

**California Society of CPAs Peer Review Program
Annual Report on Oversight for Calendar Year 2010
Date Issued – October 5, 2011**

I. Summary of Peer Review Program

The California Society of CPAs (CalCPA) serves as the administering entity for the AICPA Peer Review Program for the states of California, Arizona and Alaska. CalCPA also administers the Peer Review Program for firms in those states that are not enrolled in the AICPA Peer Review Program. These programs operate the same; however there is a distinction between the two programs in that at least one owner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program. AICPA bylaws require that members in a firm engaging in the practice of public accounting and issuing accounting and auditing reports have their firm enrolled in peer review.

The AICPA administers a peer review program through the National Peer Review Committee (NPRC) for firms required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB). The NPRC prepares a separate annual oversight report therefore their statistics are not included in this report. Also, the AICPA Peer Review Board prepares an annual report on the oversight of all administering entities on a national basis. This report is available in the peer review section of their web site.

California, Arizona, and Alaska Boards of Accountancy require firms who issue accounting and auditing reports to be peer reviewed. The AICPA Peer Review Program is a recognized peer review program provider. Effective January 1, 2010, the California Board of Accountancy requires peer review of firms that issue reports and has adopted a three-year phase in period. The Arizona Board of Accountancy requires peer review with an exception for firms that issue only compilations without disclosures reports. The Alaska Board of Accountancy requires peer review with an exception for firms that issue only compilation reports.

Peer review is a triennial systematic review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System reviews are designed for firms that perform audits or other similar engagements. Engagement reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail usually must perform follow up actions. Further explanation of peer review is available at www.aicpa.org/prsummary.

II. CalCPA Administering Entity Oversight Process and Procedures

The Peer Review Administrative Committee (PRAC) of the California Peer Review Committee monitors the oversight process. Each PRAC member has been approved by the Council of CalCPA and has current audit experience.

Using criteria outlined in the *AICPA Peer Review Program Oversight Handbook*, peer reviewers and/or firms are chosen at the beginning of each year. A minimum of 2% of reviews processed during the year are subjected to the oversight process. A peer review committee member or former peer review committee member performs the oversights. For system oversights, this committee member must have current audit experience. AICPA Peer Review Program Oversight Checklists are utilized on all oversights and oversight reports are prepared. The oversight reports are included in the report acceptance body process and all oversight reports are reviewed by the PRAC.

For engagement review oversights and limited system review oversights, the peer reviewer is notified after the peer review has been submitted to the administering entity of the engagements that have been selected for review. The peer reviewers then submit their work papers for review and the individual performing the oversight reviews the financial statements and any applicable firm work papers for the selected engagements.

Oversight of onsite system reviews are conducted at the reviewed firm's office while the peer reviewer is performing the peer review. The individual performing the oversight examines the peer reviewer's work papers, reviews a sample of engagements selected by the peer reviewer for review, and attends the exit conference.

Every year, one third of reviewer resumes and CPE are verified. All reviewers are verified over a three year period. Reviewers provide information about the number of engagements they are specifically involved with and in what capacity. The California Peer Review Program compares this information to the reviewer resume in the AICPA database and to the reviewer firm's most recent background information and most recent peer review.

Biennially, the AICPA Peer Review Board performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member from the AICPA Peer Review Board Oversight Task Force reviews files and interviews staff at the administrative office. In addition the member attends a peer review committee meeting and observes the report acceptance process of the committee members. A report is issued and approved by the AICPA Peer Review Board. This report is posted to the peer review section of the web site of CalCPA. In the year where the AICPA Peer Review Board is not performing oversight, a member of the California Peer Review Committee performs an administrative oversight.

Note: The data in the following tables (sections III through VII) reflects peer review results as of October 5, 2011. The following percentages of 2010 reviews are in process, and their results are not included in the totals below.

CA – 1.5%

AZ – 0.5%

AK – There are no 2010 reviews in process

^ At least one owner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

III. Number of Enrolled Firms by Number of Professionals*

Per State as of October 5, 2011

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	1085	527
2-5 Professionals	1049	429
6-10 Professionals	384	73
11-19 Professionals	166	9
20-49 Professionals	99	5
50+ Professionals	17	0
Totals	2800	1043

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	183	74
2-5 Professionals	189	48
6-10 Professionals	64	7
11-19 Professionals	17	1
20-49 Professionals	9	0
50+ Professionals	3	0
Totals	465	130

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	31	8
2-5 Professionals	34	2
6-10 Professionals	11	0
11-19 Professionals	5	0
20-49 Professionals	2	0
50+ Professionals	1	0
Totals	84	10

**IV. Results of Peer Reviews Performed During the Year 2010
Results by Type of Peer Review and Report Issued**

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	328	29
Pass with Deficiencies	39	8
Fail	6	1
Subtotal – System	373	38
Engagement Reviews:		
Pass	456	89
Pass with Deficiencies	30	10
Fail	5	3
Subtotal – Engagement	491	102
Totals	864	140

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	52	3
Pass with Deficiencies	10	3
Fail	1	1
Subtotal – System	63	7
Engagement Reviews:		
Pass	83	10
Pass with Deficiencies	9	5
Fail	1	2
Subtotal – Engagement	93	17
Totals	156	24

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	10	0
Pass with Deficiencies	2	0
Fail	0	0
Subtotal – System	12	0
Engagement Reviews:		
Pass	13	1
Pass with Deficiencies	1	0
Fail	0	0
Subtotal – Engagement	14	1
Totals	26	1

V. Number and Reasons for Report Modifications

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards, for report modifications (when a pass with deficiency or fail report is issued) from system reviews performed for 2010. A system review can have more than one reason for modification.

Reasons for Report Modifications California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	5	1
Relevant Ethical Requirements	0	0
Engagement Performance	34	8
Human Resources	10	3
Acceptance & Continuance of Clients & Engagements	3	0
Monitoring	19	5
Totals	71	17

Reasons for Report Modifications Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	0	0
Relevant Ethical Requirements	0	0
Engagement Performance	10	3
Human Resources	2	1
Acceptance & Continuance of Clients & Engagements	0	0
Monitoring	4	2
Totals	16	6

Reasons for Report Modifications Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	0	0
Relevant Ethical Requirements	0	0
Engagement Performance	2	0
Human Resources	0	0
Acceptance & Continuance of Clients & Engagements	0	0
Monitoring	0	0
Totals	2	0

VI. Number of Engagements Not Performed In Accordance with Professional Standards

The following shows the total number of engagements reviewed and the number identified as “not performed in accordance with Professional Standards” from peer reviews performed during 2010. The Standards state that an engagement is ordinarily considered not performed in accordance with Professional Standards when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

California Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	126	17	6	4
Audits – Governmental – All Others	125	12	12	2
Audits – ERISA	215	13	7	1
Audits – FDICIA	2	0	0	0
Audits – Other	409	24	39	4
Reviews	542	15	48	2
Compilations with Disclosures	396	8	40	2
Compilations without Disclosures	1006	22	156	15
Financial Forecast & Projections	3	1	0	0
Other SSAEs	58	3	4	0
Totals	2882	115	312	30
% Substandard		4.0%		9.6%

Arizona Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	25	4	3	1
Audits – Governmental – All Others	16	2	1	1

Audits – ERISA	30	2	1	0
Audits – FDICIA	0	0	0	0
Audits – Other	67	7	7	4
Reviews	93	1	13	0
Compilations with Disclosures	57	1	10	4
Compilations without Disclosures	188	5	21	5
Financial Forecast & Projections	1	0	0	0
Other SSAEs	15	0	3	0
Totals	492	22	59	15
% Substandard		4.5%		25.4%

Alaska Firms				
Engagement Type	^AICPA Peer Review Program		CalCPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	9	0	0	0
Audits – Governmental – All Others	6	0	0	0
Audits – ERISA	4	0	0	0
Audits – FDICIA	0	0	0	0
Audits – Other	20	4	0	0
Reviews	25	0	1	0
Compilations with Disclosures	13	0	0	0
Compilations without Disclosures	13	1	0	0
Financial Forecast & Projections	1	0	0	0
Other SSAEs	3	0	0	0
Totals	94	5	1	0
% Substandard		5.3%		0%

VII. Summary of Required Follow-up Actions

The Peer Review Committee is authorized by the 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 peer review committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The 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. For 2010, the following represents the type of follow-up actions required.

(TC = Team Captain)

California Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Agree to hire consultant for preissuance reviews	2	0
Submit proof of CPE taken	43	13
Submit copy of monitoring report	10	2
Submit to TC revisit-general	7	1
Submit to TC review of sub engagements w/ workpapers	14	3
Agree to have accelerated review	5	1
Does not perform any audit engagements	1	0
Totals	82	20

Arizona Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Agree to hire consultant for preissuance reviews	0	1
Submit proof of CPE taken	9	8
Submit copy of monitoring report	2	0
Submit to TC revisit -- general	2	0
Submit to TC review of sub engagements w/ workpapers	6	1
Totals	19	10

Alaska Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	2	0
Totals	2	0

VII. Oversight Process

**Oversight Results
Peer reviews**

California Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 8	11	System	GAGAS	0
	ERISA - 2			ERISA	
Engagement		8	Engagement		3

Arizona Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 0	1	System	GAGAS-1	1
	ERISA - 1			ERISA-0	
Engagement		3	Engagement		0

Alaska Firms					
^AICPA Member Firms			Non-AICPA Member Firms		
Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights	Type of Peer Review (Sys, Eng, Rpt)	Must Select Engagement (ERISA, GAGAS, FDICA, NONE)	Total Oversights
System	GAGAS - 2	2	System	GAGAS-0	0
	ERISA - 1			ERISA-0	
Engagement		3	Engagement		0

Verification of reviewer's resumes

State	Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
California	119	40	34%
Arizona	22	9	41%
Alaska	2	0	0%
Total	143	49	34%

Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	January 14, 2010
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	October 21-22, 2010