

California Board of Accountancy

Peer Review Oversight Committee (PROC) Meeting

January 31, 2014



10:00 a.m. – 1:00 p.m.

Doubletree by Hilton Berkeley Marina

200 Marina Boulevard

Berkeley, California 94710

(510) 548-7920



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

**PROC MEETING
NOTICE & AGENDA**

**Friday, January 31, 2014
10:00 a.m. – 1:00 p.m.**

Doubletree by Hilton Berkeley Marina
200 Marina Boulevard
Berkeley, California 94710
(510) 548-7920

PROC Purpose Statement

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

- I. Roll Call and Call to Order (**Nancy Corrigan, Chair**).
- II. Report of the Committee Chair (**Nancy Corrigan**).
 - A. Approval of the November 1, 2013 PROC Minutes.
 - B. Report on the November 21-22, 2013 CBA Meeting.
 - C. Report on the January 23-24, 2014 CBA Meeting.
- III. Report on PROC Activities (**Nancy Corrigan**).
 - A. Assignment of Future PROC Activities.
 - B. Report on January 22, 2014 California Society of Certified Public Accountants (CalCPA) Report Acceptance Body Meeting.
 - C. Report on November 21-22, 2013 CalCPA's Peer Review Committee Meeting.
 - D. Report on PROC Oversight of the American Institute of Certified Public Accountants (AICPA) Oversight Report of Out-of-State Administering Entities (Nevada, Texas, Oregon and New York).
- IV. Reports and Status of Peer Review Program (**April Freeman, CBA Staff**).
 - A. Updates on Peer Review Reporting Forms Received and Correspondence to Licensees.
 - B. Status of PROC Roles and Responsibilities Activity Tracking.

Break.

- V. Report of the Enforcement Chief (**Rafael Ixta, Enforcement Chief**).
 - A. Approval of the 2013 Annual Report to the CBA.
 - B. Discussion of the AICPA's Annual Report on Oversight Regarding the Peer Review Program, issued September 27, 2013.
 - C. Discussion of the Report on the Administrative Oversight Visit to the NPRC, dated November 8, 2012.
 - D. Discussion of CBA Communication to New Licensees Regarding Peer Review Requirements.
- VI. Future Agenda Items (**April Freeman**).
- VII. Public Comment for Items Not on the Agenda.
- VIII. Adjournment.

Please note: Action may be taken on any item on the agenda. All times are approximate. In accordance with the Bagley-Keene Open Meetings Act, all meetings of the PROC are open to the public. Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the PROC prior to the PROC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the PROC, but the PROC Chair may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the PROC to discuss items not on the agenda; however, the PROC can neither discuss nor take official action on these items at the time of the same meeting. (Government Code sections 11125, 11125.7(a).) CBA members who are not members of the PROC may be attending the meeting. However, if a majority of members of the full board are present at the PROC meeting, members who are not members of the PROC may attend the meeting only as observers.

The meeting is accessible to individuals with physical disabilities. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting April Freeman at (916) 561-1720, or by email at afreeman@cba.ca.gov, or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

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

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

Approval of the November 1, 2013 PROC Minutes

- Draft Minutes of the November 1, 2013 PROC Meeting.



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PROC Item II.A.
 January 31, 2014

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

**MINUTES OF THE
 NOVEMBER 1, 2013
 PROC MEETING**

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

I. Roll Call and Call to Order.

PROC Chair Nancy Corrigan called the meeting to order at 10:00 a.m. on Friday, November 1, 2013. The meeting adjourned at 12:10 p.m.

PROC Members:

Nancy Corrigan, Chair	10:00 a.m. – 12:10 p.m.
Robert Lee, Vice Chair	10:00 a.m. – 12:10 p.m.
Katherine Allanson	10:00 a.m. – 12:10 p.m.
Jeffrey DeLyser	10:00 a.m. – 12:10 p.m.
Sherry McCoy	10:00 a.m. – 12:10 p.m.
Seid M. Sadat	10:00 a.m. – 12:10 p.m.

Staff:

Patti Bowers, Executive Officer
 Rafael Ixta, Chief, Enforcement Division
 Sara Narvaez, Enforcement Manager
 April Freeman, Peer Review Analyst
 Alice Tran, Peer Review Analyst

Other Participants:

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

II. Report of the Committee Chair.

A. Approval of August 23, 2013 Minutes.

Ms. Corrigan asked if members had revisions to the minutes of the August 23, 2013 PROC meeting.

Members did not have revisions to the minutes.

It was motioned by Robert Lee, seconded by Seid Sadat, and unanimously carried by those present to adopt the minutes of the August 23, 2013 PROC meeting.

B. Report on the September 26-27, 2013 CBA Meeting.

Ms. Corrigan attended the September 26-27, 2013 CBA meeting. She informed CBA members that staff was developing a checklist to provide oversight to out-of-state administering entities, which accepted peer reviews of California-licensed firms. Staff identified four states that accepted more than ten peer reviews of California-licensed firms. Those states were Nevada, New York, Oregon, and Texas.

Ms. Corrigan advised CBA members of the PROC's plan to submit a letter to the American Institute of Certified Public Accountants (AICPA). The letter is intended to inform the AICPA of the PROC's oversight of out-of-state administering entities. She also informed CBA members of the PROC's letter to the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC). The letter requested information regarding the CAC's oversight reports of the National Peer Review Committee (NPRC).

Ms. Corrigan advised PROC members that she and Mr. Sadat were working on a task force to summarize volunteer surveys submitted by licensees at the time they reported their peer review information.

Ms. Corrigan also advised PROC members that the taskforce to examine experience for CPA licensure (Taskforce) voted 5-4 recommending to the CBA to eliminate the 500-hours attest requirement for licensure. Given that the vote was very close, the CBA decided to conduct further research on this matter. Mr. Ixta stated that the Taskforce also discussed accepting academia as qualifying experience. The topic will be further discussed at the November 21-22, 2013 CBA meeting.

III. Report on PROC Activities.

A. Report on the September 24, 2013 Report Acceptance Body Meeting.

Ms. McCoy and Ms. Corrigan participated in the September 24, 2013 Report Acceptance Body (RAB) meeting by phone. Ms. McCoy stated that the information and statistics observed at the meeting were consistent with past observations. Ms. McCoy also thanked staff for preparing the fillable RAB oversight checklist.

Mr. Lee suggested that the CBA notify new licensees about the requirement to complete a peer review within 18-months after they complete services subjecting them to a peer review (California Code of Regulation, Title 16, Section 40(b)). Mr. Ixta advised members that staff will review the information provided to new licensees and report back at the next PROC meeting.

B. Assignment of Future PROC Activities.

Ms. Corrigan confirmed the following assignments:

- November 21-22, 2013, CalCPA PRC Meeting – Robert Lee and Jeffrey DeLyser
- November 21-22, 2013, CBA Meeting – Nancy Corrigan
- January 22, 2014, 2:00 p.m. CalCPA RAB Meeting (Glendale) – Katherine Allanson
- January 23-24, 2014, CBA Meeting – Nancy Corrigan
- January 27, 2014, AICPA PRB Meeting – Nancy Corrigan and Jeffrey DeLyser
- January 31, 2014, PROC Meeting – PROC Members
- March 19, 2014, 2:00 p.m. CalCPA RAB Meeting (Glendale) – Sherry McCoy
- March 20-21, 2014, CBA Meeting – Nancy Corrigan
- May 2, 2014, PROC Meeting – PROC Members (Sherry McCoy as Vice Chair)
- May 13, 2014, AICPA PRB Meeting – Nancy Corrigan and Seid Sadat
- May 22-23, 2014, CalCPA PRC Meeting (Dana Point) – Katherine Allanson and Seid Sadat
- May 29-30, 2014 CBA Meeting – Nancy Corrigan and Sherry McCoy

Ms. Corrigan assigned Mr. DeLyser and Ms. Allanson to review out-of-state administering entities. Staff will send the website links for the out-of-state oversight reports to the assigned members. Ms. Corrigan requested that the assigned members complete the out-of-state oversight checklist by December 31, 2013.

Assignments:

- Nevada: Jeffrey DeLyser
- Texas: Jeffrey DeLyser
- Oregon: Katherine Allanson
- New York: Katherine Allanson

IV. Reports and Status of Peer Review Program.

A. Updates on Peer Review Reporting Forms Received and Correspondence to Licensees.

Ms. Freeman reported that as of September 24, 2013, 60,655 peer review reporting forms were submitted to the CBA.

Ms. Freeman advised members that on September 1, 2013, 4,146 letters were mailed to phase three licensees who had not met their July 1, 2013 peer review reporting obligation. Licensees who had not reported by September 30, 2013 would be subject to a citation and fine. Staff will send out approximately 1,500 citations on November 12, 2013.

Ms. Freeman informed members that the Licensing Division mailed a letter to 33,500 licensees the week of September 23, 2013. The letter addressed regulatory changes taking effect January 1, 2014. The changes include the new fingerprinting requirement, peer review reporting, and changes to the Fraud continuing education requirement.

Ms. Freeman also stated that licensees would be required to submit their Peer Review Reporting Form with their license renewal beginning January 1, 2014. Mr. Ixta advised

that the Renewal Unit would review the reporting forms, and refer deficiencies to the Enforcement Division for potential enforcement action.

B. Status of PROC Roles and Responsibilities Activity Tracking.

Ms. Freeman stated that the activity tracking chart for 2013 was updated to capture recently attended activities and upcoming events.

V. Report of the Enforcement Chief.

A. Development of the 2013 Annual Report to the CBA.

Mr. Ixta gave a summary of the revisions to the 2013 Annual Report to the CBA and requested feedback from members.

Members offered various edits to the Annual Report, including adding reference to the end of the phase-in period and the submission of the Peer Review Reporting Form with the renewal forms beginning January 2014.

Mr. Ixta advised members to submit their comments regarding the 2013 Annual Report to staff by the end of November in order to have an updated version for the next PROC meeting.

B. Discussion Regarding the PROC Oversight Checklist on Out-of-State Administering Entities.

Mr. Ixta gave a summary of the revisions to the PROC Oversight Checklist on Out-of-State Administering Entities (AEs) and requested feedback from members. He informed members that staff eliminated the "Evaluation of the State's Peer Review Oversight Committee" section since out-of-state PROCs might be administering rules and regulations different from California.

Ms. McCoy requested that the footnote be revised to read "A rating of 'Does Not Meet Expectations' requires a comment."

Mr. Lee requested question 11 to be added back to the checklist.

It was motioned by Katherine Allanson, seconded by Robert Lee, and unanimously carried by those present to accept the PROC Oversight Checklist on Out-of-State Administering Entities with revisions.

C. Discussion of the PROC Letter to the American Institute of Certified Public Accountants Regarding the Oversight of Out-of-State Administering Entities.

Mr. Ixta reviewed and requested feedback on the draft PROC letter to the AICPA regarding the oversight of out-of-state AEs.

Ms. Corrigan suggested that the term "As you know" be added to the second sentence of the second paragraph. She also suggested that the term "you are welcome to submit" be changed to "I welcome you to submit."

Mr. Lee suggested that Nancy Corrigan be added as a contact in addition to Rafael Ixta.

It was motioned by Seid Sadat, seconded by Jeffrey DeLyser, and unanimously carried by those present to accept the PROC Letter to the American Institute of Certified Public Accountants Regarding the Oversight of Out-of-State Administering Entities with revisions.

- D. Discussion Regarding the Compliance Assurance Committee's Response to the PROC's September 24, 2013 Letter on the Oversight of the National Peer Review Committee.

Mr. Ixta advised members that NASBA determined that it would be appropriate to allow the PROC to observe the phone conferences conducted by the CAC. The CAC will meet and discuss the process. Mr. Ixta thanked PROC members for their persistence to be an integral part of the process to oversight the NPRC.

Mr. Ixta advised members that the CAC was currently working on developing guidelines for handling failed peer review reports.

Mr. Ixta also informed members that the AICPA oversight annual report was issued on September 27, 2013 and the CAC report would be issued after January 1, 2014. The two reports will be included as agenda items for the January 31, 2014 PROC meeting.

- E. Discussion Regarding Materials from the July 10, 2013 National Association of State Boards of Accountancy PROC Summit.

Mr. Ixta requested feedback from the members regarding the materials from the July 10, 2013 NASBA PROC Summit.

Members did not have feedback to the materials.

VI. Future Agenda Items.

1. CBA Communication to new licensees regarding Peer Review.
2. PROC 2013 Annual Report.
3. Discussion of AICPA Peer Review Program Annual Report on Oversight, issued September 27, 2013.
4. Compliance Assurance Committee Oversight Report on the National Peer Review Committee.

VII. Public Comment for Items Not on the Agenda.

There was no comment from the public for item not on the Agenda.

Mr. Ixta advised members that the Vice President of the CBA requests all committee members to encourage their colleagues to apply and serve on the CBA committee.

VIII. Adjournment.

There being no further business, Ms. Corrigan adjourned the meeting at 12:10 p.m. on Friday, November 1, 2013.

Nancy J. Corrigan, CPA, Chair

Alice Tran, Peer Review Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-1734.

Assignment of Future PROC Activities

- Memo, dated December 20, 2013, with the following attachment:
 - 2013 Year-at-a-Glance CBA PROC Calendar, updated December 20, 2013.



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PROC Item III.A.
January 31, 2014

Assignment of Future PROC Activities

Presented by: Nancy J. Corrigan, Peer Review Oversight Committee (PROC) Chair

Date: December 20, 2013

Purpose of the Item

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

Action(s) Needed

It is requested that all members bring their calendars to the January 31, 2014 PROC meeting and be prepared to accept assignments.

Background

None.

Comments

The PROC's 2014 Year-at-a-Glance calendar (**Attachment**) includes meetings and activities that are currently scheduled for the following:

- California Board of Accountancy
- PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board
- California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body
- CalCPA's Peer Review Committee

Fiscal/Economic Impact Considerations

None.

Recommendation

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

Attachment

2014 Year-at-a-Glance CBA PROC Calendar, updated December 20, 2013.

Reports and Status of Peer Review Program

- Memo, dated December 30, 2013, with the following attachments:
 - PROC Roles and Responsibilities Activity Tracking 2013.
 - PROC Roles and Responsibilities Activity Tracking 2014.



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PROC Item IV.
 January 31, 2014

Reports and Status of Peer Review Program

Presented by: April Freeman, CBA Staff

Date: December 30, 2013

Purpose of the Item

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

Action(s) Needed

No specific action is needed.

Background

None.

Comments

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

As of December 30, 2013, 61,853 peer review reporting forms (PR-1) have been submitted to the California Board of Accountancy (CBA). The reporting forms are categorized as follows:

License Ending In	Reporting Deadline	Peer Review Required	Peer Review Not Required	Not Applicable (Non-firms)	Total	Licensees Still Needing to Report
01-33	7/1/11	2,605	4,301	15,757	22,663	51
34-66	7/1/12	2,144	4,006	13,122	19,272	101
67-00	7/1/13	1,993	3,882	14,043	19,918	1,046
		6,742	12,189	42,922	61,853	1,198

Reports and Status of Peer Review Program

Page 2 of 2

B. Status of PROC Roles and Responsibilities Activity Tracking

The PROC Roles and Responsibilities Activity Tracking chart has been updated to reflect 2013 activities (**Attachment 1**). An Activity Tracking chart has also been created to begin tracking activities in 2014 (**Attachment 2**).

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachments

1. PROC Roles and Responsibilities Activity Tracking 2013
2. PROC Roles and Responsibilities Activity Tracking 2014

Peer Review Oversight Committee (PROC) Roles and Responsibilities

Attachment 1

Activity Tracking – 2013

As of December 31, 2013

Activity*	Notes
<p>PROC MEETINGS</p> <ul style="list-style-type: none"> Conduct four one-day meetings. 	<ul style="list-style-type: none"> PROC Meeting Held: 2/22, 6/21, 8/23, 11/1
<p>ADMINISTRATIVE SITE VISIT</p> <ul style="list-style-type: none"> Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	<ul style="list-style-type: none"> California Society of Certified Public Accountants (CalCPA) Administrative Site Visit Held: 5/15-16
<p>PEER REVIEW COMMITTEE MEETING</p> <ul style="list-style-type: none"> Attend all peer review program providers' Peer Review Committee (PRC) meetings. Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	<ul style="list-style-type: none"> Attended: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Meeting 1/25, 5/7, 8/14 Attended: CalCPA Peer Review Committee (PRC) Meeting 5/9-10, 11/21-22
<p>PEER REVIEW SUBCOMMITTEE MEETING</p> <ul style="list-style-type: none"> Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports. Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings. Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> Attended: CalCPA Report Acceptance Body (RAB) Meetings 5/9, 8/21, 9/24, 11/22
<p>REVIEW SAMPLING OF PEER REVIEWS</p> <ul style="list-style-type: none"> Perform sampling of peer review reports. 	<ul style="list-style-type: none"> CalCPA Administrative Site Visit Held: 5/15-16
<p>PEER REVIEWER TRAINING</p> <ul style="list-style-type: none"> Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> Attended: Advanced Training Course 5/8, 7/25
<p>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</p> <ul style="list-style-type: none"> Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	<ul style="list-style-type: none"> Pending receipt of application
<p>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY</p> <ul style="list-style-type: none"> Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program. 	<ul style="list-style-type: none"> Scheduled: March 20-21, 2014 (final)
<p>ADDITIONAL ACTIVITIES</p>	<ul style="list-style-type: none"> Attended NASBA PROC Summit (webcast): 7/10 Reviewed Out-of-State AICPA Oversight Visit Reports: Nevada, Oregon, Texas, New York

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

Peer Review Oversight Committee (PROC) Roles and Responsibilities Attachment 2
Activity Tracking – 2014

As of January 8, 2014

Activity*	Notes
<p>PROC MEETINGS</p> <ul style="list-style-type: none"> • Conduct four one-day meetings. 	<ul style="list-style-type: none"> • PROC Meetings Scheduled: 1/31, 5/2, 8/22, 12/10
<p>ADMINISTRATIVE SITE VISIT</p> <ul style="list-style-type: none"> • Conduct, at a minimum, an annual administrative site visit of the peer review program provider. 	<ul style="list-style-type: none"> •
<p>PEER REVIEW COMMITTEE MEETING</p> <ul style="list-style-type: none"> • Attend all peer review program providers' Peer Review Committee (PRC) meetings. • Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees. • Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards. 	<ul style="list-style-type: none"> • Scheduled: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) Meetings 1/30, 5/13 • Scheduled: CalCPA Peer Review Committee (PRC) Meeting 5/22-23
<p>PEER REVIEW SUBCOMMITTEE MEETING</p> <ul style="list-style-type: none"> • Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports. • Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings. • Ensure that peer reviews are being accepted in a consistent manner. 	<ul style="list-style-type: none"> • Scheduled: CalCPA Report Acceptance Body (RAB) Meetings 1/22, 3/19
<p>REVIEW SAMPLING OF PEER REVIEWS</p> <ul style="list-style-type: none"> • Perform sampling of peer review reports. 	<ul style="list-style-type: none"> •
<p>PEER REVIEWER TRAINING</p> <ul style="list-style-type: none"> • Ensure that peer reviewers are properly qualified. 	<ul style="list-style-type: none"> •
<p>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</p> <ul style="list-style-type: none"> • Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers. 	<ul style="list-style-type: none"> • Pending receipt of application
<p>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY</p> <ul style="list-style-type: none"> • Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program. 	<ul style="list-style-type: none"> •
<p>ADDITIONAL ACTIVITIES</p>	<ul style="list-style-type: none"> •

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

Approval of the 2013 Annual Report to the CBA

- Memo, dated December 30, 2013, with the following attachment:
 - Draft 2013 PROC Annual Report to the CBA.



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PROC Item V.A.
January 31, 2014

Approval of the 2013 Annual Report to the CBA

Presented by: Rafael Ixta, Chief of Enforcement

Date: December 30, 2013

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with the Draft 2013 Annual Report to the California Board of Accountancy (CBA).

Action(s) Needed

It is requested that the PROC members 1) approve, 2) make revisions, or 3) assign members to work with CBA staff to finalize the 2013 Annual Report (**Attachment**).

Background

At its August 23, 2013 meeting, PROC members directed staff to make updates to the 2012 Annual Report and provide a version with track changes for review at the PROC's next meeting. At the November 1, 2013 meeting, PROC members made edits to the first draft of the report.

Comments

The report will be presented to the CBA at its March 20-21, 2014 meeting.

Fiscal/Economic Impact Considerations

None

Recommendations

It is recommended that PROC members approve the 2013 Annual Report.

Attachment

Draft 2013 PROC Annual Report to the CBA



CALIFORNIA BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT COMMITTEE
2013 Annual Report



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Appendices

- A. Report of the Task Force of the Peer Review Oversight Committee, Summary of Voluntary Peer Review Survey Comments Submitted from December 9, 2010 to September 18, 2012
- B. Are You Required to Get a Peer Review? Flowchart
- C. Summary of Oversight of Out-of-State Peer Review Administering Entity

I. Message from the Committee Chair

I am proud to present the 2013 Annual Report of the Peer Review Oversight Committee (PROC) to the California Board of Accountancy (CBA). As we wrap up our third year, I am pleased to report that the PROC has again made significant progress in providing oversight to California's mandatory peer review program.

One of our most crucial goals was achieved this year. We were successful in working with the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) to provide an appropriate level of oversight to the National Peer Review Committee (NPRC). The NPRC administers peer reviews to the largest accounting firms in the country who also have significant impact on the public interest. So it was a huge accomplishment to learn that the leadership of NASBA agreed to allow State PROCs to participate in conference calls conducted by the CAC during which the CAC will discuss many important topics of interest to the PROC, including oversight of the NPRC. This oversight is necessary to ensure that the NPRC is administering peer reviews in accordance with the standards set by the American Institute of Certified Public Accountants (AICPA).

The PROC also implemented a procedure for providing oversight to AICPA's administering entities in other states that administer peer reviews to California-licensed accounting firms. This year the PROC reviewed the AICPA's oversight reports for Nevada, Oregon, Texas, and New York; each of these states administered at least ten peer reviews to California-licensed firms.

Of course, the PROC continues to provide a comprehensive level of oversight to the California Society of Certified Public Accountants (CalCPA), the administering entity responsible for administering peer reviews to the vast majority of accounting firms in California.

In summary, the PROC has now installed processes and procedures to oversight administering entities which accept peer reviews of California firms, regardless if the administering entity is located in-state, out-of-state, or in a nation-wide basis. This far reaching objective was established at the onset of the PROC. It is extremely fulfilling to me and the PROC members to reach this milestone.

As always, I would like to thank the CBA members for the continued direction and support of the PROC and its mission. I would like to thank the PROC members for another year of dedication and resolve; we would not have made these significant strides without their unending commitment.

Nancy J. Corrigan, CPA
Committee Chair

II. Background

In 2009, the CBA sponsored Assembly Bill 138 (AB 138) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010, requiring all California licensed firms providing accounting and auditing services, including sole proprietorships, to undergo a peer review once every three years as a condition of license renewal. [Effective January 1, 2012, Senate Bill 543 removed the sunset language concerning mandatory peer review, making mandatory peer review permanent in California.](#)

Peer review is defined as the study of a firm's accounting and auditing practice by an independent Certified Public Accountant (CPA) using professional standards, the purpose of which is to promote quality in the accounting and auditing services provided by CPAs.

[As of July 2013, 51 licensing jurisdictions in the United States have made participation in a practice-monitoring program mandatory for licensure. Programs in four of these jurisdictions will go into effect in or after 2014.](#)

III. PROC Responsibilities

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

The roles and responsibilities of the PROC are:

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

IV. Committee Members

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

In 2012, five of the seven PROC members were reappointed to the PROC for their second term. In order to address succession planning concerns, to create varying member term expiration dates, and to all allow new members to be appointed to the PROC, two members were rotated off the PROC. Further, the position of Vice Chair was created and Robert Lee was appointed. His term as the Vice Chair will expire on December 31, 2013. Sherry McCoy was appointed Vice Chair effective January 1, 2014. Nancy Corrigan was reappointed as the Chair for another year. Jeffrey DeLyser was appointed to the PROC on March 21, 2013.

<u>Current members:</u>	<u>Term Expiration Date:</u>
Nancy J. Corrigan, CPA, Chair, 2nd	May 24, 2015
Robert Lee, CPA, Vice Chair, 2nd	May 24, 2015
Katherine Allanson, CPA, 2nd	May 24, 2015
Jeffrey DeLyser, CPA, 1st	March 21, 2015
Sherry McCoy, CPA, 2nd	May 24, 2015
Seid Sadat, CPA, 2nd	May 24, 2015
Vacant	

V. Legislation and Regulations

Effective January 1, 2013, BPC section 5076 was amended to allow licensees to renew their license into an inactive status without having a peer review. A peer review is required prior to the licensee converting or renewing back to an active status.

Effective January 1, 2014, Title 16, California Code of Regulations (CCR) sections 40 and 45 were revised to require licensees to report specific peer review information on the Peer Review Reporting Form at the time of license renewal. The revised language also clarifies that any firm that performs specific services for the first time, whether it is newly licensed or simply new to performing those services, must complete a peer review within 18 months of the date it completes those services.

The three-year phase in period for peer review reporting ended on July 1, 2013, which was the deadline for the last group of licensees to submit the Peer Review Reporting Form. Beginning in 2014, Peer Review Reporting Forms will be submitted with the licensee's license renewal application.

VI. Reporting Requirements

Pursuant to BPC section 5076(n)(1), the CBA is required to provide the Legislature and Governor with a report regarding the peer review requirements that include, without limitation:

- The number of peer review reports completed to date and the number of substandard peer review reports which were submitted to the board.

- The number of enforcement actions that were initiated as a result of an investigation of a failed peer review report.
- The number of firms that were recommended to take corrective actions to improve their practice through the mandatory peer review process, and the number of firms that took corrective actions to improve their practice following recommendations resulting from the mandatory peer review process.
- The extent to which mandatory peer review of accounting firms enhances consumer protection.
- The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.
- A recommendation as to whether the mandatory peer review program should continue.
- The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
- The impact of peer review required by this section on small firms and sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.
- The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.
- A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

In keeping with its purpose, the PROC is willing to assist the CBA in any way necessary in preparing the report that is due to the Legislature and Governor on January 1, 2015. [CBA staff will commence drafting the report in calendar year 2014.](#)

VII. Statistics

The following statistics provide perspective on the size of the peer review program in California.

With the implementation of mandatory peer review, all licensees are required to submit a Peer Review Reporting Form (Form PR-1(1/12)) to the CBA. Licensees with a license number ending in 01-33 had a reporting date of July 1, 2011, licensees with a license number ending in 34-66 had a reporting date of July 1, 2012, and licensees with a license number ending in 67-00 had a reporting date of July 1, 2013.

Using information collected on the Peer Review Reporting Form, the following table illustrates the number of firms required to undergo a peer review, firms not required to undergo peer review, and licensees that do not operate as firms.

Peer Review Reporting Forms Received by the CBA*						
License Ends In	Reporting Date	Firms Requiring Peer Review	Firms Not Requiring Peer Review	Licenses Not Operating as a Firm	Total	Licenses That Have Not Reported
01-33	July 1, 2011	<u>2,605</u>	<u>4,301</u>	<u>15,757</u>	<u>22,663</u>	<u>51</u>
34-66	July 1, 2012	<u>2,144</u>	<u>4,006</u>	<u>13,122</u>	<u>19,272</u>	<u>101</u>
67-00	July 1, 2013	<u>1,993</u>	<u>3,882</u>	<u>14,043</u>	<u>19,918</u>	<u>1,046</u>
Total		<u>6,742</u>	<u>12,189</u>	<u>42,922</u>	<u>61,853</u>	<u>1,198</u>

* Data as of December 31, 2013.

As mentioned on page 3, Section V, the three-year phase in implementation period ended on July 1, 2013, and the information depicted in the above table will no longer be available. Instead, licensees will report their peer review information at the time of license renewal.

The data in the following table reflects the number of peer review reports accepted by the CalCPA in 2011, 2012, and 2013.

Type of Review	Peer Review Reports Accepted by the CalCPA*			
	2011	2012	2013	Total
System	<u>406</u>	<u>648</u>	<u>517</u>	<u>1,571</u>
Engagement	<u>870</u>	<u>1,253</u>	<u>1,184</u>	<u>3,307</u>
Total	<u>1,276</u>	<u>1,901</u>	<u>1,701</u>	<u>4,878</u>

*Data received from CalCPA as of December 31, 2013.

VIII. Peer Review Voluntary Survey

In order to gather information on the impact of mandatory peer review, the CBA developed a voluntary survey for firms to complete as they submit their Online Peer Review Reporting Form. The survey went live on the CBA website on December 9, 2010. The PROC established a task force comprised of two PROC members to review the survey comments collected through September 18, 2012. The task force reviewed 339 comments submitted by peer review firms largely in response to the following survey questions:

- Do you believe that undergoing peer review has helped to improve your overall service to your clients?
- Do you, or will you, use peer review as a marketing tool to potential clients?
- To eliminate the need for future peer review, will you cease providing the services which trigger a mandatory peer review under the law?
- Do you have any additional comments on the peer review process?

At the June 21, 2013 PROC meeting, the task force submitted their report (Appendix A) and made the following recommendations:

1. Provide more education on the benefits of peer review.
2. Provide more education on the concept that a CPA's primary objective is to protect the public interest.
3. Provide a simple chart showing the chronology of the peer review process.
4. CalCPA should continue to remind peer reviewers about the best approach to the peer review process when working with firms.

The recommendations of the task force were implemented by revising existing CBA publications and creating an easy to follow flow chart of the peer review process to post to the CBA website (Appendix B).

IX. Board-recognized Peer Review Program Providers

a. AICPA

The AICPA is currently the only Board-recognized Peer Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in CCR section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program. At present, there are 42 administering entities.

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

i. CalCPA

CalCPA administers the AICPA Peer Review Program in California. As the administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's *Standards*. The CalCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews.

ii. NPRC

The AICPA also administers a peer review program through the NPRC firms required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB) or perform audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB. The NASBA CAC provides oversight of the NPRC.

iii. Other State Societies

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

X. Activities and Accomplishments

Following are the salient activities and accomplishments of the PROC during 2013.

a. Administrative Functions

i. Committee Meetings

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

The PROC held four meetings as follows:

- February 22, 2013 – Glendale
- June 21, 2013 – Sacramento
- August 23, 2013 – Ontario
- November 1, 2013 – Sacramento

The PROC Chair attended six CBA meetings to report on PROC activities, one of which was prepared by and reported on by the PROC Vice Chair.

ii. PROC Procedures Manual

The PROC updated its Procedures Manual which outlines specific procedures and processes to fulfill its duties. Updates include procedures for providing oversight of other states' peer review programs, an updated copy of the AICPA's Glossary of Terms, Acronyms, and Abbreviations, a revised organizational chart, the removal of the Summary of Sample Reviews checklist, and the addition of the Summary of Oversight of Out-of-State Administering Entities checklist.

iii. Oversight Checklists

The PROC developed oversight checklists which serve to document the members' findings and conclusions after specific oversight activity. Members submit the completed checklists to the CBA for future reference.

The following new checklist was created to track oversight activities:

- Summary of Oversight of Out-of-State Administering Entity (**Appendix C**)

Checklists previously developed include:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Summary of Peer Review Board Meeting
- Peer Review Program Provider [Checklist](#)

The checklists are part of the PROC Procedures Manual. Additional checklists will be developed if deemed necessary.

iv. Approval of Board-recognized Peer Review Program Providers

At such time that the CBA receives an Application to Become a Board-recognized Peer Review Program Provider, the PROC will review the application and documentation and determine if the program meets the requirements outlined in Title 16, CCR section 48. Based on the review, the PROC will provide a recommendation to the CBA that the application be approved or denied.

The PROC has a checklist to evaluate applications.

v. Withdrawal of Board Recognition of a Peer Review Program Provider

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

b. Program Oversight

The PROC is charged with providing oversight of all Board-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA.

During 2013, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

i. AICPA

A. AICPA Peer Review Board

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

During 2013, one to two PROC members observed three of the four PRB meetings. ~~each of the following PRB meetings primarily via teleconference.~~

~~However, the January 25, 2013 meeting was held in San Diego and it was attended in person:~~

- January 25, 2013 – in person
- May 7, 2013 – conference call
- August 14, 2013 – conference call

ii. CalCPA

A. Peer Review Committee

The CalCPA Peer Review Committee is responsible for ensuring that the peer review program is performed in accordance with the standards and guidance issued by the AICPA's PRB. The PRC meets in person twice a year. PROC members observe how the PRC executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the State of California.

During 2013, two PROC members attended each of the following PRC meetings:

- May 9-10, 2013 – San Diego
- November 21-22, 2013 – Yountville

B. Report Acceptance Body (RAB)

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

During 2013, one to two PROC members observed each of the following RAB meetings via teleconference or in person:

- May 9, 2013 – in person
- August 21, 2013 – ~~tele~~conference call
- September 24, 2013 – ~~tele~~conference call
- November 22, 2013 – in person

C. Administrative Site Visit

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

On May 15-16, 2013, the PROC reviewed the CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA *Standards for Performing*

and Reporting on Peer Reviews, interpretations, and other guidance established by the board. The PROC's responsibility is to determine whether the peer review program complies with the Minimum Requirements for a Peer Review Program, pursuant to Title 16, CCR, section 48.

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

- Review policies and procedures utilized by CalCPA to govern its peer review program process;
- Read correspondence and other available documentation from other oversight activities performed at CalCPA;
- Review the Report Acceptance Body assignment binder;
- Select a sample of peer review reports and associated files for review;
- Discuss the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and select a sample for inspection of resumes and other documentation.

Based on the results of the procedures performed, the PROC concluded that the CalCPA has complied with the Minimum Requirements for a Peer Review Program.

D. Sample Reviews

The PROC developed a system for sampling peer review reports. This oversight activity was completed on May 15-16, 2013, in conjunction with the administrative site visit.

E. Peer Reviewer Training

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews.

The CalCPA Education Foundation offers two types of peer reviewer trainings. A two-day course for new peer reviewers and a one-day refresher course are offered each year.

| During 2013, PROC members attended the one-day training course *AICPA's Advanced Workshop: Practical Guidance for Peer Reviewers* on May 8, 2013 and July 25, 2013.

F. CalCPA Annual Report on Oversight

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

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2011. The oversight report summarizes the results of the mandated oversight of 2% of all reviews processed during the year, and verification of the resumes and continuing professional education of one third of peer reviewers. For peer reviews conducted in 2011, 13 system reviews and 12 engagement reviews were subject to the oversight process. Sixty-one of 129 peer reviewer's resumes were verified by CalCPA.

G. AICPA Oversight Visit Report of CalCPA

The AICPA conducted an oversight visit of CalCPA on November 14-16, 2012. The AICPA Oversight Visit Report was issued on November 16, 2012, and accepted by the AICPA PRB Oversight Task Force on May 6, 2013. The next oversight visit will be conducted in 2014.

The PROC reviewed the report which concluded that CalCPA has complied with the administrative procedures and standards in all material respects as established by the board.

iii. NPRC

A. Third-Party Administrative Oversight Visit Annual Monitoring Report

The PROC reviewed the report of the third-party Administrative Oversight Visit to the NPRC conducted by the accounting firm of Ray, Foley, Hensley & Company, PLLC, on September 25-26, 2012. The purpose of the administrative oversight visit is to ensure that the AICPA Peer Review Program is being administered in accordance with guidance as issued by the AICPA Peer Review Board. The PROC also reviewed the AICPA's written response to the oversight visit report. the NASBA CAC first annual monitoring report of the NPRC. This report is the product of an agreement between NASBA and the AICPA to provide a mechanism by which the operations of the NPRC could be monitored and reported on by the CAC.

B. Compliance Assurance Committee (CAC)

The NASBA CAC provides oversight of the NPRC.

The PROC has continued to work with the CAC to develop a process to provide oversight to the NPRC, including participation in CAC conference calls.

The CAC agreed to provide the PROC with a copy of its second Annual Oversight Report, and the Annual Oversight Report on the AICPA Peer Review Program for the NPRC, ~~and the third party administrative report for the NPRC.~~ The CAC is also exploring options for allowing PROC members to observe CAC meetings. The PROC will review these reports once they are received from the CAC.

iv. Other State Societies

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

The PROC will review the AICPA oversight visit report and the state PROC's annual report, if available, for a selection of out-of-state administrative entities each year. All AICPA Oversight Visit Reports are reviewed and accepted by the AICPA PRB Oversight Task Force (OTF)

In 2013, the PROC reviewed the most recent AICPA Oversight Visit Reports for Nevada, Oregon, Texas, and New York, as follows:

- Nevada Society of CPAs:
 - Oversight Visit Report, September 21, 2012
 - Accepted by AICPA PRB OTF, January 24, 2013
- Oregon Society of CPAs
 - Oversight Visit Report, September 28, 2012
 - Accepted by AICPA PRB OTF, January 24, 2013
- New York State Society of CPAs:
 - Oversight Visit Report, September 12, 2012
 - Accepted by AICPA PRB OTF, May 6, 2013
- Texas Society of CPAs:
 - Oversight Visit Report, December 9, 2011
 - Accepted by AICPA PRB OTF, May 7, 2012

c. Other Activities

i. NASBA PROC Summit

The PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all Boards of Accountancy. The conference is intended to assist Boards in learning how to establish a new PROC and also share experiences among existing PROCs to help each Board be more effective with Peer Review Oversight. Sessions and content are formed based on the most requested information by Accountancy Board Members and PROC Members considering the goals and objectives of the CAC. The first PROC Summit was held in 2011.

The PROC requested authorization to attend NASBA's 2013 PROC Summit in Nashville, TN, on July 10, 2013. ~~Although travel was not authorized,~~ The PROC Vice Chair participated in the webcast. Additionally, the PROC submitted an issue paper on how failed peer reviews are treated by the CBA and submitted 13 questions for consideration and discussion by the CAC and participants of the Summit.

XI. Findings

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

AICPA

The PROC found the AICPA PRB to have well-prepared materials, and good communication of meeting expectations as well as administration of peer review standards and processes. The PRB is a very high level technical group that is extremely knowledgeable and focused in dealing with peer review issues.

CalCPA

The PROC found the CalCPA PRC met expectations concerning knowledge of peer review acceptance procedures and corrective/monitoring actions.

Through participation in four RAB meetings, the PROC was impressed with how RAB members discussed the issues and came to conclusions, deferring where necessary so that the overall objectives of the peer review process were met. It was also noted that RAB members commented on technical and procedural matters for further discussion at the semi-annual PRC meetings.

NPRC

In 2013, the PROC was successful in working with the CAC to provide an appropriate level of oversight to the NPRC. Beginning in 2014, the PROC will begin participating in CAC meetings in addition to reviewing annual oversight and administrative sight visit reports prepared by the AICPA and the CAC.

XII. Conclusions

Based on its oversight activities, the PROC concluded that the AICPA Peer Review Program, including ~~and~~ its administering entities, CalCPA and NPRC, function effectively ~~as a peer review program provider~~. The PROC recommends that the CBA continue to recognize the American Institute of Certified Public Accountants as a peer review program provider.

**Report of the Task Force of the
Peer Review Oversight Committee
Summary of Voluntary Peer Review Survey Comments
Submitted from December 9, 2010 to September 18, 2012**

Following is a summary of the comments that were submitted for the period from December 9, 2010 to September 18, 2012 from the peer review voluntary surveys. These comments were maintained on a confidential basis by CBA staff and were presented in a numbered list format to the PROC sub-committee for review and summarization for the purpose of determining whether the peer review process can be improved as a result of the survey comments submitted by peer reviewed firms. There were 339 comments that were listed from the survey that were largely in response to the following survey questions:

- Do you believe that undergoing peer review has helped to improve your overall service to your clients? (Survey question 7)
- Do you, or will you, use peer review as a marketing tool to potential clients? (Survey question 9)
- To eliminate the need for future peer review, will you cease providing the services which trigger a mandatory peer review under the law? (Survey question 10)
- Do you have any additional comments on the peer review process? (Survey question 11)

The tabulation of the responses to these questions is complicated in that many of them covered multiple questions in their responses; however the PROC task force attempted to identify the salient topic of the response in including it within the tabulation. We identified nine categories of responses with their respective tabulations as follows:

(1) The profession has too many disclosure requirements and continuing education requirements along with the peer review requirement; the professional standards are overly burdensome.	6
(2) The peer review process is overly time consuming, costly, and a burden on small firms.	77
(3) The peer review process is educational, helpful and a necessity to maintain the quality of firms practicing in public accounting.	116
(4) The administration process over peer reviews, knowing who to contact, making the arrangements, due dates, having data requested by the administering entity and the peer reviewer and who to respond to with the final report, was very confusing.	35
(5) The peer review process is required too frequently for firms and should be extended over a longer period of time (five years, etc.)	8
(6) If firms perform no audits, perform only compilations without disclosure or just a few compilations with disclosure, they should be exempt from peer review.	41
(7) The process from having the peer review to being accepted is too long.	4
(8) The peer review process is not helpful, does not mean anything to clients, has no positive influence on clients, is punitive to the firms and of no benefit to the firms or their clients.	45
(9) Other.	<u>7</u>
Total responses	<u>339</u>

Report of the Task Force of the Peer Review Oversight Committee
Summary of Voluntary Peer Review Survey Comments
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Please note that category numbers 2 and 6 could be combined as they generally pertain to the time requirement and the cost of completing a peer review even if category 6 responders did not specifically mention the time or cost factor.

Additional Comments

- Numerous responding indicated that even with peer review they see substandard work when they obtain a new client, thus there is no benefit to the peer review process.
- Numerous responding did not see the impact that a few compilations have on the public (clients, bankers, etc.) and saw no risk to performing a few engagements and being exempt from peer review. They saw no value given the small practice that they have. Some believe that since they are retired or work part-time, they should not have to undergo peer review.
- Numerous responding saw no benefit to the process, and high cost, if they are only occasionally preparing financial statements without disclosures.
- Many small firm responders blame larger firms for getting their own clients and their own firms into trouble and then creating the peer review process for all firms.
- Many responding plan to reduce their practice to avoid the cost of the peer review process.
- Several responses indicated that to pay both a peer reviewer and the administering entity was unfair, with the total cost many times being all of their profits or a large percentage of what they bill the client. Many are unable to pass the cost to the client.
- Several responses compared CPAs to other professions (doctors and lawyers) who do not have similar requirements, indicating that the peer review process is punitive rather than educational. Some indicated that CPAs do not need to be regulated by the government.
- Several responded that the additional 24-hour continuing education required should be sufficient and that a peer review on top of this is excessive.

Recommendations of the Task Force

- (1) Provide more education on the benefits of peer review, including (a) the promotion of quality and consistency between CPA firms, (b) the educational benefits to smaller firms, and (c) the benefit of peer review as a marketing tool.
- (2) Provide more education on the concept that a CPA's primary objective is to protect the public interest. To do this CPAs need to understand that they need to promote an environment whereby the public is protected by this primary objective, and that peer review and the regulations that we practice by are designed to ensure this.
- (3) Provide a simple chart showing the chronology of the beginning of the peer review process, who administers it and how it became to be self-policing. This is important to resolve the mystery that seems to surround peer review and its development and current process.

Report of the Task Force of the Peer Review Oversight Committee
Summary of Voluntary Peer Review Survey Comments
Page 3 of 3

- (4) CalCPA should continue to remind peer reviewers about the best approach to the peer review process when working with the firms and that it is not to be punitive in nature. Comments from firms on the voluntary survey should be shared with the peer reviewers to facilitate this process.

**DEPARTMENT OF CONSUMER AFFAIRS**

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**Are You Required to Get a Peer Review?**

You need a peer review if you perform any accounting and auditing services using the following professional standards:

- Statements on Auditing Standards (SASs)
- Statements on Standards for Accounting and Review Services (SSARS)*
- Statements on Standards on Attestation Engagements (SSAEs)
- Government Auditing Standards
- Audits of non-Securities and Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB)

The peer review must be accepted within 18 months after the first engagement or three years since your last peer review.

To enroll for a peer review, contact:
California Society of Certified Public Accountants (CalCPA)
at (650) 522-3094 (www.calcpa.org), or
National Peer Review Committee (NPRC)
at (919) 402-4502, press 2 (PRSupport@aicpa.org)

CalCPA/NPRC will work with you to select a peer reviewer and schedule the peer review.

Once the peer review is completed, you are required to report the results of your peer review on the Peer Review Reporting Form (PR-1) Form to the California Board of Accountancy (CBA).

Report your peer review results by submitting the PR-1 form to the CBA with your license renewal application.

Questions? Contact the CBA's Peer Review Unit at (916) 561-1706 or visit the website at www.cba.ca.gov.

* Firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provision of SSARS are not required to undergo peer review.



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Peer Review Oversight Committee

Summary of Oversight of Out-of-State Peer Review Administering Entity

Purpose: As part of its oversight activities, the Peer Review Oversight Committee (PROC) is entrusted to ensure that peer reviews are conducted in accordance with standards established by the California Board of Accountancy (CBA) and administered by the Board-recognized peer review program provider (Provider). Consistent with its legislative mandate, the PROC provides oversight of the Provider's out-of-state administering entities if those entities accept peer review reports pursuant to Business and Professional Code Section 5076 and CBA Regulations Sections 38-48.6. In conducting its oversight, the PROC may review oversight reports prepared by the Provider. These matters are then summarized and reported to the CBA as part of the PROC reporting.

Date: _____

Name of State/Administering Entity: _____

Evaluation of Provider Oversight Report	YES	NO	N/A
1. Did the Provider perform oversight of the Administering Entity (AE) of this state? If so, what is the date of the oversight?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a report available from the Provider?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Were there any findings of concern? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Were there any recommendations from the Provider? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Did the AE disagree with any of the recommendations? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Were there any specific problems or issues? If yes, please list:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Discussion of the AICPA's Annual Report on Oversight Regarding the Peer Review Program, issued September 27, 2013

- Memo, dated December 30, 2013, with the following attachment:
 - AICPA Peer Review Program Annual Report on Oversight, issued September 27, 2013.



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PROC Item V.B.
January 31, 2014

**Discussion of the AICPA's Annual Report on Oversight Regarding
the Peer Review Program, issued September 27, 2013**

Presented by: Rafael Ixta, Enforcement Chief

Date: December 30, 2013

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with the American Institute of Certified Public Accountants' (AICPA) Annual Report on Oversight, issued September 27, 2013.

Action(s) Needed

It is requested that PROC members review the Annual Report (**Attachment**).

Background

The purpose of the AICPA Annual Report on Oversight is to provide a general overview, statistics and information, and 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 2012 oversight process were met.

Comments

Statistical information presented in this report pertains to peer reviews commenced and performed during the calendar years 2010-2012.

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachment

AICPA Peer Review Program Annual Report on Oversight, issued September 27, 2013

ATTACHMENT



Peer Review Program

ANNUAL REPORT ON OVERSIGHT

**Issued
September 27, 2013**

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Acronyms

Certain acronyms are used throughout this Report.

AE	Administering Entity
AICPA	American Institute of Certified Public Accountants
PRP	Peer Review Program
CPA	Certified Public Accountant
CPCAF PRP	Center for Public Company Audit Firms Peer Review Program
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
PRISM	Peer Review Information System Management
PRB	Peer Review Board (AICPA)
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
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

Introduction

Purpose of This Report

The purpose of this Annual Report on Oversight (report) is to provide a general overview; statistics and information; the results of the various oversight procedures performed on the AICPA Peer Review Program (AICPA PRP); and to conclude on whether the objectives of the AICPA Peer Review Board's (PRB) 2012 oversight process were met.

Scope and Use of This Report

This report contains data pertaining solely to the AICPA PRP and should be reviewed in its entirety and not taken out of context because:

- approximately 28,000¹ firms enrolled in the AICPA PRP have a peer review performed once every 3 years.
- approximately 10,000 peer reviews take place each year.
- 42² administering entities (AEs) cover 55 licensing jurisdictions.
- There are more than 680 volunteer Peer Review Committee members.

Years Presented in This Report

Statistical information presented in this report pertains to peer reviews commenced and performed during the calendar years 2010 - 2012. Accordingly, oversight procedures included in this report are performed on a calendar year basis.

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 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 Securities and Exchange Commission (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 as well as a peer review committee to create standards for performing, reporting and administering the 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 now undergo on-site peer reviews to evaluate the firm's system of quality control, which included a review of selected audit and accounting engagements. Firms without audit clients that only performed engagements under the attestation standards or accounting and review services standards would undergo off-site peer reviews, which also included a review of selected engagements to determine if they were in compliance with professional standards.

From its inception, the peer review program has been designed to be educational and remedial in nature. Deficiencies identified within firms through this process are then corrected. For firms that perform audits and certain other engagements, the peer review is accomplished through procedures that provide the peer reviewer with a reasonable basis for expressing an opinion on whether the reviewed firm's system of quality control for its accounting and auditing practice has been designed appropriately and whether the firm is complying with that system.

In 1990, a new amendment to the AICPA bylaws mandated that AICPA members who practice public accounting with firms that audit one or more SEC clients must be members of the SECPS. In 1994, council approved a combination of the PCPS Peer Review Program and the AICPA Quality Review Program under the name AICPA PRP governed by the PRB, which became effective in 1995. Thereafter, as a result 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.

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 state boards of accountancy (SBAs) 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 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 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 *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 PRP was discontinued, and the AICPA PRP 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 more than 20 years since peer review became mandatory for AICPA membership, 51 SBAs have adopted 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 state board peer review document submission requirements, the AICPA created Facilitated State Board Access (FSBA) through which firms may give permission to the AICPA or their AEs to give access to the firms' documents mentioned subsequently to state boards through a state-board-only access website. Permission is granted through various opt-out and opt-in procedures. Some state boards now require their licensees to participate in FSBA; others recognize it as an acceptable process to meet the peer review document submission requirements.

These documents typically include one or more of the following:

- Peer review reports
- Letters of response
- 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
- Letters notifying the reviewed firm that certain required actions have been completed

About the AICPA Peer Review Board

The PRB is the senior technical committee governing the AICPA PRP and, as such, it is responsible for overseeing the entire peer review process. The PRB is dedicated to enhancing the performance and quality of non-SEC accounting, auditing and attestation engagements performed by AICPA members and their firms that are enrolled in the program. 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 mission of the PRB is achieved through establishing and conducting the program. This includes developing, implementing, maintaining and enhancing comprehensive peer review standards and related guidance for firms subject to peer review, those performing peer reviews and others involved in administering the program for the PRB. In addition, the PRB is responsible for overseeing the entire peer review process. By reevaluating the validity and objectives of the program, the PRB ensures continuous enhancement of the quality in the performance of non-SEC accounting, auditing and attestation engagements by AICPA members and their firms enrolled in the program, and explicitly recognizes that protecting the public interest is an equally important objective of the program.

The PRB composition has been developed to comprise of 20 members representing public practitioners from various size firms, including an individual from each of the four largest firms, state society CEOs and regulators.

Various subcommittees and task forces are appointed to assist the PRB in carrying out its responsibilities. Their work is subject to review by the PRB. Currently, the PRB has task forces for planning, oversight, standards, education and communication, the National Peer Review Committee, technical reviewers' advisory, administrative advisory, and practice monitoring.

The activities of the PRB and its task forces and subcommittees are supported by AICPA peer review program staff who assist with drafting standards and interpretations; developing peer review guidance related to emerging issues; and work on projects in cooperation with other teams at the AICPA.

AICPA PEER REVIEW BOARD ROSTER
THROUGH OCTOBER 2013

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(October 2012 – October 2013)

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Tim Kindem, Technical Manager

LaVonne Montague, Technical Manager

Susan Rowley, Technical Manager

Letter to the AICPA Peer Review Board

To the Members of the AICPA Peer Review Board:

We have completed a comprehensive oversight program for the 2012 calendar year. In planning and performing our procedures, we considered the objectives of the oversight program, which state there should be reasonable assurance that (1) AEs are complying with the administrative procedures established by the 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 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 Internet or other media by AEs is accurate and timely. Our responsibility is to oversee the activities of state CPA societies or groups of state societies (AEs) that elect and are approved to administer the AICPA PRP, including the establishment and results of each AE's oversight processes.

Our procedures were conducted in conformity with the guidance contained in the *AICPA Peer Review Program Oversight Handbook* and included the following procedures:

- Reviews of peer review working papers by AICPA PRP staff that are reviewed and approved by the Oversight Task Force (OTF), including its PRB members, which covered all parts of the peer review process from administrative functions, peer reviewer documents and checklists, technical reviewer procedures and peer review committee actions. For 2012, 301 or approximately 3.1 percent of total reviews were selected for oversight by the AICPA PRP staff which also covered 264 different peer reviewers or 19 percent of all active peer reviewers. These reviewers selected for oversight performed approximately 38 percent of the 2012 peer reviews. See pages 11–12, “Peer Review Working Paper Oversight.”
- Visits to the AEs, on a rotation 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. See pages 12–13, “Oversight Visits of the Administering Entities.”
- Monitoring the overall activities of the program. See pages 13-14, “Review of AICPA PRP Statistics.”

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

- Administrative oversight performed by a peer review committee member in the year in which there was no oversight visit by a member of the OTF. See pages 14-15, “Administrative Oversight of the AE.”
- Oversight of various reviews, selected by reviewed firm or peer reviewer, subject to minimum oversight requirements of the PRB. For 2012, approximately 3.3% of total reviews were selected for oversight at the AE level. See pages 15–16, *Oversight of the Peer Reviews and Reviewers*.
- Verification of reviewers' resumes. For 2012, resumes were verified for 827 reviewers. See pages 16-17, “Annual Verification of Reviewers' Resumes.”

During the year, 301 working paper oversights were conducted by AICPA staff and 316 on-site and off-site oversights were conducted by AEs.

Based on the results of the oversight procedures performed, the OTF has concluded that in all material respects (1) the AEs were complying with the administrative procedures established by the PRB, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all AE peer review committees and (4) the information provided via the Internet or other media by AEs was accurate and timely. Based upon the OTF's conclusions, we believe for the 2012 calendar year, that the objectives of the PRB oversight program, taken as a whole, were met.

Respectfully submitted,

Randy Watson

Randy Watson, Chair
Oversight Task Force
AICPA Peer Review Board

September 27, 2013

The 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. In addition, 15 state CPA societies currently have made participation of a member's firm in an approved-practice monitoring program a condition of continued state CPA society membership. Also, of the 55 licensing jurisdictions, currently 51 SBAs have made participation in a type of practice-monitoring program mandatory for licensure. See exhibit 1.

The AICPA PRP has approximately 28,000 enrolled firms within the United States and its territories at the time this report was prepared. See exhibit 2. Approximately 10,000 peer reviews are performed each year by a pool of approximately 2,500 qualified peer reviewers.

Firms enrolled in the program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-SEC issuers 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 audits of non-SEC issuers performed pursuant to the standards of the Public Company Oversight Board (PCAOB)."

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 and engagement.

System reviews: System reviews are for firms that perform engagements under the SASs, *Government Auditing Standards*, examinations³ under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, in addition to reviews, compilations or agreed-upon procedures. The peer reviewer's objective is to determine whether the system of quality control for the auditing and accounting engagements is designed to provide a reasonable assurance of performing and reporting in conformity with professional standards in all material respects and whether the firm is appropriately complying with its system. 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 or complied with to provide the firm with reasonable assurance of performing and/or 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*, examinations³ under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB. The

peer reviewer's objective is to evaluate whether engagements submitted for review are performed and reported on in conformity with 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 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 in conformity with applicable professional standards in all material respects except for the deficiency(ies) that are described in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.

Administering Entities

Each state CPA society annually elects the level of involvement that it desires in the administration of the AICPA PRP. The three options are (1) self-administer; (2) arrange for another state CPA society or group of state societies to administer the AICPA PRP 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 AICPA PRP for enrolled firms whose main offices are located in that state. The state CPA societies that choose the first option agree to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB. The PRB approved 42 state CPA societies, groups of state societies or specific-purpose committees, AEs, to administer the AICPA PRP in 2012. See exhibit 3. Each AE is required to establish a peer review committee that is responsible for administration, acceptance and oversight of the AICPA PRP.

In order to receive approval to administer the AICPA PRP, AEs must agree to perform oversight procedures annually. The results of their oversight procedures are submitted with the annual Plan of Administration (POA). The annual POA is the AE's request to administer the peer review program and is reviewed by the OTF. In addition, all AEs are required to issue and post to their website an annual report on their oversight of the previous calendar year.

AEs may also elect to use the standards and administer a peer review program for non-AICPA firms (and individuals). Non-AICPA firms (and individuals) are enrolled in the State CPA Society (AE) peer review programs and these, while very similar to the AICPA PRP, are not considered as being performed under the auspices of the AICPA PRP. They are not oversights by the AICPA PRB; therefore, this Report does not include information or oversight procedures performed by the AEs on their peer review programs of non-AICPA firms (and individuals).

Results of AICPA PRP

From 2010–2012, approximately 28,000 peer reviews were performed in the AICPA PRP. Exhibit 4 shows a summary of these reviews by type of peer review and report issued. For system reviews performed during that three-year period, approximately 89 percent of the reviews resulted in pass reports, 9 percent were pass with deficiency(ies) and 2 percent were fail. For engagement reviews performed during that three-year period, approximately 82 percent of the reviews resulted in pass reports, 14 percent were pass with deficiency(ies) and 4 percent were fail. As clearly depicted on Exhibit 4, the percent of other than pass reports in engagement reviews has increased since the implementation of new standards in 2011. Exhibit 5 is a list of items noted as matters on peer reviews performed during 2010-2012. This list

contains examples of noncompliance with professional standards. Although this list is not all-inclusive and is not representative of all peer review results, it does contain some examples of matters that were identified during the peer review process.

Exhibit 6 summarizes the number and type of reasons by elements of quality control as defined by the Statements on Quality Control Standards (SQCS), for report modifications (that is, pass with deficiency[ies] or fail) on system reviews performed in the AICPA PRP from 2010–2012.

In 2010, 2011, and 2012, approximately 4, 8, and 10 percent, respectively, of the engagements reviewed were identified as “not being performed and/or reported in accordance with professional standards in all material respects.” The standards state that an engagement is ordinarily considered “not being performed and/or reported in accordance with professional standards in all material respects” 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 7 shows the total number of individual engagements reviewed along with those identified as “not being performed and/or reported in accordance with professional standards in all material respects.”

During the report acceptance process, the AEs’ peer review committees determine the need for and nature of any corrective actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies noted in the report. They also consider whether the recommendations of the review team appear to address the engagement deficiencies adequately and whether the reviewed firm’s responses to the review team’s recommendations are comprehensive, genuine and feasible. Corrective actions are remedial or educational in nature and are imposed in an attempt to strengthen the performance of the firm. There can be multiple corrective actions required on an individual review. In 2012, there was an increase in corrective actions that appears to correspond to the increase number of reports rated as pass with deficiency(ies) or fail in engagement reviews as well as an increased rate of engagements not performed or reported on in compliance with applicable standards. Further, the OTF continues to provide guidance and education in the effective use of both implementation plans and corrective actions as noted in the Comments from Working Papers Oversight (exhibit 11) and the items noted as a result of Administrative Oversight Performed (exhibit 14). In total, 5,399 corrective actions were required from 2010–2012 that are summarized in exhibit 8.

In addition to the aforementioned corrective actions, there may be instances in which an implementation plan is required as a result of FFCs. For implementation plans, the firm will be required to evidence its agreement to perform and complete the implementation plan in writing as a condition of cooperation with the AE and the board. 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.

Because it is possible for a firm to receive a pass with deficiency or fail report, as well as FFCs that had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

Oversight Process

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

All SBAs that require peer review accept the AICPA PRP as a program satisfying its peer review licensing requirements. Some SBAs have entered into an agreement with state CPA societies to perform oversight of their administration of the AICPA PRP. The SBA's oversight process is designed to assess its reliance on the AICPA PRP for re-licensure purposes. This report is not intended to describe or report on that process. Exhibit 9 shows whether the respective AE has entered into a peer review oversight relationship with the 52 SBAs that currently have made participation in a type of practice-monitoring program mandatory for licensure as indicated in exhibit 1.

Objectives of Peer Review Board Oversight Process

The PRB has appointed an OTF to oversee the administration of the AICPA PRP and make recommendations regarding oversight procedures. The main objectives of the OTF are to provide reasonable assurance that the

- AEs are complying with the administrative procedures established by the PRB.
- reviews are being conducted and results of reviews are being evaluated and reported in accordance with the standards and on a consistent basis in all jurisdictions.
- information provided to firms and reviewers (via the Internet or other media) 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 accomplish the following: obtain information about problems and concerns of AEs' peer review committees, 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 oversight procedures were performed as a part of the OTF oversight program.

Peer Review Working Paper Oversight

Description

Throughout each year, a sample of peer reviews are randomly selected (by AICPA PRP staff and approved by the OTF) from each of the AEs for submission to the AICPA PRP staff for a comprehensive review of all the documents prepared during a peer review. Documents from all parts of the peer review process (administrative, peer review checklists, technical reviewer checklist, peer review committee actions, warning letters, extensions and reviewer feedback) are submitted and then reviewed by the AICPA PRP staff to determine whether

- the reviews are being conducted and reported on in accordance with the standards.

- the AE is in compliance with the administrative procedures established by the PRB.
- Information is being entered into the computer system correctly.
- Reviewers are following the guidance and use the most current materials contained in the AICPA Peer Review Program Manual.
- Results of reviews are being evaluated on a consistent basis within an AE and in all jurisdictions.

As the AICPA PRP staff completes the desk review of all the documents prepared during the peer review, a summary report with staff comments is prepared for each AE and submitted to the OTF members for review and approval. Once approved, the summary report is submitted to the respective AEs' peer review committee chairs requesting that they share the findings with their committees, technical reviewers, peer reviewers and team captains, as applicable. The committee chair is asked to communicate the comments to the committee and return the acknowledgement of communication letter to the AICPA PRP staff. Normally, the cover letter (included with the summary report) sent to the AEs indicates that they are not asked to take any additional actions on the specific reviews.

If issues are noted with reviewer performance, the OTF may choose to suggest or require, depending upon significance of issues, additional oversight. If significant pervasive deficiencies, problems or inconsistencies are encountered during the review of the aforementioned materials, the OTF may choose to (1) visit the AE in which the deficiencies, problems or inconsistencies were noted to assist them in determining the cause of these problems and prevent their recurrence or both; or (2) request the AE to take appropriate corrective or monitoring actions.

Results

For the year 2012, 301 working paper reviews were selected for oversight covering 264 different peer reviewers. This represents approximately 3.1 percent of peer reviews conducted in 2012 and approximately 19 percent of peer reviewers active in that same period. Exhibit 10 shows, by AE, the number and type of reviews selected. The most prevalent comments from the working paper oversight process are summarized in exhibit 11.

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; or performed the most recently completed oversight visit.

During these visits, the member of the OTF will at a minimum

- 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.
- perform face to face interviews with the administrator, committee chair, and technical reviewers.
- evaluate the various policies and procedures for administering the AICPA PRP.

As part of the visit, the OTF member will request that the AE complete an information sheet documenting policies and procedures in the areas of administration, technical review, peer review committee, report acceptance and oversight processes in administering the AICPA PRP. The OTF member evaluates the information sheet, results of the prior oversight visit, POA and comments from working paper oversights 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 conclusion 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 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 regarding whether the AE has complied with the administrative procedures and standards in all material respects as established by the PRB. In addition to the aforementioned letter, the OTF member issues the AE an AICPA Oversight Visit Letter of Procedures and Observations that details the oversight procedures performed and observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is then required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter or at a minimum, when there are no findings reported, an acknowledgement of the visit. The oversight documents, including the Oversight Visit Report, the letter of procedures and observations and the AE's response, are presented to the OTF members at the next OTF meeting 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 oversight visit report, letter of procedures and observations and the response are posted to the following AICPA Peer Review Program web page:

(www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx).

Results

During 2011–2012, a member of the OTF performed at least one on-site oversight visit to 41 AEs (excludes NPRC). See exhibit 12 for a listing of the AEs and the year of oversight. See exhibit 13 for a summary of observations from the on-site oversight visits performed during 2011-2012.

Review of AICPA PRP Statistics

Description

To monitor the overall activities of the program, the OTF periodically reviews the following types of statistical data for each AE and evaluates whether any patterns are emerging that should be addressed:

- The status of reviews in process
- The results of reviews
- The number and types of corrective actions
- The number, nature and extent of engagements not performed in accordance with professional standards in all material respects
- The number of overdue peer reviews

Results

As of July 2013, there were 924 incomplete reviews (119 due through 2011 and 805 due in 2012). Of these, 864 were in various stages of the evaluation process and 60 were in the background or scheduling phases of the review. AICPA PRP staff has been working with the AEs on these open reviews to ensure an appropriate course of action is taken on a case by case basis for each of these.

The status of 2012 reviews has been monitored on a periodic basis to determine reviews are being processed timely and to identify any reviews that are delinquent in the process. As of July 2013, there were 307 incomplete 2012 reviews. Firms that had not submitted background information or provided scheduling information were reviewed to determine that the appropriate overdue requests were mailed and notification sent to the AICPA to drop the firm from the program for failure to comply. For reviews that were scheduled but past their due date, inquiries were made to determine the proper extension procedures were followed.

Results of AICPA PRP are further summarized on pages 9-10 of this Report.

Oversight by the Administering Entities' Peer Review Committees

The AEs' peer review committees are responsible for monitoring and evaluating peer reviews of those firms whose main offices are located in its 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 the AE personnel, the peer review committee establishes oversight policies and procedures that at least meet the minimum requirements (discussed on pages 14–17, "AE Oversight Procedures") established by the PRB to provide reasonable assurance that

- reviews are administered in compliance with the administrative procedures established by the PRB.
- reviews are being conducted and reported upon in accordance with the standards.
- results of reviews are being evaluated on a consistent basis.
- 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.

Administrative Oversight of the AE

Description

At a minimum, a committee member or a subcommittee of the AE's peer review committee should perform the administrative oversight in those years when there is no oversight visit by

OTF. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP.

Results

The administrative oversight reports were submitted to the AICPA by the AE as part of the 2013 POA. Comments or suggestions resulting from the administrative oversight are summarized in exhibit 14. In addition, the OTF member reviewed the results of the administrative oversight during his or her oversight visit (described on pages 13–15, “Oversight Visits of the Administering Entities”) and compared the results of the administrative oversight to those noted during the OTF oversight visit.

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 doing 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 actually 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 as well as reviewers performing reviews. Minimum oversight selection requirements also are imposed by the PRB.

Firms – The selection of firms to be reviewed is based on a number of factors, including but not limited to, 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 or report review) and whether the firm conducts engagements in high risk industries.

Reviewers – All peer reviewers are subject to oversight and they may be selected based on a number of factors, including but not limited to random selection, frequent submission of pass report, conducting a significant number of reviews for firms with audits in high risk industries, performance of their first peer review or performing high volumes of reviews. Oversight of a reviewer can also occur due to performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, not considering matters that turn out to be significant 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 2 percent of all reviews performed in a 12-month period of time, and within the 2 percent selected, there must be at least two of each type of peer review evaluated (that is, system and engagement reviews). The oversight involves doing a full working paper review and may be performed on-site in conjunction with the peer review or after the review has been performed. It is recommended 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 acceptance of the review. At a minimum, two system review oversights are required to be performed on-site. Oversights could be random or could be a combination of a targeted and random selection.

AEs that administer less than 100 reviews annually can apply for a waiver from the minimum requirements. The request for a waiver includes the reason(s) for the request and suggested alternatives to the minimum requirements. The waiver is to be submitted and approved by the PRB each year.

Also, at least two engagement oversights must be performed by the AE's peer review committee or by its designee from a national list of qualified reviewers, on an annual basis. An *engagement oversight* (performed either off-site or on-site) is the review of all peer reviewer materials and the reviewed firm's financial statements and working papers on the engagement. The two engagement oversights must include audits of employee benefits plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), engagements performed under GAGAS, audits of insured depository institutions subject to the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of carrying broker-dealers, or examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]. Also, the two oversights selected should not be of the same types of audits. No waivers of oversight of these types of engagements are permitted.

Results

For 2012, the AEs conducted oversight on 316 reviews, representing approximately 3.3 percent of all reviews performed in a twelve-month period of time. There were 177 system and 139 engagement reviews oversighted. Approximately 45 percent of the system oversights were conducted on-site. In addition, 70 ERISA, 73 GAGAS and 1 FDICIA engagements were oversighted. See exhibit 15 for a summary of oversights by AE.

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 that the member is associated with should have received a pass report on either its system or engagement review. The reviewer should obtain at least 48 hours of continuing professional education in subjects related to accounting and auditing every 3 years, with a minimum of 8 hours in any 1 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 3-year period, as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. Verification must include the reviewers' qualifications and experience related to engagements performed

under GAGAS, audits of employee benefit plans subject to ERISA and audits of insured depository institutions subject to FDICIA. Verification procedures may include requesting copies of their license to practice as a CPA; continuing professional education (CPE) certificate from a qualified reviewer training course; CPE certificates to document the required 48 CPE credits related to accounting and auditing to be obtained every 3 years with at least 8 hours in 1 year; and CPE certificates to document qualifications to perform Yellow Book audits, if applicable. The AE should also verify whether the reviewer is a partner or manager in a firm enrolled in a practice-monitoring 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 2012. See exhibit 16.

Feedback and Enhancements

Feedback from the Administering Entities

In order to maintain effective oversight procedures, the PRB obtains information from the AEs about matters to address, in order to provide consultation and additional guidance as needed on a national basis. The following are areas in which feedback has been received during 2010 through 2012 and subsequently addressed.

Guidance, manuals and checklists. Requests for additional guidance, as a result of issues noted during desk reviews and AE oversights, related to implementation plans have been received.

Enhanced guidance related to completion of Finding for Further Consideration (FFC) forms and appropriate implementation plans (IPs) was issued in 2011. This was communicated by issuance of a Peer Review Alert. The Peer Review Manual includes the enhanced guidance for firms and reviewers in the *Report Acceptance Body Handbook*. The manual was made available on the AICPA website.

In addition, an administrative alert was issued and the changes were addressed during an AE training call. The Administrative Manual also includes the enhanced guidance for AEs. The manual was made available on the AICPA state administrator's website.

Training for administrators. Requests have been received for additional training for administrators outside of the annual peer review conference.

Web and audio conferences have been held on various training issues for administrators. Biweekly calls are also held to address issues.

Firm Membership Changes. Concerns have been expressed over the length of time it is taking to process firm changes, including addresses, phone numbers or e-mails, enrollments, terminations, mergers or dissolutions.

AICPA staff continually reviews this process and works with other teams involved in this process. Revisions made during the year included focusing on technology issues, processes and communications. The AICPA implemented a tracking system that allows the AEs access to additional information regarding the status of its changes. In addition, AICPA is

exploring technology that will allow firms to enter the information directly into the peer review system.

Frequency of issuance of new guidance. Concerns have been expressed over the frequency with which updates to peer review program guidance have been made.

The Peer Review Board Standards Task Force (STF) has established a framework to help balance the needs of reviewers and AEs to receive information and tools that may help them, as soon as possible, while ordinarily allowing for a transitional period to implement these items. However, on occasion there are circumstances in which delaying the effective date is not practical. Additionally, AICPA staff has enhanced the peer review website to create a single place that provides information on changes since the previous manual update.

Reviewer Education. Concerns have been expressed over changes to the frequency and format of required reviewer training that is offered.

The Peer Review Board Education and Communication Task Force (ECTF) has approved changes to ensure that experienced peer reviewers are obtaining ongoing education which builds upon their existing skills and knowledge. Accordingly, a rewritten “Advanced Course”, which will contain extensive material on new and challenging areas of peer review guidance, will be introduced. Additionally, the AICPA will offer a *minimum* of two two-hour webinars annually, starting in 2013, with rebroadcasts where demand warrants thereby increasing scheduling opportunities for reviewers who wish to participate.

Exhibit 1

**State CPA Societies and State Boards of Accountancy That Have Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of July 2013**

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Alabama	No	Yes
Alaska	No	Yes
Arizona	No	Yes
Arkansas	No	Yes
California	No	Yes
Colorado	Yes	Yes in 2014
Connecticut	Yes	Yes
Delaware	Yes	No
District of Columbia	No	Yes
Florida	No	Yes in 2015
Georgia	Yes	Yes
Guam	No	Yes
Hawaii	No	Yes in 2015
Idaho	No	Yes
Illinois	No	Yes
Indiana	No	Yes
Iowa	No	Yes
Kansas	Yes	Yes
Kentucky	No	Yes
Louisiana	Yes	Yes
Maine	Yes	Yes
Maryland	No	Yes
Massachusetts	No	Yes
Michigan	No	Yes
Minnesota	Yes	Yes
Mississippi	Yes	Yes
Missouri	No	Yes
Montana	No	Yes
Nebraska	No	Yes
Nevada	No	Yes
New Hampshire	No	Yes
New Jersey	No	Yes
New Mexico	No	Yes
New York	No	Yes
North Carolina	Yes	Yes
North Dakota	No	Yes
Northern Mariana Islands (MP)	N/A	Yes but no effective date
Ohio	Yes	Yes
Oklahoma	No	Yes
Oregon	No	Yes

Exhibit 1

**State CPA Societies and State Boards of Accountancy That Have Made
Participation in an Approved Practice-Monitoring Program a
Condition of Membership or Licensure
As of July 2013**

Licensing Jurisdiction	Required for State CPA Society Membership	Required for State Board of Accountancy Licensure
Pennsylvania	No	Yes
Puerto Rico	No	No
Rhode Island	No	Yes
South Carolina	Yes	Yes
South Dakota	No	Yes
Tennessee	No	Yes
Texas	Yes	Yes
Utah	No	Yes
Vermont	No	Yes
Virginia	Yes	Yes
Virgin Islands	No	No
Washington	No	Yes
West Virginia	No	Yes
Wisconsin	Yes	Yes
Wyoming	No	Yes

Exhibit 2

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice							
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	Total
AK	22	40	11	6	2	1	0	82
AL	139	211	72	22	21	7	2	452
AR	42	94	50	13	7	1	0	207
AZ	149	196	73	23	9	1	1	474
CA	1,011	1,234	467	201	111	24	13	3,061
CO	163	290	86	28	13	4	2	586
CT	176	195	72	29	15	1	1	489
DC	10	13	5	6	5	0	0	39
DE	12	19	16	8	7	1	0	63
FL	316	661	225	91	41	13	2	1,349
GA	268	472	142	46	25	10	2	965
GU	4	1	1	0	1	1	0	8
HI	34	77	34	10	5	2	0	162
IA	57	108	52	15	22	2	0	256
ID	43	77	41	7	4	1	0	173
IL	277	414	126	59	42	7	13	938
IN	86	206	90	32	18	5	3	440
KS	59	130	46	31	13	2	3	284
KY	92	169	73	31	13	5	1	384
LA	192	266	81	33	14	5	3	594
MA	262	390	131	50	30	6	1	870
MD	147	236	106	43	44	10	2	588
ME	34	46	14	11	5	1	2	113
MI	215	404	135	84	19	3	4	864
MN	123	195	78	31	20	11	2	460
MO	85	217	83	24	27	2	2	440
MS	85	133	43	17	10	3	1	292
MT	26	43	20	7	2	2	1	101
NC	285	448	153	58	21	4	1	970
ND	20	40	6	1	1	1	2	71
NE	21	64	37	17	9	2	1	151
NH	54	72	17	5	9	1	0	158
NJ	353	525	150	68	36	7	3	1,142
NM	76	113	33	12	4	1	0	239
NV	67	91	38	20	5	1	0	222
NY	310	593	270	141	72	26	21	1,433
OH	241	467	165	92	36	10	3	1,014

Exhibit 2, continued

Number of Firms Enrolled in the AICPA Peer Review Program by Licensing Jurisdiction

Licensing Jurisdiction	Enrolled Firms by Number of Professionals in Practice							Total
	Sole	2 to 5	6 to 10	11 to 19	20 to 49	50 to 99	100+	
OK	103	173	67	19	10	1	1	374
OR	140	195	79	30	13	3	2	462
PA	255	472	203	80	40	23	5	1,078
PR	40	66	25	13	11	1	0	156
RI	49	67	25	6	6	0	1	154
SC	138	202	59	21	10	1	1	432
SD	11	35	15	7	2	0	1	71
TN	195	274	92	37	18	6	5	627
TX	863	1,057	349	164	62	20	8	2,523
UT	59	108	38	18	11	5	0	239
VA	231	286	101	47	17	5	4	691
VI	5	1	1	0	0	0	0	7
VT	25	34	13	11	2	1	0	86
WA	126	215	102	48	15	3	2	511
WI	61	133	63	20	18	8	4	307
WV	49	79	26	11	3	1	2	171
WY	<u>16</u>	<u>40</u>	<u>16</u>	<u>8</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>84</u>
Total	<u>7,922</u>	<u>12,387</u>	<u>4,516</u>	<u>1,912</u>	<u>979</u>	<u>263</u>	<u>128</u>	<u>28,107</u>

Exhibit 3

Administering Entities Approved to Administer the 2013 AICPA PRP

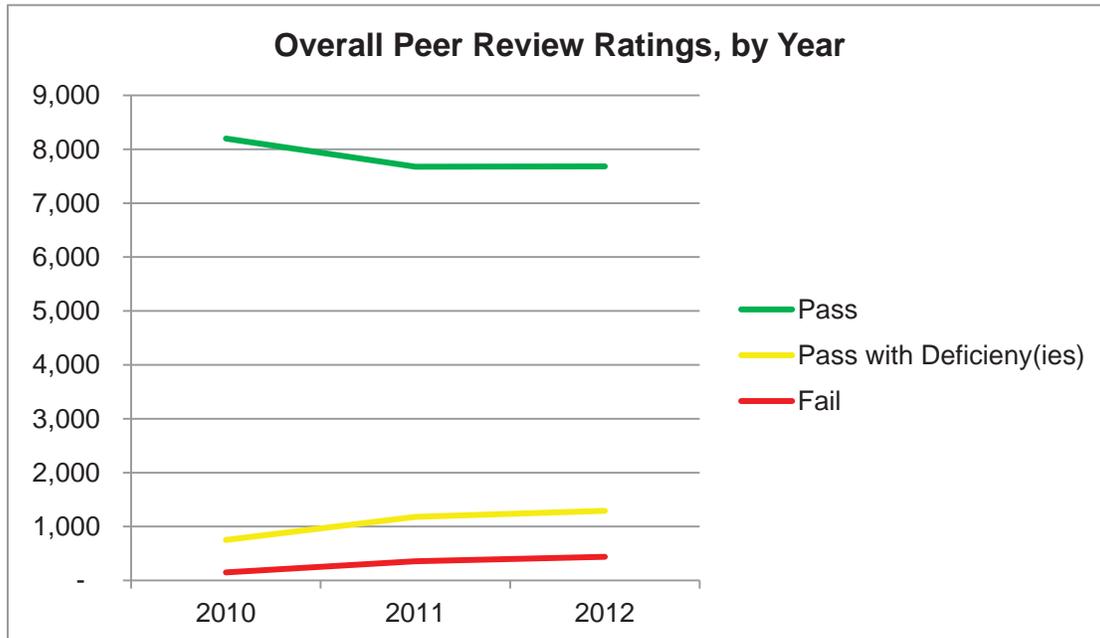
Administering Entity	Licensing Jurisdiction
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia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

Exhibit 4

Results by Type of Peer Review and Report Issued

The following shows the results of the AICPA PRP from 2010–2012 by type of peer review and report issued.

	2010		2011		2012		Total	
	#	%	#	%	#	%	#	%
<u>System reviews</u>								
Pass	3,472	89	3,729	89	3,942	89	11,143	89
Pass with deficiency(ies)	348	9	375	9	372	9	1,095	9
Fail	96	2	106	2	109	2	311	2
Subtotal	<u>3,916</u>	<u>100</u>	<u>4,210</u>	<u>100</u>	<u>4,423</u>	<u>100</u>	<u>12,549</u>	<u>100</u>
	2010		2011		2012		Total	
	#	%	#	%	#	%	#	%
<u>Engagement reviews</u>								
Pass	4,728	91	3,947	79	3,741	75	12,416	82
Pass with deficiency(ies)	405	8	806	16	917	18	2,128	14
Fail	54	1	250	5	330	7	634	4
Subtotal	<u>5,187</u>	<u>100</u>	<u>5,003</u>	<u>100</u>	<u>4,988</u>	<u>100</u>	<u>15,178</u>	<u>100</u>



Note: The above data reflects peer review results as of July 24, 2013. Approximately 3% of 2012 reviews are in process and their results are not included in the preceding totals.

Exhibit 5

Examples of Matters Noted in Peer Reviews

The following is a list of items noted as matters in peer reviews performed during 2010-2012. 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 reviews, it does note some examples of matters that were identified during the peer review process.

Accounting and Reporting Matters

- Income taxes. Disclosures relative to uncertain tax positions failed to include open tax years as required by FASB ASC 740-10-50 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109*).
- Fair value. Failure to disclose the fair value of investments by levels 1, 2 and 3 as required by FASB ASC 820-10-50.
- Debt. Failure to disclose five years of debt maturities as required by FASB ASC 470-10-50.
- Statement of cash flows. Failure to properly identify certain cash flow items as operating, investing or as financing activities as required by FASB ASC 230-10-45.
- Risks and uncertainties. Failure to properly disclose risks and uncertainties such as nature of operations, the use of estimates and concentrations as required by FASB ASC 275-10-50.
- Subsequent events. Failure to disclose date through which subsequent events have been evaluated as required by FASB ASC 855-10-50-1.

Audit and Attest Services

- Auditor's communication with those charged with governance. Failure to document those communications in accordance with AU-C 260, *The Auditor's Communication with Those Charged with Governance* (AICPA, *Professional Standards*).
- Planning and supervision. Incomplete or undocumented planning procedures related to risk.
- Communicating internal control matters identified in an audit, including the following:
 - Failure to note the auditor's responsibility for communicating internal control matters identified in the audit in the engagement letter.
 - Failure to complete or inaccurate completion of the internal control matters section of the firm's audit work programs in accordance with quality control policies and procedures.
 - Failure to identify internal control matters during the planning stage of the engagement.
 - Failure to disclose significant deficiencies identified.
- Audit documentation. Failure to prepare audit documentation in accordance with AU-C 230.
- Analytical procedures. General analytical procedures and specifically the failure to document expectations prior to performing analytical procedures and then failing to compare final results to expectations as well as document the procedures performed.
- Sampling. Failure to adequately document sample size determination, methodology, failure to project the results of sampling to the population.
- Governmental and Not for Profit specific matters, including the following:
 - Failure to use a risk-based approach to determine major programs.
 - Missed major programs (thresholds, improper low-risk auditee determination, failure to use a risk-based approach to determine major programs, not meeting percentage of coverage).
 - SEFA errors.

Exhibit 5, continued

Examples of Matters Noted in Peer Reviews

Compilation Services

- Basic presentation requirements, including financial statements containing “current liabilities” without the appropriate caption or description and income statement noting the wrong periods (for example, 2011 and 2010 instead of 2012 and 2011)
- Failure to appropriately title financial statements or adequately describe basis if not GAAP.
- Reporting on the financial statements. Basic report elements were missing in accordance with AR section 80 or all periods presented in the compilation report not addressed in accordance with AR section 60.
- Form of a standard compilation report. Issuing tax basis financial statements and the compilation report was not modified to reflect this GAAP departure.

Review Services

- Analytical procedures. Failure to document expectations when performing analytical procedures and to compare results to those expectations.
- Management representations. Omissions and errors, including the following:
 - Management’s representation letter failed to include all periods covered by the accountant’s review report.
 - The representation letter did not include the statement about management’s responsibility to detect and prevent fraud as required by AR section 90, *Review of Financial Statements (AICPA, Professional Standards)*.
- Basic reporting elements. Failure to follow the basic report elements as required by the SSARS.
- Establishing an understanding with management. Errors or omissions in the engagement letter, including the following:
 - Missing required signatures.
 - The required wording that the engagement could not be relied upon to disclose errors, fraud or illegal acts.
 - The required wording that the accountant would inform the appropriate level of management if certain matters came to his or her attention unless clearly inconsequential.
- Reporting on comparative financial statements and supplemental information. Indication of accountant’s responsibility with respect to all periods and any supplemental information presented.

Exhibit 6

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 performed in the AICPA PRP from 2010–12 summarized by elements of quality control as defined by the Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (no change in elements from SQCS No. 7, which was superseded by SQCS No. 8 as of January 1, 2012). 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 SQCS No. 8, in all material respects. SQCS No. 8 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. Because 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 4, "Results by Type of Peer Review and Report Issued."

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Leadership responsibilities for quality within the firm ("the tone at the top")	37	54	43
Relevant ethical requirements	12	15	7
Acceptance and continuance of client relationships and specific engagements	26	34	33
Human resources	96	97	80
Engagement performance	368	393	392
Monitoring	<u>200</u>	<u>206</u>	<u>192</u>
Totals	<u>739</u>	<u>799</u>	<u>747</u>

Exhibit 7

Number of Engagements Not Performed in Accordance With Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as not performed in accordance with professional standards in all material respects from peer reviews performed in the AICPA PRP from 2010–12. The standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards in all material respects when issues, individually or in the aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents the omission of a critical accounting, auditing or attestation procedure required by professional standards.

Engagement Type	2010			2011			2012		
	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 Act (A-133)	1,454	177	12%	1,742	195	11%	1,783	204	11%
Governmental - All Other	1,350	128	9%	1,442	97	7%	1,533	112	7%
ERISA	1,784	104	6%	2,214	114	5%	2,194	138	6%
FDICIA	28	-	0%	26	-	0%	10	-	0%
Carrying Broker-Dealers	-	-	-	6	-	0%	5	-	0%
Other	4,306	201	5%	4,965	255	5%	5,055	256	5%
Reviews	5,315	181	3%	5,825	364	6%	6,113	470	8%
Compilations:									
With Disclosures	3,694	81	2%	3,909	246	6%	4,014	335	8%
Omit Disclosures	10,899	272	2%	11,926	1,282	11%	12,447	1,751	14%
Forecasts & Projections	73	2	3%	133	7	5%	150	8	5%
SOC 1 Reports	-	-	-	39	2	5%	61	1	2%
Agreed Upon Procedures	751	16	2%	1,053	26	2%	1,047	18	2%
Other SSAEs	283	15	5%	174	8	5%	226	6	3%
Totals	29,937	1,177	4%	33,454	2,596	8%	34,638	3,299	10%

Exhibit 7, continued

Number of Engagements Not Performed in Accordance With Professional Standards in All Material Respects

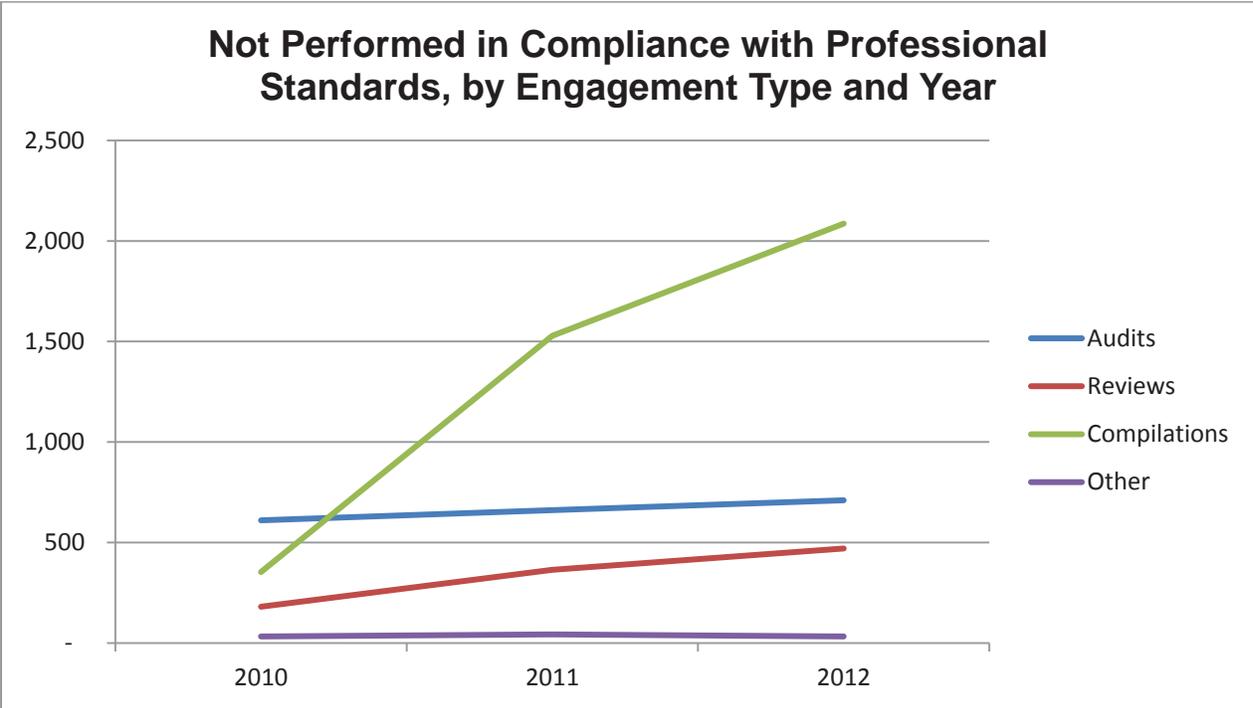
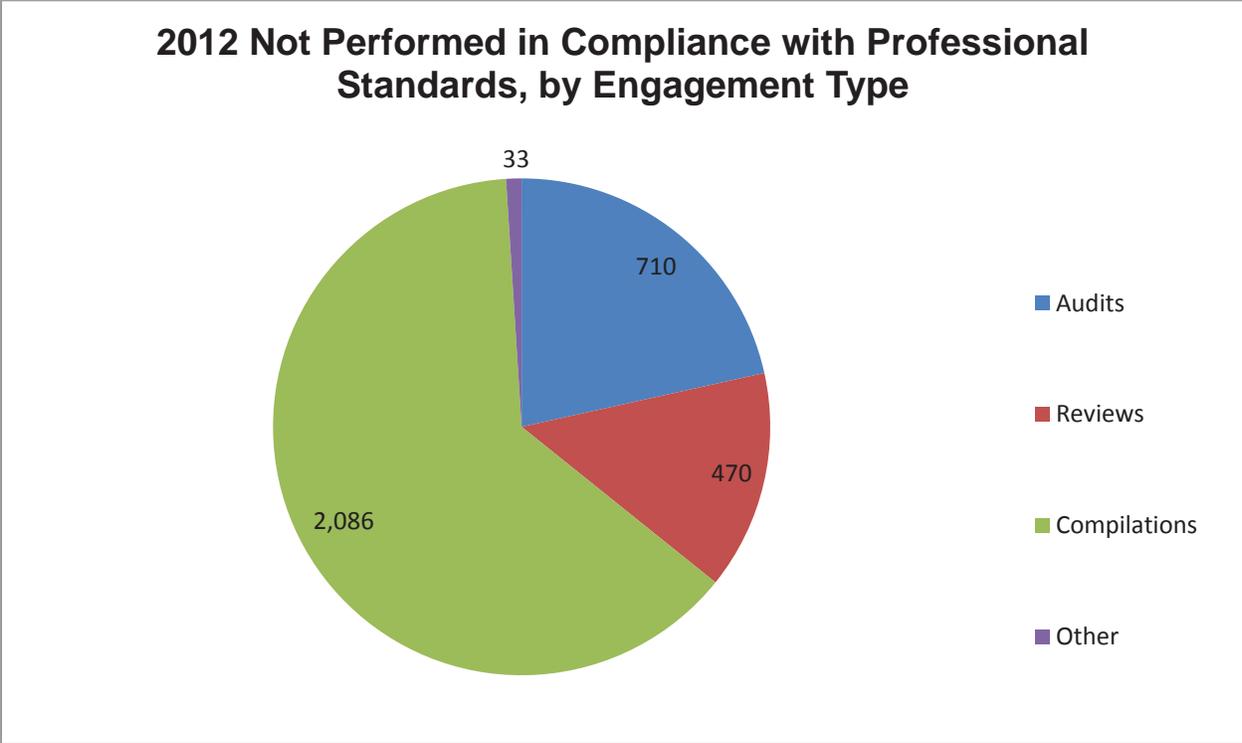


Exhibit 8

Summary of Required Corrective 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. During the report acceptance process, the AE peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern and pervasiveness of engagement deficiencies. The peer review committee also considers the matters noted by the reviewer and the firm's response thereto. Corrective actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple corrective actions. For 2010–12 reviews, committees required 5,399 corrective actions. The following represents the type of corrective actions required.

Type of Corrective Action	<u>2010</u>	<u>2011</u>	<u>2012</u>
Agree to take/submit proof of certain Continuing Professional Education (CPE)	590	1,051	1,293
Submit to review of correction of engagements that were not performed in accordance with professional standards	230	366	439
Agree to preissuance reviews	141	164	159
Submit monitoring report to Team Captain or Peer Review Committee	59	70	67
Submit Inspection Report to Team Captain, Peer Review Committee or outside party	30	43	45
Submit to revisit (Team Captain or Peer Review Committee Member)	94	82	78
Agree to have accelerated review	33	25	22
Submit evidence of proper firm licensure	9	9	7
Firm has stated they do not perform any auditing engagements	13	15	20
Agree to hire consultant for inspection	5	11	9
Review of formal CPE plan	4	6	4
Team captain to review Quality Control Document	13	14	17
Submit inspection completion letter	2	5	1
Submit proof of purchase of manuals	17	21	29
Outside party to visit during inspection	2	1	1
Submit report on consultant	2	5	8
Oversight of Inspection - - Review	12	6	6
Submit quarterly progress reports	3	1	4
Oversight of Inspection – Visitation	15	8	13
Total	<u>1,274</u>	<u>1,903</u>	<u>2,222</u>

Exhibit 9

Administering Entities That Have Entered Into a Peer Review Oversight Relationship with a State Board of Accountancy

The following shows whether the respective AE has entered into a peer review oversight relationship with the 51 SBAs that currently have made participation in a type of practice monitoring program mandatory for licensure as indicated in exhibit 1, State CPA Societies and State Boards of Accountancy That Have Made Participation in an Approved Practice Monitoring Program a Condition of Membership or Licensure.

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between AE and State Board</u>
Alabama Society of CPAs	Alabama	No
California Society of CPAs	Alaska	No
California Society of CPAs	Arizona	Yes
Arkansas Society of CPAs	Arkansas	Yes
California Society of CPAs	California	Yes
Colorado Society of CPAs	Colorado	Yes
Connecticut Society of CPAs	Connecticut	No
Georgia Society of CPAs	Georgia	No
Oregon Society of CPAs	Guam	No
Hawaii Society of CPAs	Hawaii	Yes
Idaho Society of CPAs	Idaho	Yes
Illinois Society of CPAs	Illinois	No
Indiana CPA Society	Indiana	Yes
Iowa Society of CPAs	Iowa	No
Kansas Society of CPAs	Kansas	Yes
Kentucky Society of CPAs	Kentucky	No
Society of Louisiana CPAs	Louisiana	Yes
New England Peer Review, Inc.	Maine	No
Maryland Association of CPAs	Maryland	Yes*
Massachusetts Society of CPAs	Massachusetts	Yes
Michigan Association of CPAs	Michigan	No
Minnesota Society of CPAs	Minnesota	Yes
Mississippi Society of CPAs	Mississippi	Yes
Missouri Society of CPAs	Missouri	Yes

Exhibit 9, continued

**Administering Entities That Have Entered Into a Peer Review
Oversight Relationship with a State Board of Accountancy**

<u>Administering Entity</u>	<u>State Board of Accountancy</u>	<u>Oversight Relationship Between AE and State Board</u>
Montana Society of CPAs	Montana	Yes
Nevada Society of CPAs	Nebraska	No
Nevada Society of CPAs	Nevada	Yes
New England Peer Review, Inc.	New Hampshire	No
New Jersey Society of CPAs	New Jersey	Yes
New Mexico Society of CPAs	New Mexico	Yes
New York State Society of CPAs	New York	Yes
North Carolina Association of CPAs	North Carolina	No
North Dakota Society of CPAs	North Dakota	No
The Ohio Society of CPAs	Ohio	Yes
Oklahoma Society of CPAs	Oklahoma	Yes
Oregon Society of CPAs	Oregon	Yes
Pennsylvania Institute of CPAs	Pennsylvania	No
New England Peer Review, Inc.	Rhode Island	No
South Carolina Association of CPAs	South Carolina	Yes
Oklahoma Society of CPAs	South Dakota	No
Tennessee Society of CPAs	Tennessee	Yes
Texas Society of CPAs	Texas	Yes
Nevada Society of CPAs	Utah	No
New England Peer Review, Inc.	Vermont	No
Virginia Society of CPAs	Virginia	Yes
Washington Society of CPAs	Washington	Yes
West Virginia Society of CPAs	West Virginia	No
Wisconsin Institute of CPAs	Wisconsin	No
Nevada Society of CPAs	Wyoming	No

* Oversight Relationship is currently in development.

Exhibit 10

Number and Type of Working Paper Oversight Performed by AICPA Staff

The following shows the number and type of working paper oversight performed by AICPA Peer Review Program staff for 2012.

AE	Engagement	System	Total
Alabama Society of CPAs	3	4	7
Arkansas Society of CPAs	2	2	4
California Society of CPAs	13	10	23
Colegio de Contadores Pulicos Autorizados de Puerto Rico	2	6	8
Colorado Society of CPAs	2	3	5
Connecticut Society of CPAs	4	3	7
Florida Institute of CPAs	7	4	11
Georgia Society of CPAs	5	3	8
Hawaii Society of CPAs	3	3	6
Idaho Society of CPAs	2	2	4
Illinois CPA Society	3	5	8
Indiana CPA Society	2	3	5
Iowa Society of CPAs	3	2	5
Kansas Society of CPAs	4	3	7
Kentucky Society of CPAs	5	3	8
Maryland Association of CPAs	4	3	7
Massachusetts Society of CPAs	5	3	8
Michigan Association of CPAs	4	3	7
Minnesota Society of CPAs	6	4	10
Mississippi Society of CPAs	2	3	5
Missouri Society of CPAs	3	4	7
Montana Society of CPAs	2	2	4
Nevada Society of CPAs	5	4	9
New England Peer Review	2	3	5
New Jersey Society of CPAs	5	3	8
New Mexico Society of CPAs	2	3	5
New York State Society of CPAs	6	5	11
North Carolina Association of CPAs	4	3	7
North Dakota Society of CPAs	2	2	4
Ohio Society of CPAs	5	2	7
Oklahoma Society of CPAs	2	3	5
Oregon Society of CPAs	2	2	4
Pennsylvania Institute of CPAs	4	5	9
Society of Louisiana CPAs	3	3	6
South Carolina Association of CPAs	3	2	5
Tennessee Society of CPAs	4	3	7
Texas Society of CPAs	14	7	21
Virginia Society of CPAs	3	2	5
Washington Society of CPAs	3	2	5
West Virginia Society of CPAs	3	4	7
Wisconsin Institute of CPAs	4	3	7
Total	162	139	301

Exhibit 11

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Throughout each year, a sample of reviews is selected (by AICPA PRP staff and approved by the OTF from the AEs for submission to the AICPA PRP staff for a full working paper review. Documents from all parts of the peer review process (administrative, PRISM computer system, peer review checklists, technical reviewer checklist and peer review committee actions) are reviewed to determine whether the reviews are being performed and reported on in accordance with the standards. The following is a summary of the most prevalent comments that were generated as a result of the working paper oversights performed by the AICPA PRP staff during the year 2012. The comments are intended to provide the AEs, their committees, report acceptance bodies, peer reviewers and technical reviewers with information and constructive recommendations that will help ensure consistency and improve the peer review process in the future. The comments vary in degree of significance and are not applicable to all of the respective parties. Ordinarily, AEs do not receive all of the peer review checklists that are obtained as part of the working paper reviews and therefore, would not be able to identify some of these comments.

Engagement Quality Control Review

- The firm failed to establish or established inappropriate, vague or insufficient criteria for the purposes of establishing a threshold for EQCR and it was not appropriately highlighted in the peer review documentation.

Monitoring

- The firm failed to appropriately respond to questions pertaining to performance of post-issuance review, review of compliance with firm QCPP and/or documentation of firm monitoring procedures. Based upon the peer review documentation, it is unclear how these responses or lack of responses were addressed by the reviewer.

Reviewer Feedback

- Feedback was not issued to the peer reviewer when it would have been appropriate. Some examples include scope matters, incomplete matters for further consideration (MFC) forms (for example, not referencing professional standards) and late submission of the report to the reviewed firm.
- Reviewer feedback forms were not used appropriately or were not signed by a member of the peer review committee.

Engagement Checklists

- Peer reviewer checklists and documents were not submitted or were incomplete. Failure to complete and/or submit all relevant programs and checklists may create a presumption that the review has not been performed in conformity with the standards governing the program.
- There were multiple “no” responses on the engagement checklists which did not have a documented resolution. They were not mentioned in the exit conference summary contained in the Summary Review Memorandum and there was no MFC prepared.
- There were inconsistencies noted with respect to responses in the checklists. For instance, a question answered in one checklist contradicted answers contained in other peer review checklists or questionnaires.
- There were sections on the engagement checklists which were not completed in their entirety. Some examples included: the general data, audit engagement risk assessment and the identification of significant audit areas.

Exhibit 11, continued

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

Engagements not in conformity with applicable professional standards in all material respects

- There were inconsistencies within the peer review documentation regarding evaluation of whether engagement(s) were performed and/or reported on in conformity with applicable professional standards in all material respects.
- There were inconsistencies noted with respect to responses made by the reviewed firm on the engagement profile or questionnaire versus those made by the peer reviewer on the engagement checklists. Some examples include the firm indicated on the engagement questionnaire that they did provide nonattest services but the reviewer indicated nonattest services were not applicable on the checklist or the firm indicated on the engagement questionnaire that the financial statement did include a footnote related to income tax expense but the reviewer indicated on the Financial Reporting and Disclosure Checklist that income taxes were not applicable.

Engagement Selection

- A selection was not made from all levels of service provided by the firm, and the reviewer did not provide an explanation as to why this was appropriate.
- There were engagements reviewed which were outside of the scope of the peer review year, and no explanation was provided as to why this was appropriate.

Independence

- The information provided by the firm was incomplete in regards to the prior year's fees and also in regards to providing nonattest services, which are needed to appropriately determine the firm's independence on the engagement.

Risk Assessment

- The risk assessment included in the Summary Review Memorandum (SRM) failed to comprehensively address the inherent and control risks and discuss the firm's system of quality control.

Firm Representation Letter

- The peer review representation letter omitted required representations.

Matters for Further Consideration (MFCs) and Findings for Further Consideration (FFCs)

- MFCs should have been prepared, but were not. For example, if the engagement checklists address several "no" answers relating to disclosure and documentation, they should be carried forward to an MFC.
- MFCs did not reflect the respective professional standards in order to lend support for the matter being addressed as a deficiency and did not include the engagement, checklist page, or question where the comment was derived.
- MFCs were not signed and dated by the reviewed firm's engagement partner (or designated as being discussed by telephone) prior to or on the date of the report.

Exhibit 11, continued

Comments from Working Paper Oversight Performed by AICPA Peer Review Program Staff

- The Finding for Further Consideration (FFC) form was not written systemically. Paragraphs .83-.85 of the standards contain guidelines on identifying the underlying cause of a finding. The team captain should identify the underlying systemic cause of all findings.

Report Release Date

- Significant difference between the report date and the report release date on audit engagements.

Summary Review Memorandum (SRMs)

- The SRMs were not completed accurately or consistently. This led to instances where necessary issues were not included in the FFCs; repeat findings and engagements not in compliance with applicable professional standards were not identified or properly addressed; and reports other than pass were not considered.
- The reviewer did not adequately document in the SRM their consideration of issuing another type of report.

Surprise Engagement

- The surprise selection was not the firm's highest level of service and the team captain's conclusion for the selection was not documented in the SRM.

Engagement Statistics in the PRISM System

- Engagement statistics were not recorded into PRISM or were recorded incorrectly (that is, types of engagements reviewed and if an engagement was not in compliance with applicable professional standards).

Review Acceptance

- The review was not presented to the peer review committee within 120 days of receipt of the report and letter of response, if applicable, from the reviewed firm.

Overdue Reviews

- The peer review was completed and/or submitted to the AE late and there was no extension granted or no overdue letters generated.

Client financial statements

- Client financial statements provided to the reviewer for the peer review were forwarded for oversight though required to be returned or destroyed.

SSARS No. 19, *Compilation and Review Engagements*

- Reference on the financial statements to the independent accountant's review report did not include the words "independent" and "review" as required.
- Paragraph in the accountant's report describing a departure from accounting principles generally accepted in the United States of America (GAAP) referred to generally accepted accounting principles instead of GAAP.
- The representation letter provided by the client appears to have been prepared using suggested representations/wording from pre-SSARS No. 19 guidance.

Corrective actions and/or implementation plans

- Failure to utilize or improper use of implementation plans and/or corrective actions.

Exhibit 12

**On-Site Oversights of Administering Entities
Performed by AICPA Oversight Task Force**

During 2011–2012, a member of the OTF performed an on-site oversight visit to each of the following 41 AEs. As part of the oversight procedures, each AE is visited by a member of the OTF whenever deemed necessary, ordinarily, at least once every other year.

<u>2011</u>	<u>2012</u>
Connecticut	Alabama
Georgia	Arkansas
Hawaii	California
Idaho	Colorado
Illinois	Florida
Indiana	Kansas
Iowa	Michigan
Kentucky	Mississippi
Louisiana	Missouri
Maryland	Montana
Massachusetts	Nevada
Minnesota	New England
North Carolina	New Jersey
Oklahoma	New Mexico
Puerto Rico	New York
South Carolina	North Dakota
Texas	Ohio
Virginia	Oregon
Washington	Pennsylvania
	Puerto Rico
	Tennessee
	West Virginia
	Wisconsin

Exhibit 13

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

As discussed in more detail in the *Oversight Visits of the AEs* section, each AE is visited at least every other year by an OTF member who performs various oversight procedures. At the conclusion of the visit, the OTF member issues an AICPA oversight visit report as well as an AICPA Oversight Visit Letter of Procedures and Observations which details the oversight procedures performed, observations noted by the OTF member and includes recommendations that may enhance the entity's administration of the AICPA PRP. The AE is required to respond to the chair of the OTF, in writing, to any findings reported in the Oversight Visit Report and Letter, or at a minimum, when there are no findings reported, an acknowledgement of the visit. The two oversight documents and the AE's response are presented by the AICPA OTF Peer Review Board (PRB) members at the next AICPA PRB meeting for acceptance. A copy of the acceptance letter, the two oversight visit letters and the response are posted to the following AICPA PRP web page:

<http://www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/Oversight/Pages/OversightVisitResults.aspx>.

The following represents a summary of common observations made by the OTF resulting from the on-site oversight visits performed during 2010–2012. The observations listed below are not indicative of every AE and may have been a single occurrence that has since been corrected upon notification.

Administrative Procedures

- The appropriate letters for overdue information and documents, reviewer performance, and other reminders were not generated according to the time requirements in the administrative manual.
- Confidentiality Agreements were not obtained annually for committee members/technical reviewers.
- Inadequate monitoring of open corrective actions, implementation plans, and reviews by staff and committee members.
- Technical reviewer should monitor experience and training requirements for their role.
- Technical reviews not performed timely.
- Annual confirmations not obtained for firms that have represented they no longer perform accounting and auditing engagements.
- Annual plan of administration not timely submitted.

Reviewer Resume Verification

- Procedures not performed timely.
- Procedures performed upon reviewer resume information obtained did not include all those required by the standards and related guidance.

Web site and Other Media Information

- The data maintained on the website as it relates to peer review was not current.
- The annual report was not included on the website.

Working Paper Retention

- Working papers were not retained and then destroyed 120 days after acceptance by the peer review committee in accordance with the working paper retention policy of the administrative manual.
- Reviewer feedback was maintained beyond the recommended guidelines.

Exhibit 13, continued

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

Committee Procedures

- Reviewer feedback was not issued when necessary. Also, the reviewer feedback was not signed by a peer review committee member.
- Technical reviewers did not address all significant issues before reviews are presented to the RAB.
- Committee members did not utilize implementation plans and/or corrective actions.
- Guidelines regarding conditional acceptance not followed.
- The status of open reviews and follow-up status not periodically monitored and discussed by the Committee and related documentation of such presentations and discussions recorded in the Committee minutes.
- Accurate and contemporaneous minutes are not prepared to document Committee meetings.
- Required oversights not performed timely each year.

Exhibit 14

Administrative Oversight Performed By Peer Review Committees of Administering Entities

The AE's peer review committee is required to establish administrative oversight procedures to provide reasonable assurance that the AICPA PRP is being administered in accordance with guidance as issued by the PRB. An administrative oversight should be performed in those years when there is no AICPA oversight visit. Procedures to be performed should cover the administrative requirements of administering the AICPA PRP. Each AE was requested to submit documentation indicating that an administrative oversight was performed with its 2012 and 2013 POAs. Comments or suggestions contained in the reports are summarized subsequently and are not indicative of every AE. They also vary in degree of significance. In addition, the OTF member reviewed the results of the administrative oversight during the oversight visit (described on pages 12–15, "Oversight Visits of the Administering Entities") and compared the results of the administrative oversight with those noted during the OTF oversight visit to evaluate whether any matters still need improvement.

- The status of open reviews should be monitored by the peer review committee at each meeting
- Files contained documents that should have been destroyed.
- Notifications not sent to team captains advising them of the working paper retention policy after the report acceptance.
- Delinquent letters on reviews were not being sent in a timely manner.
- Reviewer feedback and performance deficiency letters were not being issued when necessary.
- Reviews were not always presented to the peer review committee in accordance with the timelines specified by the standards.
- The technical reviewer did not always resolve inconsistencies and disagreements before submitting reviews to the report acceptance bodies (RABs).
- RABs are not always consistent in regard to corrective actions.
- Required oversights of "must select" engagements were not performed in a timely manner.
- Backup plan was insufficient.

Exhibit 15

Summary of Oversight Performed by Administering Entities

AEs are required to conduct oversight on a minimum of 2 percent of all reviews performed in a 12-month period of time and within the 2 percent selected, there must be at least two of each type of peer review must be evaluated. Also, at least 2 engagement oversights must be performed to include either audits of employee benefit plans subject to ERISA, engagements performed under GAGAS, or audits of insured depository institutions subject to FDICIA. The following shows the number of oversights performed for the 2012 oversight year.

Administering Entity	Type of Review/Oversights			Type of Engagement Oversights				Total Oversights Performed at Firm
	System	Engagement	Total	ERISA	GAGAS	FDICIA	Total	
Alabama	2	2	4	1	1	-	2	2
Arkansas	2	2	4	2	1	-	3	2
California	13	22	35	8	10	-	18	2
Colorado	2	3	5	1	1	-	2	2
Connecticut	2	2	4	1	1	-	2	2
Florida	9	6	15	1	1	-	2	6
Georgia	8	*	8	2	2	-	4	2
Hawaii	1	2	3	1	1	-	2	1
Idaho	3	1	4	1	1	-	2	1
Illinois	13	3	16	3	3	-	6	4
Indiana	2	2	4	1	1	-	2	2
Iowa	2	2	4	2	2	-	4	2
Kansas	5	2	7	2	2	-	4	2
Kentucky	3	4	7	1	2	-	3	3
Louisiana	2	4	6	1	1	-	2	2
Maryland	2	4	6	1	1	-	2	2
Massachusetts	8	3	11	1	1	-	2	2
Michigan	6	6	12	3	5	-	8	2
Minnesota	2	3	5	1	1	-	2	2
Mississippi	2	2	4	1	1	-	2	2
Missouri	2	2	4	1	2	-	3	2
Montana	5	1	6	1	1	-	2	1
Nevada	2	6	8	1	1	-	2	2
New England	3	2	5	2	1	-	3	2
New Jersey	10	2	12	1	6	-	7	2
New Mexico	2	2	4	5	1	-	6	2
New York	6	2	8	1	1	-	2	2
North Carolina	4	6	10	1	1	-	2	2
North Dakota	1	1	2	1	1	-	2	1
Ohio	4	2	6	2	-	-	2	4
Oklahoma	2	2	4	1	1	-	2	2
Oregon	2	3	5	1	1	-	2	2
Pennsylvania	6	3	9	3	2	-	5	6
Puerto Rico	4	1	5	2	4	-	6	4
South Carolina	2	2	4	1	1	-	2	2
Tennessee	4	4	8	1	1	-	2	2
Texas	13	7	20	7	4	1	12	3
Virginia	4	6	10	1	1	-	2	2
Washington	6	6	12	1	1	-	2	2
West Virginia	4	2	6	1	1	-	2	2
Wisconsin	2	2	4	-	2	-	2	2
TOTAL	177	139	316	70	73	1	144	94

Exhibit 16

Summary of Reviewer Resumes Verified by Administering Entities

AEs are required to verify all reviewer resumes over a 3-year period as long as at a minimum, one third are verified in year 1, a total of two thirds has been verified by year 2 and 100 percent have been verified by year 3. The following shows the number of reviewer resumes verified by AEs for the years 2010–2012.

Administering Entity	2010	2011	2012
Alabama	9	9	4
Arkansas	7	15	8
California	49	70	59
Colorado	11	9	17
Connecticut	11	12	6
Florida	25	40	43
Georgia	44	48	-
Hawaii	6	-	4
Idaho	5	17	6
Illinois	19	39	42
Indiana	11	12	11
Iowa	8	11	9
Kansas	-	18	-
Kentucky	14	16	14
Louisiana	49	48	-
Maryland	31	18	18
Massachusetts	-	14	38
Michigan	31	42	19
Minnesota	7	7	17
Mississippi	17	12	13
Missouri	15	20	24
Montana	-	5	8
Nevada	62	61	76
New England	7	7	14
New Jersey	29	28	28
New Mexico	-	20	19
New York	30	28	28
North Carolina	24	31	33
North Dakota	1	1	1
Ohio	14	36	36
Oklahoma	15	11	17
Oregon	12	9	15
Pennsylvania	33	26	47
Puerto Rico	13	12	12
South Carolina	11	46	15
Tennessee	24	20	20
Texas	43	61	44
Virginia	22	21	23
Washington	10	25	25
West Virginia	10	9	7
Wisconsin	20	7	7
Totals	749	941	827

Glossary

<u>Term</u>	<u>Definition</u>
AICPA Peer Review Board	Functions as the “senior technical committee” governing the AICPA PRP and is responsible for overseeing the entire peer review process.
AICPA Peer Review Program Manual	The publication that includes the <i>Standards</i> , Interpretations to the <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 AICPA PRP.
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.
AICPA PRP Peer Review Alert	A document issued on a periodic basis by the AICPA PRB to communicate current information and guidance to peer reviewers.
Administering Entity	A state CPA society, group of state CPA societies, or other entity annually approved by the PRB to administer the AICPA PRP in compliance with the standards and related guidance materials issued by the PRB.
Agreed Upon Procedures	Specific procedures agreed to by a CPA, a client and (usually) a specified third party. The report states what was done and what was found. Additionally, the use of the report is restricted to only those parties who agreed to the procedures.
PRISM System	An online system that is accessed to carry out the AICPA PRP administrative functions.
Attest Engagement	An engagement that requires independence as defined in the AICPA professional standards.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a CPA.
Compilation	Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements performed under SSARS.
ERISA	The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for pension plans in private industry.

Glossary

<u>Term</u>	<u>Definition</u>
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 that focuses on work performed and reports and financial statements issued on particular engagements (reviews or compilations).
Financial Statements	A presentation of financial data, including accompanying notes, if any, intended 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 generally accepted accounting principles, 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 Form.
Firm	A form of organization permitted by law or regulation whose characteristics conforms to resolutions of the Council of the AICPA that is engaged in the practice of public accounting.
Follow-up Action	A corrective type action, remedial and educational in nature, which may be imposed on a reviewed firm by the AE peer review committee upon the acceptance of the firm's peer review in an attempt to strengthen the performance of the firm.
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 AICPA PRP 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.

Glossary

<u>Term</u>	<u>Definition</u>
Matter for Further Consideration	A matter is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on 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 Form.
Other Comprehensive Basis of Reporting	Consistent accounting basis other than generally accepted accounting principles (GAAP) used for financial reporting.
Oversight Task Force	Appointed by the PRB to oversee the administration of the AICPA PRP 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	A document that state CPA societies complete annually to elect the level of involvement they desire in the administration of the AICPA PRP.
Practice Monitoring Program	A program to monitor the quality of financial reporting of a firm or individual engaged in the practice of public accounting.
Program Administrator	Person responsible for administering the AICPA PRP for the AE.
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 AICPA PRP are being complied with.
Review	Performing inquiry and analytical procedures on financial statements that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with GAAP.
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 on the AICPA website 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 a reviewer as set forth in the standards.

Glossary

<u>Term</u>	<u>Definition</u>
Reviewer Resume	A document residing on the AICPA website 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 a reviewer as set forth in the standards.
Scheduling Status Report	A report which provides key information on peer reviews such as firm name, due date, review number, type, status and the date background information was received.
Special Purpose Framework	A financial reporting framework, other than generally accepted accounting principles, 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.
AICPA PRP Administrative Manual	Publication that includes guidance used by AICPA PRB approved state CPA societies or other entities in the administration of the AICPA PRP.
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.
System of Quality Control	A process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.
System Review	A type of peer review for firms that have an audit and accounting practice. The peer reviewer's objective is to determine whether the system of quality control for performing and reporting on auditing and accounting 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 Report Acceptance Body (RAB) and the Peer Review Committee in carrying out their responsibilities.

Glossary

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, or the Virgin Islands.

¹ Approximately 31,000 firms are enrolled in the AICPA PRP. Approximately 3,000 of those enrolled firms have indicated that they are not currently performing engagements subject to peer review.

² The National Peer Review Committee (National PRC) became an AE of the AICPA PRP effective January 1, 2009. Prior to January 1, 2009, the National PRC was a separate peer review program called the CPCAF PRP. The National PRC has issued a separate report for the calendar year and its results are not included within this Report.

³ Prior to March 1, 2013, for SSAE engagements, the scope of the system review only included examinations of prospective financial statements or examinations of service organization's controls likely to be relevant to user entities' internal control over financial reporting. Prior to 2011, for SSAE engagements, the scope of a system review did not include examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting.

Discussion of the Report on the Administrative Oversight Visit to the NPRC, dated November 8, 2012

- Memo, dated December 30, 2013, with the following attachments:
 - Letter Regarding the Administrative Oversight Visit to the NPRC, dated October 26, 2012.
 - AICPA's Response Letter, dated November 8, 2012.



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PROC Item V.C.
January 31, 2014

**Discussion of the Report on the Administrative Oversight Visit
to the NPRC, dated November 8, 2012**

Presented by: Rafael Ixta, Enforcement Chief

Date: December 30, 2013

Purpose of the Item

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with the letter from the third-party reviewer concerning the Administrative Oversight Visit of National Peer Review Committee's (NPRC) and the American Institute of Certified Public Accountants' (AICPA) response to the letter.

Action(s) Needed

It is requested that PROC members review the letter and the AICPA's response.

Background

On September 25-26, 2012, the accounting firm of Ray, Foley, Hensley & Company, PLLC, conducted an Administrative Oversight Visit to the NPRC. A letter summarizing the visit was issued on October 26, 2012 (**Attachment 1**).

Comments

On November 8, 2012, the AICPA issued a response to the letter of procedures and observations issued in connection with the review of the administrative procedures of the NPRC (**Attachment 2**).

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachments

1. Letter Regarding the Administrative Oversight Visit to the NPRC, dated October 26, 2012
2. AICPA's Response Letter, dated November 8, 2012


Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

October 26, 2012

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

Stephen R. Allen, CPA/PFS
 Dennis H. England, CPA
 Michael D. Foley, CPA
 Lyman Hager, Jr., CPA/PFS
 Jerry W. Hensley, CPA

J. Carroll Luby, CPA

Re: Administrative Oversight Visit to National Peer Review Committee

Dear Committee Members:

The oversight visit was conducted according to the administrative oversight procedures in the *AICPA Peer Review Program Oversight Handbook*, except as discussed below. The administrative oversight program is designed to ensure that the AICPA Peer Review Program is being administered in accordance with guidance as issued by the AICPA Peer Review Board.

The oversight visit did not include procedures related to oversight of the peer review report acceptance by the National Peer Review Committee (NPRC) or its Report Acceptance Bodies (RABs) due to the level of involvement of AICPA staff and the composition and involvement of members of the NPRC on NPRC peer reviews. As opposed to reviews administered by other administering entities, NPRC reviews are subject to greater involvement of AICPA technical staff and involvement of volunteers. The NPRC consists of several members who jointly serve on the AICPA Peer Review Board (PRB), as well as two state board regulatory representatives. Additionally, the NPRC chair attends meetings of the PRB, reporting NPRC activity on a quarterly basis. Accordingly, as a result of the additional scrutiny surrounding NPRC reviews, further oversight procedures related to deliberations of RABs is considered unnecessary.

In conjunction with the administrative oversight visit of the NPRC, an administering entity for the AICPA Peer Review Program (program), conducted on October 18-19, 2010, the following observations are being communicated.

Administrative Procedures

On September 25-26, 2012, I met with the Francis McClintock, Senior Technical Manager, Lisa Joseph, Technical Manager and Christopher Ellis, Manager - Operations to review the program's administration. I believe the administrative processes were being handled in a manner consistent with peer review standards.

I reviewed the files of certain reviews, which were still open due to follow-up actions. I found that the follow-up actions were being effectively monitored for completion by the administrative staff and the peer review committee.

I also reviewed the policies and procedures for the granting of extensions, I found that the Manager of Operations handles short-term extension requests with discussion from the Senior Technical Manager when the circumstances warrant. In accordance with the Policies and Procedures of the National Peer Review Committee, longer-term extensions are considered by a RAB.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
 Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Page 2

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

- Acceptance letters for two of eight reviews selected were not issued within two weeks of the RAB acceptance of the peer reviews.

I examined confidentiality agreements for all committee members.

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

Web Site and Other Media Information

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

Working Paper Retention

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

Technical Review Procedures

I met with technical reviewers to discuss procedures. I reviewed summary resumes of all individuals performing technical reviews and reviewed information related to participation in a peer review. All technical reviewers had participated in a peer review during 2011. Information related to required training was also reviewed without exception.

I reviewed the reports, letters of response, if applicable, and the working papers for ten reviews covering all technical reviewers and types of reports during the last 120 days. All review issues appear to have been addressed properly by the technical reviewer before reviews were presented to the committee. Note that there were no engagement reviews administered by the NPRC during the 120 days subject to review..

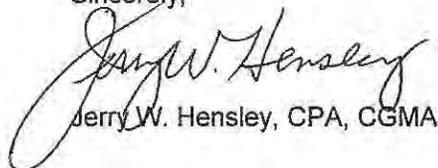
Oversight Program

Karl Ruben, Technical Manager, administers the process for verification of reviewer resume information. Reviewer resume verification was requested for approximately one hundred ninety reviewers in 2011 and ninety reviewers in 2012 to date. The reviewer resume verification process appears to be in conformity with the AICPA Peer Review Program Oversight Handbook.

Summary

There are no further observations to communicate to the National Peer Review Committee.

Sincerely,



Jerry W. Hensley, CPA, CGMA

ATTACHMENT 2

November 8, 2012

Mr. Andrew Lear, Chair
Oversight Task Force
National Peer Review Committee
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Oversight Visit to the National Peer Review Committee

Dear Mr. Lear:

This letter represents our response to the letter of procedures and observations issued in connection with the review of the administrative procedures of the National Peer Review Committee performed on September 25-26, 2012. The matters discussed herein were brought to the attention of all peer review program committee members, administrative staff, and technical managers. In addition, the matters discussed in this letter will be monitored to ensure they are effectively implemented as part of our administration of the AICPA Peer Review Program.

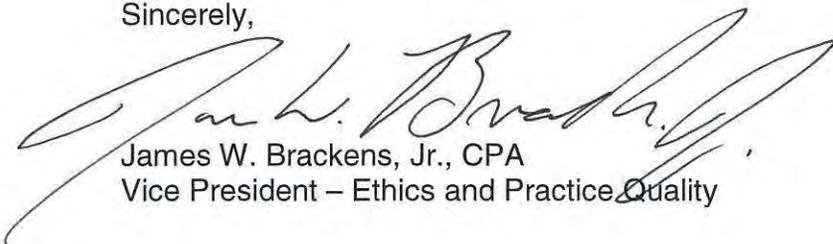
We are pleased to note that there were no observations included in the oversight documents on which a written response was necessary. However, we respond as follows to the item noted in the procedures applied.

Administrative Procedures

We recognize the importance of conveying committee decisions in a timely manner. During 2011, we made changes to this process in order to facilitate more timely dissemination. Specifically, we restructured staff responsibilities and trained additional staff to handle the processing of all RAB decisions, including deferral, delay, and acceptance letters; as well as monitoring of firm cooperation with corrective actions and implementation plans.

We appreciate Mr. Hensley's constructive advice and suggestions.

Sincerely,



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

Discussion of CBA Communication to New Licensees Regarding Peer Review Requirements

- Memo, dated November 21, 2013, with the following attachment:
 - Approval Letter to New Licensees.



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PROC Item V.D.
January 31, 2014

Discussion of CBA Communication to New Licensees Regarding Peer Review Requirements

Presented by: Rafael Ixta, Enforcement Chief

Date: November 21, 2013

Purpose of the Item

The purpose of this agenda item is to provide Peer Review Oversight Committee (PROC) members with peer review information that the California Board of Accountancy (CBA) provides to new licensees.

Action(s) Needed

No action is required. This agenda item is being provided as information only.

Background

At the November 1, 2013 PROC meeting, PROC members inquired how the CBA notifies new licensees that they are required to have a peer review report accepted by a CBA-recognized peer review program within 18 months of the completion of their first accounting and auditing service.

Comments

New licensees are informed of their requirement to have a peer review report accepted within 18 months of completing their first accounting and auditing engagement.

Fiscal/Economic Impact Considerations

None.

Recommendation

None.

Attachment

Approval Letter to New Licensees.



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ATTACHMENT

Dear [REDACTED]:

Congratulations! The California Board of Accountancy (CBA) has approved your application for a Certified Public Accountant (CPA) license with the authorization to sign attest reports. Your CPA license number is [REDACTED].

Initial License Expiration Date

The expiration date of your CPA license is based on your birth date. For example, if you were born in March of an even year, your license will always expire the last day of March of every even year. If you were born in June of an odd year, your license will always expire the last day of June of every odd year.

Your CPA license will be issued with an initial expiration of midnight on 1/31/2014. To renew your license in an active status and thus retain practice rights after this date, you must complete 80 hours of continuing education (CE). If your license renewal application is postmarked after your license expiration date, you will be required to complete 80 hours of CE.

If you do not intend to practice public accountancy after this date, you will have the option of renewing your license in an inactive status without completing CE. It is your responsibility to maintain current knowledge of the laws governing the practice of public accountancy.

License Renewal Process

The regular license renewal cycle is two years and requires the completion of 80 hours of CE. Depending upon your birth date, your initial CPA license may be issued for less than two full years, thus requiring the completion of less than the full 80 hours of continuing education for your first renewal.

The CBA mails renewal applications with instructions approximately two months prior to the license expiration date. The CPA license renewal fee is \$120. If you do not receive the renewal application approximately two months prior to your license expiration date, please contact the CBA Renewal Unit at (916) 561-1702.

There is no grace period to renew your license after the expiration date. A \$60 delinquency fee, which the CBA has no statutory authority to waive, will be charged and your practice rights will be terminated if your renewal fee and application are not postmarked on or before the license expiration date.

If the license expiration date falls on a weekend, the renewal fee and application must be postmarked the following business day. Meter marks are not acceptable proof of timely mailing.

Peer Review Requirements for License Renewal

All accounting firms, including sole proprietorships, performing accounting and auditing services are required to have a peer review report accepted by a CBA-recognized peer review program within 18 months of the completion of the services and once every three years thereafter as a condition for license renewal. For additional information on peer review requirements and reporting, as well as answers to frequently asked questions, please visit the CBA website at www.cba.ca.gov.

E-News and UPDATE Publication

The CBA maintains an email notification service called E-News available to its stakeholders. You may visit the CBA website at www.cba.ca.gov to sign up and receive email notifications containing information regarding CBA programs and activities, including updates to license renewal information.

In addition, three times a year the CBA publishes UPDATE which contains important information about the public accounting profession, notices of proposed regulatory language and hearings on regulation changes, CBA and Committee meetings, and topical information about enforcement, examination, licensure and CE.

UPDATE is available for reading or download on the CBA website. By signing up for CBA E-News, the CBA will send an email notification when UPDATE is available online. The CBA provides the current UPDATE and issues for the last seven years on its website in a PDF format. You may also receive a print version of UPDATE by registering on the CBA website. Once you have registered, future publications of UPDATE will be mailed to your address of record.

Additional Resources

The CBA's *CPA Licensee Handbook* provides detailed information regarding the license renewal process. You can obtain this handbook from the CBA website at www.cba.ca.gov (click on 'CPA Licensees' under Handbooks), or you may contact the CBA Licensing Unit at (916) 561-1701 and request that one be mailed to you.

Any questions regarding the renewal of your license or qualifying CE can be directed to the CBA Renewal Unit by telephone at (916) 561-1702 or by email at renewalinfo@cba.ca.gov.

Sincerely,


Initial Licensing