

**DEPARTMENT OF CONSUMER AFFAIRS
TITLE 16. PROFESSIONAL AND VOCATIONAL REGULATIONS
DIVISION 1. CALIFORNIA BOARD OF ACCOUNTANCY**

**NOTICE OF PROPOSED REGULATORY ACTION CONCERNING:
FIRM RESPONSIBILITIES FOR PEER REVIEW; ATTEST ENGAGEMENT
NOTIFICATION**

NOTICE IS HEREBY GIVEN that the California Board of Accountancy (CBA or Board) is proposing to take the action described in the Informative Digest below, after considering all comments, objections, and recommendations regarding the proposed action.

PUBLIC HEARING

The Board has scheduled a public hearing on this proposed action. Any person interested may present statements or arguments orally or in writing relevant to the action proposed at a hearing to be held at:

**California Board of Accountancy
2450 Venture Oaks Way, Suite 420
Sacramento, CA 95833**

Wednesday, February 26, 2025, at 10:00 a.m.

WRITTEN COMMENT PERIOD

Written comments relevant to the action proposed, including those sent by mail, facsimile, or e-mail to the addresses listed under “Contact Person” in this Notice, must be **received by the CBA at its office no later than by Monday, February 24, 2025**, or must be received by the CBA at the hearing.

AUTHORITY AND REFERENCE

Pursuant to the authority vested by sections 5010 and 5076 of the Business and Professions Code (BPC), and to implement, interpret, or make specific BPC sections 5076 and 5095, the CBA is considering amending section 41 of title 16 of the California Code of Regulations (CCR). Pursuant to the authority vested by BPC sections 5010, 5018, and 5095, and to implement, interpret, or make specific BPC sections 138, 5018, and 5095, the CBA is considering amending section 50.1 of title 16 of the CCR.

INFORMATIVE DIGEST / POLICY STATEMENT OVERVIEW

The CBA is a board within the Department of Consumer Affairs (DCA) responsible for regulating the practice of public accounting in California. Pursuant to BPC section 5000.1, the protection of the public is the CBA’s highest priority in exercising its licensing, regulatory, and disciplinary authority. BPC section 5010 authorizes the CBA

to adopt, repeal, or amend regulations as may be reasonably necessary and expedient for the orderly conduct of the CBA's affairs and for the administration of the Accountancy Act. Additionally, BPC section 5018 authorizes the CBA to prescribe, amend, or repeal rules of professional conduct appropriate to the establishment and maintenance of a high standard of integrity and dignity in the profession.

Existing law, BPC section 5076, governs a firm's requirements regarding peer review, and authorizes the CBA to adopt regulations as necessary to implement, interpret, and make specific the peer review requirements in this section.

Existing law, BPC section 5095, governs the requirements for authorization to sign reports on attest engagements, and authorizes the CBA to adopt regulations to implement this section, including, but not limited to, a procedure for applicants under sections 5092 or 5093 to qualify under this section.

Since 2019, the CBA has been discussing the topic of accounting firms providing attest services when the firm's ownership is comprised solely of Certified Public Accountants (CPAs) who have not completed the attest experience requirement and are therefore not authorized to sign reports on attest engagements. The CBA has identified the need to address various policy concerns through regulatory changes, to ensure enhanced consumer protection.

This regulatory proposal seeks to amend CCR, title 16, Division 1, sections 41 and 50.1, to add additional and enhanced requirements for licensees to follow in circumstances where a firm is providing attest services when the ownership of that firm is comprised solely of licensees who have not completed the attest experience requirement, and therefore, none of the owners are authorized to sign reports on attest engagements.

Specifically, this proposal would do the following:

Section 41

The proposed amendments would establish the requirement for firms providing attest services, where the ownership of the firm is comprised solely of licensees who are not authorized to sign reports on attest engagements, to provide written notice to the Peer Reviewer or Peer Review Team that the firm has no owner authorized to sign reports on attest engagements. The notification would be required to occur prior to the commencement of the peer review.

Section 50.1

The proposed amendments would require that firms providing attest services where the ownership of the firm is comprised solely of CPAs who are not authorized to sign reports on attest engagements, include in the engagement letter for their attest services, a notification to the client of the name and license number of the CPA that the firm has authorized to sign the attest report on behalf of the accounting firm. The proposed

amendments would also amend this section to remove the website posting notification method.

Anticipated Benefits of Proposal

The California Legislature established the CBA with the regulation of the accounting profession, with an express purpose to protect consumers. This is reflected in the CBA's mission statement: "To protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards."

This regulatory proposal would establish requirements for licensees to follow in circumstances where a firm is providing attest services when the ownership of that firm is comprised solely of licensees who have not completed the attest experience requirement, and are therefore not authorized to sign reports on attest engagements.

This regulatory proposal is anticipated to increase transparency in regard to the peer review process, by ensuring peer reviewers are aware of the circumstance, prior to commencement of the peer review, that no owner is authorized to sign reports on attest engagements, and that some of the work being reviewed may include reports signed by individuals no longer working for the accounting firm.

Additionally, this regulatory proposal is anticipated to increase consumer protection by providing consumers with valuable information that will allow them to perform a search on the CBA website to ensure licensees performing attest services have completed the necessary attest experience, and to determine whether the CBA has taken any discipline or other enforcement action against the licensee. The proposed amendments will also allow for a more direct notification to clients, further enhancing consumer protection.

Evaluation of Consistency and Compatibility with Existing State Regulations

During the process of developing this regulatory proposal, the CBA has conducted a search of any similar regulations on these topics and has concluded that these regulations are neither inconsistent nor incompatible with existing state regulations.

INCORPORATION BY REFERENCE

There are no documents incorporated by reference.

DISCLOSURES REGARDING THIS PROPOSED ACTION

FISCAL IMPACT ESTIMATES

Fiscal Impact on Public Agencies Including Costs or Savings to State Agencies or Costs/Savings in Federal Funding to the State

The regulations do not result in a fiscal impact to the state.

This proposal would only require an additional statement in a firm’s current written disclosure to peer reviewers and inclusion in a firm’s current engagement letters. The CBA does not anticipate additional workload or costs resulting from the proposed regulations.

The regulations do not result in costs or savings in federal funding to the state.

Nondiscretionary Costs/Savings to Local Agencies

None

Cost to any Local Agency or School District for which Government Code Sections 17500 - 17630 Require Reimbursement

None

Mandate Imposed on Local Agencies or School Districts

None

Significant Effect on Housing Costs (and, if applicable, including any estimated costs of compliance or potential benefits of a building standard)

None

BUSINESS IMPACT ESTIMATES

The CBA has made the initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

This initial determination is based on the following evidence:

- The proposal requires accounting firms, where the ownership of the firm is comprised solely of licensees who are not authorized to sign reports on attest engagements, to include an additional statement in their current written disclosure to peer reviewers. This requirement can be completed with normal business operations and is not anticipated to result in additional costs.
- Presently, the CBA requires licensees employed by firms in which no licensee owners are authorized to sign reports on attest engagements, to provide written notification to attest clients and prospective attest clients of the ownership composition of the firm. This proposal requires those licensees to include in that current notification the name and license number of the licensee the firm has authorized and designated to sign the report on attest engagement on behalf of the firm. This requirement can be completed with normal business operations and is not anticipated to result in additional costs.

Cost Impact on Representative Private Person or Business

The CBA is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

RESULTS OF ECONOMIC IMPACT ASSESSMENT / ANALYSIS

Impact on Jobs / Businesses

The CBA has determined that this regulatory proposal will not have a significant impact on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of businesses in the State of California because the written notifications are currently required.

Benefits of Regulation

The CBA has determined that this regulatory proposal will have the following benefits to the health and welfare of California residents, worker safety, and state's environment:

This regulation will increase consumer safety and public protection, and thereby improve the welfare of California residents, by adding additional requirements for licensees to follow when an accounting firm provides attest services, and the ownership of that firm is comprised solely of licensees who have not completed the attest experience requirement and are not authorized to sign reports on attest engagements. This regulation does not affect the health of California residents.

This regulatory proposal does not affect worker safety because it has nothing to do with worker safety.

This regulatory proposal does not affect the state's environment because it has nothing to do with the environment.

Business Reporting Requirements

This regulatory proposal does not require businesses to file a report with the Board.

Effect on Small Business

The CBA has determined that the proposed regulations would not affect small businesses as it would only require an additional statement in a firm's current written disclosure to peer reviewers and inclusion in a firm's current engagement letters.

CONSIDERATION OF ALTERNATIVES

In accordance with Government Code section 11346.5, subdivision (a)(13), the CBA must determine that no reasonable alternative it considered to the regulation or that has otherwise been identified and brought to its attention would be more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed action, or would be more

cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

Any interested person may submit comments to the CBA in writing relevant to the above determinations during the written comment period at 2450 Venture Oaks Way, Suite 300, Sacramento, California 95833, or present oral statements or arguments at the above-mentioned hearing.

AVAILABILITY OF STATEMENT OF REASONS AND RULEMAKING FILE

The CBA has compiled a record for this regulatory action, which includes the Initial Statement of Reasons (ISOR), proposed regulatory text, and all the information on which this proposal is based. This material is contained in the rulemaking file and is available for public inspection upon request to the contact persons named in this notice.

TEXT OF PROPOSAL

Copies of the exact language of the proposed regulations, the Initial Statement of Reasons, and all of the information upon which the proposal is based, may be obtained at, or prior to, the hearing, or upon request from the CBA at 2450 Venture Oaks Way, Suite 300, Sacramento, California 95833.

AVAILABILITY OF CHANGED OR MODIFIED TEXT

After considering all timely and relevant comments, the CBA, upon its own motion or at the request of any interested party, may thereafter adopt the proposals substantially as described below or may modify such proposals if such modifications are sufficiently related to the original text. With the exception of technical or grammatical changes, the full text of any modified proposal, with the modifications clearly indicated, will be available for review and written comment for 15 days prior to its adoption from the person designated in this Notice as the Contact Person and will be mailed to those persons who submit written comments or oral testimony related to this proposal or who have requested notification of any changes to the proposal.

AVAILABILITY AND LOCATION OF THE FINAL STATEMENT OF REASONS AND RULEMAKING FILE

All the information upon which the proposed regulations are based is contained in the rulemaking file, which is available for public inspection by contacting the persons named below.

You may obtain a copy of the Final Statement of Reasons once it has been prepared, by making a written request to the Contact Person named below, or by accessing the website listed below.

CONTACT PERSONS

Inquiries or comments concerning the proposed rulemaking action may be addressed to:

Name: Diana Godines
Address: 2450 Venture Oaks Way, Suite 300
Sacramento, CA 95833
Telephone No.: (279) 226-4599
Fax No.: (916) 263-3675
E-Mail Address: regulations@cba.ca.gov

The backup contact person is:

Name: Deanne Pearce
Address: 2450 Venture Oaks Way, Suite 300
Sacramento, CA 95833
Telephone No.: (279) 236-3012
Fax No.: (916) 263-3675
E-Mail Address: regulations@cba.ca.gov

AVAILABILITY OF DOCUMENTS ON THE INTERNET

Copies of the Notice of Proposed Action, the Initial Statement of Reasons, and the text of the regulations with modifications noted, as well as the Final Statement of Reasons when completed, and modified text, if any, can be accessed through the CBA's website at <https://www.dca.ca.gov/cba/about/pending-regulations.shtml>