



CALIFORNIA BOARD OF ACCOUNTANCY

# PEER REVIEW OVERSIGHT COMMITTEE 2018 Annual Report



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## I. MESSAGE FROM THE COMMITTEE CHAIR

I am pleased to present to the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2018 Annual Report. I would like to thank the CBA for its continued trust in my leadership of the PROC by re-appointing me as Chair.

I would also like to extend my sincerest appreciation to Mr. Kevin Harper, CPA, who served as Vice-Chair of the PROC this past year. In 2018, the PROC welcomed Mr. Alan Lee, CPA as a new member.

The PROC's presence as an active oversight body continues to flourish and grow. In addition to performing its routine oversight functions, the PROC has undertaken several important initiatives to improve its oversight of the California Peer Review Program including: oversight procedures of the California Society of CPAs (CalCPA) administration of the American Institute of CPAs (AICPA) Peer Review Program, discussing the AICPA implementation of its Peer Review Integrated Management Application (PRIMA) system, considering (in concert with the CBA) a framework to evaluate the peer reviewer population in California, upholding procedures for revisiting the effectiveness of out-of-state administering entities and impacts on the California Mobility Program.

The PROC refined its oversight procedures of the CalCPA's administration of the California Peer Review Program through a comprehensive evaluation of its administrative process. Additionally, the PROC re-configured its oversight procedures, checklists, and its protocols to better assess all peer review program risks.

The PROC actively monitors the PRIMA system for any data discrepancies or delays, which impacts the PROC's ability to observe peer review-related statistics and appropriately assess the progress of the California Peer Review Program. The PROC will continue to monitor this information and communicate any issues or concerns to the CBA.

In 2018, the PROC continued its effort to oversight the California Peer Review Program through evaluation of its peer reviewer population and implementing a California Peer Review Program Survey and Report. Through written communications with AICPA and CalCPA, staff and the PROC concluded that the existing AICPA peer reviewer population monitoring framework does not capture applicable statistics that would allow the PROC to assess the California Peer Reviewer Population.

For 2019, the PROC plans to work with AICPA and CalCPA on implementing a peer reviewer population monitoring framework that would require AICPA to generate statistics pertaining to the California Peer Reviewer Population, produce cyclical reports, and include a narrative conclusion and findings. Furthermore, staff and the PROC will evaluate proposed revisions to the NASBA Uniform Accountancy Act Model Rules and its impact on the California Peer Review Program, and review the AICPA Benchmark Model for administering entities.

The PROC stands ready to assist as the CBA may see fit, and I look forward to another successful year.

Respectfully, Jeffrey De Lyser, CPA

## II. THE CALIFORNIA PEER REVIEW PROGRAM

All California-licensed accounting firms, including sole proprietorships, providing accounting and auditing services are required to undergo a peer review once every three years as a condition of license renewal.

The goal of peer review is to promote quality in the accounting and auditing services provided by accounting firms, and to ensure that licensees are adhering to professional standards. Consumer protection is increased in two crucial areas through peer review:

- First, the peer review requirement helps to monitor and educate accounting firms to promote quality in the accounting and auditing services they provide. This goal serves the public interest and protects the consumer through an increase in the quality of the product provided to clients.
- Second, the CBA requires accounting firms receiving substandard peer review rating to notify the CBA. The CBA reviews the information to assess whether to pursue enforcement actions against accounting firms. This consumer protection mechanism provides assurance that only qualified licensees are practicing public accounting and providing services to consumers in California. Consumer confidence increases from knowing accounting firms must answer to verifiable standards.

## III. PROC RESPONSIBILITIES

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 PROC derives its authority from Business and Professions Code section 5076.1.

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

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

annual basis.

- Prepare an Annual Report to the CBA regarding the results of its oversight.
- Evaluate the peer reviewer population.

## 2018 PROC MEETING DATES

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 met four times in 2018 at the CBA Office in Sacramento on the following days:

- February 9, 2018
- May 11, 2018
- August 17, 2018
- December 7, 2018

## IV. PROC MEMBERS

<u>Current Members</u>	<u>Term Expiration Date</u>	<u>Maximum Term Date</u>
Jeffrey De Lyser, CPA, Chair	March 31, 2019	March 31, 2021
Kevin Harper, CPA, Vice-Chair	March 31, 2019	March 31, 2023
Renee Graves, CPA	November 30, 2019	November 30, 2023
Sharon Selleck, CPA	March 31, 2019	March 31, 2025
Fiona (Liang) Tam, CPA	November 30, 2019	November 30, 2025
Alan S. Lee, CPA	March 31, 2020	March 31, 2026
Vacant	--	--

In 2018, the PROC welcomed Mr. Lee as a new member to the PROC. At the November 2018 CBA meeting, Mr. De Lyser, CPA was re-appointed as Chair and Renee Graves, CPA was appointed as Vice-Chair. The PROC is actively recruiting for new members as membership terms expire.

## V. AICPA

The AICPA Peer Review Program is currently the sole CBA-recognized Peer Review Program Provider. The AICPA oversees its program and the peer reviews are administered by an entity, typically a state CPA society, approved by the AICPA to perform that role. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in CBA Regulations section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA administers and monitors its peer review program through specifically assigned AICPA institutions, programs, and systems. Those monitoring tools are as follows:

- AICPA Peer Review Board
- AICPA Oversight Task Force

- AICPA Peer Review Program Administering Entities
- AICPA PRIMA

## **VI. CALCPA**

CalCPA is one of 55 state societies and is one of 31 administrative entities approved in 2018 by AICPA. CalCPA administers the AICPA Peer Review Program in California, Arizona, and Alaska. As an administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's (*Standards for Performing and Reporting on Peer Reviews*).

CalCPA upholds the integrity of its peer review administration of the AICPA peer review program through use of the AICPA PRIMA system, technical reviewers, and facilitating several Report Acceptance Body Meetings each year.

CalCPA technical reviewers review the technical quality of the peer review reports and findings on reviewed CPA firms and review the performance of peer reviewers. During the CalCPA Report Acceptance Body meetings, members discuss the peer reviews, conclude on the findings, discuss peer reviewer performance feedback, and determine whether each peer review completed is acceptable.

## **VII. NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY (NASBA) COMPLIANCE ASSURANCE COMMITTEE**

The NASBA Compliance Assurance Committee is charged to provide transparency in the operation of the AICPA National Peer Review Committee and to promote effective oversight of compliance with professional standards by CPAs and their firms. The focus of the NASBA Compliance Assurance Committee is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to boards of accountancy.

By agreement, two spots on the National Peer Review Committee are filled by NASBA representatives. The National Peer Review Committee members representing NASBA sit in on Report Acceptance Body meetings and report periodically to the NASBA Compliance Assurance Committee on whether the AICPA National Peer Review Committee has operated appropriately.

The National Peer Review Committee administers the AICPA peer review program for firms that meet the following three criteria:

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



## VIII. PROC OVERSIGHT OF THE CALIFORNIA PEER REVIEW PROGRAM

The PROC is charged with providing oversight of all CBA-recognized peer review program providers and peer review-related activities.

To ensure a comprehensive oversight of the California Peer Review Program, the PROC strategically incorporates various oversight activities that includes active participation, review of relevant peer review-related publications, highlight and inquire about findings that may have potential impacts to the California Peer Review Program, and performs continual internal updates and reviews of oversight procedures to address the evolving peer review program.

### PROC OBSERVED OVERSIGHT ACTIVITIES

The PROC actively oversights and evaluates the administration of the California Peer Review Program via in-person or conference call observations of peer review-related meetings and activities. In 2018, the PROC observed the following peer review-related meetings:

- AICPA Peer Review Board Meetings
- Peer Reviewer Trainings
- CalCPA Report Acceptance Body Meetings
- CalCPA Peer Review Committee Meetings
- CalCPA Administrative Site Visits
- NASBA Compliance Assurance Committee Meetings

#### *AICPA Peer Review Board Meetings*

PROC members observed four AICPA Peer Review Board meetings via conference calls that took place in February, May, August, and October.

The topics covered during the meetings included: AICPA's Benchmark Model for administering entities and plans to go live in 2019; peer reviewer population, recruitment plans, and discontinued peer reviewers; enhanced oversight procedures to address nonconforming peer reviews; dropped accounting firms; findings for further consideration; and the Report Acceptance Body oversight handbook.

The PROC reported that all AICPA Peer Review Board meetings met CBA expectations.

#### *Peer Reviewer Trainings*

CalCPA offered both an Advanced Peer Reviewer Update and New Peer Reviewer trainings on June 26-27, 2018.

The Advanced Peer Reviewer Update was observed via webcast. The training focused on findings from the enhanced oversight program report regarding the number and type of nonconforming issues found. The New Peer Reviewer Training focused heavily on case studies.

The PROC reported that the trainings met CBA expectations.

### ***CalCPA Report Acceptance Body Meetings***

PROC members observed 10 Report Acceptance Body meetings either in-person or by conference calls.

The PROC repeatedly reported that the Report Acceptance Body members have high-level technical expertise, were engaged, and PROC members were impressed at the number of reviews covered during each meeting and the knowledge the Report Acceptance Body members have regarding the individual files, standards, and technicality of peer review overall.

The PROC concluded that each Report Acceptance Body meeting met CBA expectations.

### ***CalCPA Peer Review Committee Meetings***

PROC members attended in-person the May and November CalCPA Peer Review Committee Meetings and noted that the November meeting was oversighted by a member of the AICPA National Peer Review Committee and the Chair of the AICPA Oversight Task Force.

The PROC reported that the meeting included several Report Acceptance Body meetings and covered various topics including: AICPA's Benchmark Model for administering entities and its delayed 2019 start and reporting dates and Standards Task Force, limited PRIMA statistics, familiarity threats, findings for further consideration matters, reviewer's risk assessments, decrease in the number of peer reviews completed as a result of challenges with PRIMA, and peer reviewer qualifications and population.

The PROC reported that the meetings met CBA expectations.

### ***CalCPA Administrative Site Visits by the PROC***

The Administrative Site Visit to CalCPA is the most comprehensive oversight activity performed by the PROC. The Administrative Site Visit is an in-person activity that allows the PROC to perform an in-depth oversight of the California Peer Review Program. The Administrative Site Visit oversight procedures are outlined in four PROC-developed checklists and is implemented in five phases annually to ensure key deadlines are met. The checklists are as follows:

- PROC Administrative Site Visit Work Plan Checklist
- PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist
- PROC Administrative Site Visit Summary Report
- PROC Administrative Site Visit Summary Oversight Checklist

The PROC Administrative Site Visit implementation phases are listed below along with activities that took place in 2018.

Phase 1: Assignment of the two-person Administrative Site Visit team (**May**)

On May 11, 2018, the PROC assigned Mr. De Lyser and Ms. Graves to the PROC's Administrative Site Visit oversight activity of CalCPA.

Phase 2: Referencing the PROC Administrative Site Visit Work Plan Checklist, assigned PROC members send an initial contact letter or communicate with administering entities to arrange oversight activities and site visit, and request documents and information necessary to effectively complete the risk assessment (**May/June**)

On June 12, 2018, Ms. Graves communicated and visited CalCPA to document the CalCPA peer review administration process and integration with PRIMA.

Phase 3: Place on the PROC agenda an item soliciting input from PROC on risks and associated testing (**August**)

At its August 17, 2018 meeting, the PROC reviewed CalCPA's administration of the California Peer Review Program, the AICPA Benchmark Model, the integration of PRIMA, and identified risk areas the PROC should continue to focus its oversight on.

Phase 4: Referencing the PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist, assigned PROC members will conduct the administrative site visit, perform executable risk assessment procedures to determine whether the risk mitigating procedures set in-place by the administrative entity functions as intended (**September/October**)

On November 12, 2018, PROC members implemented Phase 4 of the Administrative Site Visit to CalCPA.

The PROC performed the following oversight procedures during its November 12, 2018 Administrative Site Visit to CalCPA:

- Reviewed existing and new peer reviewers and their qualifications to determine if AICPA's minimum standards were met
- Completed Phase 3 by reviewing all risk variables and examining all mitigating procedures
- Interviewed key CalCPA staff
- Reviewed policies and procedures used by CalCPA to govern its peer review program process
- Read correspondence and other available documentation from other oversight activities performed at CalCPA
- Reviewed a sample of peer review reports and associated files
- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and reviewed a sample for inspection of supporting documentation
- Considered risk mitigating procedures

- Completed PROC Administrative Oversight Checklist

Phase 5: Assigned PROC members will complete the PROC Administrative Site Visit Summary Report and present findings to the PROC, and as a committee complete the Administrative Site Visit Summary Oversight Checklist (**December**)

On December 7, 2018, PROC members reported on and discussed observations from the November 12, 2018 PROC Administrative Site Visit to CalCPA, the PROC Administrative Site Visit Summary Report, and the Administrative Site Visit Summary Oversight Checklist.

The PROC concluded that the administration of the California Peer Review Program by CalCPA met CBA expectations.

### ***NASBA Compliance Assurance Committee Meetings***

The PROC observed via conference calls two NASBA Compliance Assurance Committee meetings held on May 29, 2018 and November 8, 2018. The meetings covered matters relating to guidance and documentation for PROC oversight over administrative entities.

The PROC discussed the discrepancies between topics covered during NASBA Compliance Assurance Committee meetings and the existing PROC Compliance Assurance Committee Checklist. The PROC replaced the existing PROC Compliance Assurance Committee checklist with the PROC Peer Review Board checklist as it appears to be more applicable.

The PROC concluded that the meetings met CBA expectations.

Additionally, the PROC Chair and staff had a conference call with NASBA Compliance Assurance Committee representatives on January 26, 2018 regarding audit quality and risk oversight and mitigating procedures.

### **PEER REVIEW-RELATED REPORTS AND PUBLICATIONS REVIEWED BY THE PROC**

The PROC annually reviews peer review-related reports and publications by the AICPA, CalCPA, and NASBA Compliance Assurance Committee in order to remain current with the AICPA Peer Review Program, policies, procedures, and changes that affect consumers.

The PROC reviewed the following peer review-related reports and publications in 2018:

- Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated November 15, 2017
- AICPA Peer Review Program Annual Reports on Oversight, Issued April 11, 2018 and October 4, 2018
- AICPA Peer Review Program, National Peer Review Committee Annual Report on Oversight, Issued May 10, 2018

- AICPA Peer Review Administering Entity Oversight Visit Results for the Virginia Society of CPAs, Dated May 17, 2018 and the Washington Society of CPAs, Dated June 25, 2018

### ***Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated November 15, 2017***

At its May 11, 2018 meeting, the PROC reviewed the internal administrative oversight report performed by a third party member of the AICPA National Peer Review Committee, issued on November 15, 2017. The report covered the AICPA National Peer Review Committee administrative function for the calendar year 2016 and oversight work performed on and off-site between September 15, 2017 and October 5, 2017.

The report discussed the AICPA National Peer Review Committee's administrative, technical, and oversight procedures; website and media information; work paper retention, and concluded that the AICPA National Peer Review Committee's administrative processes appear to be consistent with peer review standards in all material respects.

### ***AICPA Peer Review Program Annual Report on Oversight, Issued April 11, 2018***

At its May 11, 2018 meeting, the PROC reviewed the 2016 AICPA Peer Review Program Annual Report on Oversight, issued on April 11, 2018.

The report indicated that AICPA subject matter experts identified a higher number of nonconforming peer review engagements than peer reviewers.

The report noted that in 2016, 190 peer reviews were selected as part of the sample pool between August 1, 2015 and July 30, 2016. The sample included 85 random, 81 Single Audits, and 24 targeted selections. One hundred and fifty different team captains were selected for oversight through the random and targeted samples. The results are as follows:

- Random Samples – 21 of 85 nonconforming engagements or 25 percent were not identified by peer reviewers
- Single Audit Samples – 34 of 81 nonconforming engagements or 42 percent were not identified by peer reviewers
- Targeted Samples – 7 of 24 nonconforming engagements or 29 percent were not identified by peer reviewers

Based on the results of the oversight procedures, the AICPA Oversight Task Force concluded that for 2016, the oversight initiatives performed and objectives of the Peer Review Board oversight program, taken as a whole, were met.

### ***AICPA Peer Review Program Annual Report on Oversight, Issued October 4, 2018***

At its December 7, 2018 meeting, the PROC reviewed the 2017 AICPA Peer Review Program Annual Report on Oversight, issued on October 4, 2018.

The statistical information presented in the report pertained to peer reviews that commenced and were performed during the calendar year 2017.

The report provided an overview of oversight procedures performed in 2017 in accordance with the AICPA Peer Review Oversight Handbook, which includes:

- **Oversight Visits of Administering Entities** – the AICPA Oversight Task Force visited 18 administering entities
- **Report Acceptance Body Observations** – 253 peer reviews were selected for Report Acceptance Body observations
- **Enhanced Oversight** – subject matter experts performed oversight on must-select engagements that included the reviews of financial statements and working papers

The report highlighted oversight activities conducted by administering entities in accordance with the AICPA Peer Review Oversight Handbook, which included the following:

- **Administrative Oversight of the Administering Entities** – 21 administrative oversights performed
- **Oversight of Peer Reviews and Reviewers** – 227 reviews were selected for oversight at the administering entities level
- **Annual Verification of Reviewers' resume** – 577 peer reviewer resumes were reviewed and verified

Based on the results of the oversight procedures, the AICPA Oversight Task Force has concluded, for the 2017 calendar year, the oversight initiatives performed and objectives of the Peer Review Board oversight program, taken as a whole, were met.

### ***AICPA Peer Review Program, National Peer Review Committee Annual Report on Oversight, Issued May 10, 2018***

At the December 7, 2018 meeting, the PROC reviewed the AICPA Peer Review Program National Peer Review Committee Annual Report on Oversight, issued on May 10, 2018. As a result of the transition to the AICPA PRIMA system and technical difficulties, the 2016 AICPA National Peer Review Committee Report includes only National Peer Review Committee's oversight procedures in calendar year 2016 without statistics.

The AICPA National Peer Review Committee Oversight Task Force revealed opportunities to enhance effectiveness and efficiency of the AICPA National Peer Review Committee in areas relating to the administration program and annual verification of peer reviewer resumes.

### ***AICPA Peer Review Administering Entity Oversight Visit Results for the Virginia Society of CPAs, Dated May 17, 2018 and the Washington Society of CPAs, Dated June 25, 2018***

The PROC is required to annually monitor selected out-of-state administering entities, operating under the CBA-Recognized Peer Review Program Provider, the AICPA. During the August 17, 2018 PROC meeting, the PROC reviewed and enhanced its PROC oversight procedures of out-of-state administering entities. The enhanced procedures include:



- Review of the current list of AICPA approved administering entities and top 20 jurisdictions (states) with high-volume of Out-of-State Firm Registrants under the current California mobility program:
  - At each PROC meeting, select two out-of-state administering entities from the list of administering entities identified to have high-volumes of Out-of-State Firm Registrants
  - Review available prior AICPA administering entities' oversight reports
  - Complete the PROC Out-of-State Administering Entities Checklist
  - Present and discuss as a committee the following items:
    - Findings
    - Recommendations
    - Develop items to include in a written inquiry to the AICPA regarding the findings and request for explanations, corrective actions, and timeframe for completion
  - Follow-up and review future published AICPA administering entities' oversight report(s) to ensure all findings have been addressed and corrected

It is important to continue to review and revise the PROC Out-of-State Administering Entities Checklist to ensure its relevance as the top 20 Out-of-State Firm Registrants jurisdictions, AICPA approved administering entities list, and the PROC oversight procedures may vary each year due to ongoing changes with the local and national peer review policies and regulations.

The AICPA oversight reports for both Virginia and Washington concluded that both administering entities complied with the administrative procedures and standards in all material respects as established by the AICPA.

## **OTHER PROC OVERSIGHT ACTIVITIES**

The PROC oversight activities are not limited to meeting observations and publications reviews. The CBA PROC performs further comprehensive oversight of the California Peer Review Program and, for 2018, included the following matters:

- AICPA PRIMA
- Peer Reviewer Population
- AICPA Benchmark Model
- CBA Peer Review Program Survey and Report
- Revisions to the PROC Oversight Checklists
- Oversight of the Peer Review-Related Updates
- Revisions to the PROC Procedures Manual

### ***AICPA PRIMA***

AICPA launched PRIMA in 2017 to improve audit quality and streamline the administration of its National Peer Review Program. PRIMA is accessed by administering entities, accounting firms, peer reviewers, and state boards of accountancy. It allows users to perform self-service activities including initiating and tracking their peer review schedule, uploading and signing documents, and responding to discrepancies or matters in real-time.

AICPA PRIMA allows all end users to observe and interact during the peer review process, which includes:

- Enrollment in the AICPA Peer Review Program
- Select a Peer Reviewer
- Schedule a Peer Review
- Complete the Peer Review Process
- Peer Review Committee Acceptance Review Process
- Corrective Action and Implementation Plan Process
- Decision to Confirm Review Acceptance

The CBA Enforcement Division has observed and experienced delays and missing information within the AICPA PRIMA system. Additionally, due to data discrepancies with the AICPA PRIMA system, the PROC has observed multiple year delays with peer review-related statistics.

The PROC can confirm that the data discrepancies and delays caused by PRIMA has directly delayed the publications of the following annual reports and publications oversights by the PROC:

- AICPA Peer Review Program Annual Report on Oversight
- AICPA Peer Review Program, National Peer Review Committee Annual Report on Oversight
- CalCPA Peer Review Program Annual Report on Oversight
- NASBA Compliance Assurance Committee Oversight Report on the AICPA Peer Review Committee

The PROC has been in communication with AICPA staff regarding the data discrepancies and have been informed that the AICPA is actively making improvements to PRIMA. The PROC will continue to monitor the progress of PRIMA and pro-actively communicate with the AICPA regarding PRIMA-related issues.

### ***Peer Reviewer Population***

As part of the PROC responsibility to evaluate the peer reviewer population in California, the CBA and PROC sent three letters addressed to both the AICPA and CalCPA between May 2017 and June 2018 to request specific statistics and/or further clarification regarding the California Peer Reviewer Population.

The CBA received responses from both the AICPA and CalCPA and concluded that the AICPA does not have sufficient information from which to draw effective assessments regarding the peer reviewer population, especially pertaining to the peer reviewer population in California.

By June of 2018, the CBA received a written response from James Brackens, CPA, Vice President of the Ethics & Practice Quality, Public Accounting at the AICPA, highlighting its efforts to strengthen and grow the peer reviewer pool along with statistical responses to



address the seven proposed data points specified in the CBA proposed framework to monitor the California Peer Reviewer Population.

AICPA provided the following California Peer Reviewer Population statistical information:

- 97 of the 187 national peer review team/review captains or 52 percent that performed peer reviews in the past two years were California peer reviewers
- 3,168 of the 4,290 reviews completed nationally or 74 percent were completed by California peer reviewers, of which 2,111 or 67 percent were completed by 20 California peer reviewers
- 679 of the 877 must-select engagement reviews or 77 percent completed nationally were completed by California peer reviewers, of which 414 or 61 percent were completed by eight California peer reviewers

Furthermore, the AICPA written response noted that over the past year the national peer reviewer population decreased by eight.

The findings were presented to the CBA during its July 2018 Meeting and Ms. Katrina Salazar, CPA, CBA member, NASBA Pacific Regional Director, offered to assist the PROC in future activities relating to the California Peer Reviewer Population.

On October 16, 2018, the CBA sent an additional letter to the AICPA Peer Review Committee Chair, requesting further information to clarify the following concerns:

- How many of the seven new peer reviewers are California reviewers?
- How many of the 15 reviewers that ceased to perform peer reviews were California reviewers?
- Will the existing national peer reviewer population be able to absorb the workload if two or more of the 20 California peer reviewers performing 67 percent of the total California peer reviews cease to perform peer reviews?

### ***AICPA Benchmark Model***

During both the May and August 2018 meetings, the PROC briefly discussed the potential impacts the AICPA Benchmark Model for administering entities may have on the peer reviewer population and the PROC's Administrative Site Visit to CalCPA procedures.

As part of the AICPA's Evolution of Peer Review Administration initiative, the AICPA rolled-out its pilot Benchmark Model between May 1, 2018 and September 30, 2018. The AICPA plans to implement the administering entities self-reporting and fair procedures on June 30, 2019. The benchmarks are qualitative, objective, and measurable criteria which may be modified over time due to advances in technology and other factors. Failure to meet the established benchmarks will require a fair procedure to determine the appropriate remediation, and may result in an administering entity being placed on probation or loss of qualification to be an administering entity.

The PROC reviewed the AICPA Benchmark Model for administering entities throughout 2018 and plans to oversight the AICPA Benchmark Model for administering entities once it becomes live.

### ***CBA Peer Review Program Survey and Report***

During May and August 2018, the PROC received progress reports on the California Peer Review Program Survey. The PROC was informed of the May 2018 launch of the CBA Survey and its dissemination via website, E-News, various social media channels, and through coordination with stakeholders. The survey was made available through July 2, 2018.

The PROC was informed that a total of 347 responses were collected from the Survey. All results were analyzed for inclusion in the CBA Sunset Review Report.

Results from the CBA Survey indicates that the California Peer Review Program protects consumers, keeps CPAs and accounting firms accountable, and benefits all Californians.

### ***Revisions to PROC Oversight Checklists***

In 2018, the PROC continued its efforts to review and revise its checklists. The PROC evaluated both the PROC Summary of Compliance Assurance Committee Meeting Checklist and the Summary of Administrative Site Visit Overview and Checklists.

As a result of the PROC oversight checklist revision process, the PROC decided to abandon its recent PROC Compliance Assurance Committee Meeting Checklist. The PROC decided to use the existing PROC Peer Review Board meeting checklist in its place, as the questions and language within it are more appropriate for oversight of the NASBA Compliance Assurance Committee meetings.

The PROC reviewed its Administrative Site Visit procedures and checklists with consideration of the new AICPA PRIMA system and new Benchmark Model for administering entities.

The PROC focused on the PROC Administrative Site Visit Risk Map and Risk Mitigating Procedures Checklist as it provides steps and procedures to execute a successful oversight site visit to CalCPA and its administration of the peer review program. The PROC discussed and identified workloads that shifted from CalCPA to the PRIMA system and workloads that remained with CalCPA to require continued oversight by the PROC.

The PROC made revisions to both checklists discussed during its August 17, 2018 meeting and updated the PROC Procedures Manual to reflect the changes to the oversight procedures.

### ***Oversight of Peer Review-Related Updates***

In 2018, the PROC continued its regular review of all peer review-related updates available on the AICPA and NASBA websites in an effort to ensure the PROC members are continuously aware of changes relating to the peer review program.

## ***Revisions to the PROC Procedures Manual***

The PROC derives its authority from Business and Professions Code 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 PROC Procedures Manual outlines the PROC's authority, purpose, roles and responsibilities, oversight activities, and overall expectations to effectively oversight the peer review program to ensure administration is performed in accordance with the standards adopted by the CBA, as specified under section III. PROC Responsibilities herein this report.

During 2018, the PROC reviewed and proposed revisions to the following PROC oversight activities for inclusion in the PROC Procedures Manual:

- Updates to the PROC Administrative Site Visit Overview and Checklists
- Updates to the PROC Summary of Compliance Assurance Committee Meeting Checklist
- Updates to the PROC Summary of Out-of-State Peer Review Administering Entities

## **IX. Statistical Monitoring and Reporting Activity**

The PROC will annually provide and report on specific enhanced peer review-related statistics in a mutually agreed upon format. Analysis of the peer review-related statistics is not achievable, as AICPA is currently not tracking or reporting statistics that can be appropriately evaluated by the PROC.

Since May 2017, the CBA and PROC has been in communication with AICPA and CalCPA regarding peer review-related statistics for California and will continue to communicate to obtain more comprehensive statistics.

The data points are as follows:

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

CBA staff received 2017 peer review-related statistical information directly from the AICPA and discussed the statistics during the December 7, 2018 PROC meeting:

## TYPES (SYSTEM VS. ENGAGEMENT) AND NUMBERS OF REVIEWS COMPLETED BY MONTH, AND CUMULATIVELY FOR THE ANNUAL REPORTING PERIOD

### i. Numbers of reviews completed by month.

**Source:** **2014-2016 Data** – AICPA Facilitated State Board Access<sup>1</sup> Website. To obtain a month-to-month report of reviews accepted, including accounting firms that chose to opt out of the Facilitated State Board Access, the AICPA Facilitated State Board Access report on the numbers of reviews accepted is most appropriate.

**2017 Data** – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access.

**Comments:** **Table 1 – The Reviews Accepted Report**

Provides the number of both system and engagement reviews accepted on a monthly basis starting from January 1, 2014 to December 31, 2017.

**Table 1:**

<b>California   The Reviews Accepted Report</b>				
<b>MONTHS</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
January	145	148	161	64
February	110	196	159	243
March	138	120	135	162
April	138	149	120	95
May	145	133	111	49
June	132	147	139	14
July	161	117	84	23
August	124	107	94	63
September	161	131	134	78
October	137	153	87	108
November	129	95	87	137
December	137	104	111	86
<b>TOTAL</b>	<b>1,657</b>	<b>1,600</b>	<b>1,422</b>	<b>1,122</b>

- Average number of reviews completed in California annually: 1,450
- PRIMA system implementation issues, data discrepancies, and decrease in the peer reviewer population directly correlates with the decrease in the number of peer reviews accepted

<sup>1</sup> American Institute of Certified Public Accountancy Facilitated State Board Access website is a uniform system developed to ensure transparency and satisfy state boards of accountancy's peer review information submission and result requirements, piloted in 2007, some state societies early adopted in 2008 and all societies participating by calendar year-end 2009.

ii. **Types (system vs. engagement) and numbers of reviews completed cumulatively for the annual reporting period.**

**Source:** **2014-2016 Data** – CalCPA Peer Review Program Annual Report on Oversight and does not include peer reviews accepted by the National Peer Review Committee or out-of-state administering entities.  
**2017 Data** – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access.

**Comments:** **Table 2** – Uses numbers reported in the CalCPA Peer Review Program Annual Report on Oversight issued in 2015, 2016, and 2017. Each report reflects numbers from the prior year, under section IV. Results of Peer Reviews Performed. The numbers reported by CalCPA includes statistics generated annually.

**Table 2:**

<b>California   Peer Reviews Performed During the Calendar years 2014-2017 by Types Cumulatively for Annual Reporting Period</b>				
<b>Type of Review</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
System	582	532	464	349
Engagement	1,077	1,022	938	773
<b>Total</b>	<b>1,659</b>	<b>1,554</b>	<b>1,402</b>	<b>1,122</b>

**TYPES (SYSTEM VS. ENGAGEMENT) AND NUMBERS OF REVIEWS RECEIVING A PASS, PASS WITH DEFICIENCIES, OR FAIL RATING**

**Source:** **2014-2016 Data** – CalCPA Peer Review Program Annual Report on Oversight and does not include peer reviews accepted by the National Peer Review Committee or out-of-state administering entities.

**2017 Data** – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access.

**Comments:** **Table 3** – Uses numbers reported in the CalCPA Peer Review Program Annual Report on Oversight issued in 2015, 2016, and 2017, each report reflects numbers from the prior year, under section IV, Results of Peer Reviews Performed by Types of Peer Review and Reporting and Rating Issued. The numbers reported by CalCPA includes statistics generated annually.

Provides in percentage the relative changes between the numbers of reviews versus engagements performed during the calendar years 2014 through 2017.

**Table 4** – Using numbers from **Table 3**, it indicates relative changes in percentage for the total reporting grades, including both system and engagement reviews performed during the calendar years 2014 through 2017.

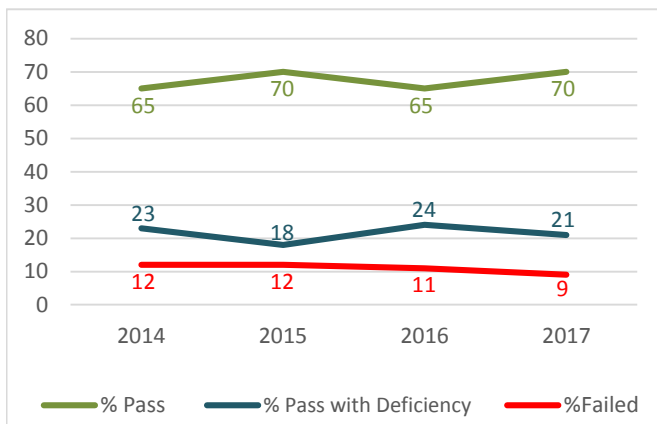
**Table 3:**

California   Reviews Performed by Types of Peer Review and Reporting and Rating								
Report Ratings	2014		2015		2016		2017	
	QTY	%	QTY	%	QTY	%	QTY	%
<b>SYSTEM REVIEWS</b>								
Pass	379	65%	375	70%	303	65%	243	70%
Pass with Deficiency	132	23%	97	18%	110	24%	75	21%
Failed	71	12%	60	12%	51	11%	31	9%
Total System	582		532		464		349	
<b>ENGAGEMENT REVIEWS</b>								
Pass	870	81%	885	86%	720	77%	586	76%
Pass with Deficiency	142	13%	80	8%	110	12%	92	12%
Failed	65	6%	57	6%	108	11%	95	12%
Total Engagement	1,077		1,022		938		773	
<b>Summary Total</b>	<b>1,659</b>		<b>1,554</b>		<b>1,402</b>		<b>1,122</b>	

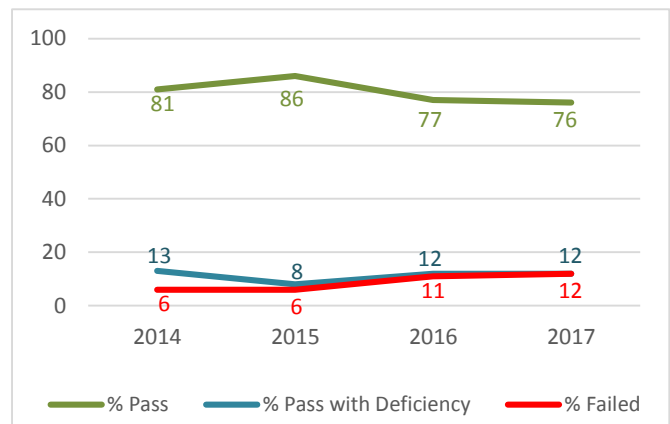
**Table 4:**

California   Reviews Performed by Types of Peer Review and Reporting and Rating								
Systems and Engagements	2014		2015		2016		2017	
	QTY	%	QTY	%	QTY	%	QTY	%
Pass	1,249	75%	1,260	81%	1,023	73%	829	74%
Pass with Deficiency	274	17%	177	11%	220	16%	167	15%
Failed	136	8%	117	8%	159	11%	126	11%
<b>Summary Total</b>	<b>1,659</b>		<b>1,554</b>		<b>1,402</b>		<b>1,122</b>	

Graph 1.a - System Reviews



Graph 1.b - Engagement Reviews



**CORRECTIVE ACTION MATTERS (VARIOUS TYPES: OVERDUE PEER REVIEW REPORTS, DISAGREEMENTS PENDING RESOLUTION, ETC.)**

**Source:** **2014-2016 Data** – CalCPA Report and does not include peer reviews accepted by the National Peer Review Committee or out-of-state administering entities.

**2017 Data** – AICPA, CBA-Recognized Peer Review Program Provider and includes accounting firms that chose to opt out of the Facilitated State Board Access.

**Comments:** **Table 5** – Uses numbers reported in the CalCPA Reports issued in 2015, 2016, and 2017, each report reflects numbers from the prior year, under section VII. Summary of Required Follow-up Actions, with prior year numbers, identifies the types of follow-up actions that have been required. The numbers reported by CalCPA includes statistics generated annually.

The Peer Review Committee is authorized by the AICPA Peer Review Program 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 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 comments noted by the reviewer and the firm’s response thereto. If the firm’s response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up 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 follow-up actions.

**Table 5:**

<b>California   Summary of Required Follow-up Actions Under AICPA and CalCPA Peer Review Program</b>				
<b>Type of Follow-up Action</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Submit proof of Continuing Professional Education taken	240	160	235	209
Submit copy of monitoring report	32	25	4	6
Submit to Team Captain revisit-general	27	29	24	12
Submit to Team Captain review of subsequent engagements with workpapers	70	73	91	66
No longer perform any audit engagements	48	40	31	30
<b>Totals</b>	<b>417</b>	<b>327</b>	<b>385</b>	<b>323</b>



## FIRMS EXPELLED (TERMINATED) FROM THE PROGRAM

**Source:** 2015-2017 Data – AICPA Peer Review Board firm drops and firm terminations website: <https://aicpa.org/forthepublic/prfirmterm.html>

**Comments:** **Table 6** – Accounting firms that have commenced their peer review process may be terminated by the AICPA for several of the following reasons:

- Failure to cooperate
- Consecutive failed reports
- Failure to submit a signed acknowledgement letter
- Failure to complete a corrective action
- Non-cooperation related to omission or misrepresentation of information
- Failure to correct deficiencies or significant deficiencies after consecutive correction actions
- Failure to complete its peer review after it has commenced
- Failure to complete an implementation plan

Number of firms terminated between January 1, 2015 to December 31, 2017:

**Table 6:**

California   Terminated Firms				
ACTION	2015	2016	2017	TOTAL
TERMINATED	0	4	3	7

Firms terminated for specific reasons can appeal for reenrollment in the California Peer Review Program and be evaluated by either the administering entity or a hearing panel of the Peer Review Board.

The CBA Enforcement Division proactively initiates investigations of California-licensed accounting firms identified to have been terminated from its peer review program. Results from each investigation varies on a case-by-case basis.



## **X. OBSERVATIONS**

Based on PROC members' 2018 oversight actions and 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 Peer Review Board to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and that the AICPA Peer Review Board members execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

### **CalCPA**

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

### **NASBA Compliance Assurance Committee**

Through review of reports published by the AICPA National Peer Review Committee, NASBA Compliance Assurance Committee, external and internal administrative oversight reports, and participation in the NASBA Compliance Assurance Committee meetings, the PROC found that NASBA has promoted transparency in the operation of the AICPA National Peer Review Committee to promote oversight of compliance with professional standards by CPAs and their firms.

## **XI. CONCLUSION**

Based on its oversight activities, the PROC concluded that NASBA, the AICPA Peer Review Program, and its administering entity, CalCPA, functioned effectively in accordance with the peer review program standards adopted by the CBA.

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**CALIFORNIA BOARD OF ACCOUNTANCY  
PEER REVIEW OVERSIGHT COMMITTEE 2018 Annual Report**