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I. Message from the Chair

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2022 Annual Report. I would like to thank the CBA for its continued trust in my leadership of the PROC. I would also like to extend my sincerest appreciation to Laura L. Ross, CPA, who served as Vice Chair of the PROC this last year.

PROC members performed oversight activities by attending California Society of Certified Public Accountants (CalCPA) Report Acceptance Body (RAB) meetings, performing oversight of out-of-state Administering Entities (AE) to ensure that they are held to the same regulatory standards as California, gathering and reviewing peer review and peer reviewer-related statistics from the American Institute of Certified Public Accountants (AICPA), and reviewing the following documents:

- Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2020 Annual Report on Oversight, Issued February 10, 2022.
- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 18, 2022.
- AICPA Peer Review Administering Entity Oversight Visit Results for the Alabama Society of CPAs, Tennessee Society of CPAs, Pennsylvania Institute of CPAs, Peer Review Alliance, Georgia Society of CPAs, Coastal Peer Review, Inc., Massachusetts Society of CPAs, and the Ohio Society of CPAs.

In 2022, PROC members also updated the PROC Procedures Manual and the Administrative Site Visit Checklist. The updated manual and checklist were approved by the CBA in July. Unfortunately, the 2022 Administrative Site Visit Checklist was not used because the Administrative Site Visit was cancelled upon the refusal of AICPA to allow staff to attend. The cancellation of the visit significantly impacted the ability of the PROC to perform its oversight in 2022. The PROC understands that this, and other topics affecting the Peer Review Program are being considered by the CBA. The PROC stands ready to assist the CBA as members deem appropriate.

It has been an honor to serve in this role and I look forward to the continued success of the PROC.

Sincerely,

Jeff De Lyser, CPA

II. The California Peer Review Program

All California-licensed accounting firms, including sole-proprietors, 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:

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

III. Peer Review Oversight Committee 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 the CBA-Recognized peer review program provider (provider) administers peer reviews in accordance with the standards set forth in California Code of Regulations, title 16, 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 purpose 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. Peer review report samples should include, but are not limited to firms with corrective actions, and firms that have been dropped or terminated.
 - Attend, on a regular basis, peer review training courses.

- Conduct sample reviews of documents (e.g., emails and letters) and information (e.g., web pages and flyers) demonstrating that communication to firms is clear.
- 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 the Provider on an annual basis, including but not limited to:
 - California peer reviews accepted
 - California peer reviews performed by type of peer review and rating
 - Follow-up actions required as a condition of acceptance of the firm's peer review
 - California firms terminated from the peer review program
 - California firms that had system peer reviews in a must-select category
 - Total number of peer reviews performed nationally
 - Peer reviewer population data
 - Number and nature of inquiries to the AE
- Prepare an Annual Report to the CBA regarding the results of its oversight.
- Evaluate the peer reviewer population.

2022 Peer Review Oversight Committee 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 2022:

- February 18, 2022
- May 13, 2022
- August 12, 2022
- December 9, 2022

The February PROC meeting was held virtually via WebEx. The May, August, and December PROC meetings were held in-person at the CBA headquarters.

