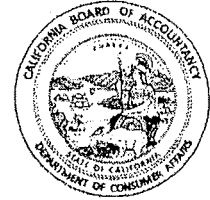
None

Attachment

1. Notification and Agreement to Conditions for the Privilege to Practice Public Accounting in California Pursuant to California Business and Professions Code Section 5096 and Title 16, Division 1, Article 4 of the California Code of Regulations.
2. Practice Privilege Handbook.



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General Information and Instructions for Completing Your California Practice Privilege Notification Form

These instructions are intended to assist you in completing your California Practice Privilege Notification Form (Notification Form). For additional information, please visit the Board's Web site at www.dca.ca.gov/cba to download the *California Practice Privilege Handbook* or request a paper copy of either the Notification Form or Handbook by contacting the Practice Privilege Unit at pracprivinfo@cba.ca.gov or call (916) 561-1704.

The practice privilege is not intended to be a long-term substitute for obtaining a California Certified Public Accountant (CPA) license. You can visit the Board's Web site at www.dca.ca.gov/cba to review the licensure requirements and obtain the application or telephone the Licensing Unit at (916) 561-1702.

General Practice Privilege Information

Practice Privilege Requirements: If you are an out-of-state CPA, not licensed in California, and you intend to come into California to offer and/or provide public accounting services OR if you intend to offer and/or provide public accounting services to a California client from a location outside of California, you must meet the following requirements for a California practice privilege:

1. Your principal place of business cannot be located in California.
2. You must hold a valid, current license, certificate, or permit from another state and meet one of the following requirements:
 - Hold a current, valid license, certificate, or permit to practice public accountancy from a state determined by the California Board of Accountancy (CBA) to have education, examination, and experience requirements for licensure substantially equivalent to the requirements in Section 5093 of the California Accountancy Act (see Appendix 1 of the Notification Form);
OR
 - Possess education, examination, and experience qualifications that have been determined by the CBA to be substantially equivalent to the qualifications under Section 5093 of the California Accountancy Act. The Board will accept individual qualification evaluations of substantial equivalency completed by the National Association of State Boards of Accountancy's (NASBA) CredentialNet. Information regarding CredentialNet can be found on NASBA's Web site at www.nasba.org.
OR
 - Have continually practiced public accountancy as a CPA under a current, valid license issued by any state for four of the last ten years.

Form Submission: Once you have completed and submitted the Notification Form you will have practice rights in California, unless you have any of the disqualifying conditions listed on the form. The form can either be submitted on-line or through the mail. Your practice privilege

in California will be valid for one-year from the date of the on-line submission or, if submitted by mail, the postmark date on the envelope.

Notification Fee: You are required to submit the \$100 practice privilege notification fee, along with the Board-provided remittance form, which must be received by the CBA within 30 days of submission of the Notification Form. The check or money order should be made payable to the California Board of Accountancy.

Where to Mail the Fee: The fee, along with the Board-provided remittance form, should be mailed to the California Board of Accountancy, 2000 Evergreen Street, Suite 250, Sacramento, CA., 95815-3832.

Incomplete Forms: You are required to provide all information requested in the form. An incomplete or improperly completed Notification Form will delay your obtaining a practice privilege or result in the loss of practice rights. You will be notified in writing of any such deficiencies.

Updates to the Notification Form: You are required to notify the CBA within 30 days of any change in the information reported on the Notification Form. Failure to notify the CBA of any update(s) to your information may subject you to a fine under the California Code of Regulations, Title 16, Division 1, Section 33.

Completing Your California Practice Privilege Notification Form

Contact Information

Please provide all of the contact information requested on the Notification Form. The contact information asterisked below will be public information available on the Board's Web License Lookup. However, your telephone number, fax number, e-mail address, birthdate, and Social Security Number will not be made available to the public.

***Name:** Please provide the name you have used with the state of licensure identified in Item 3 of the Notification Form.

Prior Name(s): Please provide any prior name(s) you may have used with the state of licensure identified in Item 3 of the Notification Form.

Address of Principal Place of Business (mailing address): Please provide your address of principal place of business in the state you identified in Item 3 of the Notification Form.

***Address of Record:** Your Principal Place of Business address will be used as your address of record unless otherwise indicated. Your address of record will be available on the Board's Web License Lookup.

Telephone Number: Please provide a daytime business telephone number.

Fax Number: Please provide a daytime fax number.

Business E-mail: Please provide an e-mail address in this space only if you would like to receive communications from the Board via e-mail in lieu of mail through the U.S. Postal Service to your address of record. In certain circumstances, the Board will continue to use your address of record for its communications.

Date of Birth: Self-explanatory.

Social Security Number (SSN): Disclosure of your SSN is mandatory. Your SSN will not be made available to the public. If you fail to disclose your SSN, you will not be authorized to practice public accountancy in California under the practice privilege.

Qualification Requirements

You are required to check a box for each of the items 1 through 12. Otherwise, you will not be authorized to practice public accountancy in California under the practice privilege.

1. Self-explanatory.
2. Self-explanatory;
OR
You have submitted an application for California CPA licensure and would like to have practice rights in California while your licensure application is being processed.
3. Please provide the state of licensure, license number, date of issuance, and license expiration date for the CPA license you are using to qualify for the California practice privilege. The licensure information you provide will be reflected on the Board's Web License Lookup.
4. a. Please check this box if you are an individual who is licensed in a state that is listed in Appendix 1 of the Notification Form. The states listed in Appendix 1 of the Notification Form are deemed substantially equivalent;
OR
b. Please check this box if your qualifications have been deemed substantially equivalent by the National Association of State Boards of Accountancy's (NASBA) CredentialNet. Please provide your CredentialNet file number in the space provided;
OR
c. Please check this box if you have continually practiced public accountancy as a CPA under a valid license issued by any state for at least four of the last ten years.
5. Please check this box if you are submitting the Notification Form at or before the time you began the practice of public accountancy in California;
OR
Please check this box if you are submitting the Notification Form within five business days after you began the practice of public accountancy in California. You will also be required to provide the reason you did not provide notice on or before the date you began the practice of public accountancy in California.
6. Please check this box if you have met all of the continuing education requirements and any exam requirements for the state of licensure that you identified in Item 3 on the Notification Form.
7. Self-explanatory.
8. Self-explanatory.

9. Self-explanatory.
10. Self-explanatory.
11. Self-explanatory.
12. Self-explanatory.

Requirements for Signing Attest Reports

You may not sign an attest report under a practice privilege unless you have 500 hours of qualifying experience in attest services in accordance with Section 5096.5 of the California Business and Professions Code. For these purposes, qualifying experience is that which has enabled you to demonstrate an understanding of the requirements of planning and conducting an audit with minimum supervision which results in opinions on full disclosure financial statements.

Please select either "Y" or "N". If you select "N", you cannot sign attest reports under this practice privilege and that information will be reflected on the Board's Web License Lookup.

Disqualifying Conditions

If you check "Y" to any of the disqualifying conditions on the Notification Form, you are not automatically authorized to practice public accountancy in California unless you are so notified by the Board.

You must mail the required documentation requested below to the attention of the Practice Privilege Unit for review. The Board will accept copies of original documents. It is suggested you retain copies for your records. Each time you submit a practice privilege Notification Form you will be required to report the disqualifying condition(s).

Please allow two to four weeks for review once all of the required documents are received. You will be notified in writing of the outcome of the Board review.

A: Convictions: In addition to completing Attachment X, you are required to provide copies of the following: a) Criminal Complaint or Indictment, b) Plea and Judgment, and c) Probation Report.

B: Discipline: In addition to completing Attachment X, you are required to provide a copy of the charging document (Citation, Accusation, etc.), and the conclusion document (Decision, Stipulation, Board or Agency Order, etc.).

C: Subject to an investigation: In addition to completing Attachment X, you are required to provide a copy of the Notice of Investigation received from the agency involved, the agency's own written Summary of Issues or Work Under Investigation, and a Summary of Investigative Actions that have occurred (Depositions, Hearings, etc.).

D: Unresolved administrative suspension or unpaid fine: You are required to provide a written explanation on Attachment X regarding the circumstances that resulted in the administrative suspension or fine and why the administrative suspension and/or fine have not been resolved.

E: Did not respond to earlier request for information from CBA: You are required to provide a written explanation on Attachment X of what was requested by CBA and why it was not supplied.

F: Board approval is required before practice may commence: You are required to provide a written explanation on Attachment X regarding the circumstances that resulted in the requirement of Board approval of a future practice privilege.

G: Civil judgement or arbitration award documents: In addition to completing Attachment X, you are required to provide the Complaint, Response to Complaint, Court Judgement, and Arbitration ruling. In addition to the documents listed, please attach a written explanation of the events that led to the dispute.

Required Additional Information

Please answer the following questions and statements.

Do you currently hold a California Practice Privilege?: Self-explanatory.

Have you ever held a California CPA/PA license?: Self-explanatory.

In addition to the state of licensure identified in Item 3, I am also authorized to practice in the following: Self-explanatory

An answer of "NO" to the following three statements will not disqualify you from the California practice privilege.

I am an associated person of a firm registered with the PCAOB: Self-explanatory.

My firm has undergone peer review within the last three years: Self-explanatory.

The state of licensure identified in Item 3 requires CE in fraud detection: Self-explanatory.

Signature: Sign and date the renewal form. Your signature, either electronic or hardcopy, is required in order for you to be granted a California practice privilege.



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NOTIFICATION AND AGREEMENT TO CONDITIONS FOR THE PRIVILEGE TO
 PRACTICE PUBLIC ACCOUNTING IN CALIFORNIA PURSUANT TO CALIFORNIA BUSINESS AND
 PROFESSIONS CODE SECTION 5096 AND TITLE 16, DIVISION 1, ARTICLE 4 OF THE
 CALIFORNIA CODE OF REGULATIONS

CONTACT INFORMATION

Individual Information

Name: _____ Prior Name(s): _____

Date of Birth: ____ / ____ / ____ Social Security Number: _____

Daytime Direct Telephone Number: _____ E-mail Address: _____
 (optional)

Certified Public Accounting Firm Information

Complete the Certified Public Accounting Firm Information **ONLY** if the certified public accounting firm name you are associated with is different from the individual name above.

Certified Public Accounting Firm Name: _____

Firm Address: _____

Firm Main Telephone Number: _____ Fax Number: _____ Firm Taxpayer ID Number: _____

Include additional certified public accounting firms you are associated with on Attachment 2, if necessary.

Other Contact Information

Address of Record (mailing address: fill out only if different from firm address or if no firm address is listed above): _____

QUALIFICATION REQUIREMENTS

I state as follows:

1. I am an individual.
2. a. My principal place of business is not in California; OR
 b. I have a pending application for licensure in California under Sections 5087 and 5088.
3. I qualify for a practice privilege based on my current, valid license to practice public accountancy in the following state:

State: _____ License Number: _____ Date Originally Issued: _____ Expiration Date: _____

4. a. The license identified in Item 3 is deemed substantially equivalent by the California Board of Accountancy; OR
- b. My individual qualifications have been determined by the National Association of State Boards of Accountancy (NASBA) to be substantially equivalent (NASBA file no. _____); OR
- c. I have continually practiced public accountancy as a certified public accountant under a valid license issued by any state for four of the last 10 years.
5. a. I am submitting this notice to the CBA at or before the time I begin the practice of public accountancy in California; OR
- b. I am submitting this notice after I began the practice of public accountancy in California on ___/___/____. My reason(s) for not providing notice on or before that date is (are) provided below. (The safe harbor provision is referenced in Section 5096.14 of the California Business and Professions Code.)
-

6. I have met the continuing education requirements and any exam requirements for the state of licensure identified in Item 3.

I consent and agree to the following:

7. To comply with the laws of the state of California, including the California Accountancy Act (Business and Professions Code Section 5000 et seq., accessible at http://www.dca.ca.gov/cba/acnt_act.htm) and the regulations thereunder (accessible at <http://www.dca.ca.gov/cba/regs.htm>).
8. To the personal and subject matter jurisdiction of the CBA including, but not limited to, the following:
- a. To suspend, without prior notice or hearing and in the sole discretion of the CBA or its representatives, the privilege to practice public accounting;
 - b. To impose discipline for any violation of the California Accountancy Act or regulations thereunder and recover costs for investigation and prosecution; and
 - c. To provide information relating to a practice privilege and/or refer any additional and further discipline to the board of accountancy of any other state and/or the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB) or other relevant regulatory authorities.
9. To respond fully and completely to all inquiries by the CBA relating to my California practice privilege, including after the expiration of this privilege.
10. To the authority of the CBA to verify the accuracy and truthfulness of the information provided in this notification. I consent to the release of all information relevant to the CBA's inquiries now or in the future by:
- a. Contacting other state agencies;
 - b. Contacting the SEC, PCAOB or any other federal agency before which I am authorized to practice; and
 - c. Contacting NASBA.
11. In the event that any of the information in this notice changes, to provide the CBA written notice of any such change within 30 days of its occurrence.
12. To submit any applicable fees timely.

AUTHORITY TO SIGN ATTEST REPORTS

Choose **ONE** of the following options:

- I **WISH** to be able to sign an attest report under this practice privilege, and I have at least 500 hours of experience in attest services. By checking this box, I agree to pay within 30 days of submission of this Notification Form, the \$100 Notification Fee which includes authorization to sign attest reports.

OR

- I **DO NOT WISH** to be able to sign an attest report under this practice privilege. Under this choice, I may participate in attest engagements but may not sign an attest report. By checking this box, I agree to pay the \$50 Notification Fee, due within 30 days of submission of this Notification Form.

DISQUALIFYING CONDITIONS

Please respond to the following items. For any items checked "Yes" in (A) – (G), you must provide additional information as requested in Attachment 1, and you are not authorized to practice in California unless and until you receive notice from the CBA that the privilege has been granted.

Please check "Yes" for any items even if they were previously reviewed and cleared by the Board in a past California Practice Privilege. To expedite the review process, please include the details of all disqualifying conditions, including those previously reported in the additional information you provide.

- | | | | | | | | | | |
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| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>A. I have been convicted of a crime other than a minor traffic violation.</p> |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>B. I have had a license, registration, permit or authority to practice a profession surrendered, denied, suspended, revoked, or otherwise disciplined or sanctioned except for the following occurrences:</p> <ul style="list-style-type: none"> (1) an action by a state board of accountancy in which the only sanction was a requirement that the individual complete specified continuing education courses. (2) the revocation of a license or other authority to practice public accountancy, other than the license upon which the practice privilege is based, solely because of failure to complete continuing education or failure to renew. | | | | |
| Y | N | | | | | | | | |
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| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>C. I am currently the subject of an investigation, inquiry or proceeding by or before a state, federal, or local court or agency (including the PCAOB) involving my professional conduct.</p> | | | | |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>D. I have an unresolved administrative suspension or an unpaid fine related to a prior California Practice Privilege.</p> | | | | |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>E. I did not respond to a request for information from the CBA related to a prior California Practice Privilege.</p> | | | | |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>F. I have been notified by the CBA that prior Board approval is required before practice under a new California Practice Privilege may commence.</p> | | | | |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| <table border="0"> <tr> <td>Y</td> <td>N</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | Y | N | <input type="checkbox"/> | <input type="checkbox"/> | <p>G. I have had a judgment or arbitration award against me involving my professional conduct in the amount of \$30,000 or greater.</p> | | | | |
| Y | N | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |

REQUIRED ADDITIONAL INFORMATION

I currently hold a California Practice Privilege. Yes No

Expiration date: _____ Unique Identifier: _____

I have held a California CPA/PA license. Yes No License number: _____

In addition to the state of licensure identified in Item 3, I also am authorized to practice public accountancy in the following:

State: _____ License Number: _____

State: _____ License Number: _____

Include additional licenses on Attachment 2, if necessary.

An answer of "No" to any of the following statements does not disqualify you from a California Practice Privilege.

I am an associated person of a firm registered with the PCAOB. Yes No

My firm has undergone peer review within the last three years. Yes No

The state of licensure identified in Item 3 requires CE in fraud detection. Yes No
If yes, I have fulfilled this requirement. Yes No

I, _____, understand that any misrepresentation or omission in connection with this notification disqualifies me from the California Practice Privilege and is cause for termination. Further I authorize the California Board of Accountancy to act accordingly, including notifying other state or federal authorities. I certify under penalty of perjury under the laws of the state of California that the foregoing information is true and correct.

Signature: _____ Date: _____

Unless you have checked "Y" to any items under Disqualifying Conditions, your privilege to practice commences with the submission of your properly completed notification. Your fee must be received within 30 days. Your privilege expires one year from the date of submission of this notification.



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



ATTACHMENT 1

Name:

Last

First

MI

1. If you checked "Yes" to any of items A - G under Disqualifying Conditions, please provide explanatory details:

Three horizontal lines for providing explanatory details.

2. If you checked "Yes" to Item G under Disqualifying Conditions, please also provide:

Date of Judgment/ Arbitration Award:

Jurisdiction/Court:

Docket No:

Three horizontal lines for providing judgment/arbitration award, jurisdiction/court, and docket number.

PERSONAL INFORMATION COLLECTION AND ACCESS: The information provided in this form will be used by the California Board of Accountancy to determine whether you qualify for practice privilege in California. Sections 5096 through 5096.15 of the California Business and Professions Code authorize the collection of this information. Failure to provide any of the required information is ground for rejection of the form as being incomplete. Information provided may be transferred to the Department of Justice, a District Attorney, a City Attorney, or to another government agency as may be necessary to permit the CBA, or the transferee agency, to perform its statutory or constitutional duties, or otherwise transferred or disclosed as provided in California Civil Code Section 1798.24. Each individual has the right to review his or her file, except as otherwise provided by the California Information Practices Act. Certain information provided may be disclosed to a member of the public, upon request, under the California Public Records Act. The Executive Officer of the California Board of Accountancy is responsible for maintaining the information in this form, and may be contacted at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815, telephone number (916) 263-3680, regarding questions about this notice or access to records.



DEPARTMENT OF CONSUMER AFFAIRS
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FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



ATTACHMENT 2

Name: _____
Last First MI

Certified Public Accounting Firm Information

Certified Public Accounting Firm Name: _____

Firm Address: _____

Firm Main Telephone Number: _____ Fax Number: _____ Firm Taxpayer ID Number: _____

Certified Public Accounting Firm Name: _____

Firm Address: _____

Firm Main Telephone Number: _____ Fax Number: _____ Firm Taxpayer ID Number: _____

In addition to the state of licensure identified in Item 3, I am also authorized to practice public accountancy in the following:

State: _____ License Number: _____

State: _____ License Number: _____

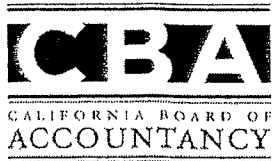
State: _____ License Number: _____

State: _____ License Number: _____

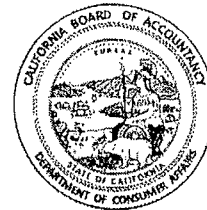
State: _____ License Number: _____

State: _____ License Number: _____

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REMITTANCE FORM

TO ACCOMPANY PAYMENT BEING SUBMITTED FOR A

**NOTIFICATION AND AGREEMENT TO CONDITIONS FOR THE PRIVILEGE TO
PRACTICE PUBLIC ACCOUNTING IN CALIFORNIA PURSUANT TO CALIFORNIA
BUSINESS AND PROFESSIONS CODE SECTION 5096 AND TITLE 16, DIVISION 1,
ARTICLE 4 OF THE CALIFORNIA CODE OF REGULATIONS**

**OR
AN UPDATE TO THE NOTIFICATION FORM**

Name: _____
Last First MI

State of Licensure: _____ License Number: _____

Date of Birth: _____

Firm Name: _____

Address of Record: _____

PRACTICE PRIVILEGE REMITTANCE FORM INSTRUCTIONS

The Notification Fee for California Practice Privilege is \$50 if you do not wish to have the authority to sign attest reports. The Notification Fee for California Practice Privilege with authorization to sign attest reports is \$100. If you currently hold a California Practice Privilege without authorization to sign attest reports and submitted the Notification Form on or after September 25, 2006 and are now submitting an update to the Notification Form requesting authorization to sign attest reports, you must submit a \$50 payment. The Board accepts payments by personal check, cashier's check, money order, or U.S. Postal Service certified check. All payments are nonrefundable.

Send this form and the appropriate payment to:

California Board of Accountancy
Practice Privilege Unit
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

The Board must receive the payment within 30 days of the postmark or facsimile date of your Notification Form or Update to your Notification Form. If the payment is not received within 30 days, your California Practice Privilege may be administratively suspended and/or you may be fined.

To facilitate the proper and timely association of your payment, please complete the above information exactly as you provided on your Notification Form. If you are mailing the Board your Notification Form, we advise you to submit all applicable payments with your Notification Form to ensure that you have no lapse in your California Practice Privilege.

User Name

Upon receipt of a paper Notification Form, a client account will be created that can be accessed via the Board's Web site at www.dca.ca.gov.cba. For the CBA to establish your client account, a User Name must be created. You have the option to select your own User Name by completing the space provided on the Remittance Form; however, the Remittance Form must be received concurrently with your Notification Form for you to select your own User Name. If you fail to submit the Remittance Form, a User Name will be created for you, and you will be informed of your User Name and password. You will have the option to change your password upon entering your client account; however, you will not be able to change your User Name.

Note: Please provide one alternative for your User Name in the event that your first preference is not available.

If you choose to create your own User Name, you must adhere to the following specifications:

- User Names cannot contain spaces or special characters.
- User Names must begin with an alpha letter and not a number.
- User Names can be no less than seven characters and no more than sixteen characters.
- User Names are case sensitive.

If you fail to follow these specifications a User Name will be selected for you.

User Name: _____

Alternative

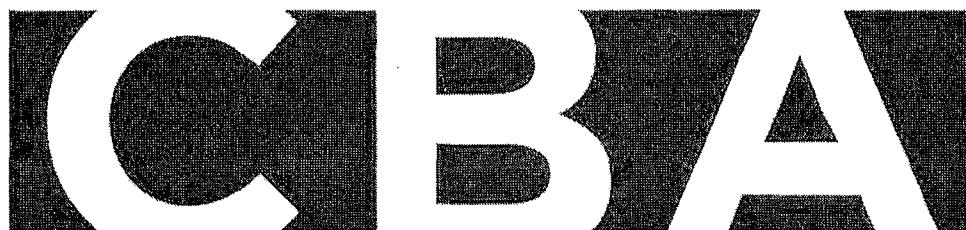
User Name: _____

OFFICIAL USE ONLY

Payment Amount \$ _____
Postmark Date ____/____/____
To Cashier ____/____/____ Int. _____

PERSONAL INFORMATION COLLECTION AND ACCESS: The information provided in this form will be used by the California Board of Accountancy to determine whether you qualify for practice privilege in California. Sections 5096 through 5096.15 of the California Business and Professions Code authorize the collection of this information. Failure to provide any of the required information is grounds for rejection of the form as being incomplete. Information provided may be transferred to the Department of Justice, a District Attorney, a City Attorney, or to another government agency as may be necessary to permit the CBA, or the transferee agency, to perform its statutory or constitutional duties, or otherwise transferred or disclosed as provided in California Civil Code Section 1798.24. Each individual has the right to review his or her file, except as otherwise provided by the California Information Practices Act. Certain information provided may be disclosed to a member of the public, upon request, under the California Public Records Act. The Executive Officer of the California Board of Accountancy is responsible for maintaining the information in this form, and may be contacted at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815, telephone number (916) 263-3680 regarding questions about this notice or access to records.

PRACTICE PRIVILEGE HANDBOOK



CALIFORNIA BOARD OF
ACCOUNTANCY

**CALIFORNIA BOARD OF ACCOUNTANCY
PRACTICE PRIVILEGE UNIT**

2000 Evergreen Street, Suite 250

Sacramento, CA 95815

Telephone: (916) 561-1704

Facsimile: (916) 263-3672

Web: www.cba.ca.gov

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

Main Telephone: (916) 263-3680
Fax: (916) 236-3675
Website: www.cba.ca.gov

CBA Outreach

E-mail: outreach@cba.ca.gov

Certifications

Telephone: (916) 561-1701

Enforcement

(Filing a Complaint,
Enforcement Actions)

Telephone: (916) 561-1729

Fax: (916) 263-3673

E-mail: enforcementinfo@cba.ca.gov

General Exam Questions

Telephone: (916) 561-1703

Fax: (916) 263-3677 or (916) 614-3253

E-mail: examinfo@cba.ca.gov

Initial Licensing

(Individual)

Telephone: (916) 561-1701

Fax: (916) 263-3676

E-mail: licenseinfo@cba.ca.gov

Initial Licensing

(Partnerships, Corporations,
Fictitious Name Permits)

Telephone: (916) 561-4301

Fax: (916) 263-3676

E-mail: firminfo@cba.ca.gov

License Lookup

Telephone: (916) 263-3680

Web site: www.dca.ca.gov/cba/lookup.shtml

License Renewal

(CPA/PA, Partnerships,
Corporations, Continuing
Education)

Telephone: (916) 561-1702

Fax: (916) 263-3672

E-mail: renewalinfo@cba.ca.gov

New Licensure Requirements

(education)

E-mail: neweducationrequirements@cba.ca.gov

Peer Review

Telephone: (916) 561-1706

E-mail: peerreviewinfo@cba.ca.gov

Practice Privilege

Telephone: (916) 561-1704

Fax: (916) 263-3672

E-mail: pracprivinfo@cba.ca.gov

TABLE OF CONTENTS

CALIFORNIA BOARD OF ACCOUNTANCY	2
Mission and Vision	2
Authority	2
CALIFORNIA PRACTICE PRIVILEGE INFORMATION.....	3
Requirements.....	3
Substantially Equivalent States	4
Safe Harbor	4
Temporary and Incidental.....	5
Notification Form	5
Notification Fee	5
Remittance Form.....	6
Term of a California Practice Privilege	6
California CPA Licensure Applicant	7
Continuing Education Requirements.....	7
Authorization to Sign Attest Reports.....	7
Disqualifying Conditions	7
Denial of a California Practice Privilege	9
Administrative Suspension	9
CBA Requests.....	9
DISCIPLINARY INFORMATION.....	11
MISCELLANEOUS INFORMATION	12
Public Information.....	12
CPA Firm Information.....	12
Address of Record.....	12
CHANGES TO THE NOTIFICATION FORM	13
Firm/Address of Record Change	13
Name Change	13
Changes to State of Licensure Information	13
CBA Website.....	13
Forms	14

CALIFORNIA BOARD OF ACCOUNTANCY

Mission

The mission of the California Board of Accountancy (CBA) is to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards.

Vision

The vision of the CBA is that all consumers are well informed and receive quality accounting services from licensees they can trust.

Authority

The CBA derives its authority from Business and Professions Code, Division 3, Chapter 1, Article 1 through Article 10 (Accountancy Act) and the California Code of Regulations, Title 16, Division 1, Article 1 through Article 13 (CBA Regulations). The Accountancy Act and CBA Regulations are available on the CBA website at www.cba.ca.gov.

The CBA:

- Examines applicants and sets educational and experience requirements for California Certified Public Accountants (CPAs) and Public Accountants (PAs).
- Licenses the practice of public accountancy and may deny licensure, revoke, suspend, or refuse to renew any license, permit, or certificate for violation of the laws under the CBA's authority in the California Business and Professions Code or CBA Regulations.
- By regulation, prescribes, amends, or repeals the rules of professional conduct appropriate to the establishment and maintenance of a high standard of integrity and competency in the profession.

CALIFORNIA PRACTICE PRIVILEGE INFORMATION

Requirements

Effective January 1, 2006, qualified out-of-state CPAs may practice in California as long as the out-of-state CPA's principal place of business is not in California. These practitioners are required to notify the CBA that they intend to practice public accountancy in California, swear under penalty of perjury that they are qualified to do so, and pay the required fee.

The Notification and Agreement to Conditions for the Privilege to Practice Public Accounting (Notification Form) is accessible through the CBA website for on-line submission and is downloadable in PDF format. Practitioners also may contact the CBA's Practice Privilege Unit to request this form via U.S. Postal Service.

Unless an individual reports a disqualifying condition, no other documentation is required for submission with the Notification Form. However, Notification Forms are subject to audit at any time. Any misrepresentation or omission in the Notification Form may be cause for fines, administrative suspension, disqualification, and even revocation of the California Practice Privilege.

To be eligible for a California Practice Privilege:

1. The individual's principal place of business cannot be located in California.
 2. The individual must hold a valid, current license, certificate, or permit to practice public accountancy issued by another state and meet one of the following requirements:
 - Be licensed by another state deemed and the requirements under which the license, certificate, or permit was issued must be deemed by the CBA to be substantially equivalent to the requirements under Section 5093 of the California Accountancy Act (Accountancy Act), **or**
 - Possess individual education, examination, and experience qualifications that have been determined by the CBA to be substantially equivalent to the qualifications under Section 5093 of the Accountancy Act.
- In accordance with Section 27(b) of the CBA Regulations, the CBA will accept individual qualification evaluations of substantial equivalency completed by the National Association of State Boards of Accountancy's (NASBA) CredentialNet. Information regarding CredentialNet can be found on NASBA's website at www.nasba.org; **or**
- Have continually practiced public accountancy as a CPA under a current, valid license issued by any state for four of the last 10 years.

Substantially Equivalent States (Current as of January 24, 2011)

The following states have CPA licensure requirements that are deemed by the CBA to be substantially equivalent to California's licensure requirements:

Alabama*	Louisiana	Northern Mariana Islands
Alaska	Maine	Ohio
Arizona	Maryland	Oklahoma*
Arkansas	Massachusetts	Oregon
Colorado	Michigan	Pennsylvania
Connecticut	Minnesota	Rhode Island
Delaware	Mississippi	South Carolina
District of Columbia*	Missouri	South Dakota
Florida	Montana*	Tennessee
Georgia	Nebraska*	Texas
Guam	Nevada	Utah
Hawaii*	New Hampshire	Vermont
Idaho	New Jersey	Virginia
Illinois*	New Mexico	Washington
Indiana	New York	West Virginia
Iowa	North Carolina	Wisconsin
Kansas*	North Dakota	Wyoming
Kentucky		

* Permit Holders

Safe Harbor Provision

Effective January 1, 2006, notice to the CBA is required so that an out-of-state CPA may commence practicing public accountancy under a California Practice Privilege. Beginning October 3, 2011, out-of-state CPAs with no disqualifying conditions there will be no penalty solely because of late notification, provided notice is given within five business days of commencing practice. A qualified individual who properly submits the Notification Form to the CBA within the five-day period shall be deemed to have a California Practice Privilege from the first day of practice in California, unless the individual fails to timely remit the required fee. The CBA may issue a fine of \$250 to \$5,000 for notification more than five business days after commencing practice. In assessing the fine amount, the CBA shall consider both aggravating and/or mitigating circumstances.

Temporary and Incidental Practice

Effective October 3, 2011, an individual holding a valid and current license, certificate, or permit to practice public accountancy from another state shall be exempt from the requirement to obtain a permit to practice public accountancy issued by the CBA or to secure a California Practice Privilege if all of the following conditions are satisfied:

- (a) The individual's client is located in another state.
- (b) The individual's engagement with the client relates to work product to be delivered in another state.
- (c) The individual does not solicit California clients, or have his or her principal place of business in this state.
- (d) The individual does not assert or imply that he or she is licensed to practice public accountancy in California.
- (e) The individual's practice of public accountancy in this state on behalf of the client located in another state is of a limited duration, not extending beyond the period required to service the engagement for the client located in another state.
- (f) The individual's practice of public accountancy in this state specifically relates to servicing the engagement for the client located in another state. (Section 5057 of the Accountancy Act)

Notification Form

To obtain a California Practice Privilege, an individual meeting all applicable requirements shall notify the CBA by submitting the fully completed Notification Form. No other means of notification is acceptable for a California Practice Privilege. An electronic version of the Notification Form is available for on-line submission. Alternatively, a Notification Form can be downloaded from the CBA's website from the Forms/Publications Page, or an individual may request the form from the CBA's Practice Privilege Unit by e-mail at pracprivinfo@cba.ca.gov, or by telephone at (916) 561-1704. The completed paper version of the Notification Form should be mailed to the CBA address provided on the form.

Notification Fee

The Notification Fee for a California Practice Privilege without authorization to sign attest reports is \$50. The Notification Fee for a California Practice Privilege with authorization to sign reports on attest engagements is \$100. The CBA must receive the \$50/\$100 Notification Fee postmarked within 30 days of the date the Notification Form is submitted to the CBA. A California Practice Privilege may be administratively suspended and an individual may be fined if the fee is not received within 30 days.

An individual may be subject to a fine of \$100 to \$500 for the first failure to pay the California Practice Privilege Notification Fee within 30 days of submitting the Notification Form, including payment with a check that is subsequently dishonored. An individual may be subject to a fine of \$250 to \$1,000 for any subsequent failure to pay the California Practice Privilege Notification Fee within 30 days of submitting the Notification Form, including payment with a check that is subsequently dishonored.

The Notification Fee is nonrefundable and nontransferable.

Remittance Form

If a completed Notification Form is submitted electronically, a California Practice Privilege Remittance Form will be generated. The Remittance Form must be printed and completed in accordance with the instructions. The fee must accompany the completed Remittance Form. If for some reason an individual is unable to print the Remittance Form, they should contact the CBA's Practice Privilege Unit by e-mail at pracprivinfo@cba.ca.gov or by telephone at (916) 561-1704 and a Remittance Form will be mailed to them.

If an individual chooses to submit a paper version of the Notification Form, the Remittance Form will be included with the Notification Form. If an individual chooses to mail the Remittance Form separately from his or her Notification Form, the required information must be completed exactly as it was provided on the Notification Form, in order that the Notification Fee can be properly associated with the correct Notification Form.

Completed Remittance Forms with the Notification Fee should be mailed to the CBA address provided on the form.

Term of a California Practice Privilege

A California Practice Privilege commences on the date the Notification Form is submitted electronically to the CBA, on the postmark date of a Notification Form submitted to the CBA by mail, or on the date a Notification Form is submitted to the CBA by facsimile provided prior CBA approval is not required. When prior CBA approval is required, practice rights commence on the date the California Practice Privilege is approved by the CBA. A California Practice Privilege expires one year from the date of submission of the Notification Form.

A California Practice Privilege, including one that is or has been administratively suspended pursuant to Section 5096.4 of the Accountancy Act, expires one year from the date the Notification Form is submitted to the CBA or on the date a subsequent Notification Form is submitted to the CBA, whichever occurs first.

A California Practice Privilege held by an applicant for a California CPA license expires one year from the date of submission of the Notification Form or on the date the California CPA license is issued by the CBA, whichever occurs first.

A California Practice Privilege holder will be issued an expiration reminder notice approximately 60 days prior to the expiration date of an individual's California Practice Privilege. In the event that the notice is not received, it is the California Practice Privilege holder's responsibility to submit a fully-completed new Notification Form to the CBA if he or she wishes to continue practicing public accountancy under a California Practice Privilege.

California CPA Licensure Applicant

An individual who has a pending application for CPA licensure in California may practice under a California Practice Privilege. An applicant for CPA licensure is not disqualified for a California Practice Privilege during the period the application is pending as a result of maintaining a principal place of business in this state. A California Practice Privilege will expire and is no longer valid once the California CPA license is issued.

If an application for CPA licensure is denied or deferred, the California Practice Privilege Notification Form may be reviewed to determine whether the applicant for CPA licensure still qualifies for a California Practice Privilege.

Continuing Education Requirements

To qualify for a California Practice Privilege, an individual must meet the continuing education requirements of the state of licensure identified on the Notification Form. Section 5096(d)(2) of the Accountancy Act indicates that an individual is deemed to have met, for purposes of the California Practice Privilege provisions, the ethics examination and continuing education requirements of this state when the individual has met the examination and continuing education requirements of the state used as the basis for qualifying for a California Practice Privilege.

Authorization to Sign Attest Reports

To sign reports on attest engagements, California Practice Privilege holders must have completed a minimum of 500 hours of experience in attest services as described in Section 5095 of the Accountancy Act and Section 12.5 of Title 16 of the CBA Regulations. The authority to sign reports on attest engagements is not a requirement to obtain a California Practice Privilege.

An individual is not required to provide any supporting documentation at the time the California Practice Privilege Notification Form is submitted. However, the CBA has the authority to request documentation from the individual and verify any information that he or she provided on the Notification Form, including whether he or she has fulfilled the California attest experience requirement prior to obtaining the California Practice Privilege.

Please note that an individual still may participate in attest engagements even though he or she does not choose to have the authority to sign attest reports or does not meet the 500 hour attest experience requirement.

Disqualifying Conditions

Pursuant to Section 32 of the CBA Regulations, an individual may not practice under a California Practice Privilege without prior approval of the CBA, if the individual has, or acquires at any time during the term of his or her California Practice Privilege, any of the following disqualifying conditions:

1. The individual is convicted of a crime other than a minor traffic violation.
2. The individual has had a license or other authority to practice a profession issued by a state, federal, or local agency or court or the Public Company Accounting Oversight Board (PCAOB) revoked, suspended, denied, surrendered, put on probationary status, or otherwise sanctioned or disciplined, except for the following occurrences:
 - a. An action by a state board of accountancy, in which the only sanction was a requirement that the individual complete specified continuing education courses.
 - b. The revocation of a license or other authority to practice public accountancy other than the license identified in Item 3 of the Qualification Requirements on the Notification Form, solely because of failure to complete continuing education or failure to renew.
3. The individual is the subject of an investigation, inquiry, or proceeding by or before a state, federal, or local court or agency (including the PCAOB) involving his or her professional conduct.
4. The individual held a California Practice Privilege that expired while under administrative suspension or with an unpaid fine.
5. The individual has failed to respond to the satisfaction of the CBA to a request for information from the CBA regarding a matter related to a current or prior California Practice Privilege.
6. The individual has been notified by the CBA that prior CBA approval is required before practice under a new California Practice Privilege may commence.
7. The individual has had a judgment or arbitration award in an amount of \$30,000 or greater entered against him or her in a civil matter involving the professional conduct of said individual.

An individual **must** report to the CBA any of the above disqualifying conditions. The CBA will review the reported information and notify the individual in writing of its decision.

A California Practice Privilege holder who acquires a disqualifying condition during the term of his or her California Practice Privilege shall cease practicing immediately and shall notify the CBA in writing of the disqualifying condition within 30 days of its occurrence. He or she shall not begin practicing again without prior CBA approval. Failure to comply with this obligation could result in the issuance of a maximum fine of \$5,000, in addition to any other applicable sanction deemed appropriate by the CBA.

A California Practice Privilege holder who reported a disqualifying condition that was previously reviewed and cleared by the CBA in a past California Practice Privilege still must report the previously cleared disqualifying condition on any subsequent

Notification Form submitted. To expedite the review process, the reported information shall include details of the disqualifying condition as well as details of the item that was cleared by the CBA.

Denial of a California Practice Privilege

Section 5096.2(a) states a California Practice Privilege can be denied for the following reasons:

- Failure to qualify under or comply with the California Practice Privilege statutes and regulations (Section 5096-5096.15 of the Accountancy Act or CBA Regulations Sections 27-35.1).
- Any act that if committed by an applicant for licensure would be grounds for denial of a license under Section 480 of the California Business and Professions Code.
- Any act committed by a licensee that would be grounds for discipline under Section 5100 of the Accountancy Act.
- Any act committed outside of this state that would be a violation if committed within this state.

Per Section 5096.2(c) of the Accountancy Act, an individual who has been denied a California Practice Privilege may submit a new Notification Form for a new California Practice Privilege not less than one year after the effective date of the notice or decision denying the California Practice Privilege, unless a longer time period, not to exceed three years, is specified in the notice or decision denying the California Practice Privilege.

Administrative Suspension

Pursuant to Section 5096.4 of the Accountancy Act, the right to practice in this state under a California Practice Privilege may be administratively suspended at any time by an order issued by the CBA or its Executive Officer. No prior notice or hearing is required. The purpose of an administrative suspension is to conduct a disciplinary investigation, proceeding, or inquiry concerning the representations made in the Notification Form, the individual's competence or qualifications to practice under a California Practice Privilege, the individual's failure to respond timely to a CBA inquiry or request for information or documents, or the individual's failure to pay timely the California Practice Privilege Notification Fee.

CBA Requests

A California Practice Privilege holder must respond to any CBA inquiry or request for information or documents, and provide to the CBA the identified information and documents in a timely manner. In addition to any other applicable sanctions, failure to comply with the obligation to respond to a CBA inquiry pursuant to Section 5096(e)(5) of

the Accountancy Act and Section 34 of the CBA Regulations could result in one or more of the following:

1. Issuance of a fine of \$250 to \$5,000.
2. An administrative suspension of a California Practice Privilege.

DISCIPLINARY INFORMATION

Unless performing the activities referenced in Section 5054 of the Accountancy Act, an out-of-state licensee who practices public accountancy in California without obtaining or satisfying the conditions for exemption in Section 5057 of the Accountancy Act, a California CPA License or a California Practice Privilege is in violation of the law and may be subject to prosecution.

A California Practice Privilege is subject to revocation, suspension, fines or other disciplinary sanctions for any conduct that would be grounds for discipline against a licensee of the CBA or for any conduct in violation of the statutes and regulations governing the California Practice Privilege.

A California Practice Privilege is subject to discipline during any time period in which it is valid, under Administrative Suspension, or expired.

As authorized by Section 5107 of the Accountancy Act, the CBA may seek to recover its costs for any disciplinary proceeding taken against a California Practice Privilege holder.

An individual whose California Practice Privilege has been revoked may apply for a new California Practice Privilege not less than one year after the effective date of the CBA's decision revoking the individual's California Practice Privilege, unless a longer time period, not to exceed three years, is specified in the CBA's decision revoking the California Practice Privilege.

MISCELLANEOUS INFORMATION

Public Information

Pursuant to the California Public Records Act (California Government Code Sections 6250-6277), the CBA discloses the following information, upon request, and on its website at www.cba.ca.gov regarding a California Practice Privilege holder:

1. Name.
2. Address of record.
3. California Practice Privilege ID number.
4. California Practice Privilege status.
5. State of licensure.
6. California Practice Privilege effective date.
7. California Practice Privilege expiration date.
8. Enforcement action.
9. Whether the authority to sign reports on attest engagements was requested.

Certain enforcement information also will be available, including names of California Practice Privilege holders for which accusations have been filed and are pending possible enforcement action, summaries of decisions, revoked California Practice Privileges, California Practice Privileges placed on Administrative Suspension, and summaries for all other enforcement actions.

CPA Firm Information

A CPA firm that is authorized to practice in another state and does not have an office in California may practice public accountancy in this state through a holder of a current and valid California Practice Privilege. Pursuant to Section 5096.13 of the Accountancy Act, the CPA firm name, address, telephone number and federal taxpayer identification number of all CPA firms with which the California Practice Privilege holder is associated must be provided.

Address of Record

The California Practice Privilege holder's name and address of record are **public information** pursuant to the California Public Records Act. If provided, the CPA firm's address will be used as the individual's address of record unless otherwise indicated. If a CPA firm's address was not provided because the individual is not associated with a CPA firm other than his or her individual name, an address of record must be provided. The CBA will send all official correspondence to the address of record. The address of record may be an individual's principal place of business, residence, post office box or mail drop, and may be a California address.

An individual may use a post office box or mail drop as his or her address of record. However, an individual also must provide the street address of his or her principal place of business or residence. The "other address" will not be public information unless disclosure is compelled by court order or subpoena.

CHANGES TO THE NOTIFICATION FORM

Section 33 of the CBA Regulations requires each California Practice Privilege holder to notify the CBA of any change in the information reported on the Notification Form within 30 days of the change. Notification to the CBA can be made through the on-line client account or in writing.

A California Practice Privilege holder may submit changes to the information reported on a California Practice Privilege Notification Form electronically by logging in to his or her client account on the CBA website and updating his or her Notification Form online. If choosing this method, an individual must make sure that he or she selects the "Update Notice" option. An individual should not select the "Create New Notice" option if only submitting changes to the Notification Form information. Changes to the information reported on the Notification Form also may be submitted by mail or facsimile at (916) 263-3676.

Failure to report changes in the information reported on the Notification Form may result in a fine of \$250 to \$5,000.

Firm/Address of Record Change

To notify the CBA of a CPA firm association change and/or an address of record change, the California Practice Privilege holder should visit the CBA website at www.cba.ca.gov. The individual can log in to his or her client account and update the contact information online. These changes also may be submitted to the CBA by mail or facsimile at (916) 263-3676.

Name Change

A name change must be submitted to the CBA in writing. An individual must contact the CBA by phone at (916) 561-1704 for further information regarding the documentation that he or she needs to submit.

Changes to State of Licensure Information

If the CPA license used as the basis for qualifying for a California Practice Privilege is renewed during the term of an individual's California Practice Privilege, it must be reported to the CBA through his or her online client account or in writing within 30 days of the renewal date. An individual may be subject to a fine of \$250 to \$5,000 for failure to comply with this requirement.

CBA Website

The CBA website is located at www.cba.ca.gov. Important information for CPA/PA licensees, CPA exam and licensure applicants, California Practice Privilege holders, and consumers is posted on this site. The site also contains information regarding CBA meetings, accepting commissions, license renewal, California Practice Privilege,

continuing education, forms, and enforcement actions. Additionally, the site provides the current Accountancy Act, CBA Regulations, and *UPDATE* publications. By subscribing to e-news you can receive e-mail notifications containing information regarding CBA programs and activities.

Forms

The following forms are available on the Forms/Publication Page of the CBA website:

- *California Practice Privilege Notification Form and Instructions.*
- *California Practice Privilege Remittance Form.*

The forms also may be requested from the CBA's Practice Privilege Unit at pracprivinfo@cba.ca.gov or by telephone at (916) 561-1704.



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PROC Item IX.
June 15, 2012

Discussion of Title 16 California Code of Regulations
Section 40 Regarding Peer Review Due Dates

Presented by: Rafael Ixta, Enforcement Chief
Date: June 6, 2012

Purpose of the Item

The purpose of this agenda item is to present information to Peer Review Oversight Committee (PROC) members regarding when a peer review is required by Title 16, California Code of Regulations (CCR) Section 40 and when a peer review is required by the American Institute of Certified Public Accountants (AICPA).

Action Needed

PROC members should discuss both requirements and provide direction to California Board of Accountancy (CBA) staff on whether any further action is necessary on this topic.

Background

At the April 20, 2012 PROC meeting, members identified as an agenda item the discussion of CCR Section 40 and Chapter 8 of the AICPA Peer Review Administrative Manual. CCR Section 40 is enclosed as **Attachment 1** and Chapter 8 of the AICPA Peer Review Administrative Manual is enclosed as **Attachment 2**. To facilitate a discussion of this topic, following is summary of the CBA's regulations and the AICPA's requirements:

- CCR Section 40(b) requires that each firm licensed after January 1, 2010, that has an accounting and auditing (A&A) practice, have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of services. Section 40(c) requires that a firm that begins performing A&A services after January 1, 2010, shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of services.

The regulatory requirements contemplate two conditions: 1) whether the licensee is new, or 2) whether the licensee began providing accounting and auditing services. If either condition is met, the licensee is required to have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the first A&A engagement.

- The AICPA Peer Review Program requires firms to have a peer review report submitted within 18 months after the period end of the first A&A engagement. This 18-month timeframe does not include the 2-4 months required for the program

provider to perform its technical review prior to acceptance. Further, peer review standards require that a peer review encompass an entire year.

Further, Chapter 8 of the AICPA Peer Review Administrative Manual addresses peer review due dates for firms that have a change in firm structure, or go through a merger or dissolution. These rules are used to assign peer review due dates to the new and surviving firms. The firm with over 50% of the A&A practice is considered the surviving firm and would continue with the same peer review schedule. The new firm would be subject to a peer review 18 months after the period end of the first A&A engagement.

Some of key difference between CCR Section 40 and the AICPA Administrative Manual are:

Area	CCR Section 40	AICPA Administrative Manual
Peer Review Due Dates	Within 18 months of completion of services	18 months after the period end of the first engagement
Action Required by Due Date	Accepted by AICPA	Submitted to AICPA
Changes in Firm Structure	Firm with new license number subject to new peer review	Firm with less than 50% of the A&A practice subject to new peer review

Comments

Currently CCR Section 40 is being amended to remove the distinction between firms licensed before or after the operative date of the law, and simply require that a firm performing accounting and auditing services for the first time shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of services (**Attachment 1**).

Should the PROC members wish to pursue additional regulatory changes to CCR Section 40, staff will draft proposed changes for review and adoption by the PROC for recommendation to the CBA. Once the proposed changes are adopted by the CBA, it will take 12 -18 months to complete the regulatory process. Keeping the regulatory process in mind, PROC members are encouraged to articulate the precise reasons for any proposed changes. These reasons will be included in the rulemaking file.

Recommendation

None

Attachments

1. Title 16, CCR Section 40, current and proposed
2. AICPA Peer Review Administrative Manual, Chapter 8

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

Section 40. Enrollment and Participation.

CURRENT

(a) Commencing with the operative date prescribed by Section 45(b), a firm operating or maintaining an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 36 months prior to its first reporting date and have a peer review report accepted by a Board-recognized peer review program once every three years in order to renew its license.

(b) Each firm licensed after the operative date of this Article that performs services in an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

(c) Should a firm begin performing services as defined in Section 39(a) of this Article after the operative date prescribed by Section 45(b), the firm shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

PROPOSED

(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.

AICPA
PEER REVIEW
ADMINISTRATIVE MANUAL

9/15/2009

Chapter 8 Changes in Firm Structure

Firm Name Changes, and Changes in Structure Overview

There are six primary categories of Name Changes and Changes in Firm Structure that are identified for AICPA Peer Review Program purposes that may impact a firm's peer review year end (and peer review history). These are not intended to supersede or replace the actual legal formation or structure of firms, and any governmental, regulatory, or other requirements that may affect these firms. It is the responsibility of the firm(s) to ensure that they are in compliance with any governmental, regulatory or other requirements they may be subject to. When a firm has a change in name or structure, it must complete the "Peer Review Change Form" (See Exhibit1). The six primary categories that may impact a firm's peer review year end (and peer review history) are as follows

1. Firm Name Change
2. Firm Dissolution (A&A Partner Leaving Firm)
3. Firm Merger
4. Firm Purchase
5. Firm Sale
6. Job Class Changes or Change in Employment

Firms are instructed to submit a completed Change Form to the administering entity that administers its peer review whenever any of these changes are applicable. In order for the Change Form to be processed, all key information must be provided, including a variety of quantitative and qualitative information regarding engagements, offices, and information related to each AICPA member's name, member number and firm name. Other important information includes the firm's (firms') managing partner(s) and quality control partner(s). The firm should submit the Change Form to their administering entity once completed. The administering entity should verify that the Change Form has all the necessary information and is complete before forwarding the document to the AICPA. Once the AICPA receives the completed form, staff determines the impact to the firm's (firms') peer review on a case by case basis using the appropriate guidance approved by the PRB.

This form does not need to be completed when:

1. A staff member in a firm becomes a partner and the firm name does not change.
2. A partner joins a firm and does not bring A&A clients to the new firm.

Each of the six situations is discussed in more detail in this chapter.

Firm Name Change

If a firm is undergoing a name change as a result of one of the following:

- A name change (only) includes a partner leaving the firm and taking no accounting or auditing (A&A) clients from this firm to a new firm,
- A partner joining the firm and bringing no A&A clients into the firm,
- A staff member has been promoted to partner, or
- A firm name is changed for commercial purposes (i.e. PLLC, LLC, PC)
- A firm name is changed for marketing purposes.

Such a change has no impact on the peer review of the firm. The firm will remain on the same peer review cycle (due date and peer review yearend) and retain all of their peer review history of the original firm, including open monitoring/corrective actions or implementation plans. If the firm name changes for reasons other than listed above, it may be due to a merger, dissolution, purchase or sale of a firm which needs to be addressed accordingly.

Examples:

Scenario 1

Partner A is leaving Firm ABC to join Firm XYZ and Partner A is taking no A&A clients to Firm XYZ. Firm ABC is changing its name to Firm BC.

Firm BC should complete the "Firm Name Change" section of the Change Form. Firm BC will remain on the same peer review cycle and retain the peer review history of Firm ABC. This scenario could potentially be affected if Partner A played a significant role in the quality control function of Firm ABC's entire A&A practice but this would be very rare in a small firm.

Scenario 2

Partner A is joining Firm BC. Partner A is bringing no A&A clients into Firm BC. Firm BC is changing its name to Firm ABC.

Firm ABC should complete the "Firm Name Change" section of Change Form. Firm ABC will remain on the same peer review cycle and retain the peer review history of Firm BC.

Scenario 3

Staff A has been promoted to partner at Firm BC. Firm BC is changing their name to Firm ABC.

Firm ABC should complete the "Firm Name Change" section of Change Form. Firm ABC will remain on the same peer review cycle and retain the peer review history of Firm BC.

Scenario 4

Firm ABC has recently been restructured as a Limited Liability Company (LLC). Firm ABC is changing its name to Firm ABC, LLC.

Firm ABC, LLC should complete the "Firm Name Change" section of Change Form. Firm ABC, LLC will remain on the same peer review cycle and retain the peer review history of Firm ABC.

Scenario 5

Firm ABC is widely known in its market as Firm AB and would like to change their name as Firm AB.

Firm ABC should complete the "Firm Name Change" section of Change Form. Firm AB will remain on the same peer review cycle and retain the peer review history of Firm ABC.

Firm Dissolution (A&A Partner(s) Leaving Firm)

For peer review purposes, a dissolution has occurred when a partner(s) is leaving the firm and taking a portion of the audit and/or accounting clients from the firm. This raises several questions as to how this impacts the original firm as well as the partner(s) leaving. The primary decision that needs to be made by the AICPA is whether after the dissolution, there is a successor firm and whether any new firms are formed. A decision is made by evaluating what happens to the engagements performed with reports issued by the original firm in the 12 month period prior to the effective date of the dissolution. The 12 month period should only include engagements with periods ended during the 12 months prior to the dissolution where the reports on those engagements have been issued. What happens to the partners and possibly staff, in addition to other relevant information is also factored into the decision.

The Change Form is ordinarily completed by the Managing partner of the original firm or his/her designee. There should be agreement as to the information in the Change Form, including the percentages of those non-SEC A&A hours that will remain with the original firm and those that a partner(s) will be taking from the firm. It is strongly recommended, although not required, that each partner leaving the firm sign the single Change Form. This prevents the situation where the original firm and any resulting firms each submit their own Change Form with conflicting information. The administering entities and the AICPA will not be responsible for determining which set of information is accurate. If the firms submit conflicting information, all firms will be considered new, none will be given successor firm status with the existing peer review history. Each firm would therefore, in order to comply with individual AICPA bylaw requirements, need to enroll in the AICPA Peer Review Program with a due date of 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. Therefore it benefits all parties involved with the dissolution to discuss the matter and come to an agreement before the Change Form is submitted. The following general guidelines are for the firms:

1. The firm maintains 60% or more of the accounting and auditing hours (excluding tax, consulting and other work associated with non-A&A

engagements and A&A engagements for SEC issuers) incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution:

- a. It is considered the successor firm and retains the peer review history and peer review cycle, including peer review due date, of the original firm.
 - i. If the dissolution occurs during the period covered by the peer review, engagements performed with reports issued by that firm during the year will be subject to review whether the reports were issued before or after the dissolution. If the engagement documentation is not available for all of the firm's engagements (i.e. partner took them), the reviewed firm should contact the administering entity to inquire if it can request a waiver from a scope limitation. The peer reviewer/peer review committee will need to assess whether this firm would have a scope limitation if due to the lack of access to these engagements, a reasonable cross section of the firm's practice would not be available for the peer review.
 - ii. Any corrective/monitoring actions or implementation plans required of the original firm would still be applicable. However, depending on the effect of a dissolution on the nature of such actions/plans, the firm has the ability to appeal any outstanding actions/plans with the administering entity.

- b. The departing partner(s) takes 40% or less of the firm's non-SEC A&A hours incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution and would not be the successor firm and would not retain any of the peer review history of the original firm.
 - i. If this partner(s) starts a new firm, then that new firm (those firms) would be required to enroll in the AICPA Program (in order to comply with AICPA individual membership peer review bylaw requirements). The due date on the new firms' (firms') peer review is 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program.

- ii. Corrective/monitoring actions or implementation plans from the original firm would not carry over to the new firm(s).
 - iii. Firms are required to have a peer review that covers a one year period and shorter "stub" period peer reviews do not satisfy the AICPA PRP requirements. Therefore, a new firm would need to wait at least a year from when it came into existence.
 - iv. This does create situations where the review of engagements from the original firm that are now part of the new firm are delayed due to the new firm status. Administering entities may consider selecting such new firms for oversight in conjunction with the oversight considerations related to corrective/monitoring actions or implementation plans from the original firm.
 - v. If the departing partner(s) joins an existing firm(s), the "firm merger" guidance should be followed for those partner(s).
2. The firm maintains 51-59% of the accounting and auditing hours (excluding tax, consulting and other work associated with non-A&A engagements and A&A engagements for SEC issuers) incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution:
- a. It is considered the successor firm and retains the peer review history and peer review cycle, including peer review due date, of the original firm. If the quality control partner of the original firm does not stay with the successor firm, the administering entity should strongly consider performing oversight on the successor firm's next (or current if applicable) peer review.
 - i. If the dissolution occurs during the period covered by the peer review, all engagements performed with reports issued by that firm during the year will be subject to review whether the reports were issued before or after the dissolution. If the documentation is not available for all of the firm's engagement (i.e. partner(s) took the documentation), the reviewed firm should contact the administering entity to inquire if it can request a waiver from a scope limitation. The peer reviewer/peer review committee will need to assess whether this firm would have a scope limitation if due to the lack of access to these engagements, a reasonable cross section of the firm's practice would not be available for the peer review.
 - ii. Any corrective/monitoring actions or implementation plans required of the original firm would still be applicable. However, depending on the affect of the

dissolution on the nature of such actions/plans, the firm has the ability to appeal any outstanding actions/plans with the administering entity.

- b. The departing partner(s) take the remaining percentage(s) of the firm's non-SEC A&A hours incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution and would not be the successor firm(s) and would not retain any of the peer review history of the original firm.
 - i. If this partner(s) starts a new firm, then that new firm (those firms) would be required to enroll in the AICPA Program (in order to comply with AICPA individual membership peer review bylaw requirements). The due date on the new firms' (firms') peer reviews is 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program.
 - ii. Corrective/monitoring actions or implementation plans from the original firm would not carry over to the new firm(s).
 - iii. Firms are required to have a peer review that covers a one year period and shorter "stub" period peer reviews do not satisfy the AICPA PRP requirements. Therefore, a new firm would need to wait at least a year from when it came into existence.
 - iv. This does create situations where the review of engagements from the original firm that are now part of the new firm are delayed due to the new firm status. Administering entities may consider selecting such new firms for oversight in conjunction with the oversight considerations related to corrective/monitoring actions or implementation plans from the original firm.
 - v. If the departing partner(s) joins an existing firm(s), the "firm merger" guidance should be followed for those partner(s).
3. The firm maintains 50% or less of the accounting and auditing hours(excluding tax, consulting and other work associated with non-A&A engagements and A&A engagements for SEC issuers) incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution, and is not in the process of undergoing (fieldwork has not begun) its peer review:

- a. It would not be the successor firm and would not retain any of the peer review history of the original firm
 - i. If the partner of the firm starts a new firm(s), then that new firm (those firms) would be required to enroll in the AICPA Program (in order to comply with AICPA individual membership peer review bylaw requirements). The due date on the new firms' (firms') peer reviews is 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program.
 - ii. Corrective/monitoring actions or implementation plans from the original firm would not carry over to the new firm(s). However, the administering entity should consider whether performing oversight on these firms peer reviews are appropriate.
 - iii. Firms are required to have a peer review that covers a one year period and shorter "stub" period peer reviews do not satisfy the AICPA PRP requirements. Therefore, a new firm would need to wait at least a year from when it came into existence.
 - iv. This does create situations where the review of engagements from the original firm that are now part of the new firm are delayed due to the new firm status. Administering entities may consider selecting such new firms for oversight in conjunction with the oversight considerations related to corrective/monitoring actions or implementation plans from the original firm.
 - v. If the departing partner(s) joins an existing firm(s), the "firm merger" guidance should be followed for those partner(s).
- b. The other partner(s) take the remaining percentage(s) of the firm's non-SEC A&A hours and would not be the successor firm(s) and would not retain any of the peer review history of the original firm.
 - i. If the partner of the firm starts a new firm(s), then that new firm (those firms) would be required to enroll in the AICPA Program (in order to comply with AICPA individual membership peer review bylaw requirements). The due date on the new firms' (firms') peer reviews is 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's

practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program.

- ii. Corrective/monitoring actions or implementation plans from the original firm would not carry over to the new firm(s). However, the administering entity should consider whether performing oversight on these firms peer reviews are appropriate.
 - iii. Firms are required to have a peer review that covers a one year period and shorter "stub" period peer reviews do not satisfy the AICPA PRP requirements. Therefore, a new firm would need to wait at least a year from when it came into existence.
 - iv. This does create situations where the review of engagements from the original firm that are now part of the new firm are delayed due to the new firm status. Administering entities may consider selecting such new firms for oversight in conjunction with the oversight considerations related to corrective/monitoring actions or implementation plans from the original firm.
 - v. If the departing partner(s) joins an existing firm(s), the "firm merger" guidance should be followed for those partner(s).
4. The firm maintains 50% or less of the accounting and auditing hours incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution, and is in the process of undergoing its peer review (fieldwork has begun, or the peer review has been accepted but not completed, or an implementation plan needs to be submitted when the dissolution takes place):
- a. It and any other firm(s) will be treated as a new firm(s) only AFTER the review is completed.
 - b. The *Standards for Performing and Reporting on Peer Reviews (Standards)* indicate that a firm may not resign from the AICPA Peer Review Program once fieldwork has commenced. The submission by the firm of a request to resign from the Program once its peer review has commenced is considered a failure to cooperate with the administering entity and may lead to the termination of the firm's enrollment in the Program by a hearing panel of the Board.
 - c. Any corrective/monitoring actions or implementation plans required of the original firm would still be applicable. However, depending on the effect of a dissolution on the nature of such actions/plans, the firm has the ability to appeal any outstanding actions/plans with the administering entity.

- d. Firms that anticipate a dissolution of this type, while its current peer review is taking place, need to consider the *Standards*.
- e. The firms would not be successor firms and would not retain any of the peer review history of the original firm. There would be no successor firm in this circumstance.
 - i. If the partner(s) starts a new firm(s), then that new firm (those firms) would be required to enroll in the AICPA Program (in order to comply with AICPA individual membership peer review bylaw requirements). The due date on the new firms' (firms') peer reviews is 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program.
 - ii. Corrective/monitoring actions or implementation plans from the original firm would not carry over to the new firm(s). However, the administering entity should consider whether performing oversight on these firms peer reviews are appropriate.
 - iii. Firms are required to have a peer review that covers a one year period and shorter "stub" period peer reviews do not satisfy the AICPA PRP requirements. Therefore, a new firm would need to wait at least a year from when it came into existence.
 - iv. This does create situations the review of engagements from the original firm that are now part of the new firm are delayed due to the new firm status. Administering entities may consider selecting such new firms for oversight in conjunction with the oversight considerations related to corrective/monitoring actions or implementation plans from the original firm.
 - v. If the departing partner(s) joins an existing firm(s), the "firm merger" guidance should be followed for those partner(s).

5. Exception to General Guidance

There are situations where firms/partners that do not meet the successor firm requirements but would like to be allowed to "use" the successor firm's most recently accepted peer review report, letter of response, if applicable, and

acceptance or completion letter. Ordinarily, only successor firms should use such documents as the history of the peer review has been granted only to them. In situations where a partner(s) take 40-49% of the non-SEC A&A hours incurred on those engagements where reports have been issued with periods ended during the 12 months prior to the effective date of the dissolution and enrolls a new firm in the AICPA Peer Review Program with the 40-49% of the original firm's non-SEC A&A practice, there is an exception to the guidance above. If the new firm wants to use the successor firm's documents (identified above), the new enrolled firm must submit a request to the successor firm's managing partner within 90 days of the dissolution. It is recommended that such request include a cover letter that would accompany any use of the peer review report, letter of response if applicable and acceptance letter. The cover letter should articulate the new firm dissolved from the original firm and the successor firm has granted the new firm permission to distribute such documents although they themselves have reenrolled its new firm in the AICPA Peer Review Program. It is solely the decision of the successor firm on whether they will allow the new firm to do this. The decision should be documented and remitted to the new firm within a reasonable period of time. Should the successor firm allow this, it is not recognized by the AICPA Peer Review Board (for the new firm) for purposes of the Standards/Interpretations, for inclusion in the public file, facilitated state board access, or impact when a new firm's peer review is due. It is the responsibility of the new firm to determine how such documents may be recognized by governmental and regulatory bodies as well as others.

6. Granting Extensions

In order to facilitate this process, firms may request reasonable extensions in writing from their administering entities for their peer review due dates if a dissolution is imminent. A reasonable request is ordinarily considered no more than three months. As with all extensions, firms are responsible for complying with governmental and regulatory bodies and other organizations peer review requirements.

Examples:

Scenario 1

Firm AB is dissolving and Partner A is taking 60% of the non-SEC A&A practice and starting Firm A and Partner B is taking 40% of the non-SEC A&A practice and starting Firm B.

In this scenario, the managing partner of firm AB (or in this case, ordinarily would be Partner A) should complete the "Firm Dissolution" section of Change Form sign it (and may want to have Partner B sign as well) or document that Partner B has agreed with the information in the Change Form and submit to the administering entity. Firm A will be considered the successor firm and will retain the peer review history and peer review cycle of Firm AB. Firm B will be considered a new firm and assigned a review due date 18 months from the effective date of the dissolution (once the new firm enrolls in the AICPA

Peer Review Program).

Scenario 2

Firm AB is dissolving and Partner A is taking 55% of the non-SEC A&A practice (Firm A) and Partner B is taking 45% of the non-SEC A&A practice (Firm B).

In this scenario, the managing partner of firm AB (or in this case, ordinarily would be Partner A) should complete the "Firm Dissolution" section of Change Form sign it (and may want to have Partner B sign as well) or document that Partner B has agreed with the information in the Change Form and submit to the administering entity. Firm A will be considered the successor firm and will retain the peer review history and peer review cycle of Firm AB. Firm B will be considered a new firm and assigned a review due date 18 months from the effective date of the dissolution (once the new firm enrolls in the AICPA Peer Review Program).

The firms must indicate where the QC partner, if they have one, is going. Firm A will be considered the successor firm and retain the peer review history and peer review cycle of Firm AB. The administering entity should strongly consider performing oversight on the firm(s) that does not retain the QC partner.

Scenario 3

Firm ABC is not currently undergoing its peer review. Partner A is taking 35% of the non-SEC A&A practice and starting Firm A, Partner B is taking 35% of the non-SEC A&A practice and starting Firm B, and Partner C is taking 30% of the non-SEC A&A practice and starting Firm C.

In this scenario, ordinarily the managing partner would complete the "Firm Dissolution" section of Change Form and consider having the other partners sign the form, or document their agreement with the information in the form. All of the firms will be considered new firms for peer review purposes and assigned a review due date 18 months from the effective date of the dissolution (once the new firms enroll in the AICPA Peer Review Program).

Scenario 4

Firm ABC is in the middle of its peer review and is expected to legally dissolve in the next month or two. Partner A is taking 35% of the non-SEC A&A practice and starting Firm A, Partner B is taking 35% of the non-SEC A&A practice and starting Firm B, and Partner C is taking 30% of the non-SEC A&A practice and starting Firm C.

In this scenario, ordinarily the managing partner would complete the "Firm Dissolution" section of Change Form and consider having the partners sign the form, or document their agreement with the information in the form. Once the peer review of ABC is completed, all of the firms will be considered new firms for peer review purposes and assigned a review due date 18 months from the effective date of the dissolution (once the new firms enroll in the AICPA Peer Review Program).

Firm Merger

For peer review purposes, a merger is when two or more firms begin to practice as one firm. This may also include one firm acquiring other firms including owners and engagements. Based on the effective date of the merger, each original firm should calculate the non-SEC A&A hours that each is bringing to the "combined" firm. The percentage of the A&A hours (excluding tax, management consulting or other work associated with non-A&A engagements and SEC issuer A&A engagements) should be calculated based on the non-SEC A&A hours for the engagements performed with reports issued by the original firms in the 12 month period prior to the effective date of the merger. The 12 month period should only include engagements with fiscal year ends during the 12 months prior to the dissolution where the reports on those engagements have been issued. There should be agreement as to the number and percentage of those hours that each firm is contributing. The firm's status and due date for peer review will be determined by the AICPA. The following general guidelines are for a merger:

A decision needs to be made whether the "combined" firm is deemed as a successor firm, (from one of the combining firms) with a new name or is deemed a new firm.

1. In cases where a single firm brings in 51% or more of the non-SEC A&A hours, that firm is deemed as the successor firm and governs the due date of the next peer review. If the merger takes place during the peer review year, all engagements of the firm that brought in 51% or more of the non-SEC A&A hours will be subject to review, but only those engagements of the smaller merged-in firm(s) performed with reports issued after the merger will be subject to review. Therefore, where applicable, the firm should ask for a reasonable extension of its peer review year end and/or due date if it facilitates being able to peer review a larger percentage of the combined firm's engagements.
2. If no firm brings in 51% or more of the non-SEC A&A hours of the combined firm, the combined firm is deemed a new firm and assigned a review due date 18 months from the effective date of the merger (once the new firm enrolls in the AICPA Peer Review Program).
3. It is expected that firms, of any size, that are merged into another firm will cease performing engagements and issuing reports on non-SEC A&A engagements under its old firm (old letterhead) upon the effective date of the merger. Firms should make this representation in the Change Form and in the absence of doing so, will continue to be expected to be enrolled in the AICPA Peer Review Program and undergo a peer review independent of any merger (because the firm is still practicing public accounting such that it is subject to the *Standards for Performing and Reporting on Peer Reviews*).

Examples:

Scenario 1

Firm A merges with Firm B to create Firm AB. Firm A's non-SEC A&A practice is 90% of Firm AB and Firm B's non-SEC A&A practice is 10% of Firm AB.

In this scenario, Firm A should complete the "Firm Merger" section of the Change Form. Firm B should make a representation in the Change Form that it has ceased performing engagements with reports issued after the effective date of the merger. In the absence of doing so, Firm B will be left enrolled in the computer system and will continue to be expected to be enrolled in the AICPA Peer Review Program and undergo a peer review independent of any merger (because the firm is still practicing public accounting such that it is subject to the *Standards for Performing and Reporting on Peer Reviews*). The peer review status and peer review due date for Firm AB will be the same as that of Firm A.

Scenario 2

In this scenario, Firm A brings in 60%, Firm B brings in 25% and Firm C brings in 15 % of the non-SEC A&A hours into Firm ABC. The effective date of the merger is 9/30/07 and the due date for Firm A's peer review is 12/31/08 for the year ended 6/30/08. Assume Firm B and Firm C, which are formally out of business, had the same due dates and peer review year ends. In this case it would make sense for Firm ABC to change its peer review year end from 6/30/08 to 9/30/08 because by doing so, Firm ABC will have been in business for one full year and 100% of the engagements (10/1/7-9/30/08) could be selected for review. If the 6/30/08 year end was kept, a smaller percentage of the merged in practice would be available for review. In this scenario it's possible the firm may not even need an extension, but would need approval to change its year end.

This process is more difficult when the merger takes place later in the period covered by the peer review because a larger change in yearend/due date may be necessary to get to the 100% coverage but the change may not be appropriate due to firm compliance issues with governmental and regulatory and other bodies peer review requirements. In the above example, if the merger was effective 1/1/08, the firm would have needed to change its year end by six months to get 100% coverage. Professional judgment is often required here.

In this scenario, Firm A should complete the "Firm Merger" section of Change Form. Firm B and Firm C should make a representation in the Change Form that it has ceased performing engagements with reports issued after the effective date of the merger. In the absence of doing so, Firm B and Firm C will be left enrolled in the computer system and will continue to be expected to be enrolled in the AICPA Peer Review Program and undergo a peer review independent of any merger (because the firm is still practicing public accounting such that it is subject to the *Standards for Performing and Reporting on Peer Reviews*).

Scenario 3

Firm A merges with Firm B and C to create Firm ABC. Firm A's non-SEC A&A practice is 40% of Firm ABC, Firm B's non-SEC A&A practice is 40% of Firm ABC and Firm C's non-SEC A&A practice is 20% of Firm ABC.

In this scenario, Firm A, Firm B or Firm C can complete the "Firm Merger" section of Change Form. Firm ABC will be considered a new firm and the peer review due date will be 18 months from the effective date of the merger. Each firm should make a representation in the Change Form that it has ceased performing engagements with reports issued after the effective date of the merger. In the absence of doing so, each firm will also be left enrolled in the computer system and will continue to be expected to be enrolled in the AICPA Peer Review Program and undergo a peer review independent of any merger (because the firm is still practicing public accounting such that it is subject to the *Standards for Performing and Reporting on Peer Reviews*).

Firm Purchase or Firm Sold

When a firm purchases the non-SEC A&A practice from another firm or firms, for peer review purposes, ordinarily this means a partner sells its non-SEC A&A practice to another firm and retires or becomes an employee (non-owner). The nature of each firm's practice will determine whether the purchasing firm is deemed a successor firm or a new firm and the peer review due date.

1. If each firm was responsible for a reasonably comparable amount of non-SEC A&A, ordinarily, there is no change to the peer review cycle or peer review history of the purchasing firm.
2. If the purchasing firm had a large attest practice but did not previously perform audit work and the firm sold has a small audit practice, the purchasing firm would remain the successor firm but be required to have a system review 18 months from the fiscal year end of the first audit the purchasing firm performs or the purchasing firm's due date, whichever is earlier.
3. If the firm sold has substantially more non-SEC A&A hours than the purchasing firm, the purchasing firm is considered a new firm for peer review purposes and assigned a due date of 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier. When an individual becomes an AICPA member, and the services provided by their firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA professional standards, the firm (or individual) should enroll in the Program.

Example:

Scenario 1

Firm A purchases Firm B

In this scenario, Firm A and Firm B should complete the respective "Firm Purchase" and "Firm Sale" section of the Change Form including information about the non-SEC A&A practice and return it to the administering entity. If Firm A only had a compilation practice and purchased Firm B's audit practice, Firm A would ordinarily remain the successor firm but be required to have a system review 18 months from the fiscal year end of the first audit Firm A performs or by Firm A's due date, whichever is earlier.

If Firm A (a sole practitioner with no staff) performed one small manufacturing audit and purchased Firm B's 5000 hour governmental and ERISA audit practice and brought over 3 employees from Firm B, ordinarily Firm A would be given new firm status and assigned a review due date 18 months from the date the firm enrolled in the Program or should have enrolled, whichever is earlier.

Job Class Changes or Change in Employment

For individuals that are no longer a partner due to retirement or a change of industry (i.e. public accounting to private accounting), the Change in Employment section of the Change Form should be completed.

Example:

Scenario 1

Partner A is leaving Firm AB because Partner A is retiring (or going into private industry) and the remaining Firm is Firm B

In this scenario, Partners A and B should complete the "Change in Employment" section of Change Form, including information about the non-SEC A&A practice and return it to the administering entity. The nature of the Firm AB's practice and each partner's role in the practice will determine whether Firm B is deemed a successor firm or a new firm. If each partner was responsible for non-SEC A&A, ordinarily, there is no change to the peer review cycle or peer review history of Firm B. However, If Partner A was the only non-SEC A&A partner or performed all of the audits and Partner B is now performing non-SEC A&A or just audits for the first time, ordinarily Firm B would be given new firm status and assigned a review due date 18 months from the effective date of the job class change (once the new firm enrolls in the AICPA Peer Review Program).

Review Requirements for Joint Ventures

Joint ventures formed specifically to perform certain engagements are not required to have a peer review provided that:

1. Each of the firms that sign the joint venture report is required to have system reviews and agree to list the joint venture(s) on their client rosters during their peer reviews.
2. The joint venture is not operating and structured as a separate firm.
3. Joint ventures do not include part time work arrangements, when only one firm issues the report.
4. If the letterhead used for the joint venture does not identify the separate firms that joined together to perform the engagement, then the joint venture is operating as a separate firm.
5. If two firms perform work on the same engagement, but the report is issued and signed by only one of the firms, it could be concluded that a joint venture did not exist. In this case, the firm that issued the report should include it on their client roster.



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PROC Item X.
June 15, 2012

**Discussion and Possible Action Regarding Suggestions for Addressing
the Length of Time it Takes to Complete the Peer Review Process
(2011 PROC Annual Report Item)**

Presented by: Nancy J. Corrigan, Chair

Date: May 21, 2012

Purpose of the Item

The purpose of this agenda item is to address the Peer Review Oversight Committee's (PROC) 2011 Annual Report's Future Consideration regarding the length of the peer review process.

Action(s) Needed

The PROC should determine if further research is necessary regarding the length of time it takes the California Society of Certified Public Accountants (CalCPA) to complete the peer review process.

Background

The PROC's 2011 Annual Report included the following as a Future Consideration:

"The CalCPA currently estimates the length of time to complete the entire peer review process at 2-7 months. The PROC intends to study the process to determine if the duration can be reduced."

Comments

As reflected in the 2011 Annual Report, CalCPA has indicated that the length of time to complete the peer review process is two (2) to seven (7) months. This time frame varies depending on multiple factors, including the volume of peer reviews, licensees' level of participation in the process, availability of peer reviewers, and the time required for review and acceptance of the peer review reports. These same factors have been identified by PROC members during their oversight activities, as possible contributors to the length of time it takes to complete the peer review process.

Recommendation

Staff has no recommendation on this item; however if the PROC members believe this timeframe should be studied to determine whether it can be reduced, they could consider establishing a subcommittee of two PROC members, appointed by the Chair, that would research this topic and provide recommendations for PROC deliberation at a future meeting. Alternatively, the PROC members can provide guidance to staff on identifying information needed to enable the PROC members to study and discuss this

topic at a future meeting. All members would participate in reviewing the research and making a recommendation on this topic.

Attachment

None