



California Board of Accountancy

Peer Review Oversight Committee 2024 Annual Report



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Message from the Chair

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2024 Annual Report. I would like to thank the CBA for its trust in my leadership of the PROC. I would also like to extend my sincerest appreciation to Fausto Hinojosa, 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 and the American Institute of Certified Public Accountants (AICPA) Peer Review Board meetings, gathering and reviewing peer review and peer reviewer-related statistics from the AICPA, performing the Administrative Site Visit of CalCPA, and reviewing the following documents:

- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 22, 2024.
- Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2023 Annual Report on Oversight, Issued May 9, 2024.

Additionally, PROC members reviewed eight out-of-state oversight reports of administering entities as a means of ensuring they were held to the same regulatory standards as California.

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

Sincerely,

Laura L. Ross, CPA

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 provide. 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 failed peer review ratings to notify the CBA. The CBA reviews the information to assess whether to pursue enforcement actions against accounting firms receiving failed ratings. This consumer protection mechanism provides an assurance that only qualified licensees are practicing public accounting and providing services to consumers in California.

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:

- Hold meetings as necessary 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 by:
 - Conducting an annual administrative site visit.
 - Attending peer review board meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Attending peer review committee meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Attending meetings conducted for the purpose of accepting peer review reports, as necessary but sufficient to evaluate and assess the effectiveness of the program.
 - Conducting 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.

- Attending, on a regular basis, peer review training courses.
 - Conducting sample reviews of documents (e.g., emails and letters) and information (e.g., web pages) 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 accepted in a must-select category.
 - Total number of peer reviews performed nationally.
 - Peer reviewer population data.
 - Number and nature of inquiries to the administering entity.
- Prepare an Annual Report to the CBA regarding the results of its oversight.
- Evaluate the size and experience of the peer reviewer population.

2024 Peer Review Oversight Committee Meeting Dates

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

The PROC met in-person and virtually four times in 2024:

- February 16, 2024
- May 10, 2024
- August 9, 2024
- December 13, 2024

Peer Review Oversight Committee Members

The PROC currently has two vacancies. Members may serve up to four two-year terms.

Name	PROC Appointment	Current Term Expiration
Jeffrey De Lyser, CPA	August 17, 2021	September 30, 2025
Sharon Selleck, CPA	March 23, 2017	March 31, 2025
Laura L. Ross, CPA	July 23, 2021	July 31, 2025
Fausto Hinojosa, CPA	September 23, 2021	September 30, 2025
Nick Petersen, CPA	September 23, 2021	September 30, 2025

Laura L. Ross, CPA, served as the PROC Chair and Fausto Hinojosa, CPA, served as the Vice Chair.

American Institute of Certified Public Accountants

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 administering 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 California Code of Regulations section 48. Further, the CBA accepts all AICPA-approved administering entities authorized to conduct 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 Peer Review Integrated Management Application.

California Society of Certified Public Accountants

CalCPA is one of 24 administering entities approved in 2024 by the 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 Peer Review Integrated Management Application system, complying with AICPA standards, reviewing and ensuring qualifications of peer reviewers, conducting AICPA peer reviewer training, maintaining on-staff CPAs and technical reviewers, and facilitating several Report Acceptance Body meetings each

year. The CalCPA Peer Review Committee addresses various administrative issues at its biannual meetings.

CalCPA technical reviewers review the technical quality of the peer review reports and findings on reviewed accounting 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.

Peer Review Oversight Committee Oversight of the California Peer Review Program

The PROC provides oversight of all CBA-recognized peer review program providers and peer review-related activities.

The PROC performs various oversight activities of the California Peer Review Program. The PROC observes a sample of peer-review related meetings throughout the year and engages in an annual site visit. Oversight activities may also include reviewing relevant peer review-related publications, highlighting and inquiring about findings that may have potential impacts to the California Peer Review Program, and performing continual internal updates and reviews of oversight procedures to address the evolving peer review program.

Peer Review Oversight Committee Oversight Activities

The PROC actively oversees and evaluates the administration of the California Peer Review Program via observations of peer review-related meetings and activities. In 2024, the PROC engaged in the following peer review-related oversight activities:

- Observing CalCPA Report Acceptance Body Meetings.
- Observing AICPA Peer Review Board Meetings.
- Conducting the CalCPA Administrative Site Visit.

CalCPA Report Acceptance Body Meetings

PROC members (virtually) observed 27 Report Acceptance Body meetings. The observations assist the PROC in determining whether the Report Acceptance Body meeting met expectations as to its effectiveness for its role in the peer review process. The participating PROC members reported that all the observed Report Acceptance Body meetings met effectiveness expectations.

PROC members also stated that the technical aspects of the meeting content and discussion were relevant and appropriate. Report Acceptance Body members were reminded of the conflict-of-interest policy during meetings, and as a result, PROC members observed technical reviewers or Report Acceptance Body members recusing themselves. Report Acceptance Body members appeared knowledgeable and transparent in their conversations, including acknowledging areas outside of their

expertise. PROC members observed matters being deferred for lack of expertise and peer review rating revisions after thorough discussion.

AICPA Peer Review Board Meetings

PROC members observed one AICPA Peer Review Board meeting. The objective of the PROC oversight is to observe how the Peer Review Board executes its duties in the meeting and determine whether this aspect of the peer review process is operating effectively for California. The participating PROC member concluded that the Peer Review Board meeting met expectations as to its effectiveness for its role in the peer review process.

CalCPA Administrative Site Visit

The Administrative Site Visit of CalCPA is a comprehensive oversight activity performed by the PROC. The Administrative Site Visit allows the PROC to perform oversight of the California Peer Review Program. On August 14, 2024, PROC members Laura L. Ross, CPA, and Nick Petersen, CPA, met virtually with CalCPA to perform the Administrative Site Visit. Michelle Center, CBA Licensing Chief, and Laura Gron, CPA, AICPA Associate Director, observed the Administrative Site Visit.

CalCPA presented information and answered questions related to:

- Peer review types.
- Peer reviewers.
- Planning and performing peer reviews.
- Administration and accepting peer reviews.
- Reporting responsibilities.

As part of the review, a sample of peer reviews consisting of both system and engagement reviews selected from Report Acceptance Body meetings held in 2024 were used to document certain aspects of the mandatory peer review program. Overall, the PROC members determined that CalCPA administered peer reviews in 2024 in accordance with the standards adopted by the CBA.

During the Administrative Site Visit, the PROC members highlighted the following:

- CalCPA is currently engaged in ongoing recruitment efforts designed to increase the peer review population.
- The AICPA will be issuing instructions to notify state boards of accountancy when a firm fails a peer review.
- Most firms are opting in to allow the CBA expanded access to peer review-related documentation and information; however, reporting solutions are still being sought for out-of-state firms that fail.¹

¹ Business and Professions Code section 5076 has been amended to require all California-licensed firms to opt in to sharing peer review-related information through the AICPA's Facilitated State Board Access web application. The amended law is effective January 1, 2025.

After the Administrative Site Visit, staff submitted a follow-up question to CalCPA at the request of the PROC members regarding the high-volume of system reviews that were completed by a single reviewer (Table 15). In response, CalCPA addressed both engagement reviews and system reviews.

Of the 37 peer reviews performed, 11 of those reviews were engagement reviews. Engagement reviews are less complicated than system reviews and, therefore, require less time.

System reviews involve audit engagements and have a higher level of complexity. System reviewers have “must select” requirements if the firm participates in audits that require specialized skills (e.g., pension plans, Government audit standards). The peer review of these types of firms with specialized practices will require additional engagements to be selected for review and therefore expand the scope of the work being done. Another factor that impacts the number of hours needed to complete the reviews is the size of the practice (number of signing partners). Most of the system reviews were single-partner firms.

To conclude, CalCPA indicated that the large concentration of reviews performed by its high-volume reviewers are consistent with the hours required to complete a peer review. The hours incurred by the referenced peer reviewer is consistent with CalCPA's expectations based on the size of the firms being reviewed and the nature of the attest work of the reviewed firms. Further, peer reviewers that perform multiple peer reviews tend to be more familiar with the professional standards and have fewer quality issues.

Peer Review-Related Reports and Publications Reviewed by the Peer Review Oversight Committee

The PROC annually reviews peer review-related reports and publications by the AICPA, CalCPA, and National Association of State Boards of Accountancy 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 2024:

- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 22, 2024.
- Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2023 Annual Report on Oversight, Issued May 9, 2024.
- AICPA Peer Review administering entity Oversight Visit Results for the Texas Society of CPAs, Puerto Rico Society of CPAs, Pennsylvania Institute of CPAs, Minnesota Society of CPAs, Nevada Society of CPAs, New Jersey Society of CPAs, Partners in Peer Review, and the Oklahoma Society of CPAs.

Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 22, 2024.

At its August 2024 meeting, the PROC was presented with the Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 22, 2024. The statistical information presented in the report pertains to peer reviews that commenced and were accepted during the calendar years 2021-2023, which covers a full three-year peer review cycle.

The report provided an overview of oversight procedures performed by AICPA focus groups in 2021-2023 in accordance with the AICPA Peer Review Oversight Handbook (AICPA Oversight Handbook), which includes:

- **Oversight of Administering Entities** – The AICPA Oversight Task Force (OTF) visited 14 administering entities in 2022 and 10 administering entities in 2023.
- **Report Acceptance Body Observations** – The Report Acceptance Body observation focus group reviewed 56 Report Acceptance Body meetings and 198 peer reviews in 2023.
- **Enhanced Oversight** – Subject matter experts performed oversight on must-select engagements that included the reviews of financial statements and working papers.
- **Evolution Focus Group** – The focus group reviewed the results of the benchmark summary forms submitted by the administering entities and evaluated administering entities performance and whether modifications to the benchmarks were needed.
- **Plan of Administration Focus Group** – The focus group reviewed and approved the plans submitted annually by the administering entities agreeing to administer the Program in compliance with standards and guidance.
- **Reviewer Performance Focus Group** – The focus group reviewed the reviewer performance monitoring report prepared by AICPA staff.

In 2018, an increased focus was placed on evaluating noncompliance with the risk assessment standards with the Peer Review Board (PRB) issuing guidance effective for peer reviews commencing on or after October 1, 2018. This increased focus impacted the peer review program, as neither peer reviewers nor subject matter experts were raising risk assessment issues to the level of nonconforming, whereas these engagements are now being deemed nonconforming.

Table 1: Annual Results of Nonconforming Rates (Risk-Based Sample)

Year	Sample Size	Total nonconforming engagements identified	%	Nonconforming engagements with only risk assessment issues	Adj %	Number of nonconforming engagements identified by peer reviewer	Percent of nonconforming engagements identified by peer reviewer
2014	90	40	44%	N/A	44%	7	18%
2015	190	104	55%	N/A	55%	42	40%
2016	108	38	35%	N/A	35%	18	47%
2017	87	43	49%	N/A	49%	27	63%
2018	185	108	58%	11	52%	68	63%
2019	79	46	58%	17	37%	37	80%
2020 ²	*	*	*	*	*	*	*
2021	34	14	41%	0	41%	7	50%
2022	105	45	43%	0	43%	28	62%
2023 ³	56	17	30%	0	30%	10	59%

Table 2: Annual Results of Nonconforming Rates (Random Sample)

Year	Sample Size	Total nonconforming engagements identified	%	Nonconforming engagements with only risk assessment issues	Adj %	Number of nonconforming engagements identified by peer reviewer	Percent of nonconforming engagements identified by peer reviewer
2014	74	32	43%	N/A	43%	7	22%
2015	85	47	55%	N/A	55%	26	55%
2016	41	18	44%	N/A	44%	9	50%
2017	54	21	39%	N/A	39%	13	62%
2018	95	47	49%	3	46%	33	70%
2019	77	44	57%	15	38%	35	80%
2020 ⁴	*	*	*	*	*	*	*
2021	*	*	*	*	*	*	*
2022	81	36	44%	0	44%	26	72%
2023 ⁵	53	17	32%	0	32%	10	59%

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

² The OTF suspended the enhanced oversight process due to the COVID-19 pandemic; therefore, no oversights were performed for 2020 and resumed in September 2021.

³ As of the date of this report, the 2023 enhanced oversight sample is 80% complete.

⁴ The OTF suspended the enhanced oversight process due to the COVID-19 pandemic; therefore, no oversights were performed for 2020 and resumed in September 2021.

⁵ As of the date of this report, the 2023 enhanced oversight sample is 80% complete.

- **Oversight of Peer Reviews and Reviewers** – For 2023, 200 reviews were conducted at the Administering Entity (AE) level. There were 106 system and 94 engagement reviews oversighted.
- **Benchmarks.** The PRB approved AE benchmarks to enhance overall quality and effectiveness of program administration. The benchmarks include qualitative, objective, measurable criteria which may be modified over time due to advances in technology and other factors. AEs report their compliance with the benchmarks three times per year.

Based on the results of the oversight procedures, the AICPA OTF concluded, for the oversight initiatives performed during 2023, that the objectives of the PRB oversight program were met.

Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2023 Annual Report on Oversight, Issued May 9, 2024.

At its December 2024 meeting, the PROC was presented with the Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee (NPRC), 2023 Annual Report on Oversight, Issued May 9, 2024.

The AICPA OTF conducted an external review of the NPRC administrative functions in Fall 2022 and an internal review was conducted by a member of the PRB in Fall 2023, which covers the overall NPRC peer review process, including:

- Scheduling.
- Technical Review.
- Report Acceptance.
- Firm Peer Review Oversight Process and Procedures including:
 - Limited oversight
 - Full oversight
 - Engagement oversight
 - Oversight of the peer reviews and reviewers
 - Enhanced oversight
 - Use of panels
- Administrative oversight.
- Annual verification of reviewers' resumes.
- Peer reviewer performance.
- Results of the National Peer Review Program.
- Peer reviews of quality control materials.
- Oversight of acceptance process.

Both the external and internal reviews of the NPRC administrative functions conducted by the members of the OTF concluded that the NPRC complied with the administrative procedures and standards in all material respects as established by the PRB.

AICPA Peer Review Administering Entity Oversight Visit Results

The PROC monitors out-of-state Administering Entities that operate under the CBA-Recognized Peer Review Program Provider, the AICPA, to ensure that they are held to the same regulatory standards as in California.

Out-of-state oversight procedures include a review of the current list of AICPA-approved administering entities, with a focus on the top 20 jurisdictions (states) with a high-volume of Out-of-State Firm Registrants under the current California mobility program and require the following:

- At each PROC meeting, select two out-of-state administering entities from the list of administering entities.
- Review available prior AICPA administering entity oversight reports.
- Complete the PROC Out-of-State Administering Entities Checklist.
- Present and discuss as necessary 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, if applicable.
- Follow-up and review future published AICPA Administering Entity oversight report(s) to ensure all findings have been addressed and corrected.

In 2024, the PROC reviewed the AICPA oversight reports for the following administering entities:

Administering Entity	Licensing Jurisdiction
The Texas Society of CPAs	Texas
The Puerto Rico Society of CPAs	Puerto Rico
Pennsylvania Institute of CPAs	Pennsylvania, New York, Delaware, Virgin Islands
The Minnesota Society of CPAs	Minnesota, North Dakota
The Nevada Society of CPAs	Nevada, Idaho, Montana, Nebraska, Utah, Wyoming
The New Jersey Society of CPAs	New Jersey
Partners in Peer Review	Alabama, Arkansas, Mississippi
The Oklahoma Society of CPAs	Oklahoma, Kansas, South Dakota

Each administering entity reviewed by the PROC received an AICPA oversight report noting that they had complied with the administrative procedures and standards in all material respects as established by the AICPA Peer Review Board; however, some administering entities received recommendations for improvement.

The AICPA Oversight Report for the Texas Society of CPAs recommended:

- Actively monitor all open reviews to ensure timely completion.

The AICPA Oversight Report for the Puerto Rico Society of CPAs recommended:

- Take greater care with technical reviews. Ensure performance feedback is given to technical reviewers.

The AICPA Oversight Reports for the Minnesota Society of CPAs recommended:

- Process decision letters at the appropriate time in accordance with guidance.

The AICPA Oversight Reports for the Nevada Society of CPAs recommended:

- Report the status of monitoring and completing open reviews to the Oversight Task Force.

The AICPA Oversight Reports for the Pennsylvania Institute of CPAs, Partners in Peer Review, Oklahoma Society of CPAs, and the New Jersey Society of CPAs had no recommendations.

Statistical Monitoring and Reporting on California Peer Review Statistics

The PROC annually provides and reports on peer review-related statistics specific to the state of California. The source of the data is the AICPA, and it includes firms that chose to opt out of the Facilitated State Board Access. The data is provided to the PROC by CalCPA. The PROC collects the following data points:

- Number of reviews completed by month, and types (system vs engagement) cumulatively for the annual reporting period.
- Types (system vs. engagement) and number of reviews receiving a pass, pass with deficiencies, or fail rating.
- Corrective action matters.
- Firms expelled from the program.

The following statistical information is not currently available:

- Types and number of reviews in progress.
- Extensions requested and status.
- Delinquent reviews.
- Must-select engagements.

The PROC asked that CBA staff provide statistical updates biannually, once prior to the PROC Administrative Site Visit to CalCPA, and a second time to consider for inclusion in the PROC Annual Report.

The following 2023 peer review-related statistical information was provided directly from CalCPA on August 14, 2024.

Number of Reviews Completed by Month, and Types (System vs Engagement)
Cumulatively for the Annual Reporting Period

Table 3: California Peer Reviews Accepted

The data in Table 3 provides the number of both system and engagement reviews accepted on a monthly basis starting from January 1, 2020 to December 31, 2023. It should be noted that the reduced number of accepted reviews in 2020 is most likely attributed to the automatic six-month extension for all firms with due dates ranging from January 1, 2020 to September 30, 2020 granted by the AICPA in response to the COVID-19 pandemic.

Month	2020	2021	2022	2023
January	114	121	98	87
February	99	86	114	75
March	100	96	100	68
April	83	109	79	72
May	62	84	76	47
June	67	53	58	68
July	43	55	67	70
August	37	60	84	102
September	63	94	69	71
October	31	84	71	60
November	71	58	53	48
December	90	111	51	58
Total	860	1,011	920	826

The average number of reviews completed in California during 2020-2023 was 904.

Types (System vs. Engagement) and Number of Reviews Completed Cumulatively for the Annual Reporting Period

Table 4: California Peer Reviews Performed During the Calendar Years 2020-2023 by Type Cumulatively for the Annual Reporting Period

Type of Review	2020	2021	2022	2023
System	316	356	346	299
Engagement	544	655	574	527
Total	860	1,011	920	826

Types (System vs. Engagement) and Number of Reviews Receiving Pass, Pass with Deficiencies, or Fail Rating

Table 5: California Peer Reviews Performed by Type of Peer Review and Rating

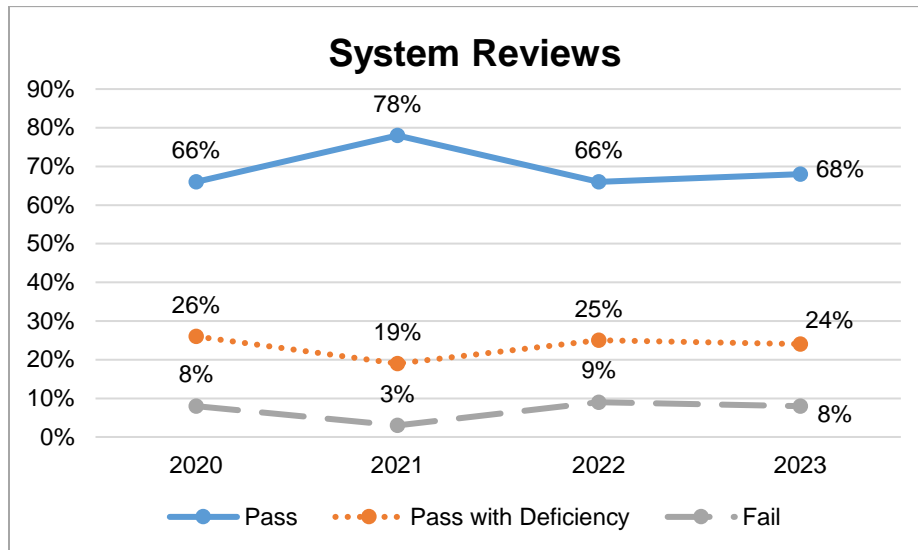
System Reviews

Rating	2020 QTY	2020 %	2021 QTY	2021 %	2022 QTY	2022 %	2023 QTY	2023 %
Pass	208	66%	278	78%	229	66%	204	68%
Pass with Deficiencies	83	26%	67	19%	87	25%	72	24%
Fail	25	8%	11	3%	30	9%	23	8%
Total System	316	100%	356	100%	346	100%	299	100%

Engagement Reviews

Rating	2020 QTY	2020 %	2021 QTY	2021 %	2022 QTY	2022 %	2023 QTY	2023 %
Pass	452	83%	550	84%	486	85%	436	83%
Pass with Deficiencies	60	11%	66	10%	54	9%	56	11%
Fail	32	6%	39	6%	34	6%	35	6%
Total Engagement	544	100%	655	100%	574	100%	527	100%

Graph 1 – System Reviews



Graph 2 – Engagement Reviews

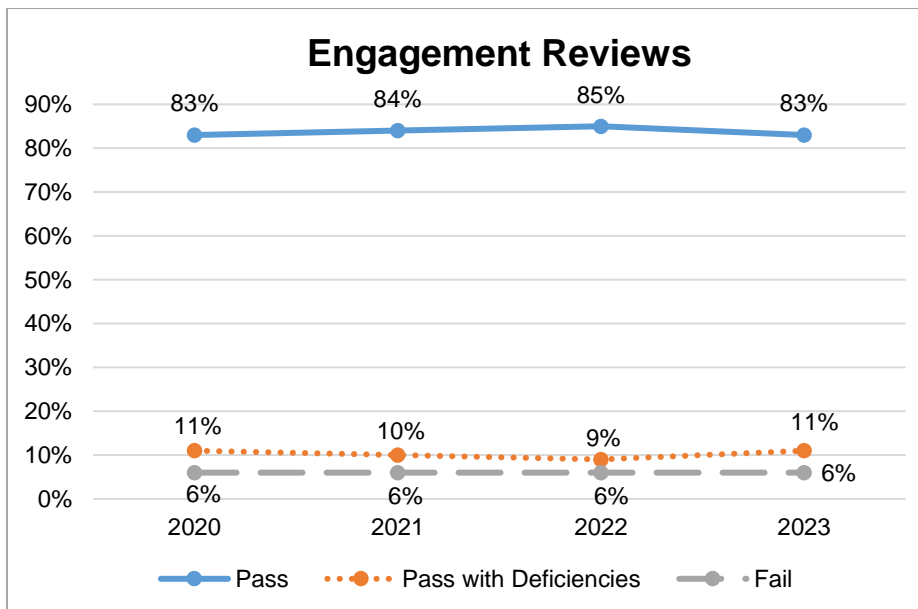


Table 6: California Peer Reviews Performed by Types of Peer Review and Rating

The data in Table 6 is a combination of both system and engagement reviews and indicates relative changes in percentages for the total number of California reviews performed.

System and Engagement	2020 QTY	2020 %	2021 QTY	2021 %	2022 QTY	2022 %	2023 QTY	2023 %
Pass	660	77%	828	82%	715	78%	640	77%
Pass with Deficiencies	143	17%	133	13%	141	15%	128	16%
Fail	57	6%	50	5%	64	7%	58	7%
Summary Total	860	100%	1,011	100%	920	100%	826	100%

[Corrective Action Matters \(Various Types: Overdue Peer Review Reports, Disagreements Pending Resolution, etc.\)](#)

Table 7: Summary of Required Follow-up Actions Under AICPA and CalCPA Peer Review Program

The CalCPA 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 CalCPA Peer Review Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies.

The CalCPA 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 that 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 to strengthen the performance of the firm. A review can have multiple follow-up actions.

Type of Follow-up Action	2020	2021	2022	2023
Submit proof of continuing professional education taken	283	317	271	245
Submit copy of monitoring report	11	9	9	13
Submit copy of inspection report to committee	2	1	1	2
Submit evidence of proper firm licensure	3	2	1	3
Submit to Team Captain revisit – General	2	3	4	1
Submit to Team Captain review of subsequent engagements with work papers	90	100	149	139
No longer perform any audit engagements	0	2	8	0
Agree to pre-issuance review by Team Captain or outside party	5	1	1	4
Team Captain or outside party review correction of non-conforming engagements	0	2	2	9
Team Captain or outside party to review firms' remedial actions in the letter of response	2	4	7	2
Submit inspection report to Team Captain or outside party for review	3	2	3	3
Agree to remediate deficiencies noted in firm's peer review	N/A	2	1	4
Join Government Audit Quality Center	N/A	1	0	0
Join Employee Benefit Plan Audit Quality Center	N/A	N/A	2	0
Submit Proof of Purchase of Manuals	N/A	N/A	1	0
Submit to Committee Member Visits	N/A	N/A	1	0
Team Captain/Outside Party to review firm's remedial actions in its response to the findings and further consideration	N/A	N/A	2	1
Oversight of monitoring by Team Captain/outside party	N/A	N/A	N/A	2
Submit evidence of proper individual licenses	N/A	N/A	N/A	1
Does not perform any [insert type ⁶] engagements	N/A	N/A	N/A	1
Other	7	11	4	3
Total	410	458	467	433

⁶ Engagement types may include audits, reviews, compilations, Employee Retirement Income Security Act engagements, etc.

Firms Expelled (Terminated) from the AICPA Peer Review Program

Table 8: California Terminated Firms

Accounting firms that have commenced their peer review process may be terminated by the AICPA for 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 complete its peer review after it has commenced.
- Failure to complete an implementation plan.
- Failure to correct deficiencies or significant deficiencies after consecutive correction actions.

Action	2020	2021	2022	2023
Terminated	0	2	4	3

Firms terminated for specific reasons can appeal for reenrollment in the California Peer Review Program and be evaluated by the administering entity or a hearing panel of the AICPA Peer Review Board. In response to the pandemic, the AICPA initiated a moratorium on terminating firms in 2020.

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

Statistical Monitoring and Reporting on California Peer Reviewer Statistics

The AICPA provides peer review-related statistics twice annually. There are approximately 18,800 firms currently enrolled in the AICPA Peer Review Program within the United States and its territories that have a peer review performed once every three years. In recent years, the AICPA has noted a decrease in the number of firms enrolled in the Program. This is attributed to firm mergers and firms no longer performing the accounting and auditing engagements that would subject them to a peer review.

There are also approximately 1,500 firms enrolled in the AICPA Peer Review Program that indicated they do not currently perform any engagements subject to peer review. Between 2021-2023, approximately 7,100 peer reviews were performed by a pool of approximately 821 qualified peer reviewers.

The data provided in Tables 9-12, 14, and 15 was provided by the AICPA and is California-specific. Table 13 represents national data.

On October 10, 2023, there were 2,677 California firms enrolled in the AICPA Peer Review Program and on March 3, 2024, there were 2,567 California firms enrolled, reflecting a decrease of approximately 4%.

A California firm may have its peer review administered by an out-of-state administering entity if its principal office is located outside of California. A firm may hold licenses in multiple states. A firm is considered a California firm if it holds a license in the state of California or they are registered with the CBA as an Out-of-State Firm.

A peer review with a pass is accepted when the CalCPA Peer Review Committee or the CalCPA Report Acceptance Body concludes a peer review was performed and reported on in accordance with the AICPA peer review standards. If corrective action is ordered for a peer review receiving a rating of pass or pass with deficiencies, the report is accepted when the reviewed firm has agreed to perform the prescribed corrective actions.

Table 9: Number of California Firm Peer Reviews Accepted

Administering Entity	1/1/2021-6/30/2021	7/1/2021-12/31/2021	1/1/2022-6/30/2022	7/1/2022-12/31/2022	1/1/2023-6/30/2023	7/1/2023-12/31/2023
California Society of CPAs	553	459	525	395	414	407
Colorado Society of CPAs	0	0	0	1	0	0
Georgia Society of CPAs	1	0	0	0	0	0
Peer Review Alliance	0	1	0	0	0	0
National Peer Review Committee	7	8	13	2	16	2
Oregon Society of CPAs	1	0	1	1	1	0
Pennsylvania Institute of CPAs	0	0	0	0	0	1
Tennessee Society of CPAs	0	0	0	0	0	1
Texas Society of CPAs	0	1	0	0	0	0
Total⁷	562	469	539	399	431	411

⁷ Data in Tables 3-8 and Tables 9-12 differ due to being generated on different dates. The AICPA provided data was generated after the CalCPA provided data. Given the tables only include active firms, the decline in firms is most likely attributed to firms becoming inactive during that time period.

Table 10: Number of California Firms that Had System Peer Reviews Accepted

Administering Entity	1/1/2021 - 6/30/2021	7/1/2021 - 12/31/2021	1/1/2022 - 6/30/2022	7/1/2022 - 12/31/2022	1/1/2023 - 6/30/2023	7/1/2023 - 12/31/2023
California Society of CPAs	195	164	223	127	159	139
Colorado Society of CPAs	0	0	0	1	0	0
Peer Review Alliance	0	1	0	0	0	0
National Peer Review Committee	7	8	12	2	16	2
Oregon Society of CPAs	1	0	0	0	0	0
Tennessee Society of CPAs	0	0	0	0	0	1
Total	203	173	235	130	175	142

Table 11: Number of California Firms that Had System Peer Reviews Accepted in a Must-Select Category

Must-Select Category	1/1/2021-6/30/2021	7/1/2021-12/31/2021	1/1/2022-6/30/2022	7/1/2022-12/31/2022	1/1/2023-6/30/2023	7/1/2023-12/31/2023
Employee Retirement Income Security Act (380, 383, 390, 400, 403)	79	77	138	67	143	72
Federal Deposit Insurance Corporation Improvement Act (7, 8)	0	0	0	0	2	0
Government Auditing Standards (5,13, 325)	69	71	122	80	140	101
Broker Dealers (440, 450)	4	3	2	N/A ⁸	N/A	N/A
Service Organization Controls 1 and 2 (312, 313)	5	1	7	10	10	3
Total	157	152	269	157	295	176

⁸ Broker Dealers are no longer must-select engagements.

Table 12: Number of California Firms That Had Engagement Peer Reviews Accepted

Administering Entity	1/1/2021-6/30/2021	7/1/2021-12/31/2021	1/1/2022-6/30/2022	7/1/2022-12/31/2022	1/1/2023-6/30/2023	7/1/2023-12/31/2023
California Society of CPAs	358	295	302	268	255	268
National Peer Review Committee	0	0	1	0	0	0
Georgia Society of CPAs	1	0	0	0	0	0
Oregon Society of CPAs	0	0	1	1	1	0
Pennsylvania Society of CPAs	0	0	0	0	0	1
Texas Society of CPAs	0	1	0	0	0	0
Total	359	296	304	269	256	269

Table 13: Total Peer Reviews Performed Nationally

	2017-2019	2020-2022	2023
Reviews Performed	24,337	21,724	6,133

Table 14: Total Number of Reviewers Who Created a New Resume

Administering Entity	1/1/2021-6/30/2021	7/1/2021-12/31/2021	1/1/2022-6/30/2022	7/1/2022-12/31/2022	1/1/2023-6/30/2023	7/1/2023-12/31/2023
California Address	6	1	0	0	0	0
Non-California Address	35	41	25	36	11	27
Total	41	42	25	36	11	27

Between January 1, 2023 and December 31, 2023, there were 101 peer reviewers performing peer reviews of accepted California firms. Of the 101, 46 had their main office headquartered in California.

CalCPA reported to have begun a peer reviewer recruitment effort targeted at a few select firms with exemplary peer reviews. Additionally, CalCPA reported they plan to investigate options to assist with costs associated with peer reviewer training. While the population of firms to undergo peer review decreased by approximately 4% from the

prior year, the PROC still encourages the CalCPA to continue to provide data regarding the peer reviewer population that would assist the PROC in monitoring the sufficiency of the peer reviewer population.

Table 15: Top California Reviewers by Volume, Including the Percentage of Reviews Performed⁹

1/1/2023-6/30/2023				7/1/2023-12/31/2023			
Engagement Review	System Review	Grand Total	% of CA Reviews	Engagement Review	System Review	Grand Total	% of CA Reviews
8	22	30	6.96%	11	26	37	9.00%
17	10	27	6.26%	15	5	20	4.87%
19	0	19	4.41%	15	1	16	3.89%
17	2	19	4.41%	9	6	15	3.65%
4	15	19	4.41%	14	0	14	3.41%
15	3	18	4.18%	9	4	13	3.16%
8	6	14	3.25%	9	4	13	3.16%
7	3	10	2.32%	2	9	11	2.68%
1	9	10	2.32%	2	6	8	1.95%
3	6	9	2.09%	4	3	7	1.70%
9	0	9	2.09%	1	6	7	1.70%

Conclusion

Overall, the PROC found that the California peer review program met the requirements set forth by the CBA in 2024.

Recommendations

The PROC recommends:

- AICPA continue to monitor the California peer reviewer population to ensure that California firms have access to knowledgeable peer reviewers who have the capacity to perform a peer review in a timely manner.
- AICPA complete the update on their Facilitated State Board Access web application to require California-licensed firms, including sole proprietors, to allow the CBA access to all available peer review-related documentation and information consistent with the amendments to Business and Professions Code section 5076 that became effective January 1, 2025.
- Continue to monitor the Pennsylvania Institute of CPAs as they assist CalCPA with open peer reviews by reviewing the AICPA oversight reports and ensuring that the Pennsylvania Institute of CPAs is meeting the CBA's peer review requirements.

⁹ In Table 15, each row represents a California reviewer and is ranked by the total number of reviews performed in the applicable timeframe.