



# California Board of Accountancy

## Peer Review Oversight Committee

### 2023 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) 2023 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 the CalCPA, and reviewing the following documents:

- Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2021 Annual Report on Oversight, Issued December 16, 2022.
- The January 25, 2023 American Institute of Certified Public Accountants Peer Review the Oversight Task Force Report on its November 16-18, 2022 and January 25, 2023 Oversight Visits to the California Society of Certified Public Accountants, accepted by the American Institute of Certified Public Accountants Peer Review Board on June 21, 2023.
- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 17, 2023.

Additionally, PROC members reviewed seven 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 substandard peer review ratings to notify the CBA. The CBA reviews the information to assess whether to pursue enforcement actions against accounting firms receiving substandard ratings. This consumer protection mechanism provides 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 and flyers) demonstrating that communication to firms is clear.
- Evaluate any *Application to Become a Board-Recognized Peer Review Provider* and recommend approval or denial to the CBA.
- Refer to the CBA any Provider that fails to respond to any request.
- Collect and analyze statistical monitoring and reporting data from the Provider on an annual basis, including but not limited to:
  - California peer reviews accepted.
  - California peer reviews performed by type of peer review and rating.
  - Follow-up actions required as a condition of acceptance of the firm's peer review.
  - California firms terminated from the peer review program.
  - California firms that had system peer reviews 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.

### 2023 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 four times in 2023:

- February 17, 2023
- May 12, 2023
- August 11, 2023
- December 8, 2023

## Peer Review Oversight Committee Members

The PROC currently has two vacancies. Members may serve up to four two-year terms. The position held by Fiona Tam, CPA, became vacant on December 1, 2023.

<b>Name</b>	<b>PROC Appointment</b>	<b>Current Term Expiration</b>
Jeff De Lyser, CPA	August 17, 2021	September 30, 2025
Sharon Selleck, CPA	March 23, 2017	March 31, 2025
Fiona Tam, CPA	November 16, 2017	November 30, 2023
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 served as the PROC Chair and Fausto Hinojosa 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 2023 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 2023, the PROC engaged in the following peer review-related oversight activities:

- CalCPA Report Acceptance Body Meetings
- AICPA Peer Review Board Meetings
- CalCPA Administrative Site Visit

### *CalCPA Report Acceptance Body Meetings*

PROC members virtually observed 28 Report Acceptance Body meetings. The purpose of the observations was to determine whether the Report Acceptance Body meetings 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.

### *AICPA Peer Review Board Meetings*

PROC members observed two AICPA Peer Review Board meetings. The objective of this aspect of 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 members concluded that the Peer Review Board meetings met expectations as to its effectiveness for its role in the peer review process.

### *CalCPA Administrative Site Visit*

The Administrative Site Visit to 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 November 27, 2023 and December 1, 2023, PROC members Sharon Selleck and Nick Peterson met virtually with CalCPA to perform the Administrative Site Visit. CBA Licensing Chief, Michelle Center and AICPA Associate Director, Laura Gron 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 2023 were used to document certain aspects of the mandatory peer review program.

Additionally, CalCPA provided information regarding corrective actions it implemented in response to the 2022-23 AICPA peer review oversight task force visits, including:

- Weekly tracking of open peer reviews.
- Obtaining assistance from the Pennsylvania Institute of CPAs with the backlog of open reviews.
- Process for ensuring reviews with must-select engagements are assigned to report acceptance bodies with the requisite must-select experience.
- Training and process for assessing consecutive non-pass peer reviews for non-cooperation.

After the Administrative Site Visit, staff submitted a follow-up question to CalCPA regarding the mandate to report substandard peer reviews to the CBA. In response, CalCPA indicated that if a firm is headquartered in another state, has a substandard peer review that is administered by another Administering Entity other than CalCPA or the AICPA and the firm failed to authorize the Administering Entity to share the peer review results with other states, then those substandard reviews would not be included in the list of substandard peer review reports. CalCPA also indicated it would research this issue further using data provided by the CBA.

### 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 NASBA 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 2023:

- Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2021 Annual Report on Oversight, Issued December 16, 2022.
- January 25, 2023 American Institute of Certified Public Accountants Peer Review Oversight Task Force Report on its November 16-18, 2022 and January 25, 2023 Oversight Visits to the California Society of Certified Public Accountants, accepted by the American Institute of Certified Public Accounts Peer Review Board on June 21, 2023.
- Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 17, 2023.
- AICPA Peer Review administering entity Oversight Visit Results for the Colorado Society of CPAs, Connecticut Society of CPAs, Louisiana Society of CPAs, Missouri Society of CPAs, New England Peer Review, Inc., Oklahoma Society of CPAs, and the Oregon Society of CPAs.

*Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2021 Annual Report on Oversight, Issued December 16, 2022.*

At its May 2023 meeting, the PROC was presented with the Report on the American Institute of Certified Public Accountants Peer Review Program, National Peer Review Committee, 2021 Annual Report on Oversight, Issued December 16, 2022.

The AICPA Oversight Task Force conducted an external review of the National Peer Review Committee administrative functions in October 2020 and an internal review was conducted by a member of the Peer Review Board in September 2021, which covers the overall National Peer Review Committee 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

The external review of the National Peer Review Committee administrative functions conducted by the members of the Oversight Task Force concluded that the National Peer Review Committee has complied with the administrative procedures and standards in all material respects; however, the Oversight Task Force included the following observations and recommendations:

- Greater care should be exercised to ensure current confidentiality agreements are being utilized.
- Technical reviewer evaluations specific to the role as a technical reviewer should be performed.
- Report Acceptance Body packages should include the firm representation letter, the single audit engagement profile, and the Section 22100 – Part Q – UG checklist, as applicable.

The National Peer Review Committee evaluated the recommendations and implemented a new review process of confidentiality letter templates, developed a technical reviewer evaluation form to be used in conjunction with other monitoring tools to track qualifications, and is evaluating how best to use available technology to provide additional materials to the Report Acceptance Body. Peer review documents will continue to be made available to Report Acceptance Body members upon request.

The internal review of the National Peer Review Committee administrative functions conducted by the Oversight Task Force concluded that the National Peer Review Committee complied with the administrative procedures and standards in all material respects.

*The January 25, 2023 American Institute of Certified Public Accountants Peer Review Oversight Task Force Report on its November 16-18, 2022 and January 25, 2023 Oversight Visits to the California Society of Certified Public Accountants, accepted by the American Institute of Certified Public Accountants Peer Review Board on June 21, 2023*

At its December 2023 meeting, the PROC was presented with the January 25, 2023 American Institute of Certified Public Accountants Peer Review Oversight Task Force Report on its November 16-18, 2022 and January 25, 2023 Oversight Visits to the California Society of Certified Public Accountants, accepted by the American Institute of Certified Public Accountants Peer Review Board on June 21, 2023.

The AICPA Peer Review Board conducted its oversight of CalCPA on November 16-18, 2022 and January 25, 2023 in accordance with the *AICPA Peer Review Program Oversight Handbook*. On November 17, 2022, the AICPA Peer Review Board Oversight Task Force attended three Report Acceptance Body meetings and a Peer Review Committee meeting as part of its oversight activities.

The oversight activities included review of CalCPA's:

- Administrative procedures
- Technical review procedures
- CPA on staff
- Report Acceptance Body and Peer Review Committee procedures
- Oversight program

The report summarizing the visit was issued on January 25, 2023 to the CalCPA Peer Review Committee. The report concluded that CalCPA complied with the administrative procedures and standards as established by the AICPA Peer Review Board, except for the deficiencies described below:

- In response to CBA staff attending the 2021 Administrative Site Visit, the AICPA Peer Review Board Oversight Task Force recommended that CalCPA review the standards related to confidentiality and implement policies and procedures to ensure that only authorized individuals are allowed access to confidential information.<sup>1</sup>
- The AICPA Peer Review Board Oversight Task Force noted a significant number of open reviews that did not appear to be actively monitored. The AICPA Peer Review Board Oversight Task Force recommended that CalCPA develop policies and procedures to actively monitor open reviews, including those with overdue corrective actions or implementation plans, so that reviews are completed timely.

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<sup>1</sup> A comment regarding this deficiency is addressed in the Conclusion section.

The report further noted that the CalCPA Peer Review Committee has adopted a formal oversight program that is well documented and found the oversight program to be comprehensive. The AICPA Peer Review Board Oversight Task Force recommended the following to enhance CalCPA's peer review program:

- The CPA on staff should ensure that Report Acceptance Body member composition includes members with current experience in must-select engagements as applicable.
- Technical reviewers should exercise greater care in performing technical reviews to identify issues before the report acceptance process and the Report Acceptance Body should exercise care to ensure all critical matters are identified and discussed.
- Administering entity staff and the peer review committee should review the guidance for evaluating the results of corrective actions and require additional actions when firms do not demonstrate improvement.
- The peer review committee/Report Acceptance Body should review the guidance on their responsibilities when a firm does not cooperate or comply with the requirements of the program to determine if the firm should be referred for potential termination due to noncooperation. Additionally, administering entity staff should include all consecutive non-pass peer review reports for each firm on the assessment.

On March 31, 2023, the CalCPA Peer Review Committee responded to the AICPA Peer Review Board Oversight Task Force Report noting that corrective actions are being taken based on the recommendations and will continue to monitor the process.

*Report on the American Institute of Certified Public Accountants Peer Review Program Annual Report on Oversight, Issued April 17, 2023.*

At its December 2023 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 17, 2023. The statistical information presented in the report pertains to peer reviews that commenced and were accepted during the calendar years 2020-2022, which covers a full three-year peer review cycle.

The report provided an overview of oversight procedures performed by AICPA focus groups in 2020-2022 in accordance with the AICPA Peer Review Oversight Handbook (AICPA Oversight Handbook), which includes:

- **Oversight of Administering Entities** – The AICPA Oversight Task Force visited 11 administering entities in 2021 and 14 administering entities in 2022.
- **Report Acceptance Body Observations** – The Report Acceptance Body observation focus group reviewed 79 Report Acceptance Body meetings and 290 peer reviews in 2022.



- **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 Program staff.

In 2018, an increased focus was placed on evaluating noncompliance with the risk assessment standards with the Peer Review Board 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**

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 <sup>2</sup>	*	*	*	*	*	*	*
2021	34	14	41%	0	41%	7	50%
2022 <sup>3</sup>	93	35	38%	0	38%	23	66%

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** – Oversight was performed on 25 administering entities in 2021-2022.

<sup>2</sup> The Oversight Task Force suspended the enhanced oversight process due to the COVID-19 pandemic; therefore, no oversights were performed for 2020 and resumed in September 2021.

<sup>3</sup> As of the date of this report, the 2022 enhanced oversight sample is 89% complete.

- **Oversight of Peer Reviews and Reviewers** – For 2022, administering entities conducted oversight on 141 reviews. There were 96 system and 45 engagement reviews oversighted.

Based on the results of the oversight procedures, the AICPA Oversight Task Force has concluded, for the oversight initiatives performed during 2022, that the objectives of the Peer Review Board oversight program were met.

*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 2023, the PROC reviewed the AICPA oversight reports for the following administering entities:

<b>Administering Entity</b>	<b>Licensing Jurisdiction</b>
The Colorado Society of CPAs	Colorado, New Mexico
The Connecticut Society of CPAs	Connecticut
The Louisiana Society of CPAs	Louisiana
The Missouri Society of CPAs	Missouri
New England Peer Review Inc.	Maine, Rhode Island, Vermont
The Oklahoma Society of CPAs	Oklahoma, Kansas, South Dakota
The Oregon Society of CPAs	Oregon, Hawaii, Guam, N. Mariana Islands



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 Connecticut Society of CPAs recommended:

- The technical reviewers should review program standards and related guidance for engagement reviews, as well as allowable implementation plans. Additionally, they should exercise greater care in performing technical reviews to identify and resolve issues before the report acceptance process.

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

- The technical reviewers and the Report Acceptance Body should exercise greater care in performing their duties (in response to minor issues noted that related to consideration of non-conforming engagements and clarity).

The AICPA Oversight Reports for New England Peer Review, Inc. recommended:

- The Report Acceptance Body should exercise care to follow applicable guidance when assessing a firm to determine if a referral should be made for noncooperation when the firm has received consecutive non-pass peer review reports.

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

- Technical reviewers should exercise care to ensure guidance is followed when assessing firms' attempted improvement to determine if firms should be referred to the AICPA after consecutive non-pass reports. Additionally, technical reviewers should exercise greater care in identifying and resolving issues before Report Acceptance Body meetings.

The AICPA Oversight Reports for the Colorado Society of CPAs, Missouri Society of CPAs, Oregon 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 2022 peer review-related statistical information was provided directly from CalCPA on October 11, 2023.

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

**Table 2: California Peer Reviews Accepted**

The data in Table 2 provides the number of both system and engagement reviews accepted on a monthly basis starting from January 1, 2019 to December 31, 2022. 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	2019	2020	2021	2022
January	125	114	121	98
February	145	99	86	114
March	123	100	96	100
April	120	83	109	79
May	72	62	84	76
June	74	67	53	58
July	94	43	55	67
August	102	37	60	84
September	124	63	94	69
October	103	31	84	71
November	58	71	58	53
December	75	90	111	51
<b>Total</b>	<b>1,215</b>	<b>860</b>	<b>1,011</b>	<b>920</b>

The average number of reviews completed in California during 2019-2022 was 1,001.

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

**Table 3: California Peer Reviews Performed During the Calendar Years 2019-2022  
by Type Cumulatively for the Annual Reporting Period**

Type of Review	2019	2020	2021	2022
System	403	316	356	346
Engagement	812	544	655	574
<b>Total</b>	<b>1,215</b>	<b>860</b>	<b>1,011</b>	<b>920</b>

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

**Table 4: California Peer Reviews Performed by Type of Peer Review and Rating**

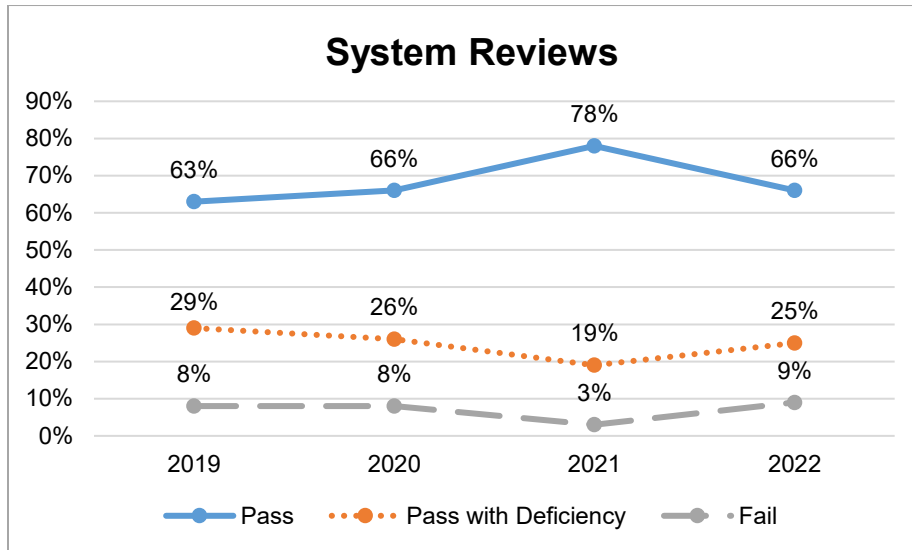
System Reviews

Rating	2019 QTY	2019 %	2020 QTY	2020 %	2021 QTY	2021 %	2022 QTY	2022 %
Pass	253	63%	208	66%	278	78%	229	66%
Pass with Deficiencies	119	29%	83	26%	67	19%	87	25%
Fail	31	8%	25	8%	11	3%	30	9%
<b>Total System</b>	<b>403</b>	<b>100%</b>	<b>316</b>	<b>100%</b>	<b>356</b>	<b>100%</b>	<b>346</b>	<b>100%</b>

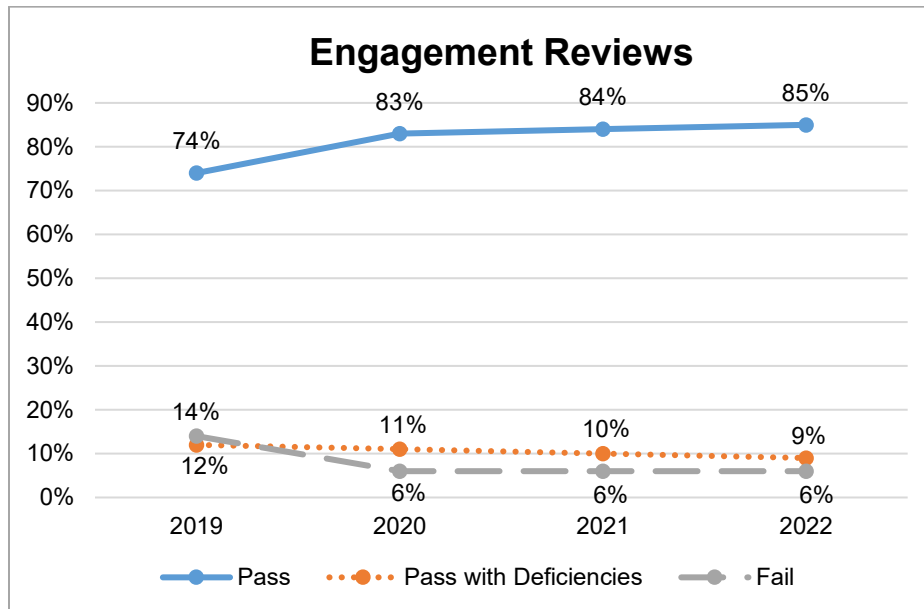
Engagement Reviews

Rating	2019 QTY	2019 %	2020 QTY	2020 %	2021 QTY	2021 %	2022 QTY	2022 %
Pass	604	74%	452	83%	550	84%	486	85%
Pass with Deficiencies	96	12%	60	11%	66	10%	54	9%
Fail	112	14%	32	6%	39	6%	34	6%
<b>Total Engagement</b>	<b>812</b>	<b>100%</b>	<b>544</b>	<b>100%</b>	<b>655</b>	<b>100%</b>	<b>574</b>	<b>100%</b>

**Graph 1 – System Reviews**



**Graph 2 – Engagement Reviews**



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

The data in Table 5 is a combination of both system and engagement reviews and indicates relative changes in percentages for the total number of California reviews performed.

<b>System and Engagement</b>	<b>2019 QTY</b>	<b>2019 %</b>	<b>2020 QTY</b>	<b>2020 %</b>	<b>2021 QTY</b>	<b>2021 %</b>	<b>2022 QTY</b>	<b>2022 %</b>
Pass	857	70%	660	77%	828	82%	715	78%
Pass with Deficiencies	215	18%	143	17%	133	13%	141	15%
Fail	143	12%	57	6%	50	5%	64	7%
<b>Summary Total</b>	<b>1,215</b>	<b>100%</b>	<b>860</b>	<b>100%</b>	<b>1,011</b>	<b>100%</b>	<b>920</b>	<b>100%</b>

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

**Table 6: 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	2019	2020	2021	2022
Submit proof of continuing professional education taken	424	283	317	271
Submit copy of monitoring report	15	11	9	9
Submit copy of inspection report to committee	5	2	1	1
Submit evidence of proper firm licensure	4	3	2	1
Submit to Team Captain revisit – General	3	2	3	4
Submit to Team Captain review of subsequent engagements with work papers	111	90	100	149
No longer perform any audit engagements	0	0	2	8
Agree to pre-issuance review by Team Captain or outside party	11	5	1	1
Team Captain or outside party review correction of non-conforming engagements	1	0	2	2
Team Captain or outside party to review quality control document	2	1	0	0
Team Captain or outside party to review firms’ remedial actions in the letter of response	N/A	2	4	7
Submit inspection report to Team Captain or outside party for review	N/A	3	2	3
Request to have accelerated review	N/A	1	1	0
Agree to remediate deficiencies noted in firm’s peer review	N/A	N/A	2	1
Join Government Audit Quality Center	N/A	N/A	1	0
Join Employee Benefit Plan Audit Quality Center ( <i>New for 2022</i> )	N/A	N/A	N/A	2
Submit Proof of Purchase Manuals ( <i>New for 2022</i> )	N/A	N/A	N/A	1
Submit to Committee Member Visits ( <i>New for 2022</i> )	N/A	N/A	N/A	1
TC/Outside Party to Review Firm’s Remedial Actions in its Response to the Findings and Further Consideration ( <i>New to 2022</i> )	N/A	N/A	N/A	1
Other	7	7	11	4
<b>Total</b>	<b>583</b>	<b>410</b>	<b>458</b>	<b>466</b>

Firms Expelled (Terminated) from the AICPA Peer Review Program

**Table 7: 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	2019	2020	2021	2022	Total
Terminated	6	0	2	4	12

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 20,100 firms currently enrolled in the 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 1,600 firms enrolled in the Program that indicated they do not currently perform any engagements subject to peer review. Between 2020-2022, approximately 7,200 peer reviews were performed by a pool of approximately 862 qualified peer reviewers.

The data provided in Tables 8-11, 13, and 14 was provided by the AICPA and is California-specific. Table 12 represents national data.



On October 23, 2022, there were 2,913 California firms enrolled in the AICPA Peer Review Program and on October 10, 2023, there were 2,677 California firms enrolled, reflecting a decrease of approximately 8%.

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.

**Table 8: Number of California Firm Peer Reviews Accepted**

<b>Administering Entity</b>	<b>1/1/2021 - 6/30/2021</b>	<b>7/1/2021- 12/31/2021</b>	<b>1/1/2022- 6/30/2022</b>	<b>7/1/2022- 12/31/2022</b>	<b>1/1/2023- 6/30/2023</b>
California Society of CPAs	553	459	525	395	414
Colorado Society of CPAs	0	0	0	1	0
Georgia Society of CPAs	1	0	0	0	0
Peer Review Alliance	0	1	0	0	0
Coastal Peer Review, Inc.	0	0	0	0	0
National Peer Review Committee	7	8	13	2	16
Oregon Society of CPAs	1	0	1	1	1
Texas Society of CPAs	0	1	0	0	0
<b>Total<sup>4</sup></b>	<b>562</b>	<b>469</b>	<b>539</b>	<b>399</b>	<b>431</b>

<sup>4</sup> Data in Tables 2-7 and Tables 8-11 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 9: Number of California Firms that Had System Peer Reviews Accepted**

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

**Table 10: Number of California Firms that Had System Peer Reviews Accepted in a Must-Select Category**

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

<sup>5</sup> Broker Dealers are no longer must-select engagements.

**Table 11: 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
California Society of CPAs	358	295	302	268	255
National Peer Review Committee	0	0	1	0	0
Oregon Society of CPAs	0	0	1	1	1
Texas Society of CPAs	0	1	0	0	0
Georgia Society of CPAs	1	0	0	0	0
<b>Total</b>	<b>359</b>	<b>296</b>	<b>304</b>	<b>269</b>	<b>256</b>

**Table 12: Total Peer Reviews Performed Nationally<sup>6</sup>**

	2012-2014	2017-2019	2020-2022
Reviews Performed	26,436	24,337	21,724

**Table 13: 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
California Address	6	1	0	0	0
Non-California Address	35	41	25	36	11
<b>Total</b>	<b>41</b>	<b>42</b>	<b>25</b>	<b>36</b>	<b>11</b>

As of November 30, 2023, there were 88 peer reviewers performing peer reviews on California firms.

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 8% 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.

<sup>6</sup> In 2015, 8,751 peer reviews were performed nationally. The AICPA does not have data for 2016 due to a software migration.

**Table 14: Top California Reviewers by Volume, Including the Percentage of Reviews Performed**

7/1/2022-12/31/2022				1/1/2023-6/30/2023			
Engagement Review	System Review	Grand Total	% of CA Reviews	Engagement Review	System Review	Grand Total	% of CA Reviews
6	17	23	5.76%	8	22	30	6.96%
2	15	17	4.26%	17	10	27	6.26%
0	17	17	4.26%	19	0	19	4.41%
8	7	15	3.76%	17	2	19	4.41%
8	7	15	3.76%	4	15	19	4.41%
10	2	12	3.01%	15	3	18	4.18%
5	7	12	3.01%	8	6	14	3.25%
6	3	9	2.26%	7	3	10	2.32%
9	0	9	2.26%	1	9	10	2.32%
4	5	9	2.26%	3	6	9	2.09%
3	5	8	2.01%	9	0	9	2.09%

## Conclusion

The AICPA Peer Review Board Oversight Task Force report identified two deficiencies resulting from their November 2022 and January 2023 Oversight Visits to CalCPA. During the Administrative Site Visit, the PROC members discussed the deficiency regarding the timeliness of peer review completion. The PROC members learned that CalCPA has remedied the issue by implementing a robust process for monitoring the status of peer reviews going forward, and by receiving staff support from the Pennsylvania Institute of CPAs.

The AICPA Peer Review Board Oversight Task Force report also identified a deficiency related to confidentiality stemming from CBA staff attending the 2021 Administrative Site Visit. The PROC notes that the CBA asserts that staff are authorized by state statute to access confidential peer review information and have publicly expressed disagreement with the AICPA's standards related to confidentiality at CBA meetings and through written and verbal communication with the AICPA. The CBA, CalCPA, and AICPA are actively engaged in conversations regarding future staff participation in the Administrative Site Visit.

Overall, the PROC found that the California peer review program is meeting the requirements set forth by the CBA.

## Recommendations

The PROC recommends:

- Monitoring the Pennsylvania Institute of CPAs by reviewing the AICPA oversight reports and ensuring that the Pennsylvania Institute of CPAs is meeting the CBA's peer review requirements.
- 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 identify previous substandard peer reviews, if any, not submitted to the CBA within the 60-day mandate and that the AICPA identify a resolution to ensure all future substandard peer reviews are submitted to the CBA within the 60-day mandate.