CALIFORNIA BOARD OF ACCOUNTANCY

PEER REVIEW OVERSIGHT COMMITTEE
2020 Annual Report

This page is intentionally left blank for duplication purposes.

Table of Contents

This page is intentionally left blank for duplication purposes.

I. Message from the Committee Chair

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2020 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 Ms. Renee Graves, CPA, who served as Vice-Chair of the PROC this last year.

The COVID-19 pandemic significantly changed how the PROC operates and works to fulfill our mission. Governor Gavin Newsom initiated the stay-at-home order on March 19, 2020 and directed state agencies to meet virtually or cancel non-essential meetings. In response to this order, the May 2020 PROC meeting was cancelled. The PROC worked closely with the CBA and the Department of Consumer Affairs to implement virtual meetings. Additionally, the PROC worked closely with the California Society of Certified Public Accountants (CalCPA) to implement a virtual Administrative Site Visit.

Despite the challenges of the COVID-19 pandemic, PROC members performed oversight activities by attending CalCPA Report Acceptance Body meetings, CalCPA Peer Review Committee meetings, and American Institute of Certified Public Accountants (AICPA) Peer Review Board meetings. PROC members also performed oversight of five out-of-state administering entities to ensure that they are held to the same regulatory standards as California. Additionally, the PROC reviewed the following documents:

- Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated September 26, 2019 and October 16, 2019.
- AICPA Peer Review Program, National Peer Review Committee 2018 Annual Report on Oversight, Issued October 17, 2019.
- AICPA Peer Review Program Annual Report on Oversight, Issued May 8, 2020.

I would like to thank the CBA and the PROC members for their flexibility and adaptability while navigating an unprecedented year. It has been an honor to serve in this role and I look forward to the continued success of the PROC.

Sincerely,

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 ratings 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 meet professional 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 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.

- Attend, on a regular basis, peer review 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.

2020 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 three times in 2020.

- February 14, 2020
- August 14, 2020
- December 11, 2020

The February 14, 2020 meeting was held in-person at the CBA office in Sacramento. The August 14, 2020 and December 11, 2020 meeting were held virtually via WebEx.

IV. PROC Members

Current Members	Term Expiration Date	Maximum Term Date
Jeffrey De Lyser, CPA, Chair	March 31, 2021	March 31, 2021
Renee Graves, CPA, Vice-Chair	November 30, 2021	November 30, 2023
Kevin Harper, CPA	March 31, 2021	March 31, 2023
Sharon Selleck, CPA	March 31, 2021	March 31, 2025
Fiona (Liang) Tam, CPA	November 30, 2021	November 30, 2025
Alan S. Lee, CPA	March 31, 2022	March 31, 2026
Iryna Oreshkova, CPA	January 31, 2021	January 31, 2027

At the November 2020 CBA meeting, Ms. Graves was appointed as Chair and Ms. Selleck was appointed as Vice-Chair for 2021. 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 Peer Review Integrated Management Application

VI. CALCPA

CalCPA is one of 55 state societies and is one of 28 administrative entities approved in 2020 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 regulations, reviewing and ensuring qualifications of peer reviewers, conducting peer reviewer training, maintaining on-staff CPAs and technical reviewers, and facilitating several Report Acceptance Body meetings each year. The Peer Review Committee addresses various administrative issues at its bi-annual meetings.

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. NASBA Peer Review Oversight Committee

In 2020, the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee changed its name to the Peer Review Oversight Committee. NASBA's

Peer Review Oversight 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 NASBA's Peer Review Oversight Committee is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to boards of accountancy.

By agreement, two positions on the AICPA National Peer Review Committee are filled by NASBA representatives. The AICPA National Peer Review Committee members representing NASBA participate in Report Acceptance Body meetings and report periodically to NASBA's Peer Review Oversight Committee on whether the AICPA National Peer Review Committee has operated effectively.

The National Peer Review Committee administers the AICPA peer review program for firms that meet one of 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 are subject to peer review.

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 comprehensive oversight of the California Peer Review Program, the PROC strategically incorporates various in-person and/or virtual oversight activities. Oversight activities may 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.

PROC Observed Oversight Activities

The PROC actively oversees and evaluates the administration of the California Peer Review Program via in-person or virtual observations of peer review related meetings and activities. In 2020, the PROC engaged in the following peer review-related oversight activities:

- AICPA Peer Review Board Meetings
- CalCPA Report Acceptance Body Meetings

- CalCPA Peer Review Committee Meetings
- CalCPA Administrative Site Visit

AICPA Peer Review Board Meetings

PROC members observed four AICPA Peer Review Board meetings by attending virtually or reviewing meeting materials. The meetings took place in January, May, September, and November.

The topics covered during the meetings included expansion of remote system reviews during the COVID-19 pandemic and automatic six-month peer review extensions for firms with reviews due between January 1, 2020 and September 30, 2020 due to the COVID-19 pandemic.

CalCPA Report Acceptance Body Meetings

PROC members virtually observed sixteen Report Acceptance Body meetings.

The PROC consistently reported that the Report Acceptance Body members have high-level technical expertise and were engaged. Meetings commencing after March were held virtually and less reviews were addressed due to the COVID-19 pandemic. Technical issues were addressed thoroughly with emphasis on accuracy and consistency in peer review findings and reporting.

CalCPA Peer Review Committee Meetings

PROC members virtually observed two Peer Review Committee meetings.

The PROC reported that the Peer Review Committee had made modifications to extensions, deadlines, and other peer review provisions due to the COVID-19 pandemic. The Peer Review Committee discussed considering preparation engagements in system reviews and Continuing Professional Education as a corrective action for peer review findings.

CalCPA Administrative Site Visit

The Administrative Site Visit to CalCPA is the most comprehensive oversight activity performed by the PROC. The Administrative Site Visit is typically an in-person activity that allows the PROC to perform meaningful oversight of the California Peer Review Program. In 2020, the visit was performed virtually due to the COVID-19 pandemic. The Administrative Site Visit oversight procedures are outlined in four PROC-developed checklists, which are 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 2020.

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

Associated Activities - The Administrative Site Visit was discussed at the August PROC meeting due to the cancellation of the May meeting. On August 14, 2020, the PROC assigned Ms. Graves and Mr. Lee as subcommittee members to perform the 2020 PROC Administrative Site Visit of CalCPA.

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

Associated Activities - Phase 2 was delayed due to the cancellation of the May PROC meeting. Ms. Graves and Mr. Lee communicated with CalCPA to arrange the logistics of a virtual site visit in late August and through September.

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

Associated Activities - Phase 3 was not completed in 2020 due to the COVID-19 pandemic and the evolving nature of the Administrative Site Visit.

Phase 4: Plan - 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 administering entity operate and function as intended (**September/October**).

Associated Activities - On October 19, 2020 and October 26, 2020, PROC members implemented Phase 4 of the Administrative Site Visit to CalCPA.

The PROC performed the following oversight procedures during its October 19, 2020 and October 26, 2020 virtual Administrative Site Visit to CalCPA:

- Reviewed a sample of existing and new peer reviewers and their

qualifications to determine if AICPA's minimum standards were met.

- Completed Phase 4 by reviewing and examining key risk variables and mitigating procedures.
- Interviewed key CalCPA staff, a Peer Review Committee member, and a technical reviewer.
- 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 selected a sample for inspection of supporting documentation.
- Completed PROC Administrative Site Visit Summary Oversight Checklist.

Phase 5: Plan - 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**).

Associated Activities - On December 11, 2020, PROC members reported on and discussed observations from the October 19, 2020 and October 26, 2020 PROC Administrative Site Visit to CalCPA, the PROC Administrative Site Visit Summary Report, and the Administrative Site Visit Summary Oversight Checklist.

PROC Observed Oversight Activities Conclusion

The PROC concluded that the AICPA Peer Review Board meetings, the CalCPA Report Acceptance Body meetings, the CalCPA Peer Review Committee meetings, and the administration of the California Peer Review Program by CalCPA were performed in a manner consistent with peer review guidelines and met CBA expectations.

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 Peer Review Oversight 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 2020:

- Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated September 26, 2019 and October 16, 2019.
- AICPA Peer Review Program, National Peer Review Committee 2018 Annual Report on Oversight, Issued October 17, 2019.
- AICPA Peer Review Program Annual Report on Oversight, Issued May 8, 2020.
- AICPA Peer Review Administering Entity Oversight Visit Results for the North Carolina, Missouri, Colorado, Oregon and Texas Society of CPAs.

Results and Response Letters Regarding the Administrative Oversight of the AICPA National Peer Review Committee, Dated September 26, 2019 and October 16, 2019

At its August 14, 2020 meeting, the PROC was presented with the Results and Response Letters Regarding the Administrative Oversight of the AICPA's National Peer Review Committee. The AICPA Oversight Task Force provides administrative oversight of the AICPA National Peer Review Committee. The AICPA Oversight Task Force report provides the PROC with valuable insight pertaining to the AICPA National Peer Review Committee administrative peer review process and provides reasonable assurance that consumer protection is a high priority.

On September 25 and 26, 2019, the AICPA Oversight Task Force conducted administrative oversight activities of the AICPA National Peer Review Committee peer review process including: review of its administrative procedures, technical review procedures, Certified Public Accountants on staff, and oversight program.

On September 26, 2019, the AICPA Oversight Task Force issued a results letter and concluded that the AICPA National Peer Review Committee administrative peer review process was performed in a manner consistent with peer review standards. The letter noted that significant improvements have been made to previously noted document retention deficiencies; however, minor document retention issues involving old and completed reviews still remain. Additionally, there was a finding for a firm that was referred to the AICPA Peer Review Board for a termination hearing and the hearing was subsequently cancelled, causing a significant delay in the performance of a technical review and completion of the firm's peer review. There were no other instances of this particular situation noted.

On October 16, 2019, James Brackens, Jr., CPA, AICPA Vice President – Ethics and Practice Quality, issued a response letter to the AICPA Oversight Task Force regarding the internal review of the AICPA National Peer Review Committee administrative procedures conducted on September 25 and 26, 2019.

Mr. Brackens noted that AICPA National Peer Review Committee staff have put in place procedures to eliminate the use of the old and completed review folder that housed documents beyond the retention period. Recent reviews have adhered to document retention policies. Mr. Brackens also noted that staff will begin obtaining a monthly report of inactive hearing cases to identify any review that may have been cancelled and returned for processing.

AICPA Peer Review Program, National Peer Review Committee 2018 Annual Report on Oversight, Issued October 17, 2019

At its August 14, 2020 meeting, the PROC was presented with the 2018 AICPA Peer Review Program Annual Report on Oversight, issued on October 17, 2019.

In April 2017, the AICPA Peer Review Program transitioned to the Peer Review Information Management Application system. As the software program is unable to generate certain quantitative statistics and comparable information that were included in previous reports, this report is more qualitative in nature.

The AICPA Oversight Task Force conducted an internal review of the AICPA National Peer Review Committee administrative functions in September 2019 and an external review was conducted by the AICPA Peer Review Board in September 2018 which covers the overall AICPA National Peer Review Committee peer review process, including:

- Scheduling
- Technical Review
- Report Acceptance
- Firm Peer Review Oversight Process and Procedures including:
    - On-site oversight
    - Off-site 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
- Peer reviews of quality control materials
- Oversight of acceptance process

The external review of the AICPA National Peer Review Committee administrative functions conducted by the AICPA Oversight Task Force recommended that procedures for issuing committee decision letters to firms should be reviewed to provide reasonable assurance that the letters are in compliance with current wording requirements.

The AICPA National Peer Review Committee responded to this finding by training staff on how to properly modify committee decision letters.

The internal review of the administrative functions of the AICPA National Peer Review Committee conducted by the AICPA Oversight Task Force noted instances when peer review documents were retained longer than allowed by the peer review standards.

The AICPA National Peer Review Committee responded to this finding by identifying and implementing processes to address review documents being retained longer than allowed by the peer review standards.

AICPA Peer Review Program Annual Report on Oversight, Issued May 8, 2020

At its August 14, 2020 meeting, the PROC was presented with the AICPA Peer Review Program Annual Report on Oversight, Issued May 8, 2020.

The statistical information presented in the Report pertains to peer reviews that commenced and were accepted during the calendar years 2017-2019, which covers a full three-year peer review cycle.

The Report provided an overview of oversight procedures performed in 2018 and 2019 in accordance with the AICPA Peer Review Oversight Handbook (AICPA Oversight Handbook), which includes:

- Oversight of Administering Entities – the AICPA Oversight Task Force visited 17 Administering Entities in 2018 and 12 Administering Entities in 2019.

- Report Acceptance Body Observations – The Report Acceptance Body observation focus group reviewed 298 and 178 reviews in 2018 and 2019, respectively.

- Enhanced Oversight – subject matter experts performed oversight on must-select engagements that included the reviews of financial statements and working papers. Subject matter experts reviewed 145 and 75 different peer reviewers for 2018 and 2019, respectively.

- The Report highlighted oversight activities conducted by Administering Entities in accordance with the AICPA Oversight Handbook, which included the following:

    - Administrative Oversight of the Administering Entities – 29 administrative visits performed for the years 2018 and 2019.

    - Oversight of Peer Reviews and Reviewers – 261 and 264 reviews were selected for oversight at the Administering Entities level in 2018 and 2019, respectively.

    - Annual Verification of Reviewers' resume – 957 and 737 peer reviewer resumes were verified in 2018 and 2019, respectively.

AICPA Peer Review Administering Entity Oversight Visit Results for the North Carolina, Missouri, Colorado, Oregon and Texas Society of CPAs

The PROC is required to annually monitor selected 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 and top 20 jurisdictions (states) with a high-volume of Out-of-State Firm Registrants under the current California mobility program and the following procedures:

- At each PROC meeting, select two out-of-state administering entities from the list of administering entities identified that 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 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 entities' oversight report(s) to ensure all findings have been addressed and corrected.

The AICPA Oversight Report for Colorado recommended:

- The administering entity review files 120 days after the acceptance letters are mailed to ensure that all appropriate working papers are destroyed in accordance with chapter 13 of the AICPA Peer Review Administrative Manual.
- Reviews be presented to the Report Acceptance Body no later than 120 days after the documents are received.
- Ensure reviewers are not present when their reviews are presented to the Report Acceptance Body, and that reviewers review guidance in the Report Acceptance Body Handbook for an acceptable implementation plan.
- Exercise additional care during Report Acceptance Body meetings in deliberating

reviews to ensure all critical matters are discussed and reviewer feedback is issued when necessary.

- Have a single due date for the acceptance letters and include the independence caution in the example acceptance letters provided by the AICPA.

The AICPA Oversight Report for Missouri found that the administering entity website has a policy that is not in accordance with the AICPA Peer Review Program guidelines. No additional details were provided. The report recommended that policies and procedures be reviewed to ensure compliance with current AICPA Peer Review Program guidelines.

The AICPA Oversight Report for Oregon found that the administering entity should establish procedures to ensure that peer review information on its website is updated and that the information is accurate and timely, and that the administering entity should ensure technical reviewers are evaluated on an annual basis as prescribed by program requirements.

The AICPA oversight reports for North Carolina and Texas had no findings.

Peer Review Report and Publication Review Conclusion

The PROC concluded that the AICPA National Peer Review Committee, the AICPA Oversight Task Force, and the AICPA Peer Review Board Oversight Program were performed in a manner consistent with peer review standards. Additionally, the PROC found that North Carolina, Missouri, Colorado, Oregon, and Texas were held to the same peer review standards as in California. Colorado, Missouri, and Oregon were found to need modifications to their current procedures.

IX. 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 data is provided by CalCPA. The PROC collects and provides analysis on the following data points:

- 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 from the program

The following statistical information is not currently available:

- Types and numbers of reviews in process
- 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 to consider for inclusion in the PROC Annual Report.

The following 2019 peer review-related statistical information was provided directly from the CalCPA on November 23, 2020:

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

Number of reviews completed by month

Source: **2016 Data** – AICPA Facilitated State Board Access[1] 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.

2017-2019 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** – Provides the number of both system and engagement reviews accepted on a monthly basis starting from January 1, 2016 to December 31, 2019. Numbers are reported by the CalCPA Peer Review Program.

[1] American Institute of Certified Public Accountants 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 with all societies participating by calendar year-end 2009.

Table 1: California Reviews Accepted

Month	2016[2]	2017	2018[3]	2019
January	161	64	52	125
February	159	243	173	145
March	135	162	138	123
April	120	95	132	120
May	111	49	112	72
June	139	14	82	74
July	84	23	138	94
August	94	63	114	102
September	134	78	154	124
October	87	108	97	103
November	87	137	117	58
December	111	86	111	75
TOTAL	**1,422**	**1,122**	**1,420**	**1,215**

- Average annual number of reviews completed in California during 2016-2019: 1,294

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

Source: **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.

2017-2019 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 by the CalCPA Peer Review Program.

Table 2: California Peer Reviews Performed During the Calendar Years 2016-2019 by Types Cumulatively for Annual Reporting Period

Type of Review	2016	2017	2018	2019
System	464	349	554	403
Engagement	938	773	866	812
Total	**1,402**	**1,122**	**1,420**	**1,215**

[2] The total number of reviews accepted in 2016 slightly varies from the total reflected in Tables 2-3, as the numbers provided by CalCPA were ran on different dates.
[3] The total number of reviews accepted in 2018 slightly varies from the total reflected in Tables 3-4, as the numbers provided by CalCPA were ran on different dates.

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

Source: **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.

2017-2019 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 by the CalCPA Peer Review Program.

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 2016 through 2019.

Graph 1 – Percentage trend of System Reviews with pass, pass with deficiency, and failed ratings.

Graph 2 – Percentage trend of Engagement Reviews with pass, pass with deficiency, and failed ratings.

Table 3: California Reviews Performed by Types of Peer Review and Reporting and Rating

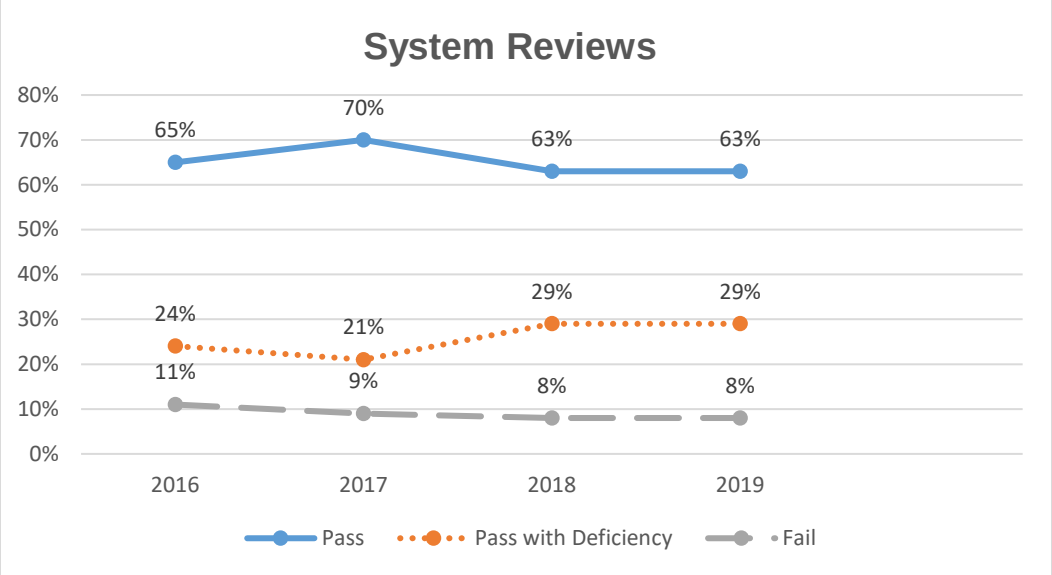
System Reviews

Rating	2016 QTY	2016 %	2017 QTY	2017 %	2018 QTY	2018 %	2019 QTY	2019 %
Pass	303	65%	243	70%	302	63%	253	63%
Pass with Deficiency	110	24%	75	21%	140	29%	119	29%
Failed	51	11%	31	9%	39	8%	31	8%
Total System	**464**	**100%**	**349**	**100%**	**481**	**100%**	**403**	**100%**

Engagement Reviews

Rating	2016 QTY	2016 %	2017 QTY	2017 %	2018 QTY	2018 %	2019 QTY	2019 %
Pass	720	77%	586	76%	637	75%	604	74%
Pass with Deficiency	110	12%	92	12%	87	10%	96	12%
Failed	108	11%	95	12%	124	15%	112	14%
Total Engagement	**938**	**100%**	**773**	**100%**	**848**	**100%**	**812**	**100%**

Graph 1 – System Reviews



Graph 2 – Engagement Reviews

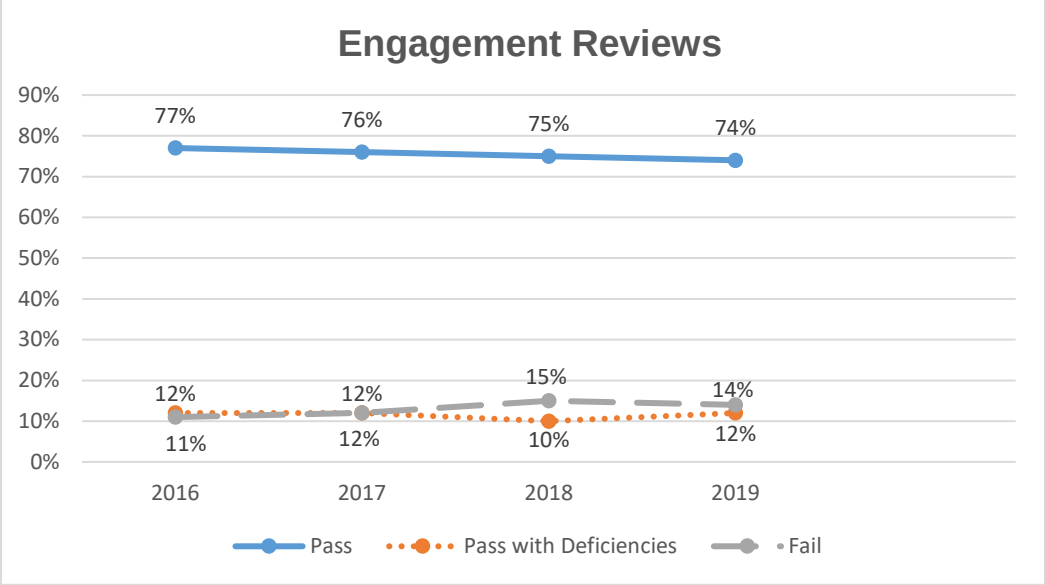


Table 4: California Reviews Performed by Types of Peer Review and Reporting and Rating

Systems and Engagements	2016 QTY	2016 %	2017 QTY	2017 %	2018 QTY	2018 %	2019 QTY	2019 %
Pass	1,023	73%	829	74%	939	71%	857	70%
Pass with Deficiency	220	16%	167	15%	227	17%	215	18%
Failed	159	11%	126	11%	163	12%	143	12%
Summary Total	**1,402**	**100%**	**1,122**	**100%**	**1,329**	**100%**	**1,215**	**100%**

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

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

2017-2019 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 by the 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 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: Summary of Required Follow-up Actions Under AICPA and CalCPA Peer Review Program

Type of Follow-up Action	2016	2017	2018	2019
Submit proof of Continuing Professional Education taken	235	209	339	527
Submit copy of monitoring report	4	6	16	17
Submit Copy of Inspection Report to Committee	0	0	2	3
Submit Evidence of Proper Firm Licensure	0	0	7	3
Submit to Team Captain revisit - General	24	12	12	8
Submit to Team Captain review of subsequent engagements with work papers	91	66	132	145
No longer perform any audit engagements	31	30	2	1
Agree to Pre-issuance Review by Team Captain/Outside Party	0	0	9	22
Team Captain/Outside Party Review Correction of Non-Conforming Engagements	0	0	5	3
Team Captain/Outside Party to Review Quality Control Document	0	0	4	1
Other	0	0	3	5
Totals	**385**	**323**	**531**	**735**

Firms Expelled (Terminated) from the Program

Source: **2016-2019 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 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

Table 6: California Terminated Firms

Action	2016	2017	2018	2019	Total
Terminated	4	3	11	6	24

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 AICPA Peer Review Board.

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.

X. Statistical Monitoring and Reporting on California Peer Reviewer Statistics

In 2019, the AICPA provided data related to California peer reviewers upon the request of the CBA and on the advice of the PROC. The CBA is working collaboratively with the AICPA to develop a data reporting framework and timeline for implementation in 2021.

XI. Observations

Based on PROC members' 2020 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 Visit, 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 that the CalCPA Peer Review Committee 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.

NASBA Peer Review Oversight Committee

The NASBA Peer Review Oversight Committee did not hold any public meetings in 2020.

XII. Conclusion

Based on its oversight activities, and in consideration of written communication including websites and public meetings, 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.

California Board of Accountancy
PEER REVIEW OVERSIGHT COMMITTEE 2020 ANNUAL REPORT