



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

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



**PROC Item I.A.**  
 August 14, 2020

**DEPARTMENT OF CONSUMER AFFAIRS  
 CALIFORNIA BOARD OF ACCOUNTANCY**

**DRAFT**

**MINUTES OF THE  
 February 14, 2020  
 PEER REVIEW OVERSIGHT COMMITTEE MEETING**

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

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

Jeffrey De Lyser, CPA, called the meeting of the California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC) to order at 11:00 a.m. on Friday, February 14, 2020, at the CBA office. The meeting adjourned at 12:40 p.m.

Members

Jeffrey De Lyser, CPA, Chair	11:00 a.m. – 12:40 p.m.
Renee Graves, CPA, Vice-Chair	11:00 a.m. – 12:40 p.m.
Kevin Harper, CPA	11:00 a.m. – 12:40 p.m.
Alan Lee, CPA	11:00 a.m. – 12:40 p.m.
Iryna Oreshkova, CPA	Absent
Sharon Selleck, CPA	Absent
Fiona Tam, CPA	11:00 a.m. – 12:40 p.m.

CBA Member

Katrina L. Salazar, CPA, CBA Member Liaison

CBA Staff

Dominic Franzella, Chief, Enforcement Division  
 Michelle Center, Chief, Licensing Division  
 Sarah Benedict, Manager, Renewal and Continuing Competency Unit  
 Jennifer Jackson, Examination Coordinator  
 Tom Botti, Renewal and Continuing Competency Coordinator

Other Participants

None

Mr. De Lyser read the following into the record:

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

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

Mr. De Lyser welcomed Ms. Salazar, as CBA Member Liaison, to the PROC meeting.

I. Report of the Committee Chair.

A. Approval of the December 13, 2019 Peer Review Oversight Committee Meeting Minutes.

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

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

**No: None.**

**Abstain: None.**

**Absent: Ms. Oreshkova and Ms. Selleck.**

**The motion passed.**

B. Report on the January 16, 2020 California Board of Accountancy Meeting.

Ms. Salazar noted that at the January 16, 2020 meeting, Kimberly Kirchmeyer, Director, Department of Consumer Affairs, presented on departmental focuses going forward that include working on client services, data transparency, regulation packages, and obtaining budget information with faster turnaround times.

Ms. Salazar reported that Assembly Bill 1521, which was the CBA’s Sunset Bill, was signed into law with three statutory changes focused on supporting the CBA’s mission of consumer protection and improve operations:

- Increase CBA’s initial licensure and renewal fee to \$250

- Add a requirement that applicants and licensees provide and maintain a valid email address, if they have one
- Allow the CBA to publish and distribute the CBA newsletter, UPDATE, electronically

Ms. Salazar noted that the next CBA meeting will be held in San Diego, CA on March 26, 2020.

II. Report on Peer Review Oversight Committee Oversight Activities Conducted Since December 13, 2019 and Future Activities.

A. Report on the January 21, 2020 California Society of Certified Public Accountants Report Acceptance Body Meeting.

None.

B. Report on the January 23, 2020 California Society of Certified Public Accountants Report Acceptance Body Meeting.

Mr. Lee reported on this agenda item.

C. Report on the January 30, 2020 American Institute of Certified Public Accountants (AICPA) Peer Review Board Meeting.

Mr. Harper reported on this agenda item. His highlights included:

- A new option for firms receiving an implementation plan for nonconforming engagements can include hiring an outside party.
- The Quality Control Materials Project Task Force is producing a written guide to give peer review firms additional direction regarding quality control.
- The deadline has been delayed for submitting the peer review information form on the Peer Review Integrated Management System.
- The AICPA Peer Review Program Questions and Answers document has been updated.

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

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

Out-of-State Administering Entities Oversight:

- North Carolina – Mr. Harper
- Missouri – Mr. Harper

Mr. Harper reviewed these entities and determined that there were no significant issues to report.

E. Report on Notices Posted on the American Institute of Certified Public Accountants' and National Association of State Boards of Accountancy's Websites Regarding Changes and Updates to the Peer Review Program.

Ms. Graves reported on this agenda item. She noted that there were three items to present to the committee:

- A statement was issued by the National Association of State Boards of Accountancy (NASBA) on standards of continuing education programs, effective December 31, 2019.
- A "Core Plus Discipline" CPA licensure model has been proposed to enhance public protection by producing candidates who have deep core knowledge necessary to perform high quality work, as well as discipline-specific expertise.
- NASBA issued a comment letter regarding standards for accounting and review services.

Ms. Graves concluded that there are a number of upcoming training initiatives regarding must-select courses geared toward peer reviewers.

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

Mr. De Lyser presented this agenda item. He highlighted the new 2020 PROC oversight activities and requested PROC members to participate and accept new assignments for upcoming PROC oversight activities, as well as website updates.

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

CalCPA RAB Meeting(s):

- February 25, 2020 – Ms. Tam at 9:00 a.m. (call-in)

Out-of-State Administering Entities:

- Colorado – Mr. Harper
- Texas – Ms. Graves

III. Report of the Enforcement Chief.

A. Discussion and Possible Action on the Draft 2019 Peer Review Oversight Committee Annual Report.

Mr. Franzella reported on this agenda item. He requested that the PROC provide any edits or suggestions to the PROC 2019 Annual Report, approve it for presentation at the CBA's March 2020 meeting, and to delegate authority for

the PROC Chair to work with staff on additional revisions to the annual report prior to its presentation at the CBA meeting.

The PROC discussed and provided edits and suggestions to the PROC 2019 Annual Report.

**It was moved by Mr. Harper and seconded by Mr. Lee to accept the PROC 2019 Annual Report with edits and delegate authority to the Chair to work with staff on additional changes to the annual report prior to its presentation at the March 2020 CBA Meeting.**

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

**No: None.**

**Abstain: None.**

**Absent: Ms. Oreshkova and Ms. Selleck.**

**The motion passed.**

IV. Closing Business.

A. Public Comments for Items Not on the Agenda.

None.

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

Mr. De Lyser reported that at a future meeting, the PROC will again discuss checklist processes for Administrative Site Visits.

V. Adjournment.

Having no further business to conduct, Mr. De Lyser adjourned the meeting at 12:40 p.m. on Friday, February 14, 2020.

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Jeffrey De Lyser, CPA, Chair

Tom Botti, RCC Coordinator, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-4306 or email [tbotti@cba.ca.gov](mailto:tbotti@cba.ca.gov).



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Sacramento, CA 95833

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



**PROC Item I.C.**  
August 14, 2020

## **Discussion Regarding Proposed 2021 Peer Review Oversight Committee Meeting Dates**

**Presented by: Jeffrey De Lyser, CPA, Chair, Peer Review Oversight Committee**

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with proposed PROC meeting dates for 2021.

### **Consumer Protection Objectives**

Pursuant to Business and Professions Code, section 5076, the PROC is authorized to act as an advisory committee for the California Board of Accountancy (CBA) by providing recommendations and assisting with the consumer protection mandate on any peer review activities associated with the American Institute of Certified Public Accountants (AICPA), a Board-approved peer review program provider, and the California Society of Certified Public Accountants (CalCPA), a peer review administering entity, to ensure the effectiveness of mandatory peer review.

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

The PROC may choose to adopt or modify the 2021 PROC proposed meeting dates. Additionally, the PROC may wish to discuss scheduling the meetings to begin at 9:00 a.m.

### **Background**

The 2021 CBA meeting dates (**Attachment**) are as follows:

- January 14-15, 2021 – Northern California
- March 25-26, 2021 – Southern California
- May 13-14, 2021 – Northern California
- July 22-23, 2021 – Southern California
- September 23-24, 2021 – Northern California
- November 18-19, 2021 – Southern California

## **Discussion Regarding Proposed 2021 Peer Review Oversight Committee Meeting Dates**

Page 2 of 2

Travel restrictions and social distancing requirements may necessitate CBA meetings being conducted by way of video conference.

### **Comments**

The PROC meetings will be held virtually using video conference technology. The proposed PROC meeting dates are:

- February 12, 2021
- May 7, 2021
- August 13, 2021
- December 10, 2021

PROC meetings are currently held from 11:00 am to 1:00 pm for travel considerations. As the PROC moves forward with virtual meetings and travel becomes unnecessary, the time of the meeting may be adjusted so as not to occur over the lunch hour. Additionally, the use of video conferencing may necessitate the need to extend the meeting time by a half hour.

After adoption, the dates will be submitted to the CBA for approval.

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

There are no fiscal/economic considerations.

### **Recommendation**

Staff recommend that the PROC adopt or modify the proposed 2021 PROC meeting dates and adjust the meeting time given the transition to virtual meetings.

### **Attachment**

California Board of Accountancy 2021 Meeting Dates/Locations Calendar

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
2021 MEETING DATES/LOCATIONS CALENDAR  
(CBA MEMBER COPY)**

**JANUARY 2021**

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

**FEBRUARY 2021**

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

**MARCH 2021**

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

**APRIL 2021**

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

**MAY 2021**

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

**JUNE 2021**

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

**JULY 2021**

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 SC	23 SC	24
25	26	27	28	29	30	31

**AUGUST 2021**

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

**SEPTEMBER 2021**

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

**OCTOBER 2021**

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

**NOVEMBER 2021**

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 SC	19 SC	20
21	22	23	24	25	26	27
28	29	30				

**DECEMBER 2021**

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

**COMMITTEES**

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

**GENERAL LOCATION**

NC-NORTHERN CALIFORNIA  
 SC-SOUTHERN CALIFORNIA

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





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**PROC Item II.A.**  
August 14, 2020

**Report on the California Society of Certified Public Accountants Report  
Acceptance Body Meetings, the California Society of Certified Public  
Accountants Peer Review Committee Meeting, and the American Institute of  
Certified Public Accountants' Peer Review Board Open Meeting**

**Presented by: Jeff De Lyser, CPA, Chair**

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**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with an overview of the PROC's various oversight activities of the California Society of Certified Public Accountants (CalCPA) and the American Institute of Certified Public Accountants (AICPA).

**Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with applicable professional standards.

**Action(s) Needed**

It is requested that the PROC review and evaluate the effectiveness of the peer review program administered by CalCPA and AICPA.

**Background**

The PROC performs oversight activities as necessary to report to the CBA regarding the effectiveness of mandatory peer review. Oversight activities include, but are not limited to: attending peer review board meetings, attending peer review committee meetings, and attend report acceptance meetings.

**Comments**

**Report Acceptance Body Meetings**

The PROC observes selected CalCPA Report Acceptance Body (RAB) meetings. The objective of PROC's CalCPA RAB oversight is to observe how the RAB executes its duties in the meeting and determine whether or not this aspect of the peer review process is operating effectively in the state of California.

## **Report on the California Society of Certified Public Accountants Report Acceptance Body Meetings, the California Society of Certified Public Accountants Peer Review Committee Meeting, and the American Institute of Certified Public Accountants' Peer Review Board Open Meeting**

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On February 25, 2020, PROC member Fiona Tam, CPA, attended the RAB meeting via conference call. The RAB discussed 33 peer review reports. Ms. Tam concluded that the RAB meeting met expectations as to its effectiveness for its role in the peer review process.

On June 16, 2020, PROC member Renee Graves, CPA, attended the RAB meeting via conference call. The RAB discussed 15 peer review reports. Ms. Graves concluded that the RAB meeting met expectations as to its effectiveness for its role in the peer review process.

On June 18, 2020, I attended the RAB meeting via conference call. The RAB discussed 13 peer review reports. I concluded that the RAB meeting met expectations as to its effectiveness for its role in the peer review process.

On July 14, 2020, PROC member Iryna Oreshkova, CPA, attended the RAB meeting via conference call. The RAB discussed 11 peer review reports. Ms. Oreshkova stated that the RAB reviewed fewer reports than is normal due to COVID-19. She concluded that the RAB meeting met expectations as to its effectiveness for its role in the peer review process.

### Peer Review Committee Meetings

The PROC observes select CalCPA Peer Review Committee (PRC) meetings via conference call. The objective of this aspect of PROC oversight is to observe how the PRC executes its duties in the meeting and determine whether this aspect of the peer review process is operating effectively in the state of California.

On June 25, 2020, I attended the PRC meeting via conference call. It was noted that PRC members needed additional guidance in modifications to extensions, deadlines, and other peer review provisions due to the COVID-19 pandemic, considerations or preparation engagements in the system reviews, and continuing education as corrective action for peer review findings. I concluded that the PRC meeting met expectations as to its effectiveness for its role in the peer review process.

### Peer Review Board Meetings

The PROC observes select AICPA Peer Review Board (PRB) meetings via conference call. The objective of this aspect of PROC oversight is to observe how the PRB executes its duties in the meeting and determine whether or not this aspect of the peer review process is operating effectively in the state of California.

**Report on the California Society of Certified Public Accountants Report  
Acceptance Body Meetings, the California Society of Certified Public Accountants  
Peer Review Committee Meeting, and the American Institute of Certified Public  
Accountants' Peer Review Board Open Meeting**

Page 3 of 3

On May 7, 2020, Ms. Oreshkova attended the PRB meeting via conference call. Ms. Oreshkova noted that the peer review process will be conducted remotely due to the COVID-19 pandemic and concluded that the PRB meeting met expectations as to its effectiveness for its role in the peer review process.

**Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

**Recommendation**

Staff do not have a recommendation on this agenda item.

**Attachment**

None



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Sacramento, CA 95833

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**PROC Item II.B.**  
August 14, 2020

## **Report on the Peer Review Oversight Committee Oversight of Out-of-State Administering and Revised Process (Colorado and Texas)**

**Presented by: Jeff De Lyser, CPA, Chair**

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with an overview of the PROC's oversight of out-of-state administering agencies. This item addresses the oversight of Colorado and Texas.

### **Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with applicable professional standards.

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

It is requested that the PROC review and evaluate the effectiveness of the peer review program administered by out-of-state entities.

### **Background**

The PROC is entrusted to ensure that peer reviews are conducted in accordance with standards established by the CBA and administered by the American Institute of Certified Public Accountants (AICPA). Consistent with its legislative mandate, the PROC provides oversight of the AICPA's out-of-state administering entities if those entities accept peer review reports pursuant to Business and Professions Code section 5076 and California Code of Regulations, Division 1 (CBA Regulations) sections 38-48.6.

### **Comments**

#### *Colorado Society of CPAs*

The Colorado Society of CPAs administers the peer review program for the state of Colorado and New Mexico. On April 8, 2020, PROC member Kevin Harper reviewed the AICPA's peer review oversight visit report of the Colorado Society of CPAs. Mr. Harper noted the following findings:

- Documents for a few firms' peer reviews were not destroyed as required by the standards.

## Report on the Peer Review Oversight Committee Oversight of Out-of-State Administering and Revised Process (Colorado and Texas)

Page 2 of 3

- Approximately half the reviews tested were not presented to the Report Acceptance Body (RAB) within 120 days of receipt of documents from the reviewer, as required by the standards.
- On one review considered by the RAB, the team captain (also a RAB member) was present for the discussion of the review, although he did not participate in the discussion.
- Two reviews were delayed due to comments from the Oversight Task Force (OTF). Two reviewer feedback forms were issued based on the comments and the reviews were accepted.
- On one occasion, the RAB was ready to approve an implementation plan, but the OTF member pointed out a plan was not allowed based on the particular review's circumstances.
- A few acceptance letters, which had follow-up actions approved by the RAB, were issued with two different due dates. One date was for the reviewed firm and the other for the team/review captain. These acceptance letters omitted the reminder to the reviewed firm about potential independence issues that could arise by using the team/review captain for the follow up actions.

The following recommendations were made to the administering entity:

- Review the files 120 days after acceptance letters are mailed to ensure that all appropriate working papers are destroyed in accordance with chapter 13 of the AICPA Peer Review Program Administrative Manual.
- Ensure that all reviews are presented to the RAB no later than 120 days after the documents are received.
- Ensure reviewers are not present during their RAB review.
- Exercise additional care during RABs deliberations to ensure all critical matters are discussed and reviewer feedback is issued when necessary.
- Review guidance in the RAB Handbook for allowable implementation plans.
- Have a single due date for acceptance letters and include the independence caution in the example acceptance letters provided by the AICPA.

Mr. Harper noted that the Colorado Society of CPAs complied in all material respects with the AICPA Program with some recommendations to enhance their process. Overall, Mr. Harper found that the Colorado Society of CPAs met expectations.

### *Texas Society of CPAs*

On July 30, 2020, PROC member Renee Graves reviewed the AICPA's peer review oversight report of the Texas Society of CPAs. Ms. Graves noted that there were no findings. The following recommendations were made by the administering entity:

- Noted instances where further evaluation of the team captains' conclusions

## **Report on the Peer Review Oversight Committee Oversight of Out-of-State Administering and Revised Process (Colorado and Texas)**

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regarding isolated instances of nonconformity and the potential impact on the report were warranted.

- Some RAB committee members were not properly evaluating and considering the systemic cause of nonconforming engagements in reaching a decision on whether the matter should be treated as isolated in determining its impact on the report.

The oversight report stated the following positive observations:

- Follow-up actions are effectively monitored for completion (included in December 4, 2015 letter).
- RAB meetings were orderly and it was apparent subcommittee members had reviewed reports and working papers prior to the meeting.
- The Society has developed a backup plan to support administrators and technical reviewers (included in December 4, 2015 letter).
- Information on their Website and other media is accurate and timely (included in December 4, 2015 letter).

Overall, Ms. Graves found that the Texas Society of CPAs met expectations.

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

There are no fiscal/economic considerations.

### **Recommendation**

Staff do not have a recommendation on this agenda item.

### **Attachment**

None



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Sacramento, CA 95833

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



**PROC Item II.C.**  
August 14, 2020

## **Report on Notices Posted on the American Institute of Certified Public Accountants' and National Association of State Boards of Accountancy's Websites Regarding Changes and Updates to the Peer Review Program**

**Presented by: Jeff De Lyser, CPA, Chair**

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with an overview of notices posted on the American Institute of Certified Public Accountants' (AICPA) and National Association of State Boards of Accountancy's (NASBA) websites regarding changes and updates to the peer review program.

### **Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with applicable professional standards.

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

It is requested that the PROC review the information provided and visit the AICPA and NASBA websites to learn more.

### **Background**

The PROC periodically reviews the AICPA and NASBA websites for important information about the evolution of the peer review process.

### **Comments**

PROC member Renee Graves, CPA, reviewed the AICPA and NASBA websites and found the following information posted:

The following AICPA news and publications located on the [AICPA Website](#) were reviewed.

- On-line training
  - Team and Review Captain Ongoing Training
  - Employee Benefit Plan Must-Select Training
  - Governmental Must-Select Training

Report on Notices Posted on the American Institute of Certified Public Accountants' and National Association of State Boards of Accountancy's Websites Regarding Changes and Updates to the Peer Review Program

Page 2 of 2

- Peer Review Program (PRP) Section 3100 supplemental guidance article, "Evaluation of Non-Compliance with the Risk Assessment Standards" (effective for reviews commencing on or after May 1, 2020)
- Updated engagement checklists and practice aids
  - Financial Reporting and Disclosure Checklists (22300 and 23600)
  - Team Captain Checklist and Review Captain Summary (4900 and 6300)
  - Single Audits (22100, A and B)
  - Broker Dealers (21300)
  - Banking (22010)
  - Agreed Upon Procedures (AUP) (20900A)
- Announcement of peer review virtual conference scheduled for August 3-5, 2020
- Announcement that the Peer Review Board (PRB) deferred the potential exposure draft containing guidance related to onsite performance requirements for system reviews
- *Journal of Accountancy* article "[Perceptions about analytics-aided audit quality](#)" (note, this article may be of particular interest to PROC members)
- Statement on Standards for Accounting and Review Services (SSARS), issue 25 addressed materiality in a review of financial statements and adverse conclusions (effective for periods ending on or after December 15, 2021)
- Announcement that Peer Review Integrated Management Application (PRIMA) added a feedback button allowing users to give real-time feedback on their PRIMA experience

NASBA comment letters located on the NASBA Website were reviewed; however, none of the comment letters were related to the topic of Peer Review or assurance work that would be subject to Peer Review.

**Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

**Recommendation**

Staff do not have a recommendation on this agenda item.

**Attachment**

None





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Sacramento, CA 95833

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



**PROC Item II.D.**  
August 14, 2020

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

**Presented by: Sarah Benedict, Renewal and Continuing Competency Manager**

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### **Purpose of the Item**

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

### **Consumer Protection Objectives**

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

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

It is requested that all members bring their calendars to the August 14, 2020 PROC Meeting and be prepared to accept assignments.

### **Background**

None.

### **Comments**

The 2020 CBA Meeting Dates and Locations (**Attachment 1**), 2020 CBA PROC Year-at-a-Glance calendar (**Attachment 2**), the 2020 PROC Activity Assignments (**Attachment 3**), and the 2020 PROC Roles and Responsibility Activity Tracking sheet (**Attachment 4**), are provided for the PROC to reference 2020 PROC activities to be assigned relating to the following entities:

- CBA
- PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board

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

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

The CalCPA Administrative Site Visit (ASV) will be conducted virtually due to the COVID-19 pandemic. PROC members are asked to work closely with CalCPA staff to arrange a date and time to document viewing via screen sharing to occur.

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

There are no fiscal/economic considerations.

### **Recommendation**

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

### **Attachments**

1. 2020 CBA Meeting Dates/Locations
2. 2020 CBA Peer Review Oversight Committee (PROC) Year-at-a-Glance Calendar
3. 2020 Peer Review Oversight Committee (PROC) Activity Assignments
4. 2020 Peer Review Oversight Committee (PROC) Roles and Responsibilities Activity Tracking

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
2020 MEETING DATES/LOCATIONS CALENDAR**

Attachment 1

**JANUARY 2020**

S	M	T	W	Th	F	S
			1	2	3	4
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**FEBRUARY 2020**

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**MARCH 2020**

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**APRIL 2020**

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**MAY 2020**

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**JUNE 2020**

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**JULY 2020**

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**AUGUST 2020**

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**SEPTEMBER 2020**

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**OCTOBER 2020**

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**NOVEMBER 2020**

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**DECEMBER 2020**

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**COMMITTEES**

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

**GENERAL LOCATION**

- NC-NORTHERN CALIFORNIA
- SC-SOUTHERN CALIFORNIA

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

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
PEER REVIEW OVERSIGHT COMMITTEE (PROC) CALENDAR  
2020 Year-at-a-Glance Calendar  
(As of August 14, 2020)**

**JANUARY 2020**

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**FEBRUARY 2020**

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**MARCH 2020**

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**APRIL 2020**

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**MAY 2020**

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**JUNE 2020**

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**JULY 2020**

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**AUGUST 2020**

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**SEPTEMBER 2020**

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**OCTOBER 2020**

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**NOVEMBER 2020**










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**DECEMBER 2020**

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

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

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



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

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



## Attachment 3

## 2020 Peer Review Oversight Committee (PROC) Activity Assignments

Date	Activity	Member Assigned
<b>January 16, 2020</b>	<b>CBA Meeting, Northern California</b>	De Lyser
January 21, 2020	CalCPA RAB 9:00 a.m.	Selleck
January 23, 2020	CalCPA RAB 9:00 a.m.	Lee
January 30, 2020	AICPA PRB Open Meeting (Conference Call)	Harper
February 14, 2020	<b>PROC MEETING</b>   Assign Peer Review-Related Updates for May 2020 PROC Meeting	Graves
	<b>PROC MEETING</b>   Assign Two PROC Members to Oversight Out-of-State AEs ( <i>Colorado and Texas</i> )	Harper (CO) Graves (TX)
February 25, 2020	CalCPA RAB 9:00 a.m. or 2:00 p.m.	Tam
<b>March 26, 2020</b>	<b>CBA Meeting, Southern California</b>	Cancelled
May 8, 2020	<b>PROC MEETING</b>   Assign Peer Review-Related Updates for August 2020 PROC Meeting	Cancelled
	<b>PROC MEETING</b>   Assign Two PROC Members to Oversight Out-of-State AEs ( <i>Florida and New York</i> )	Cancelled
	<b>PROC MEETING</b>   Assign Two PROC Members to Perform 2020 Administrative Site Visit	Cancelled
May 7, 2020	AICPA PRB Open Meeting (Conference Call)	Oreshkova
<b>May 14-15, 2020</b>	<b>CBA Meeting, Northern California</b>	Cancelled
June 16, 2020	CalCPA RAB 9:00 am or 2:00 pm	Graves & Oreshkova-9 am
June 18, 2020	CalCPA RAB 9:00 am or 2:00 pm	None
June 25, 2020	CalCPA Peer Review Committee Meeting (Zoom)	None
July 14, 2020	CalCPA RAB at 2:00 pm	Oreshkova 9 am
July 16, 2020	CalCPA RAB 9:00 am or 2:00 pm	None
<b>July 23, 2020</b>	<b>CBA Meeting, Southern California</b>	De Lyser

August 14, 2020	<b>PROC MEETING</b>   Assign Peer Review-Related Updates for December 2020 PROC Meeting	
	<b>PROC MEETING</b>   Assign Two PROC Members to Oversight Out-of-State AEs ( <i>Oregon and Hawaii</i> )	
August 25, 2020	CalCPA RAB 9:00 am or 2:00 pm	
August 27, 2020	CalCPA RAB 9:00 am or 2:00 pm	
September 2, 2020	AICPA PRB Open Meeting (St. Louis, MO)	
<b>September 24-25, 2020</b>	<b>CBA Meeting, Northern California</b>	
November 11, 2020	AICPA PRB Open Meeting (Durham, NC)	
November 19-20, 2020	CalCPA Peer Review Committee Meeting	
<b>November 19-20, 2020</b>	<b>CBA Meeting, Southern California</b>	
December 11, 2020	<b>PROC MEETING</b>   Assign Peer Review-Related Updates for February 2020 PROC Meeting	
	<b>PROC MEETING</b>   Assign Two PROC Members to Oversight Out-of-State AEs ( <i>TBD</i> )	

Updated July 16, 2020

**Peer Review Oversight Committee (PROC) Roles and Responsibilities  
Activity Tracking 2020 | As of August 14, 2020**

Activity*	Notes
<b>PROC MEETINGS</b> <ul style="list-style-type: none"> <li>Conduct four one-day meetings.</li> </ul>	<b>PROC 2020 Meetings:</b> <ul style="list-style-type: none"> <li>PROC Meetings Scheduled: 2/14, 5/8, 8/14, 12/11</li> <li>PROC Meetings Attended:</li> </ul>
<b>ADMINISTRATIVE SITE VISITS</b> <ul style="list-style-type: none"> <li>Conduct, at a minimum, an annual administrative site visit of the peer review program provider.</li> </ul>	<b>CalCPA Site Visits:</b> <ul style="list-style-type: none"> <li>1. MAY 2020 – Assign PROC members:</li> <li>2. MAY/JUN 2020 – Arrange Site Visit and Request Documents</li> <li>3. JUNE 2020 – Preliminary ASV to CalCPA:</li> <li>4. AUG 2020 - PROC Risk Assessment with All Members:</li> <li>5. SEPT/OCT 2020 - Conduct CalCPA Administrative Site Visit:</li> <li>6. DEC 2020 - Complete Summary Report:</li> </ul>
<b>PEER REVIEW COMMITTEE MEETINGS</b> <ul style="list-style-type: none"> <li>Attend all peer review program providers' Peer Review Board (PRB) and Peer Review Committee (PRC) meetings.</li> <li>Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees.</li> <li>Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards.</li> </ul>	<b>American Institute of Certified Public Accountants (AICPA) PRB:</b> <ul style="list-style-type: none"> <li>Meetings Scheduled: 1/30, 5/13, 9/2, 11/11</li> <li>Meetings Attended:</li> </ul>
<b>PEER REVIEW SUBCOMMITTEE MEETINGS</b> <ul style="list-style-type: none"> <li>Attend and review at least four of each peer review program provider's peer review Report Acceptance Body (RAB) subcommittee meetings to observe the acceptance of peer review reports.</li> <li>Ensure that peer reviews are being accepted in a consistent manner.</li> </ul>	<b>CalCPA Peer Review Subcommittees:</b> <ul style="list-style-type: none"> <li>RAB Meetings Scheduled: 1/21, 1/23, 2/25, 2/27, 6/16, 6/18, 7/14, 7/16, 8/25, 8/27</li> <li>RAB Meetings Attended:</li> <li>PRC Meetings Scheduled: 6/25, 11/19-20</li> <li>PRC Meetings Attended:</li> </ul>
<b>NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY (NASBA) MEETINGS</b> <ul style="list-style-type: none"> <li>Attend and review the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) meetings</li> <li>Ensure effective oversight of compliance with professional standards by CPAs and their firms</li> </ul>	<b>Meetings: NASBA CAC/PROC:</b> <ul style="list-style-type: none"> <li>Meetings Scheduled:</li> <li>Meetings Attended:</li> </ul>
<b>REVIEW OF OUT-OF-STATE ADMINISTERING ENTITIES (AE)</b> <ul style="list-style-type: none"> <li>Each year, review AICPA oversight visit reports for a selection of out-of-state administering entities</li> </ul>	<b>2020 Out-of-State Administering Entities:</b> <ul style="list-style-type: none"> <li>States and Assignment: Colorado and Texas</li> <li>Reviews Completed: CO, TX</li> </ul>
<b>REVIEW SAMPLING OF PEER REVIEWS</b> <ul style="list-style-type: none"> <li>Perform sampling of peer review reports.</li> </ul>	<b>See Administrative Site Visit:</b>
<b>PEER REVIEWER TRAININGS</b> <ul style="list-style-type: none"> <li>Ensure that peer reviewers are properly qualified.</li> </ul>	<b>Training Scheduled: AICPA/CalCPA Peer Review Conference:</b> <ul style="list-style-type: none"> <li>Meetings Scheduled:</li> <li>Meetings Attended:</li> </ul>
<b>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</b> <ul style="list-style-type: none"> <li>Develop policies and procedures for recommending approval to the CBA for new peer review providers.</li> </ul>	<b>Evaluation of AICPA:</b>
<b>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA)</b> <ul style="list-style-type: none"> <li>Prepare an annual report to the CBA regarding the results of its oversight of the Peer Review program.</li> </ul>	<b>2020 PROC Annual Report:</b> <ul style="list-style-type: none"> <li>Draft 2020 PROC Annual Report Review:</li> </ul>
<b>CBA MEETINGS</b>	<ul style="list-style-type: none"> <li>Meetings Scheduled: 1/16, 7/23-24, 9/24-25, 11/19-20</li> <li>Meetings Attended:</li> </ul>
<b>DATA REPORTING</b> <ul style="list-style-type: none"> <li>2020 newly assigned PROC oversight task, relating to peer reviewer population</li> </ul>	<b>Statistics:</b> <ul style="list-style-type: none"> <li>Peer Review-Related Statistics (PRRS) – TBD</li> <li>PRRS for PROC Annual Report – TBD</li> <li>Peer Reviewer Population (PRP) – TBD</li> </ul>

\*Activities based on the February 14, 2020 PROC Meeting



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

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



**PROC Item III.A.**  
August 14, 2020

## **Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued May 8, 2020**

**Presented by: Michelle Center, Chief, Licensing Division**

---

### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with the opportunity to review and discuss the American Institute of Certified Public Accountants (AICPA) Peer Review Program Annual Report on Oversight (Report), issued May 8, 2020 (**Attachment**).

### **Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with applicable professional standards. The CBA Peer Review Program is administered by a Board-recognized peer review program provider, the AICPA. It is important for the CBA to be current and aware of statistical and procedural findings identified by AICPA in the Report and how they affect the peer review policies, procedures, and consumers.

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

PROC members are asked to review the Report and continue to evaluate the effectiveness of the AICPA's Peer Review Program.

### **Background**

The purpose of the Report is to provide a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2018 and 2019 oversight processes were met.



## **Discussion on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued May 8, 2020**

Page 2 of 2

### **Comments**

The statistical information presented in the Report pertains to peer reviews that commenced and were accepted during the calendar years 2017-2019, which covers a full three-year peer review cycle.

The Report provided an overview of oversight procedures performed in 2018 and 2019 in accordance to the AICPA Peer Review Oversight Handbook (AICPA Oversight Handbook), which includes:

- **Oversight of Administering Entities (AE)** – the AICPA Oversight Task Force (OTF) visited 17 AEs in 2018 and 12 AEs in 2019.
- **Report Acceptance Body (RAB) Observations** – The RAB observation focus group reviewed 298 and 178 RAB processes in 2018 and 2019, respectively.
- **Enhanced Oversight** – subject matter experts performed oversight on must-select engagements that included the reviews of financial statements and working papers.

The Report highlighted oversight activities conducted by AEs in accordance with the AICPA Oversight Handbook, which included the following:

- **Administrative Oversight of the AE** – 29 administrative visits performed for the years 2018 and 2019.
- **Oversight of Peer Reviews and Reviewers** – 261 and 264 reviews were selected for oversight at the AE level in 2018 and 2019, respectively.
- **Annual Verification of Reviewers' resume** – 957 and 737 peer reviewer resumes were verified in 2018 and 2019, respectively.

Based on the results of the oversight procedures, the AICPA OTF has concluded, for the oversight initiatives performed in 2018 and 2019, that the objectives of the PRB oversight program were met.

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

There are no fiscal/economic impact considerations.

### **Recommendation**

Staff do not have a recommendation on this agenda item.

### **Attachment**

AICPA Peer Review Program Annual Report on Oversight, Issued May 8, 2020



**AICPA<sup>®</sup>**

Peer Review  
Program

# **ANNUAL REPORT ON OVERSIGHT**

**Issued  
May 8, 2020**

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New York, NY 10036-8775

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## **Introduction**

### **Purpose of This Report**

The purpose of this Annual Report on Oversight (report) is to provide a general overview, including statistics and information, of the results of the AICPA Peer Review Program (Program) oversight procedures and to conclude whether the objectives of the AICPA Peer Review Board's (PRB) oversight processes performed in 2018 and 2019 were compliant with the requirements of the Program.

### **Scope and Use of This Report**

This report contains data pertaining to the Program and should be reviewed in its entirety to understand the full context. Statistical information presented in this report pertains to peer reviews accepted during calendar years 2017-19, which covers a full three-year peer review cycle. Oversight procedures included in this report are performed on a calendar year basis.

## Letter to the AICPA Peer Review Board

To the members of the AICPA Peer Review Board:

This report includes oversight procedures performed in 2018 and 2019. Statistical information presented in this report pertains to peer reviews accepted during the calendar years 2017-19 which covers a full three-year peer review cycle. In planning and performing our procedures, we considered the objectives of the oversight program, which state that there should be reasonable assurance that (1) administering entities (AEs) are complying with the administrative procedures established by the Peer Review Board (PRB) as set forth in the *AICPA Peer Review Program Administrative Manual*; (2) the reviews are being conducted and reported upon in accordance with the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)*; (3) the results of the reviews are being evaluated on a consistent basis by all AE peer review committees; and (4) the information provided via the AEs' websites is accurate and timely. Our responsibility is to oversee the activities of AEs that elect and are approved to administer the AICPA Peer Review Program (Program), including the establishment and results of each AE's oversight processes.

Oversight procedures performed by the AEs in accordance with the *AICPA Peer Review Program Oversight Handbook* included the following:

- *Oversight of peer reviews and reviewers.* Oversight of various reviews, selected based on reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2018 and 2019, 261 and 264 reviews, respectively, were selected for oversight at the AE level. See pages 11–12, "Oversight of the Peer Reviews and Reviewers."
- *Annual verification of reviewers' resumes.* Verification of accuracy of information included on peer reviewer resumes. For 2018 and 2019, resumes were verified for 957 and 737 reviewers, respectively. See pages 12–13, "Annual Verification of Reviewers' Resumes."
- *Benchmarks.* In 2018, AEs started monitoring and periodically reporting compliance with AE benchmarks which are qualitative, objective, and measurable criteria to enhance overall quality and effectiveness of Program administration. See pages 13–14, "Benchmark Model."

The Oversight Task Force (OTF) utilizes focus groups of OTF members to monitor and perform procedures in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook*.

### **AE Oversight Focus Group**

The AE oversight focus group oversees the AE oversight visit process. Visits to the AEs occur on a rotating basis, ordinarily every other year, by a member of the OTF. The visits include testing the administrative and report acceptance procedures established by the PRB. OTF members visited 17 AEs in 2018 and 12 AEs in 2019. See pages 5-6 "Oversight Visits of the Administering Entities" for further information.

### **Report Acceptance Body (RAB) Observation Focus Group**

The RAB observation focus group reviews and approves RAB observation reports, including any responses received from the AEs. Periodically, the focus group will review the process including applicable checklists. RAB observations are performed by OTF members and Program staff. The RAB observations focus on whether the report acceptance process is being conducted in accordance with *Standards* and guidance. For 2018 and 2019, 298 and 178 reviews, respectively,

were selected for RAB observations. See pages 6-7 for a detailed description of the RAB observation process.

#### **Enhanced Oversight Focus Group**

Enhanced oversights are performed by subject matter experts on must-select engagements and include the review of financial statements and working papers for such engagements. The enhanced oversight focus group evaluates the results of enhanced oversights. The focus group reviews the oversight reports with comments and provides input and feedback to Program staff. The focus group also evaluates the reviewer performance feedback issued as a result of these oversights and will recommend that the reviewer performance focus group consider issuing feedback when necessary. See pages 7-11 for a detailed description of the enhanced oversight process.

#### **Evolution Focus Group**

The evolution focus group developed the AE benchmark criteria approved by the PRB. The focus group reviews the results of the benchmark reports submitted by the AEs and monitors to determine whether modifications are needed.

#### **Plan of Administration (POA) Focus Group**

The POA focus group reviews and approves the plans submitted annually by the AEs agreeing to administer the Program in compliance with *Standards* and guidance.

#### **Reviewer Performance Focus Group**

The reviewer performance focus group reviews the reviewer performance monitoring report prepared by Program staff. This report summarizes Program staff's procedures to evaluate and monitor peer reviewers and AEs for satisfactory performance and compliance with Standards. The focus group evaluates the report to determine if further action should be taken.

Based on the results of the oversight procedures performed, the OTF has concluded, for the oversight initiatives performed in 2018 and 2019, that the objectives of the PRB oversight program were met.

Respectfully submitted,

*Brian Bluhm*

Brian Bluhm, Chair  
Oversight Task Force  
AICPA Peer Review Board

## AICPA Peer Review Program

There are approximately 23,500 firms currently enrolled in the Program within the United States and its territories, that have a peer review performed once every three years, at the time this report was prepared. In recent years, the AICPA has noted a decrease in the number of firms enrolled in the Program. This is attributed to firm mergers and firms no longer performing accounting and auditing engagements that would subject them to a peer review. See exhibit 2. There are also approximately 1,000 firms enrolled in the Program that indicated they do not currently perform any engagements subject to peer review. Approximately 8,200 peer reviews are performed each year by a pool of approximately 2,100 qualified peer reviewers. Refer to appendix 2 for an additional overview of the Program and information about the AEs.

### Results of AICPA Peer Review Program

#### *Overall Results*

From 2017-19, approximately 24,000 peer reviews were performed in the Program. Exhibit 2 shows a summary of these reviews by type of peer review and report issued. The overall results of the reviews performed during the three-year period by report type were:

	<b>System Reviews</b>	<b>Engagement Reviews</b>
Pass	79%	77%
Pass with Deficiency(ies)	14%	11%
Fail	7%	12%

A list of the most recent examples of matters noted in peer review is available on the [AICPA's website](#). This list contains examples of noncompliance (both material and immaterial) with professional standards. Although this list is not all-inclusive and is not representative of all peer review results, it does contain more common examples of matters that were identified during the peer review process.

Exhibit 3 summarizes the number and type of reasons by quality control element as defined by the Statement on Quality Control Standards (SQCS), for report modifications (that is, pass with deficiency(ies) or fail) on system reviews accepted from 2017-19 in the Program.

#### *Non-Conforming Engagements Identified*

The *Standards* state that an engagement is ordinarily considered “not being performed and/or reported on in accordance with professional standards in all material respects” (hereinafter referred to as non-conforming) when deficiencies, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report or represents omission of a critical accounting, auditing or attestation procedure required by professional standards. Exhibit 4 shows the total number of individual engagements reviewed (system reviews and engagement reviews) along with those identified as non-conforming.



The percentage of non-conforming engagements identified each year from 2017-19, as well as the percentage of non-conforming audit engagements each year were:

Year	% of Non-Conforming Engagements	% of Non-Conforming Audits
2017	11%	12%
2018	11%	11%
2019	10%	15%

The increase in 2019 is due to the increased focus on compliance with risk assessment standards. The PRB issued guidance related to evaluation of non-compliance with the risk assessment standards effective for peer reviews commencing on or after October 1, 2018. This led to an increase in the number of non-conforming audit engagements identified in 2019 because the statistics in this report are based on the acceptance date of the review.

#### *Corrective Actions and Implementation Plans*

During the report acceptance process, the AEs' peer review committees determine the need for and type of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the reviewed firm's responses are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and imposed to strengthen the performance of the firm. There can be multiple corrective actions or implementation plans required on an individual review. Corrective actions and/or implementation plans required from 2017-19 are summarized in exhibit 5.

There were increases in the overall number of corrective actions and implementation plans each year from 2017-19. The number of corrective actions and implementation plans as a percentage of overall reviews accepted was consistent between 2017 and 2018. There was an increase in the number of corrective actions and implementation plans as a percentage of overall reviews in 2019. This increase was mainly in the category of firms submitting proof of continuing professional education (CPE). This increase is due to the previously discussed guidance on risk assessment issued by the PRB. As part of this guidance, if non-conforming engagements are identified due to non-compliance with the risk assessment standards, RABs are instructed to issue an implementation plan or corrective action to the firm. The most common implementation plan or corrective action to address issues with risk assessment was having the firm take prescribed CPE.

In addition to corrective actions, there may be instances in which an implementation plan is to be completed by the firm as a result of Findings for Further Consideration (FFCs). For implementation plans, the firm will be required to agree to perform and complete the implementation plan in writing as a condition of cooperation with the AE and the PRB. Agreeing to and completing such a plan is *not* tied to the acceptance of the peer review. The reviewed firm would receive an acceptance letter with no reference to the implementation plan if the peer review committee did not otherwise request the firm to also perform a corrective action plan related to the deficiencies or significant deficiencies, if any, noted in the peer review report. However, if the firm fails to cooperate with the implementation plan, the firm would be subject to fair procedures that could result in the firm's enrollment in the Program being terminated.

Since a firm can receive a pass with deficiency(ies) or fail report in addition to FFCs, it is possible for a corrective action plan to be imposed upon the firm for the deficiency(ies) or significant deficiency(ies) in the peer review report, as well as an implementation plan for the FFCs.

## **Oversight Process**

The PRB is responsible for oversight of all AEs. In turn, each AE is responsible for overseeing peer reviews and peer reviewers for the states they administer. This responsibility includes having written oversight policies and procedures.

All state boards of accountancy (SBOAs) that require peer review accept the Program as a program satisfying their peer review licensing requirements. Some SBOAs oversee AEs' administration of the Program. This report does not describe or report on that process.

## **Objectives of PRB Oversight Process**

The PRB appointed the OTF to oversee the administration of the oversight program and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that:

- AEs are complying with the administrative procedures established by the PRB
- Reviews are being conducted and results of reviews are being evaluated and reported on in accordance with the *Standards* and on a consistent basis in all jurisdictions and
- Information provided to firms and reviewers (via the internet) by AEs is accurate and timely.

The oversight program also establishes a communications link with AEs and builds a relationship that enables the PRB to:

- Obtain information about problems and concerns of AEs' peer review committees and staff
- Provide consultation on those matters to specific AEs and
- Initiate the development of guidance on a national basis, when appropriate.

## **OTF Oversight Procedures**

The following Program oversight procedures were performed:

### ***Oversight Visits of the Administering Entities***

#### **Description**

Each AE is visited by a member of the OTF (ordinarily, at least once every other year). No member of the OTF is permitted to visit the AE in the state that his or her main office is located, where he or she serves as a technical reviewer or may have a conflict of interest (for example, performing the oversight of the AE that administers the OTF member's peer review) or where he or she performed the most recently completed oversight visit.

#### **Oversight Visit Procedures**

During these visits, the OTF member will:

- Meet with the AE's peer review committee during its consideration of peer review documents
- Evaluate a sample of peer review documents and applicable working papers on a post-acceptance basis, as needed

- Perform interviews with the administrator, CPA on Staff (or individual managing the program when a waiver has been approved), committee chair and technical reviewers and
- Evaluate the various policies and procedures for administering the Program.

As part of the visit, the OTF member requests that the AE complete an information sheet that documents policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the Program. The OTF member evaluates the information sheet, results of the prior oversight visit and comments from the RAB observations to develop a risk assessment. A comprehensive oversight work program that contains the various procedures performed during the oversight visit is completed with the OTF member's comments. At the end of the visit, the OTF member discusses any comments and issues identified as a result of the visit with the AE's peer review committee. The OTF member then issues an AICPA Oversight Visit Report (report) to the AE that discusses the purpose of the oversight visit and that the objectives of the oversight program were considered in performing those procedures. The report also contains the OTF member's conclusion about whether the AE has complied with the Program's administrative procedures and *Standards* in all material respects.

In addition to the report, the OTF member issues an AICPA Oversight Visit Letter of Procedures and Observations (letter) that details the oversight procedures performed and observations noted by the OTF member. The letter also includes recommendations to enhance the quality of the AE's administration of the Program. The AE is then required to respond to the chair of the OTF, in writing, to any findings included in the report and letter or, at a minimum, with an acknowledgement of the visit if there are no findings reported. The oversight documents, including the report, the letter of procedures and observations and the AE's response, are presented to the OTF members for acceptance. The AE may be required to take corrective actions as a condition of acceptance. The acceptance letter would reflect corrective actions, if any. A copy of the acceptance letter, the report, letter of procedures and observations and the AE's response is available on the [AICPA's website](#).

## **Results**

For the years 2018 and 2019, a member of the OTF performed at least one on-site oversight visit of each AE. See exhibit 6 for a list of the 29 AE oversight visits performed for 2018 and 2019. See exhibit 7 for a summary of observations from the on-site oversight visits performed during the two years.

## ***RAB Observations***

### **Description**

The purpose of the RAB observation is to determine whether:

- Reviews are conducted and reported on in accordance with the *Standards*
- Results of reviews are evaluated on a consistent basis within an AE and in all jurisdictions
- Administrative procedures established by the PRB are being followed and
- Administrators, technical reviews, committee/RAB members and CPA on Staff (or individual managing the program when a waiver has been approved) are complying with applicable benchmarks monitored through RAB observations.

RAB observations allow for real-time feedback to the RABs which helps improve overall quality and consistency of the RAB process. The process for the RAB observations is similar to the process used during the oversight visits which includes a focus on familiarity threats. The RAB

observer receives the materials that will be presented to the RAB prior to the meeting, selects a sample of reviews of firms enrolled in the Program and reviews the materials. During the RAB meeting, the observer offers comments at the close of discussions based on issues or items noted during their review of the materials. All significant items that were noted by the observer, but not the RAB, are included as comments in the RAB observation report. Program staff draft the report which is reviewed and approved by the OTF. The final report is sent to the AE's peer review committee. Peer review committees may also choose to respond after the final report is issued by the OTF.

## Results

For 2018, all AEs had at least one RAB observation, and in 2019, 22 AEs had at least one RAB observation. RAB observations were performed by OTF members and Program staff. Recurring comments generated by RAB observations are summarized in exhibit 8. Peer reviews selected for observation incorporate an element of risk and are not reflective of the entire population. Results for the year ended 2018 and 2019 RAB observations are as follows:

	2018	2019
RAB meetings observed	69	30
AEs observed	34	22
Peer reviews observed	298	178
Peer reviewers	218	126
Based on observers' comments:		
Acceptance delayed or deferred	58	17
Feedback forms issued	13	6

Fewer RAB observations were performed by Program staff in 2019 due to personnel changes. The number of reviews delayed or deferred as a result of the RAB observers' comments decreased from 19.5% in 2018 to 9.6% in 2019. The number of feedback forms issued as a result of RAB observers' comments also decreased from 4.4% in 2018 to 3.4% in 2019.

## *Enhanced Oversight*

### Description

In May 2014, the PRB approved the addition of enhanced oversight performed by subject matter experts (SMEs). For 2018 and 2019, the SMEs consisted of members of the applicable Audit Quality Center executive committees and expert panels, PRB members, former PRB members, individuals from firms that perform a large number of engagements in a must-select category, individuals recommended by the Audit Quality Center executive committee and expert panel members and other individuals approved by the OTF. Enhanced oversight are one element of the AICPA's [Enhancing Audit Quality](#) (EAQ) initiative.

The oversight increase confidence in the peer review process, identify areas that need improvement and provide meaningful data to inform other EAQ activities. As a result of the oversight, the PRB has approved multiple initiatives to improve reviewer performance on must-select engagements, including additional training requirements for reviewers and additional RAB observations with emphasis on must-select engagements. The results of the enhanced oversight findings are shared with other teams at the AICPA to further the goal of improving audit quality.

The objective of the enhanced oversight program is to increase the probability that peer reviewers are identifying all material issues on must-select engagements, including whether engagements are properly identified as nonconforming. This objective is achieved through the selection of two samples. The first sample is a random sample of all peer reviews that include at least one must-select engagement, and the second sample is a risk-based sample (targeted) based on certain risk criteria established by the OTF. Beginning in 2019, peer reviewers were limited to being selected in the random sample no more than two times per year. These oversights neither replace nor reduce the minimum number of oversights currently required by AEs.

The enhanced oversights focus exclusively on must-select engagements (engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of broker-dealers and examinations of service organizations). For *Government Auditing Standards* engagements with Single Audit Act/Uniform Guidance portions of the engagement, the oversight focused only on the Single Audit Act/Uniform Guidance portion of the audit.

### **Enhanced Oversight Process**

The enhanced oversight process consists of the review of the financial statements and working papers by the SME for the engagement selected. Program staff notifies the peer reviewer and the firm that they have been selected for oversight once the peer review working papers and report have been submitted to the AE. The peer reviewer is not aware that he or she has been selected for oversight until after the peer reviewer has completed work on the review. The SME reviews the same working papers and compares their results to those of the peer reviewer. The SME issues a report detailing any material items not identified by the peer reviewer that cause the engagement to be considered non-conforming. If there are any material items included in the report, the peer reviewer has an opportunity to complete a letter of response (LOR) detailing whether he or she agrees with the oversight report and lists any additional procedures that he or she will perform. The report and LOR (if applicable) are provided to the AE for consideration during the report acceptance process. If the peer reviewer disagrees with the results of the oversight, the AE will follow the disagreement guidance in the RAB Handbook. Program staff monitors the effects of the oversights on the peer review results (report rating change from “pass” to “pass with deficiency” or “pass with deficiency” to “fail”), and the type of reviewer performance feedback (feedback form or performance deficiency letter), if any, is issued to the peer reviewer.

### **OTF Review of Oversight Reports**

The OTF reviews a selection of oversight reports issued in which the SME identifies material items not identified by the peer reviewer that cause the engagement to be considered non-conforming. The OTF reviews the reports for consistency and to verify that the items identified by the SME are material departures from professional standards.

### **Enhanced Oversight Samples**

The 2018 and 2019 samples were selected from peer reviews with must-select engagements performed in calendar year 2018 and 2019, respectively. In the 2018 sample, 145 different peer reviewers were selected for oversight, and 75 different peer reviewers were selected for oversight in the 2019 sample.

All must-select engagement types are included in the enhanced oversight program. Most oversights are performed on Employee Benefit Plan, Single Audit/Uniform Guidance, and *Government Auditing Standards* engagements as these are the most common. The must-select engagements selected for oversight in 2018 and 2019 consisted of the following:

<b>Engagement Type</b>	<b>2018</b>	<b>2019</b>
Employee Benefit Plans	87	42
Single Audit/Uniform Guidance	62	22
<i>Government Auditing Standards</i>	32	14
FDICIA	2	-
Broker-dealers	-	-
SOC <sup>®</sup>	2	1
<b>Total</b>	<b>185</b>	<b>79</b>

Exhibit 9 provides a list of items identified by SMEs that were not identified by the peer reviewer that, either individually or in the aggregate, led to a nonconforming engagement. Only one engagement is reviewed for each firm selected, and the SME does not expand the scope of the oversight. Refer to the following section for further discussion of the sample selection.

### **Random Sample**

Each year, a random sample is selected from all peer reviews that include at least one must-select engagement. Each peer review included in the random population has an equal chance at being selected for oversight.

### **Risk-Based Sample**

Each oversight year, a risk-based sample (targeted) is selected based on certain risk criteria established by the OTF. If a peer reviewer is selected twice during the random sample or through a combination of the random and risk-based samples, he or she is not selected for the targeted sample to limit the number of times a peer reviewer can be selected for enhanced oversight each oversight year.

### **Results**

In 2018, an increased focus was placed on evaluating non-compliance with the risk assessment standards, and the PRB issued guidance effective for peer reviews commencing on or after October 1, 2018. This increased focus impacted the Program, as neither peer reviewers nor SMEs were raising risk assessment issues to the level of non-conforming, whereas these engagements are now being deemed non-conforming. To compare the results of the 2018 and 2019 oversight years with the prior years, the table below shows an adjusted non-conforming rate for each year. Engagements from peer reviews commencing on or after October 1, 2018 with only risk assessment issues identified are excluded from the number of non-conforming engagements. This risk assessment guidance had a limited impact on the results of the 2018 oversight sample; however, there has been a significant impact on the results in 2019. Of the 46 engagements identified as non-conforming in 2019, 16 only had risk assessment issues causing the engagement to be non-conforming. The adjusted non-conforming rate when excluding engagements with only risk assessment issues is 38% which is an improvement from prior years.

Year	Sample Size	Total Non-Conforming Engagements Identified	%	Non-Conforming Engagements with Only Risk Assessment Issues	Adj %	Number of Non-Conforming Engagements Identified by Peer Reviewer	% of Non-Conforming Engagements Identified by Peer Reviewer
2014	90	40	44%	N/A	44%	7	18%
2015	190	104	55%	N/A	55%	42	40%
2016	108	38	35%	N/A	35%	18	47%
2017	87	43	49%	N/A	49%	27	63%
2018	185	108	58%	11	52%	68	63%
2019	79	46	58%	16	38%	37	80%

Based on an analysis of the 2018 and 2019 samples, the oversights indicated considerable improvement in peer reviewer performance. Each year, peer reviewers improved in their detection of non-conforming engagements. In the first year of oversights, peer reviewers only identified a non-conforming engagement 18% of the time prior to the oversight. This increased to 80% in the most recent oversights performed in 2019. The PRB’s focus on oversight and reviewer education led to significant improvements in peer reviewer performance.

**Feedback Issued from Enhanced Oversight Process**

For the oversights where a non-conforming engagement was not identified by the peer reviewer or for oversights where the peer reviewer identified the engagement as non-conforming but failed to identify significant additional items, the following feedback was issued by the AE:

Type of Feedback	2018	2019
Deficiency Letter	-	-
Feedback Form – Reviewer Performance Deficiency	15	1
Feedback Form – Reviewer Performance Finding	16	3
No Feedback	11	2
RAB Process Not Completed	3	2
Total	45	8

Some reviews selected for oversight have not completed the RAB process as of the date of this report, including consideration of feedback. The delay in consideration of feedback is either due to the firm or peer reviewer not cooperating with the process, or the peer reviewer disagreed with the result of the oversight, which resulted in a delay in the acceptance of the peer review and consideration of feedback.

The OTF monitors the types of feedback issued as a result of the oversights, and if an AE does not issue feedback, the OTF considers if any further actions are necessary, including whether to issue a reviewer performance finding, deficiency or deficiency letter to the peer reviewer.

A *reviewer performance finding* is issued when a peer reviewer fails to identify a non-conforming engagement but demonstrates sufficient knowledge and experience required to review the

engagement. A *reviewer performance deficiency* is issued when a peer reviewer fails to identify a non-conforming engagement and does not demonstrate sufficient knowledge and experience required to review the engagement. A *deficiency letter* is issued when a peer reviewer has a pattern of reviewer performance findings or deficiencies.

### **Oversight by the AEs' Peer Review Committees**

The AEs' peer review committees are responsible for monitoring and evaluating peer reviews of those firms whose main offices are in their licensing jurisdiction(s). Committees may designate a task force to be responsible for the administration and monitoring of its oversight program.

AEs are required to submit their oversight policies and procedures to the PRB on an annual basis. In conjunction with AE personnel, the peer review committee establishes oversight policies and procedures that meet the minimum requirements established by the PRB to provide reasonable assurance that:

- Reviews are administered in compliance with the administrative procedures established by the PRB
- Reviews are conducted and reported on in accordance with the *Standards*
- Results of reviews are evaluated on a consistent basis
- Open reviews are monitored on a timely and consistent basis and
- Information disseminated by the AE is accurate and timely.

### **AE Oversight Procedures**

The following oversight procedures are performed as part of the AE oversight program:

#### ***Oversight of Peer Reviews and Reviewers***

##### **Description**

Throughout the year, the AE selects various peer reviews for oversight. The selections can be on a random or targeted basis. The oversight may consist of completing a full working paper review after the review has been performed but prior to presenting the peer review documents to the peer review committee. The oversight may also consist of having a peer review committee member or designee visit the firm, either while the peer review team is performing the review or after the review, but prior to final committee acceptance.

As part of its oversight process, the peer review committee oversees firms being reviewed and reviewers performing reviews. Minimum oversight selection requirements are also imposed by the PRB.

*Firms* – The selection of firms to be reviewed is based on several factors, including the types of peer review reports the firm has previously received, whether it is the firm's first system review (after previously having an engagement review) and whether the firm conducts engagements in high-risk industries.

*Reviewers* – All peer reviewers are subject to oversight and may be selected based on several factors, including random selection, any unusually high percentage of pass reports as compared to non-pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, performance of the peer reviewer's first peer review or performing high volumes of



reviews. Oversight of a reviewer can also occur due to previously noted performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, not considering significant matters or failure to select an appropriate number of engagements. When an AE oversees a reviewer from another state, the results are conveyed to the AE of that state.

*Minimum Requirements* – At a minimum, the AE is required to conduct oversight on two percent of all reviews performed in a 12-month period, and within the two percent selected, there must be at least two system and two engagement reviews. Additionally, at least two system review oversights are required to be performed on-site. Selections for oversight will be made by the committee chair, committee or designated task force based on input from AE staff, the technical reviewer and committee members. The oversight involves completing a full working paper review, and it may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended that the oversight be performed prior to presenting the peer review documents to the peer review committee. This allows the committee to consider all the facts prior to accepting the review. However, a RAB may review the peer review documents and decide an oversight should be performed before they can accept the peer review.

AEs that administer fewer than 25 system reviews annually are required to perform a minimum of one system review oversight on-site. If the AE administers fewer than 25 engagement reviews annually, a minimum of one must be selected for oversight. Waivers may be requested in hardship situations, such as a natural disaster or other catastrophic event.

## **Results**

For 2018, the AEs conducted oversight on 261 reviews. There were 151 system and 110 engagement reviews oversights. Approximately 53 percent of the system oversights were conducted on-site. For 2019, the AEs conducted oversight on 264 reviews. There were 158 system and 106 engagement reviews oversights. Approximately 51 percent of the system oversights were conducted on-site. See exhibit 12 for a summary of oversights by AEs.

## ***Annual Verification of Reviewers' Resumes***

### **Description**

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in accounting or auditing functions. The firm(s) with whom the member is associated should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of CPE in subjects related to accounting and auditing every three years, with a minimum of eight hours in any one year.

A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards, but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The AE has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review. The AE must verify information within a sample of reviewers'

resumes on an annual basis. All reviewer resumes should be verified over a three-year period, as long as, at a minimum, one-third are verified in year one, a total of two-thirds have been verified by year two, and 100 percent have been verified by year three. Verification must include the reviewers' qualifications and experience related to engagements performed under generally accepted government auditing standards (GAGAS), audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), audits of insured depository institutions subject to the FDICIA, audits of broker-dealers and examinations of SOC 1<sup>®</sup> engagements and SOC 2<sup>®</sup> engagements, as applicable. Verification procedures may include requesting copies of their license to practice as a CPA, CPE certificate from a qualified reviewer training course, CPE certificates that document the required 48 CPE credits related to accounting and auditing to be obtained every three years with at least eight hours in one year and CPE certificates that document qualifications to perform audits under *Government Auditing Standards*, if applicable. The AE also verifies whether the reviewer is a partner or manager in a firm enrolled in the Program and whether the reviewer's firm received a pass report on its most recently completed peer review.

## **Results**

Each AE submitted a copy of its oversight policies and procedures indicating compliance with this oversight requirement, along with a list of reviewers whose resume information was verified during 2018 and 2019. See exhibit 13.

## ***Evolution of Peer Review Administration***

### **Introduction**

The evolution of peer review administration is part of the AICPA's EAQ initiative, with the objective to ultimately improve audit performance by increasing the consistency, efficiency and effectiveness of the Program administration.

Each of the state CPA societies and all peer review AEs have been integral to the success of the peer review function, which is enormous in both scope and size across the country. Their commitment to meeting the needs of practitioner members and regulators has been, and continues to be, tremendous. At the same time, the need for an evolution of peer review administration was overwhelmingly validated by stakeholder feedback.

Peer review has grown and matured over the years in the marketplace, as well as the regulatory and technological environments. This evolution does not diminish the contributions of any state CPA society or AE. As the Program evolved over time, some state societies began to examine their role in peer review, and 11 AEs opted to discontinue administering peer review over the past three years and have allowed other state AEs to administer their programs.

### **Benchmark Model**

As part of evolution and the AICPA's EAQ initiative, the PRB approved AE benchmarks to enhance overall quality and effectiveness of Program administration. The benchmarks include qualitative, objective and measurable criteria, which may be modified over time due to advances in technology and other factors. AE benchmarks were derived from the final evolution paper released on August 31, 2017, the webcast presentation for AEs released on September 20, 2017 and stakeholder feedback.

The benchmark model started with a pilot period for monitoring and reporting on the benchmarks. During the pilot period, which began on July 2, 2018 and ended on December 31, 2019, AEs were not subject to fair procedures. For the reporting period beginning January 1, 2020, AEs will be

subject to fair procedures when there is a pattern of consistent non-compliance with the benchmarks. Although AE self-monitoring and reporting to the OTF are new concepts, the overall peer review process should not have significant changes, as many of the benchmarks have always been expected and implied. So, AEs are expected to follow peer review *Standards* and guidance and will be held accountable for non-compliance.

During the pilot, the OTF monitored benchmarks and reporting requirements to determine if modifications were needed, including the frequency and timing of reporting. Revisions to the benchmarks were made during this process. The OTF will continue to evaluate the benchmark measurements to make sure they are appropriate and achievable and will make modifications as needed.

**Exhibit 1**  
**Administering Entities Approved to Administer the Program in 2018 and 2019**

<b>Administering Entity</b>	<b>Licensing Jurisdiction(s)</b>
Alabama Society of CPAs	Alabama, Arkansas <sup>1</sup> , Mississippi <sup>2</sup>
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado, New Mexico
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Kansas Society of CPAs	Kansas
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts, New Hampshire
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota, North Dakota <sup>3</sup>
Missouri Society of CPAs	Missouri
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Idaho <sup>2</sup> , Montana <sup>4</sup> , Nebraska, Utah, Wyoming
New England Peer Review, Inc.	Maine, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
North Carolina Association of CPAs	North Carolina
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Hawaii <sup>5</sup> , Northern Mariana Islands
Peer Review Alliance	Illinois, Indiana <sup>6</sup> , Iowa, Kentucky, South Carolina, West Virginia, Wisconsin
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, New York <sup>5</sup> , Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington

<sup>1</sup> Effective April 2019.

<sup>2</sup> Effective July 2019.

<sup>3</sup> Effective July 2018.

<sup>4</sup> Effective May 2018.

<sup>5</sup> Effective March 2018.

<sup>6</sup> Effective September 2018.

**Exhibit 2**  
**Results by Type of Peer Review and Report Issued**

The following shows the results of the Program from 2017-19 by type of peer review and report issued. This data reflects the results based on the report acceptance date of the peer review.

	<u>2017</u>		<u>2018</u>		<u>2019</u>		<u>Total</u>	
<u>System reviews</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
Pass	2,489	80	3,098	78	3,246	79	8,833	79
Pass with deficiency(ies)	416	13	587	15	579	14	1,582	14
Fail	<u>207</u>	<u>7</u>	<u>276</u>	<u>7</u>	<u>263</u>	<u>7</u>	<u>746</u>	<u>7</u>
Subtotal	<u>3,112</u>	<u>100</u>	<u>3,961</u>	<u>100</u>	<u>4,088</u>	<u>100</u>	<u>11,161</u>	<u>100</u>

	<u>2017</u>		<u>2018</u>		<u>2019</u>		<u>Total</u>	
<u>Engagement reviews</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
Pass	2,763	77	3,591	76	3,867	79	10,221	77
Pass with deficiency(ies)	390	11	488	10	532	11	1,410	11
Fail	<u>421</u>	<u>12</u>	<u>641</u>	<u>14</u>	<u>483</u>	<u>10</u>	<u>1,545</u>	<u>12</u>
Subtotal	<u>3,574</u>	<u>100</u>	<u>4,720</u>	<u>100</u>	<u>4,882</u>	<u>100</u>	<u>13,176</u>	<u>100</u>

**Exhibit 3**  
**Type and Number of Reasons for Report Modifications**

The following lists the reasons for report modifications (that is, pass with deficiency(ies) or fail reports) from system reviews in the Program accepted from 2017-19 summarized by elements of quality control as defined by QC section 10. A system review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including QC section 10, in all material respects. QC section 10 states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm ("the tone at the top"), relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance, and monitoring. Since pass with deficiency(ies) or fail reports can have multiple reasons identified, the numbers contained in this exhibit will exceed the number of pass with deficiency(ies) or fail system reviews in exhibit 2, "Results by Type of Peer Review and Report Issued."

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	97	140	144
Relevant ethical requirements	39	72	76
Acceptance and continuance of client relationships and specific engagements	30	84	78
Human resources	117	192	266
Engagement performance	544	768	728
Monitoring	<u>243</u>	<u>368</u>	<u>438</u>
<b>Totals</b>	<b><u>1,070</u></b>	<b><u>1,624</u></b>	<b><u>1,730</u></b>

**Exhibit 4**  
**Number of Engagements Not Performed in Accordance**  
**with Professional Standards in All Material Respects**

The following shows the total number of engagements reviewed (system reviews and engagement reviews) and the number identified as not performed in accordance with professional standards in all material respects from peer reviews accepted from 2017-19 in the Program.

Engagement Type	2017			2018			2019		
	Number of Engagements		%	Number of Engagements		%	Number of Engagements		%
	Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards		Reviewed	Not Performed in Accordance with Professional Standards	
Audits:									
Single Audit (Uniform Guidance)	1,365	299	22%	1,426	260	18%	1,353	304	22%
Governmental - All Other	1,374	193	14%	1,855	239	13%	1,955	292	15%
ERISA	2,368	356	15%	2,595	406	16%	2,527	400	16%
FDICIA	58	4	7%	46	5	11%	47	12	26%
Broker-Dealers	162	35	22%	160	32	20%	121	21	17%
Other	4,268	271	6%	5,433	318	6%	5,349	635	12%
Reviews	4,624	377	8%	5,943	480	8%	6,140	423	7%
Compilations & Preparations:									
With Disclosures	2,837	219	8%	3,766	283	8%	3,894	244	6%
Omit Disclosures	8,247	1,020	12%	10,707	1,457	14%	10,696	1,057	10%
Forecasts & Projections	57	2	4%	91	7	8%	21	3	14%
SOC® Reports	188	27	14%	209	21	10%	167	19	11%
Agreed Upon Procedures	1,104	29	3%	1,348	38	3%	1,223	91	7%
Other SSAEs	208	24	12%	141	3	2%	161	2	1%
<b>Totals</b>	<b>26,860</b>	<b>2,852</b>	<b>11%</b>	<b>33,720</b>	<b>3,549</b>	<b>11%</b>	<b>33,654</b>	<b>3,503</b>	<b>10%</b>

**Exhibit 5**  
**Summary of Required Follow-Up Actions**

The AEs' peer review committees are authorized by the *Standards* to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions and implementation plans are remedial and educational in nature and imposed to strengthen the performance of the firm. A review can have multiple corrective actions and/or implementation plans. For 2017-19 reviews, the following represents the type of corrective actions and/or implementation plans required.

<b>Type of Follow-Up Action</b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Agree to take/submit proof of certain (CPE)	1,311	2,099	2,974
Submit to review of correction of engagements that were not performed in accordance with professional standards	112	173	272
Agree to pre-issuance reviews	442	702	641
Agree to post-issuance reviews	503	835	820
Agree to review of remedial actions	33	113	143
Submit monitoring or inspection report to Team Captain or Peer Review Committee	174	309	297
Submit to revisit (Team Captain or Peer Review Committee Member)	163	172	187
Elect to have accelerated review	6	6	11
Submit evidence of proper firm licensure	26	61	87
Firm has represented in writing they no longer perform any auditing engagements	51	68	63
Agree to hire outside party or consultant for inspection	36	61	70
Team captain to review Quality Control Document	20	54	37
Submit proof of purchase of manuals	31	50	23
Agree to join a Quality Center	38	55	56
Other	103	153	204
<b>Total</b>	<b><u>3,049</u></b>	<b><u>4,911</u></b>	<b><u>5,885</u></b>



**Exhibit 6**  
**On-Site Oversight of Administering Entities**  
**Performed by the AICPA Oversight Task Force**

For the years 2018 and 2019, a member of the OTF performed an on-site oversight visit to each of the following AEs. The oversight results are available on the [AICPA's website](#).

<u>2018</u>	<u>2019</u>
Alabama	Colorado
Arkansas	Connecticut
California	Louisiana
Florida	Maryland
Georgia	Massachusetts
Idaho	Minnesota
Kansas	North Carolina
Michigan	Oklahoma
Mississippi	Peer Review Alliance
Missouri	Texas
Nevada	Virginia
New England	Washington
New Jersey	
Ohio	
Oregon	
Pennsylvania	
Tennessee	

**Exhibit 7**  
**Observations from On-Site Oversight of Administering Entities**  
**Performed by the AICPA Oversight Task Force**

The following represents a summary of observations made by the OTF resulting from the on-site oversight visits performed during 2018-19. The observations are examples not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

**Administrative Procedures**

- Committee decision letters not sent timely
- All required materials not provided to the RAB
- Resume verification not completed timely and documentation not retained in accordance with program guidance
- Technical reviewers not evaluated annually
- Open reviews did not appear to have been identified by administrative procedures as open, so, these reviews were not being monitored for completion Peer review data maintained on the website is not current or not in accordance with Program guidance
- RAB member qualifications were not appropriately monitored to determine their eligibility to participate in RAB meetings

**Technical Reviewers**

- Technical reviewers did not meet the applicable training requirements on a timely basis
- Technical reviewers did not address issues before reviews were presented to the RAB
- Technical reviewers did not evaluate reviewer performance history and present to the RAB
- Technical reviewers recommended implementation plans not in accordance with guidance
- Engagement reviews with certain criteria were not accepted within 60 days of receipt of working papers from the reviewer
- Reviews were not presented to the RAB within 120 days of receipt of working papers from the reviewer

**Committee Procedures**

- Reviewer performance feedback not issued when appropriate
- Required oversights not performed timely
- RAB not was not identifying issues during the deliberation process of review acceptance until noted by the observer

**Exhibit 8**  
**Comments from RAB Observations**  
**Performed by AICPA Peer Review Program Staff and OTF Members**

The following is a summary of recurring comments generated from the RAB observations performed by the Program staff and OTF members for 2018 and 2019. The comments provide the AEs, their committees, RABs, peer reviewers and technical reviewers with information that will increase consistency and improve the peer review process. The comments vary in degree of significance and are not applicable to all the respective parties.

- Potential issue regarding auditor compliance with independence requirements of *Government Auditing Standards* (Yellow Book)
- Firms' response on the FFC forms did not address all items listed
- Systemic cause missing or did not appropriately address the underlying cause of the finding on FFC forms
- Firm representation letters not consistent with the illustration in appendix B of the *Standards*
- Report language was not consistent with current *Standards*
- Reviewer did not expand scope in accordance with *Standards* and guidance
- Firm letter of response and FFC responses did not appropriately address nonconforming engagements
- Reviewer performance feedback not initially recommended when:
  - Reviewers did not appropriately aggregate and evaluate matters
  - Reviewers did not identify nonconforming engagements
  - Oversight identified issues not previously detected by the reviewer
  - Reports and letters of response were not in compliance with *Standards*
- Reviews were not consistently presented to the RAB free from open technical issues causing the RAB to spend extra time discussing, leading to deferred or delayed acceptance
- RAB members that performed or participated in a review did not recuse themselves from the meeting when their reviews were presented
- Corrective actions and implementation plans recommended were not in accordance with RAB Handbook guidance
- The referral database included a referral from the Department of Labor or ethics; however, this was not referenced in the technical reviewer's checklist
- Technical reviewers did not evaluate reviewer performance history and present to the RAB
- Technical reviewers were not available to address questions raised by RAB members during the presentation of reviews
- Committee decision letters not sent timely
- All required materials not provided to the RAB

**Exhibit 9**  
**Material Departures from Professional**  
**Standards Identified by SMEs**

As discussed in more detail in the “Enhanced Oversight” section, the SMEs identified material departures from professional standards that were not identified by the peer reviewers. The following is a list of the most common departures from professional standards identified by the SMEs in the 2018 and 2019 samples. The SMEs identified these departures from professional standards, individually or in the aggregate, as material departures from professional standards that caused the engagement to be considered nonconforming.

*Employee Benefit Plan Engagements*

- Failure to perform an appropriate risk assessment including: not assessing risk at the assertion level, not properly identifying relevant assertions and not documenting specific audit responses to risk
- Lack of documentation of understanding of internal controls and internal control testing, including, plan controls, payroll, IT and complimentary user controls
- Lack of documentation over tests of operating effectiveness on key complementary user controls for a SOC<sup>®</sup> report upon which reliance was placed
- Control risk assessed at less than high without obtaining a SOC<sup>®</sup> report or performing other control testing
- Failure to perform an appropriate preliminary analytic
- Lack of documentation of testing of benefit/claim payments
- Lack of documentation of testing over census data provided to third party
- Failure to perform sufficient procedures of the plan’s investments in a full scope audit
- Failure to include sufficient documentation to meet the re-performance standards
- Failure to appropriately document size determination

*Single Audit/Uniform Guidance and Government Auditing Standards Engagements*

- Lack of documentation of independence considerations, including skills, knowledge, and experience, threats to independence and safeguards
- Failure to appropriately document risk assessment including: assessing risk at only the financial statement level, not appropriately linking audit procedures performed to the risk assessment and not documenting understanding of controls including IT controls
- No testing of internal control over compliance or lack of testing of internal control over all direct and material compliance requirements
- Lack of documentation of internal controls over compliance
- Failure to document internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA), document procedures performed over the SEFA or reconcile the SEFA to the financial statements.
- Failure to sufficiently test or document testing of all direct and material compliance requirements
- Insufficient documentation of auditor analysis and judgement of which applicable compliance requirements were determined not to be direct and material
- Lack of documentation of risk of material non-compliance of each of the major programs
- Failure to appropriately document sample size determination  
Failure to perform major program determination in accordance with Uniform Guidance

**Exhibit 10**  
**Summary of Oversight Performed by Administering Entities**

The following shows the number of oversights performed by each AE for 2018 and 2019.

<b>Administering Entity</b>	<b>2018</b>			<b>2019</b>		
	<b>Type of Review/Oversights</b>			<b>Type of Review/Oversights</b>		
	<b>System</b>	<b>Engagement</b>	<b>Total</b>	<b>System</b>	<b>Engagement</b>	<b>Total</b>
Alabama	7	6	13	4	2	6
California	16	18	34	10	19	29
Colorado	2	3	5	3	2	5
Connecticut	2	2	4	2	2	4
Florida	8	4	12	5	5	10
Georgia	3	4	7	3	2	5
Kansas	2	2	4	2	2	4
Louisiana	3	2	5	5	4	9
Maryland	2	3	5	4	2	6
Massachusetts	4	2	6	4	3	7
Michigan	4	4	8	4	4	8
Minnesota	2	2	4	3	2	5
Missouri	2	2	4	2	2	4
National Peer Review Committee	24	-	24	28	-	28
Nevada	3	5	8	2	4	6
New England	4	2	6	3	2	5
New Jersey	8	2	10	5	2	7
North Carolina	4	3	7	5	4	9
Ohio	4	4	8	4	4	8
Oklahoma	2	2	4	2	2	4
Oregon	2	2	4	5	2	7
Peer Review Alliance	14	6	18	9	11	20
Pennsylvania	7	9	16	14	2	16
Puerto Rico	2	-	2	5	1	6
Tennessee	2	3	5	3	2	5
Texas	8	8	16	17	12	29
Virginia	2	6	8	2	4	6
Washington	8	4	12	3	3	6
<b>Total</b>	<b>151</b>	<b>110</b>	<b>261</b>	<b>158</b>	<b>106</b>	<b>264</b>

**Exhibit 11**  
**Summary of Reviewer Resumes Verified by Administering Entities**

The following shows the number of reviewer resumes verified by AEs for the years 2017-19.

<b><u>Administering Entity</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Alabama	34	35	32
California	36	49	47
Colorado	15	28	20
Connecticut	6	7	4
Florida	25	60	35
Georgia	10	24	25
Kansas	5	7	4
Louisiana	25	25	18
Maryland	14	18	24
Massachusetts	11	20	6
Michigan	22	21	21
Minnesota	17	37	10
Missouri	19	19	13
National Peer Review Committee	124	68	84
Nevada	18	73	19
New England	10	8	4
New Jersey	33	35	31
North Carolina	25	48	11
Ohio	-	70	35
Oklahoma	9	10	12
Oregon	10	16	11
Peer Review Alliance	101	78	74
Pennsylvania	52	63	82
Puerto Rico	-	5	13
Tennessee	19	26	21
Texas	32	46	52
Virginia	18	44	21
Washington	11	17	8
<b>Total</b>	<b>701</b>	<b>957</b>	<b>737</b>

## **Appendix 1**

### **History of Peer Review at the AICPA**

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 that 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 (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, member 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 as well as a peer review committee to create standards for performing, reporting, and administering peer reviews.

AICPA members voted overwhelmingly to adopt mandatory peer review, effective in January 1988, and the AICPA Quality Review Program was created. Firms could enroll in the newly created AICPA Quality Review Program or become a member of the Division for CPA Firms and undergo an SECPS or PCPS peer review. Firms enrolling in the AICPA Quality Review Program that had audit clients would undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected accounting and auditing 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 compliant 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 appropriately designed 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, council approved a combination of the PCPS Peer Review Program and the AICPA Quality Review Program under the Program governed by the PRB, which became effective in 1995. Thereafter, because of this vote, the PCPS no longer had a peer review program.

The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (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.

## Appendix 1, continued

### History of Peer Review at the AICPA

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 (CPCAF PRP) became the successor to the SECPS Peer Review Program (SECPS PRP), 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 SBOAs and other governmental agencies require peer review of a firm's entire auditing and accounting practice, the CPCAF PRP provided the mechanism (along with the PCAOB inspection process) to allow member firms to meet their SBOA licensing and other state and federal governmental agency peer review requirements.

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

In the 30 years since peer review became mandatory for AICPA membership, 53 SBOAs have adopted peer review requirements, and many require their licensees to submit certain peer review documents as a condition of licensure. To help firms in complying with SBOA peer review document submission requirements, the AICPA created facilitated state board access (FSBA). FSBA allows firms to give permission to the AICPA or their AEs to provide access to the firms' documents (listed in the following paragraph) to SBOAs through a state-board-only-access website. Permission is granted through various opt-out and opt-in procedures. Some SBOAs now require their licensees to participate in FSBA, whereas others recognize it as an acceptable process to meet the peer review document submission requirements.

The FSBA documents typically include the following:<sup>7</sup>

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

Beginning in January 2020, FSBA was enhanced to also provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when the firm has given permission.

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<sup>7</sup> As of February 2015, a firm's current and prior peer review documents are available via facilitated state board access (FSBA). The documents are available if the state participated in FSBA for both review periods, and the firm did not opt out of FSBA for either review.



## Appendix 2 AICPA Peer Review Program Overview

AICPA bylaws require that members engaged in the practice of public accounting be with a firm that is enrolled in an approved practice-monitoring program or, if practicing in firms that are not eligible to enroll, the members themselves are enrolled in such a program if the services performed by such a firm or individual are 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.

Firms enrolled in the Program are required to have a peer review of their accounting and auditing practice once every three years, not subject to PCAOB permanent inspection, covering a one-year period. The peer review is conducted by an independent evaluator known as a *peer reviewer*. The AICPA oversees the Program, and the review is administered by an entity approved by the AICPA to perform that role. An *accounting and auditing practice*, as defined by the *Standards*, is "all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARs); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office (GAO); and engagements performed under Public Company Oversight Board (PCAOB) standards."

The following summarizes the different peer review types, objectives, and reporting requirements as defined under the *Standards*. There are two types of peer reviews: system reviews and engagement reviews.

*System reviews*: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examinations under the SSAEs, or engagements under PCAOB standards. In addition, agreed-upon procedures, reviews, compilations and preparation engagements are also included in the scope of the peer review. The peer reviewer's objective is to determine whether the firm's system of quality control for its auditing and accounting practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (QC sec. 10)<sup>8</sup>, in all material respects. The peer review report rating may be *pass* (firm's system of quality control is adequately designed and firm has complied with its system of quality control); *pass with deficiency(ies)* (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 with the exception of deficiency(ies) described in the report); or *fail* (firm's system of quality control is not adequately designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects).

*Engagement reviews*: Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations under the SSAEs, or engagements performed under PCAOB standards. The peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with

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<sup>8</sup> QC section 10 can be found in AICPA *Professional Standards*.

## **Appendix 2, continued**

### **AICPA Peer Review Program Overview**

applicable professional standards in all material respects. The peer review report may be a rating of *pass* when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. A rating of *pass with deficiency(ies)* is issued when the reviewer concludes that at least one, but not all, the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when the reviewer concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

#### **AEs**

Each state CPA society elects the level of involvement that it desires in the administration of the Program. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the Program for enrolled firms whose main offices are located in that state; or (3) ask the AICPA to request another state CPA society to administer the Program for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the Program in compliance with the *Standards* and related guidance materials issued by the PRB. The PRB approved 28 state CPA societies, groups of state societies, or specific-purpose committees, known as AEs, to administer the Program in 2019. See exhibit 1. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the Program.

To receive approval to administer the Program, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted as part of the annual Plan of Administration (POA). The annual POA is the AE's request to administer the Program and is reviewed and approved by the OTF.

AEs may also elect to use the *Standards* and administer a PRP for non-AICPA firms and individuals. Non-AICPA firms and individuals are enrolled in the state CPA society PRPs and these reviews, although very similar to reviews administered by the Program, are not considered as being performed under the auspices of the Program. The reviews are not oversighted by the AICPA PRB; so, this report does not include information or oversight procedures performed by the AEs on their PRPs of non-AICPA firms and individuals.

## Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the senior technical committee governing the Program and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the revised <i>AICPA Standards for Performing and Reporting on Peer Reviews (Standards)</i> and interpretations to the revised <i>Standards</i> and other guidance that is used in administering, performing and reporting on peer reviews.
AICPA Peer Review Program Oversight Handbook	The handbook that includes the objectives and requirements of the AICPA PRB and the AE oversight process for the Program.
AICPA Peer Review Program Report Acceptance Body Handbook	The handbook that includes guidelines for the formation, qualifications, and responsibilities of AE peer review committees, report acceptance bodies and technical reviewers. The handbook also provides guidance in carrying out those responsibilities.
Program Administrative Manual	The publication that includes guidance used by the AICPA PRB, approved state CPA societies or other entities in the administration of the Program.
Administering entity	A state CPA society, group of state CPA societies or other entity annually approved by the PRB to administer the Program in compliance with the <i>Standards</i> and related guidance materials issued by the PRB.
Agreed upon procedures	An attestation engagement in which a practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or conclusion.
Attest engagement	An examination, review, or agreed-upon procedures engagement performed under the attestation standards related to subject matter or an assertion that is the responsibility of another party.
Audit	An engagement which provides financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
Compilation	An engagement where the accountant applies accounting and financial reporting expertise to help management in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework.
Corrective Action	A corrective action is a course of action that a reviewed firm has agreed to take in response to deficiencies.

<u>Term</u>	<u>Definition</u>
CPA on Staff	Individual at the AE responsible for managing the Program.
Employee Retirement Income Security Act of 1974	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.
FDICIA	Federal law enacted in 1991 to address the thrift industry crisis. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) recapitalized the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), expanded the authority of banking regulators to seize undercapitalized banks and expanded consumer protections available to banking customers.
Engagement review	A type of peer review for firms that do not perform audits or certain SSAE engagements that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Enhancing Audit Quality initiative	The Enhancing Audit Quality (EAQ) initiative is the AICPA's commitment to providing the resources and tools, as well as standards, monitoring, and enforcement, necessary to move the profession further on its journey toward greater audit quality.
Facilitated State Board Access (FSBA)	Developed by the AICPA to assist firms in complying with state peer review document submission requirements. Firms give permission to provide the results of their peer reviews to SBOAs via the secure FSBA website. Several SBOAs allow firms to voluntarily meet their state peer review document submission requirements using FSBA and many SBOAs require firms to use FSBA.  FSBA was enhanced in January 2020 to provide certain objective information about a firm's enrollment in the Program and the firm's current peer review when a firm gives permission.
Financial statements	A presentation of financial data, including accompanying notes, if any, to communicate an entity's economic resources or obligations, or both, at a point in time or the changes therein for a period of time, in accordance with GAAP, a comprehensive basis of accounting other than generally accepted accounting principles, or a special purpose framework.
Finding for further consideration (FFC)	A finding is one or more matters that the reviewer concludes does not rise to the level of a deficiency or significant deficiency and is documented on a finding for further consideration (FFC) form.
Firm	A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.

<u>Term</u>	<u>Definition</u>
Hearing	When a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate, the PRB may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the Program should be terminated or whether some other action should be taken.
Implementation plan	An implementation plan is a course of action that a reviewed firm has agreed to take in response to findings for further consideration. A RAB may require an implementation plan when the responses to a firm's FFC(s) are not comprehensive, genuine and feasible.
Licensing jurisdiction	For purposes of this report, licensing jurisdiction means any state or commonwealth of the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico or the Virgin Islands.
Matter for further consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed or reported on, or both, in conformity with applicable professional standards in all material respects. Matters are typically one or more "No" answers to questions in peer review questionnaires(s). A matter is documented on a matter for further consideration (MFC) form.
Other comprehensive basis of reporting	Consistent accounting basis other than GAAP used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the Program and make recommendations regarding the PRB oversight procedures.
Peer Review Committee	An authoritative body established by an AE to oversee the administration, acceptance, and completion of the peer reviews administered and performed in the licensing jurisdiction(s) it has agreed to administer.
Plan of administration (POA)	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the Program.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
Preparation engagement	An engagement to prepare financial statements pursuant to a specified financial reporting framework.
PRIMA System	An online system that is accessed to carry out the Program administrative functions.
Report Acceptance Body	A committee or committees appointed by an AE for the purpose of considering the results of peer reviews and ensuring that the requirements of the Program are being complied with.

<u>Term</u>	<u>Definition</u>
Review	An engagement where the accountant obtains limited assurance, primarily through performance of analytical procedures and inquiries, to conclude whether the financial statements are in accordance with an applicable financial reporting framework.
Reviewer feedback form	A form used to document a peer reviewer's performance on individual reviews and give constructive feedback.
Reviewer resume	A document residing in PRIMA and required to be updated annually by all active peer reviewers, which is used by AEs to determine if individuals meet the qualifications for service as reviewers as set forth in the <i>Standards</i> .
Special purpose framework	A financial reporting framework, other than GAAP, that is one of the following bases of accounting: cash basis, tax basis, regulatory basis, contractual basis, or another basis.
State board of accountancy	An independent state governmental agency that licenses and regulates CPAs.
State CPA society	Professional organization for CPAs providing a wide range of member benefits.
Summary review memorandum	A document used by peer reviewers to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in an FFC form.
System of quality control	A process to provide the firm with reasonable assurance that its personnel will comply with applicable professional standards and the firm's standards of quality.
System review	A type of peer review for firms that have an accounting and auditing practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on accounting and auditing engagements is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
Technical reviewer	Individual(s) at the AE whose role is to provide technical assistance to the RAB and the Peer Review Committee in carrying out their responsibilities.
Territory	A territory of the United States is a specific area under the jurisdiction of the United States and, for purposes of this report, includes Guam, the District of Columbia, the Northern Mariana Islands, Puerto Rico and the Virgin Islands.



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

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



**PROC Item III.B.**  
August 14, 2020

**Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2018 Annual Report Oversight, Issued October 17, 2019**

**Presented by: Michelle Center, Chief, Licensing Division**

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**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review the American Institute of Certified Public Accountants (AICPA), National Peer Review Committee (NPRC), 2018 Annual Report on Oversight Report (**Attachment**).

**Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with professional standards set by the CBA-approved Peer Review Program Provider, the AICPA. The AICPA NPRC Annual Report on Oversight provides the PROC with important statistics and information pertaining to the AICPA Peer Review Program as the effectiveness of the program directly relates to the CBA's mission of consumer protection.

**Action(s) Needed**

PROC members are asked to review the Report and continue to evaluate the effectiveness of the AICPA's Peer Review Program.

**Background**

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

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

# **Discussion on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2018 Annual Report Oversight, Issued October 17, 2019**

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

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

## **Comments**

Although the Report was issued on October 17, 2019, it was made publicly available after the February 14, 2020 PROC meeting date.

In April 2017, the AICPA Peer Review Program transitioned to the Peer Review Information Management Application (PRIMA) system. As the software program is unable to generate certain quantitative statistics and comparable information that were included in previous reports, this report is more qualitative in nature.

The AICPA NPRC OTF conducted an internal review of the AICPA NPRC administrative functions in September 2019 and an external review was conducted by the AICPA Peer Review Board in September 2018 which covers the overall AICPA NPRC peer review process, including:

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



**Discussion on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2018 Annual Report Oversight, Issued October 17, 2019**

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- Oversight of acceptance process

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

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

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

**Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

**Recommendation**

Staff do not have a recommendation on this agenda item.

**Attachment**

American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2018 Annual Report on Oversight, Issued October 17, 2019



**AICPA<sup>®</sup>**

Peer Review  
Program

**National Peer Review Committee**

**2018 Annual Report on Oversight**

*Issued October 17, 2019*

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## Introduction and Purpose

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

The purpose of this Annual Report on Oversight (report) is to provide a general overview; including statistics and information; the results of the National PRC's oversight procedures; and to conclude whether the objectives of the National PRC's oversight processes performed in calendar year 2018 were in compliance with the requirements of the program and the National PRC Policies and Procedures.

In April 2017, the AICPA Peer Review Program transitioned to the Peer Review Information Management Application (PRIMA) system. As the software program is unable to generate certain quantitative statistics and comparable information that were included in previous reports, this report, similar to the 2017 report, is more qualitative in nature, though information about the oversight activities of the NPRC are presented

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

## Scope

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

For more information on the AICPA PRP as a whole, please visit the AICPA's website at this [link](#).

## Facilitated State Board Access

Since peer review became mandatory for AICPA membership in 1988, 53 State Board of Accountancy (SBAs) and other licensing jurisdictions have adopted mandatory peer review requirements, and many require their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with SBA peer review document submission requirements, the AICPA created facilitated state board access (FSBA). FSBA allows firms to give permission to the AICPA or to their AEs to provide access to the firms' documents (listed in the following paragraph) to SBAs through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some SBAs now require their licensees to participate in FSBA while others recognize it as an acceptable process to meet the peer review document submission requirements.

Documents included in FSBA are:<sup>1</sup>

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

### Members of the National PRC

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

### Staff of the National PRC

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

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

## Reviews Administered by the National PRC

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

1. The firm performed or played a substantial role in (as defined by the PCAOB) an engagement under PCAOB standards with a period-end during the peer review year
2. The firm is a provider of quality control materials (QCM) (or affiliated with a provider of QCM) that are used by firms that it peer reviews
3. Firms that elect to have their review administered by the National PRC

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

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

## National PRC Process Overview

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

### Scheduling

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

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

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

### Technical Review

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

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

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

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

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

### Report Acceptance

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

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

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

#### Firm Peer Review Oversight Process and Procedures

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

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



### *On-Site Oversight*

Each year oversight is performed on a sample of peer reviews meeting one or more risk-based criteria. The risk-based criteria are developed or reevaluated annually by the OTF. Currently, 13 risk-based criteria exist that firms, engagements and team/review captains are evaluated against to assess their potential for oversight. This evaluation is qualitative as well as quantitative, and some criteria are weighted more heavily than others. They include certain criteria that, if met, result in mandatory oversight of the peer review. Currently, mandatory review includes firms with over 400 accounting and auditing personnel.

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

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

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

### *Off-Site Oversight*

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

### *Engagement Oversight*

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

### *Oversight of the Peer Reviews and Reviewers*

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

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

<b>Type</b>	<b>National PRC Oversight Conducted</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
On-site requiring presentation to full committee	3	10	9
Other on-site	20	8	12
Off-site	2	1	1
Engagement	4	5	4
<b>Total</b>	<b>29</b>	<b>24</b>	<b>26</b>
% of peer reviews conducted during year	10.4%	9.8%	12.4%

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

#### *Enhanced Oversight*

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

Reviews administered by the National PRC are included in the population of reviews subject to enhanced oversight. The sample of enhanced oversight completed each year includes a random sample designed to achieve a 95 percent confidence level and a targeted sample based on certain risk criteria established by the PRB OTF. If a reviewer was already selected twice in the random sample, they were not selected again in the targeted sample. 10 National PRC reviews in 2016, 2 National PRC reviews in 2017, and 5 National PRC reviews in 2018 were subject to enhanced oversight. The National PRC takes the results from the enhanced oversight into consideration when considering the acceptance of the review. Enhanced oversight with poor results indicate a risk factor for the reviewer and are taken into account when considering oversight by the National PRC. For more information about enhanced oversight please refer to the AICPA's PRP Annual Oversight Report which can be found [here](#).

### *Use of Panels*

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

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

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

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

### Administrative Oversight

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

The oversight procedures included the following:

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

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

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

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

An internal review of the administrative functions of the National PRC was conducted in September 2019 by the National PRC OTF. The review encompassed the calendar year ending December 31, 2018. The objective and procedures of the review were the same as those discussed above.

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

- Instances were noted in which peer review documents were retained longer than allowed by the Peer Review Standards.
- An isolated instance was noted in which the performance of a peer review was significantly delayed due to a gap in the process for monitoring of reviews referred to the Peer Review Board for a termination hearing in which the hearing was subsequently cancelled.

The National PRC has evaluated this observation, identified policies to address it, and implemented them.

The oversights were a valuable process that revealed opportunities to enhance the effectiveness and efficiency of the administration of the program.

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

#### Annual Verification of Reviewers' Resumes

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

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

<u>Disposition</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Suspended for noncooperation with verification process	9	8	7
Voluntarily removed/became inactive	10	20	15
Verified	68	126	88
Total	<u>87</u>	<u>154</u>	<u>110</u>

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

#### Peer Reviewer Performance

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

On occasion, weaknesses will be noted in the performance of reviewers. In such circumstances, the National PRC or its RABs advise the reviewers of the weaknesses noted so that improvements are made on reviews performed in the future. Performance matters are initially communicated to the reviewer through the use of a reviewer feedback form issued by the National PRC or RAB. The reviewer feedback form is designed to give reviewers positive and constructive feedback directly from the National PRC or RAB. Reviewer feedback forms document a reviewer's performance on individual reviews and provide the National PRC and the OTF with useful evidence to determine whether a pattern of weaknesses is evident in the reviewer's performance. Formal reviewer feedback included, but was not limited to, the following:

- issues noted related to documentation,
- underdeveloped risk assessments,
- low scope,
- failure to consult,
- inappropriate disposition of findings, and
- insufficient identification of systemic cause and engagements not performed or reported in conformity with professional standards in all material respects.

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

#### Peer Reviews of Quality Control Materials (QCM)

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

administration and acceptance process. The task force's involvement includes facilitating oversights of QCM reviews, developing practice aids, and recommending enhancements to the standards, interpretations, and other guidance related to QCM reviews.

### Oversight and Acceptance Process of QCM Reviews

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

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

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

Oversight was performed on five QCM reviews in 2018, three QCM reviews in 2017, and two QCM reviews in 2016.

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

**Exhibit A**

**NATIONAL PEER REVIEW COMMITTEE ROSTER**

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

Brian Bluhm  
Eide Bailly LLP  
Minneapolis, MN

John Edwardson  
RSM US LLP  
Minneapolis, MN

Erica Forhan  
Moss Adams LLP  
Seattle, WA

Vincent Gaudioso  
Buchbinder Tunick & Company LLP  
New York, NY

James Gero  
Hobe & Lucas, CPAs Inc  
Cleveland, OH

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

Shawn Hanrahan  
Deloitte & Touche LLP  
Boston, MA

Mark Hobbs  
The Hobbs Group, PA  
Columbia, SC

Keith Malinowski  
Grant Thornton LLP  
Charlotte, NC

David Maraldo  
Ernst & Young LLP  
Cleveland, OH

Raymond Nowicki  
Nowicki and Company, LLP  
Buffalo, NY

Gary Schafer  
BKD, LLP  
Springfield, MO

Catherine M. Schweigel  
CliftonLarsonAllen LLP  
Milwaukee, WI

James Smolinski  
Baker Tilly Virchow Krause, LLP  
Madison, WI

Michael J Wagner  
PricewaterhouseCoopers, LLP  
New York, NY

### **AICPA Staff**

Barry C. Melancon, President & Chief Executive Officer

Susan S. Coffey, Executive Vice President – Public Practice

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

Gary Freundlich, Technical Director and CPA on Staff

Beth Thoresen, Director of Operations

Chris Ellis, Manager – Peer Review Operations

Frances McClintock, Associate Director

Sue Lieberum, Associate Director

Rachelle Drummond, Senior Manager

Laurel Gron, Senior Manager

Tim Kindem, Senior Manager

LaVonne Montague, Senior Manager

David Andrews, Manager

Karen Aylor, Manager

Ivory Bare, Manager

Jaime Beasley, Manager

Brad Coffey, Manager

Jennifer Dintsch, Manager

Jennifer Gum, Manager

Lisa Joseph, Manager

Justin Long, Manager

Tracy Peterson, Manager

Susan Rowley, Manager

Andrew Volz, Manager

Lori Warden, Manager



## **Exhibit B**

### **History of the National PRC**

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

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

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

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

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

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

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

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

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

The National PRC became one of the forty-two administering entities of the AICPA PRP, at that time. The mission of the National PRC is achieved through supporting the PRB in meeting its mission, which is stated as follows:

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

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

## Exhibit C

### Common Acronyms

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



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

phone: (916) 263-3680 fax: (916) 263-3675 web: [www.cba.ca.gov](http://www.cba.ca.gov)



**PROC Item III.C.**  
August 14, 2020

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

**Presented by: Michelle Center, Chief, Licensing Division**

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review results from the American Institute of Certified Public Accountants (AICPA) Oversight Task Force (OTF) regarding its administrative oversight of the AICPA National Peer Review Committee (NPRC), issued September 26, 2019 (**Attachment 1**) and the response letter from the AICPA NPRC, issued October 16, 2019 (**Attachment 2**).

### **Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with professional standards set by the CBA-approved Peer Review Program Provider, the AICPA. The AICPA OTF report provides the PROC with valuable insight pertaining to the AICPA NPRC peer review administration process and provides reasonable assurance that consumer protection is a high priority.

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

PROC members are asked to review and discuss both the results and response letter issued by the AICPA OTF and the AICPA NPRC, regarding the NPRC's peer review administration procedures.

### **Background**

The AICPA OTF conducts annual oversight of the AICPA NPRC in accordance with the administrative oversight procedures in the AICPA Peer Review Program Oversight Handbook. The administrative oversight program is designed to provide reasonable assurance that the AICPA Peer Review Program is being administered in accordance with the guidance as issued by the AICPA Peer Review Board.

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

Page 2 of 2

## **Comments**

On September 25 and 26, 2019, the AICPA OTF conducted administrative oversight activities of the AICPA NPRC peer review process including: review of its administrative procedures, technical review procedures, Certified Public Accountants on staff, and oversight program.

On September 26, 2019, the AICPA OTF issued a result letter and concluded that the NPRC administrative peer review process was performed in a manner consistent with peer review standards. The letter noted that significant improvements have been made to previously noted document retention deficiencies; however, minor document retention issues involving old and completed reviews still remain. Additionally, there was a finding for a firm that was referred to the Peer Review Board for a termination hearing and the hearing was subsequently cancelled, causing a significant delay in the performance of a technical review and completion of the firm's peer review. There were no other instances of this particular situation noted.

On October 16, 2019, James Brackens, Jr., CPA, AICPA Vice President – Ethics and Practice Quality, issued a response letter to the AICPA OTF internal review of the AICPA NPRC administrative procedures conducted on September 25 and 26, 2019.

Mr. Brackens noted that AICPA NPRC staff have put in place procedures to eliminate the use of the old and completed review folder that housed documents beyond the retention period. Recent reviews have adhered to document retention policies. Mr. Brackens also noted that staff will begin obtaining a monthly report of inactive hearing cases to identify any review that may have been cancelled and returned for processing.

## **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

## **Recommendation**

Staff do not have a recommendation on this agenda item.

## **Attachments**

1. American Institute of Certified Public Accountants Oversight Task Force Administrative Oversight of the American Institute of Certified Public Accountants National Peer Review Committee, Result Letter, Issued September 26, 2019
2. American Institute of Certified Public Accountants Response Letter to the American Institute of Certified Public Accountants Oversight Task Force, Issued October 16, 2019



Baker Tilly Virchow Krause, LLP  
Ten Terrace Ct; PO Box 7398  
Madison, WI 53707-7398  
United States of America

T: +1 (608) 249 6622  
F: +1 (608) 249 8532

[bakertilly.com](http://bakertilly.com)

## Oversight Visit Report

September 26, 2019

To the National Peer Review Committee:

I have reviewed National Peer Review Committee's administration of the AICPA Peer Review Program (program) as part of our oversight program. Our procedures were conducted in conformity with the guidance established by the AICPA Peer Review Board (board) as contained in the *AICPA Peer Review Program Oversight Handbook*.

### **Administering Entity's Responsibility**

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

### **Oversight Task Force's Responsibility**

Our responsibility is to determine whether (1) administering entities are complying with the administrative procedures established by the board, (2) the reviews are being conducted and reported upon in accordance with the standards, and (3) information disseminated by administering entities is accurate and timely.

### **Conclusion**

Based on the results of the procedures performed, we have concluded that the National Peer Review Committee has complied with the administrative procedures and standards in all material respects as established by the board.

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

A handwritten signature in black ink, appearing to read "James Smolinski", written in a cursive style.

James Smolinski, Member, Oversight Task Force  
National Peer Review Committee



Baker Tilly Virchow Krause, LLP  
Ten Terrace Ct; PO Box 7398  
Madison, WI 53707-7398  
United States of America

T: +1 (608) 249 6622  
F: +1 (608) 249 8532

bakertilly.com

September 26, 2019

To the National Peer Review Committee:

We have reviewed National Peer Review Committee's administration of the AICPA Peer Review Program as part of our oversight program and have issued our report thereon dated September 26, 2019. That report should be read in conjunction with the observations in this letter, which were considered in determining our conclusions. The observations described below were not considered to be of sufficient significance to affect the conclusions expressed in that report.

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

In conjunction with the oversight of the National PRC, the administering entity for the program, conducted on September 25 and 26, the following observations are being communicated.

### **Administrative Procedures**

On September 25 and 26, 2019, I met with Fran McClintock, Associate Director, and other NPRC staff 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 status of open reviews, including reviews with corrective actions and implementation plans, which had not yet been completed. I found that open reviews were being effectively monitored for completion by the administrative staff and the peer review committee.

I reviewed the timeliness of the preparation of committee decision letters. I noted no problems in these areas.

I reviewed the policies and procedures for the granting of extensions. I found that the Associate Director and Senior Technical Manager handle extension requests with discussion from the committee when the circumstances warrant.

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

According to discussions with Ms. McClintock and other NPRC staff, I found compliance with the working paper retention policies for completed reviews.

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

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

### **Technical Review Procedures**

I met with Ms. McClintock, to discuss technical review procedures and attended a number of RAB meetings. As a result, I determined that the technical reviewers met the qualifications set forth in the guidance and the technical review procedures were being handled in a manner consistent with peer review standards,

I reviewed the reports, letters of response, if applicable, and the working papers for a number of reviews. I believe the review issues were addressed properly by the technical reviewer before reviews were presented to the committee. This helped the acceptance process to be effective and efficient.

The technical reviewers were available during the RAB meetings I participated in to answer any questions that arose.

### **CPA on Staff**

The CPA on staff is Gary Freundlich, Technical Director of the AICPA Peer Review Program.

I met with Ms. McClintock, discussed the required CPA on staff procedures, and reviewed a number of documents to complete the monitoring of the process. I determined that the CPA on staff met the qualifications set forth in the guidance and the CPA on Staff procedures were being handled in a manner consistent with peer review standards.

I reviewed the annual confidentiality agreements from all of the administering entity staff associated with the peer review. I noted that all confidentiality agreements had been obtained and signed by the staff involved with the peer review program administration.

I discussed the policies and procedures designed to maintain objectivity and skepticism to mitigate familiarity threat and safeguards that had been implemented while considering the results of the peer review.



## Oversight Program

The National PRC's peer review committee has adopted a formal oversight program that is well documented. I reviewed the document and procedures performed and found it to be comprehensive.

## Summary

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

- The prior oversight report noted document retention deficiencies within the administration of the peer review program. It was noted that significant improvements have been made and the more severe deficiencies have been corrected. However, there still appears to be minor document retention issues as it was noted that files that should not have been retained are still present in directories housing old / completed reviews; e.g. superseded reports.

It is recommended that the NPRC staff individually verify that the required documents for closed reviews are appropriately housed within PRIMA and that the files within the closed directory are purged.

- When reviewing the system for monitoring and tracking the progress of reviews through to completion there was a finding for a firm that was referred to the Peer Review Board for a termination hearing and the hearing was subsequently cancelled. A minor gap in the process for monitoring caused a significant delay in the performance of a technical review and subsequent completion of the firm's peer review. There were no other instances of this particular situation noted. The NPRC staff has already instituted changes designed to close the gap and prevent similar situations from occurring in the future.



James Smolinski, Member, Oversight Task Force  
National Peer Review Committee

October 16, 2019

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

Re: Oversight Visit to the National Peer Review Committee

Dear Task Force Members:

This letter represents our response to the report and letter of procedures and observations issued in connection with the review of the National Peer Review Committee's administration of the AICPA Peer Review Program (program) performed on September 25 and 26. The matters discussed herein were brought to the attention of all peer review program committee members, administrative staff, and technical reviewer(s). In addition, the matters discussed in this letter will be monitored to ensure they are effectively implemented as part of our administration of the AICPA Peer Review Program.

### **Working Paper Retention**

In reviewing the old / completed review materials identified by the reviewer, staff have identified that these appear to be limited to reviews processed in earlier periods. The types of files identified do not appear to be present in reviews processed under our current document retention procedures. Staff took steps to immediately remove the documents identified as well as to identify any additional documents of this type that might be present.

Staff have put in place procedures to eliminate the use of the old / completed review folder for reviews completed after September 15, 2019. No new items will be added to this folder as all required documents will be retained directly in PRIMA. Documents for older reviews, not completed in PRIMA will continue to be retained in this file with the expectation that the entire file will be eliminated at the end of the next full review cycle.

### **Review Monitoring**

After a review is referred to the AICPA Peer Review Board for a termination hearing, there are no further actions necessary by the administering entity (AE). For the review selected, the hearings staff determined that a hearing was not necessary as the firm cooperated with their requests prior to the scheduled hearing date. The NPRC staff regularly monitor the status of reviews, however, it was not clear that the hearing had been cancelled and the review returned to the administering entity to process. Going forward, staff will obtain a monthly report of inactive hearings cases to identify any other reviews that may have been returned for processing.

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

Sincerely,



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



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

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



**PROC Item III.D.**  
August 14, 2020

## **Report on Peer Review-Related Statistical Monitoring and Activity Reports for Inclusion in Peer Review Oversight Committee Annual Reports**

**Presented by: Michelle Center, Chief, Licensing Division**

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) with the response letter received from the American Institute of Certified Public Accountants (AICPA) regarding the anecdotal reasons behind the 2019 peer review-related statistics, and to discuss the statistics for inclusion in the 2020 PROC Annual Report.

### **Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with professional standards set by the CBA-approved Peer Review Program Provider, the AICPA.

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

It is requested that the PROC review the AICPA's letter dated March 13, 2020 and to come prepared to discuss the collection of peer review-related statistics for inclusion in the 2020 annual report similar to those reported in 2019.

### **Background**

At the December 13, 2019 PROC meeting, members discussed the statistics provided by California Society of Certified Public Accountants and AICPA for inclusion in the 2019 PROC Annual Report. The PROC directed staff to contact AICPA to obtain further analysis on the data points. On January 31, 2020, staff sent a letter to Tom Parry, CPA, Chair of the AICPA Peer Review Board asking for clarification on data trends (**Attachment 1**).

### **Comments**

On March 13, 2020, the CBA received a letter from James Brackens, Jr., CPA, AICPA Vice President – Ethics and Practice Quality. The letter stated that the AICPA does not specifically track the information requested by the PROC and it contained anecdotal explanations (**Attachment 2**).

## **Report on Peer Review-Related Statistical Monitoring and Activity Reports for Inclusion in Peer Review Oversight Committee Annual Reports Page 2 of 2**

On July 24, 2020, Jeff De Lyser, CPA, PROC Chair, presented the PROC 2019 Annual Report to the CBA. The CBA did not express any questions or concerns regarding the statistical information provided and unanimously voted to approve the Annual Report.

Given that the CBA did not request additional statistical information or a modification to the methodology used to present the data, the 2020 PROC Annual Report will include the same statistical information and level of analysis. The following outlines the statistics for inclusion in the 2020 report:

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

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

There are no fiscal/economic considerations.

### **Recommendation**

Staff do not have a recommendation on this agenda item.

### **Attachments**

1. Letter dated January 31, 2020, to Tom Parry, CPA, Chair, AICPA Peer Review Board
2. Letter dated March 13, 2020, to Michelle Center, Licensing Chief, California Board of Accountancy



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

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



January 31, 2020

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

Dear Mr. Parry:

The California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC) would like to thank you for your continued role in the California Peer Review Program.

During the December 13, 2019 meeting, as part of the PROC discussion of the 2019 PROC Annual Report, the PROC noted changing trends in the data from 2015 to 2018. The PROC is inquiring if the American Institute of Certified Public Accountants (AICPA) can provide further clarification on the following data trends:

- Is there an explanation for why the total number of California Peer Reviews accepted has declined from 1,600 in 2015 to 1,420 in 2018?
- Is there an explanation for why the total number of Peer Reviews with a rating of Pass has declined from 81 percent in 2015 to 70 percent in 2018?
- Is there an explanation for why the total number of Peer Reviews with a rating of Passed with a Deficiency has increased from 11 percent in 2015 to 16 percent in 2018?
- Is there an explanation for why the total number of Peer Reviews with a rating of Fail has increased from eight percent in 2015 to 14 percent in 2018? It appears that failed system reviews have declined while failed engagement reviews have increased significantly.
- Is there an explanation for the increase in Continuing Professional Education ordered for substandard Peer Reviews from 160 in 2015 to 283 in 2018?
- Is there an explanation for the increase in terminated firms from zero in 2015 to nine in 2018?

Mr. Parry  
January 31, 2020  
Page 2

The PROC requests that the AICPA provide a written response by February 28, 2020. Furthermore, the PROC extends an invitation to you or a representative from the AICPA to attend the May 8, 2020 PROC meeting.

The CBA appreciates the opportunity to provide feedback and comments regarding this matter. Should you have any questions regarding this matter, please contact me directly at (916) 561-4310 or by email at [dominic.franzella@cba.ca.gov](mailto:dominic.franzella@cba.ca.gov).

Sincerely,

Dominic Franzella, Chief, Enforcement Division  
California Board of Accountancy

c: Jim Brackens, CPA, CGMA, American Institute of Certified Public Accountants Vice  
President, Ethics & Practice Quality, Public Accounting  
Jewell Wade, National Association of State Boards of Accountancy Staff Liaison,  
Compliance Assurance Committee  
Members, California Board of Accountancy  
Vinit Shrawagi, California Society of Certified Public Accountants, Director of  
Technical Services Members, Peer Review Oversight Committee  
Patti Bowers, Executive Officer



March 13, 2020

Michelle Center, Licensing Chief  
California Board of Accountancy  
2450 Venture Oaks Way, Suite 300  
Sacramento, CA 95833

Dear Ms. Center:

The American Institute of Certified Public Accountants (AICPA) continues to be pleased the California Board of Accountancy (CBA) is focusing attention on peer review. The AICPA fully supports CBA's need and ability to monitor the peer review program through oversight performed by the Peer Review Oversight Committee (PROC).

Upon receipt of your letter dated January 31, 2020, I spoke with several CBA staff members to identify what information we can provide with respect to the changing trends in data from 2015 to 2018 identified in your 2019 PROC Annual Report. While we do not specifically track much of this information, we are able to share the following anecdotal explanations:

- Over the last few years, we have seen a decrease in the number of firms enrolled in the AICPA Peer Review Program (program). This is attributed to firm mergers and firms no longer performing accounting and auditing engagements that would subject them to a peer review.
- We have seen similar trends in peer review report ratings with the most notable change being an increase in the number of engagement reviews with a peer review rating of *fail*. The program identified significant issues with firms appropriately adopting Standards for Accounting and Review Services (SSARS) 21; which was effective for engagements with periods ending on or after December 31, 2015. This resulted in non-conforming engagements with the largest impact on engagement reviews since a firm can only receive a peer review rating of *pass* if there are no non-conforming engagements.

Additionally, the AICPA launched the Enhancing Audit Quality (EAQ) initiative in 2014. The EAQ initiative takes a data-driven approach using audit data from the program and other sources. The data is analyzed to identify common quality issues and then standards and guides are revised, CPE and various resources are developed to help firms improve in those areas. These areas are then emphasized in peer review. While the EAQ initiative was in place for firms with reviews accepted in 2015, it was early in the process and the data was still being collected. For reviews accepted in 2018, data had been collected and areas of focus identified which may have resulted in more non-conforming engagements being identified and thus having a potential impact on a firm's peer review rating.



- The increase in continuing professional education (CPE) as a required follow-up action is twofold. First, as you mentioned in your letter, there has been an increase in the number of peer review report ratings of *pass with deficiencies* and *fail*. As such, firms are ordinarily required to complete some type of remedial, corrective action, with the most common being CPE. Second, there has been a change in reporting. In 2015, the program was using the PRISM system (Peer Review Information System Manager) whereby only corrective actions were tracked and reported in the system. With the launch of PRIMA (Peer Review Integrated Management Application) in 2017, the system now also tracks implementation plans and the reporting includes both corrective actions *and* implementation plans. (An implementation plan is a course of action that a reviewed firm has agreed to take in response to findings for further consideration. Although agreeing to and completing such a plan is not tied to the acceptance of the peer review.)
- According to our records, only three California firms were terminated from the program in 2018. Two firms were terminated for consecutive non-pass reports in system reviews and one firm was terminated for noncooperation related to the omission or misrepresentation of information. If you would provide the names of the nine firms you identified, we will reconcile the difference and provide updated information.

If you have any additional questions or require additional information, please let me know.

Sincerely,



James W. Brackens, Jr., CPA, CGMA  
VP – Ethics & Practice Quality

cc: Patti Bowers, Executive Officer, CBA  
Dominic Franzella, Chief, Enforcement Division, CBA  
Wade Jewell, National Association of State Boards of Accountancy, Compliance Assurance Committee staff liaison  
Andrew Pope, CPA, Chair – AICPA Peer Review Board  
Vinit Shrawagi, CPA, California Society of CPAs, Director, Peer Review



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

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



**PROC Item III.E.**  
August 14, 2020

## **Discussion on the American Institute of Certified Public Accountants Peer Review Program Automatic Extensions**

**Presented by: Michelle Center, Chief, Licensing Division**

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### **Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) the opportunity to review and discuss the American Institute of Certified Public Accountants (AICPA) automatic peer review extensions granted in response to COVID-19.

### **Consumer Protection Objectives**

The California Board of Accountancy (CBA) Peer Review Program is an important component of its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with professional standards set by the CBA-approved Peer Review Program Provider, the AICPA.

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

It is requested that the PROC review and discuss the AICPA automatic peer review extensions.

### **Background**

Peer review is a systematic review of a firm's accounting and auditing services performed by a peer review who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. Peer review is required for all California-licensed firms, including sole-proprietorships, that perform accounting and auditing services. Presently, only the AICPA is recognized by the CBA to administer peer reviews.

### **Comments**

On May 7, 2020, the AICPA Peer Review Board (PRB) approved an automatic six-month extension for all firms with review, corrective actions, and implementation plans originally due between January 1, 2020 and September 30, 2020 in response to COVID-19. AICPA updated the Peer Review Integrated Management Application

# Discussion on the American Institute of Certified Public Accountants Peer Review Program Automatic Extensions

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(PRIMA) with extended due dates and extension letters for eligible firms. Auto-generated notifications were also sent out (**Attachment 1**).

The extension provides firms an additional six months from their original due date. Firms are not required to delay their reviews and are encouraged to have their reviews performed as soon as possible. The extension does not affect the firm's year-end, which dictates the engagements to be reviewed (**Attachment 2**).

CBA Regulations section 43 requires firms to report the time/due date extension to the CBA. If at the time of license renewal, the firm has not completed the peer review, the CBA is requesting firms to write the extended due date at the top of the Peer Review Reporting Form (PR-1). The CBA encourages firms to attach a copy of the letter from AICPA granting the peer review time/due date extension (**Attachment 3**).

## **Fiscal/Economic Impact Considerations**

There are no fiscal/economic considerations.

## **Recommendation**

Staff do not have a recommendation on this agenda item.

## **Attachments**

1. AICPA Review Alert – May 2020
2. AICPA Peer Review Automatic Extensions Q&A
3. CBA Regulations section 43



# Reviewer alert

## May 2020 | Continuing Coronavirus Impacts on Peer Review

### Extensions

As you know, the AICPA and the Peer Review Board (PRB) take the coronavirus (COVID-19) pandemic very seriously. We continually monitor the virus' impact on the peer review community and the profession. In its most recent effort to assist members, on May 7, 2020, the PRB approved automatic six-month extensions for all firms with reviews, corrective actions and implementation plans originally due from January 1 to September 30, 2020.

Next week, we will send eligible firms an email with details and instructions for moving forward. From May 18-22, 2020, we will update PRIMA with extended due dates and extension letters for eligible firms, and we will send auto-generated notifications.

Although the automatic extension will provide firms with an additional six months, firms are not required to delay their reviews, and we will encourage them to have their reviews performed as soon as practicable. Also, we will suggest they contact you soon to confirm your availability. We know schedule changes may become necessary and are available to assist in any way we can. Please note your own firm's peer review extension will not preclude you from performing reviews.

We understand some firms may request year-end changes rather than extensions. Though the PRB recognizes some changes may be appropriate for other reasons, they indicated the changes should not be granted solely due to delays in having peer reviews performed as a result of the COVID-19 extension.

Lastly, we know that this is a considerable change and we will develop guidance, tools and resources to assist you in navigating peer review during these challenging times. Look for additional information in the coming weeks.

### 2020 Peer Review Conference

Thanks to our recent conference attendees who responded to our survey. Your feedback and our continuing concerns for the health and welfare of attendees and staff were the driving factors in our decision to move the 2020 conference to an online event.

We're still finalizing the details but wanted you to continue to save the dates, as the virtual conference will be held on the same dates, August 3-5, 2020, from 1pm to 5pm ET. We'll be in touch soon with additional information, including reduced pricing and an adjusted agenda.

Thank you for your continuing commitment to Peer Review.



Peer Review  
Program

## Peer Review Automatic Extensions Q&A

In its most recent effort to assist members during the coronavirus pandemic, the AICPA Peer Review Board (PRB) approved automatic six-month extensions for all firms with reviews, corrective actions and implementation plans originally due from January 1 to September 30, 2020. The questions below summarize the most common inquiries received from firms.

### **Q: Is my firm required to use the automatic extension?**

A: No. In fact, we strongly encourage you to have your peer review performed as soon as practicable to avoid any potential delay in the presentation and acceptance of your firm's review. Also, we strongly recommend that you contact your reviewer as soon as possible to reserve time for your review. Your reviewer, whose firm operations have also been impacted by COVID-19, may have limited availability when your review is due. Also, please check to see whether your state board of accountancy (SBOA) requires you to notify them of your extension or obtain approval from them as well.

### **Q: If I previously requested an extension for my firm, does the automatic extension still apply?**

A: Yes. The automatic extension is based on the original due date. If your original due date was from January 1 to September 30, 2020, the automatic extension applies. For example, if your original due date was May 30, 2020 but was extended to July 31, 2020 through an extension request, your new extended due date will be September 30, 2020 (six months from the original due date). However, if you can still meet the earlier, originally extended date, we encourage you to do so.

### **Q: Does the automatic extension apply if my firm is having its first peer review?**

A: Yes, if your firm's due date is prior to September 30, 2020, your firm has received an automatic extension. We strongly encourage you to have your peer review performed as soon as practicable to avoid any potential delay in the presentation and acceptance of your firm's review. Also, we strongly recommend that you contact your reviewer as soon as possible to reserve time for your review. Your reviewer, whose firm operations have also been impacted by COVID-19, may have limited availability when your review is due. Also, please check to see whether your state board of accountancy (SBOA) requires you to notify them of your extension or obtain approval from them as well.

### **Q: Does the automatic extension affect my firm's peer review year-end?**

A: No. The year under review is not changing; the automatic extension is based on your original due date. For example, if your peer review year is from January 1 to December 2019, your due date has been extended to December 31, 2020; however, your peer review year-end (which dictates the engagements to be reviewed) will remain December 31, 2019.

### **Q: When will the Peer Review Information Management Application (PRIMA) be updated to reflect the automatic extension dates?**

A: The extensions went live in PRIMA the week of May 18-22, 2020. During this time, if your firm was eligible, your firm's managing partner or peer review contact was sent an email from PRIMA that indicated a letter was available in the system. The letter contains the revised due date, and you are highly encouraged to read this letter very carefully.

**Q: Is my firm's Peer Review Information (PRI) and scheduling information (SCH) still due?**

A: Yes. Although you may have been granted an extension, you still need to complete your PRI and schedule your review through the SCH. Though the extension gives you more time if you need it, we encourage you to complete the PRI and SCH as soon as practicable. To complete the PRI or SCH, please access the PRI or SCH case in PRIMA's "Action Items" section. Your firm must complete the PRI whether a peer review is required.

**Q: Do I have to notify my state board of accountancy (SBOA) of the automatic extension?**

A: Some SBOAs require notice of the extensions we grant, and some require you to obtain their concurrence, so check with your SBOA on their requirements. If your SBOA requires a copy of the extension letter, we have an easy solution for you! Simply opt in to Facilitated State Board Access (FSBA) in PRIMA and opt in to share additional peer review information, once you've completed your PRI and SCH. Your SBOA can immediately access your extension letter, so there's no need to email or snail mail them a hard copy. For more information on opting in to FSBA and sharing peer review information, log in to PRIMA and access the article: [Opting in or out of Sharing Peer Review Information](#).

**Q: How will peer review due dates be affected if the coronavirus pandemic continues to affect firms significantly beyond September 30, 2020?**

A: The Peer Review Board (PRB) and the AICPA Peer Review Program staff will continue to monitor the pandemic through the summer months and will evaluate whether automatic extensions are appropriate for firms with due dates after September 30, 2020.

**Q: If my firm is not eligible for an automatic extension, may I still request an extension?**

A: Yes, if you know you need an extension, you may request one in PRIMA. Please note, you *must* request the extension before your review's due date, or the extension *will not* be granted. If possible, extensions should be requested at least 60 days before the due date. However, it is plausible that extensions may be needed due to unforeseen circumstances within 60 days of the due date. Your explanation to the Administering Entity (AE) should explain why your firm cannot complete its review on time and offer an alternative due date for the review. The AE considers extension requests on a case-by-case basis. Extensions are not granted simply because a firm believes it needs more time to prepare for the review. Approvals for an extension for more than three months are rare.

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

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



### **CBA Regulations section 43 – Peer Review Extensions**

- (a) Should an extension of time be needed to have a peer review report accepted by a Board-recognized peer review program such request shall be submitted to the Board-recognized peer review program with which the firm is enrolled for consideration and approval or denial.
- (b) If the extension granted extends past the firm's reporting date, the firm shall notify the Board of the extension and provide proof of the extension. The firm shall report the results of the peer review to the Board on form PR-1(Rev. 11/17), as referenced in Section 45, within 45 days of the peer review report being accepted by a Board-recognized peer review program.

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