

**California Society of CPAs Peer Review Program
Annual Report on Oversight for Calendar Year 2015
Date Issued – October 6, 2016**

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 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. These reports are 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. The California Board of Accountancy requires peer review of firms that issue reports. 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 <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/Pages/PeerReviewHome.aspx>.

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 for oversight. 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.

Oversights 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 6, 2016. The following percentages of 2015 reviews are in process, and their results are not included in the totals below.

CA – .8%

AZ – .There are no 2015 reviews in process

AK – There are no 2015 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 6, 2016

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	651	675
2-5 Professionals	1,197	836
6-10 Professionals	479	171
11-19 Professionals	215	23
20-49 Professionals	116	9
50+ Professionals	31	0
Totals	2,689	1,714

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	107	38
2-5 Professionals	151	47
6-10 Professionals	79	7
11-19 Professionals	23	3
20-49 Professionals	10	0
50+ Professionals	2	0
Totals	372	95

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	21	4
2-5 Professionals	35	4
6-10 Professionals	10	0
11-19 Professionals	8	0
20-49 Professionals	3	0
50+ Professionals	0	0
Totals	77	8

IV. Results of Peer Reviews Performed During the Year 2015
Results by Type of Peer Review and Report Issued

California Firms	^AICPA Peer Review Program		CalCPA Peer Review Program		Combined Peer Review Programs	
System Reviews		%		%		%
Pass	293	76%	82	57%	375	71%
Pass with Deficiencies	69	18%	28	19%	97	18%
Fail	25	6%	35	24%	60	11%
Subtotal – System	387		145		532	
Engagement Reviews		%		%		%
Pass	490	89%	395	84%	885	87%
Pass with Deficiencies	37	7%	43	9%	80	8%
Fail	22	4%	35	7%	57	5%
Subtotal - Engagement	549		473		1,022	
Grand Total	936		618		1,554	

Arizona Firms	^AICPA Peer Review Program		CalCPA Peer Review Program		Combined Peer Review Programs	
System Reviews		%		%		%
Pass	40	82%	10	72%	50	79%
Pass with Deficiencies	9	18%	2	14%	11	18%
Fail	0	0%	2	14%	2	3%
Subtotal – System	49		14		63	
Engagement Reviews		%		%		%
Pass	79	92%	30	81%	109	88%
Pass with Deficiencies	3	3%	4	11%	7	6%
Fail	4	5%	3	8%	7	6%
Subtotal – Engagement	86		37		123	
Totals	135		51		186	

Alaska Firms	^AICPA Peer Review Program		CalCPA Peer Review Program		Combined Peer Review Programs	
System Reviews		%		%		%
Pass	6	46%	0	0%	6	43%
Pass with Deficiencies	5	38%	0	0%	5	36%
Fail	2	16%	1	100%	3	21%
Subtotal – System	13		1		14	
Engagement Reviews		%		%		%
Pass	12	86%	4	100%	16	89%
Pass with Deficiencies	2	14%	0	0%	2	11%
Fail	0	0%	0	0%	0	0%
Subtotal – Engagement	14		4		18	
Totals	27		5		32	

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 2015. 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	25	21
Relevant Ethical Requirements	3	0
Engagement Performance	82	55
Human Resources	11	6
Acceptance & Continuance of Clients & Engagements	1	5
Monitoring	45	37
Totals	167	124

Reasons for Report Modifications Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	2	2
Relevant Ethical Requirements	0	0
Engagement Performance	7	4
Human Resources	2	0
Acceptance & Continuance of Clients & Engagements	1	1
Monitoring	2	1
Totals	14	8

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	6	1
Human Resources	2	1
Acceptance & Continuance of Clients & Engagements	0	1
Monitoring	2	0
Totals	10	3

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 2015. 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)	142	34	21	12
Audits – GAS– All Others	124	27	47	26
Audits – ERISA	244	55	39	20
Audits – FDICIA	1	0	0	0
Audit – Broker/Dealer	3	0	2	2
Audits – Other	467	48	135	36
Reviews	633	24	219	24
Compilations with Disclosures	413	10	161	16
Compilations without Disclosures	1,022	76	716	85
Preparation Engagements	10	1	7	3
Fin Forecast and Proj- examination	0	0	0	0
Fin Forecast and Proj- other	6	0	2	0
Examinations of Written Assertions	13	1	2	1
Agreed Upon Procedures	91	2	14	0
SSAEs - SOC Engagements	3	1	2	1
SSAEs - Other	3	0	1	0
Totals	3175	279	1368	226
% Substandard		9%		17%

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)	22	7	1	1
Audits – GAS – All Others	23	3	2	0
Audits – ERISA	37	6	1	1
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	1	0	0	0
Audits – Other	52	2	16	5
Reviews	84	0	29	1
Compilations with Disclosures	47	0	17	1
Compilations without Disclosures	158	12	51	9
Preparation Engagements	3	1	0	0
Fin Forecast and Proj- examination	0	0	0	0
Fin Forecast and Proj- other	2	0	0	0
Examinations of Written Assertions	3	0	0	0
Agreed Upon Procedures	18	0	1	0
SSAEs - SOC Engagements	0	0	0	0
SSAEs - Other	0	0	0	0
Totals	450	31	118	18
% Substandard		7%		15%

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)	13	5	0	0
Audits – GAS – All Others	8	1	0	0
Audits – ERISA	2	1	0	0
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	0	0	0	0
Audits – Other	18	5	4	4
Reviews	28	2	7	0
Compilations with Disclosures	12	1	3	0
Compilations without Disclosures	18	2	2	0
Preparation Engagements	0	0	0	0
Fin Forecast and Proj- examination	0	0	0	0
Fin Forecast and Proj- other	0	0	0	0
Examinations of Written Assertions	0	0	0	0
Agreed Upon Procedures	7	0	1	0
SSAEs - SOC Engagements	0	0	0	0
SSAEs - Other	0	0	0	0
Totals	106	17	17	4
% Substandard		16%		24%

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 2015, 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
Submit proof of CPE taken	78	82
Submit copy of monitoring report	14	11
Submit to TC revisit-general	14	15
Submit to TC review of sub engagements w/ workpapers	46	27
Does not perform any audit engagements	20	20
Totals	172	155

Arizona Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	9	6
Submit copy of monitoring report	2	0
Submit to TC revisit -- general	0	1
Submit to TC review of sub engagements w/ workpapers	4	5
Does not perform any audit engagements	4	2
Totals	19	13

Alaska Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	3	1
Submit copy of monitoring report	1	0
Submit to TC review of sub engagements w/ workpapers	4	1
Does not perform any audits	1	0
Totals	9	2

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 - 5	12	System	GAGAS - 0	1
	ERISA - 8			ERISA - 1	
Engagement		9	Engagement		9

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-0	0
	ERISA - 1			ERISA- 0	
Engagement		2	Engagement		1

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 - 1	1	System	GAGAS-0	0
	ERISA - 0			ERISA-0	
Engagement		1	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	167	68	41%
Arizona	22	9	41%
Alaska	0	0	0%
Total	189	77	41%

Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	November 24, 2015
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	November 19-21, 2014