

California Society of CPAs Peer Review Program
Annual Report on Oversight for Calendar Year 2014
Date Issued – October 22, 2015

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 22, 2015. The following percentages of 2014 reviews are in process, and their results are not included in the totals below.

CA – .3%

AZ – .7%

AK – There are no 2014 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 22, 2015

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	780	726
2-5 Professionals	1271	869
6-10 Professionals	476	149
11-19 Professionals	226	25
20-49 Professionals	112	6
50+ Professionals	30	0
Totals	2895	1775

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	126	47
2-5 Professionals	179	44
6-10 Professionals	72	8
11-19 Professionals	23	3
20-49 Professionals	10	0
50+ Professionals	2	0
Totals	412	102

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Sole Practitioners	22	3
2-5 Professionals	39	5
6-10 Professionals	8	0
11-19 Professionals	9	0
20-49 Professionals	2	0
50+ Professionals	0	0
Totals	80	8

**IV. Results of Peer Reviews Performed During the Year 2014
Results by Type of Peer Review and Report Issued**

California Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	285	94
Pass with Deficiencies	85	47
Fail	32	39
Subtotal – System	402	180
Engagement Reviews:		
Pass	447	423
Pass with Deficiencies	62	80
Fail	33	32
Subtotal – Engagement	542	535
Totals	944	715

Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	34	4
Pass with Deficiencies	8	1
Fail	8	2
Subtotal – System	50	7
Engagement Reviews:		
Pass	66	16
Pass with Deficiencies	9	2
Fail	1	2
Subtotal – Engagement	76	20
Totals	126	27

Alaska Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
System Reviews:		
Pass	10	0
Pass with Deficiencies	0	0
Fail	0	0
Subtotal – System	10	0
Engagement Reviews:		
Pass	15	1
Pass with Deficiencies	3	0
Fail	0	0
Subtotal – Engagement	18	1
Totals	28	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 2014. 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	35	31
Relevant Ethical Requirements	3	1
Engagement Performance	100	68
Human Resources	14	7
Acceptance & Continuance of Clients & Engagements	6	6
Monitoring	58	51
Totals	216	164

Reasons for Report Modifications Arizona Firms	^AICPA Peer Review Program	CalCPA Peer Review Program
Leadership Responsibilities for Quality	3	1
Relevant Ethical Requirements	0	0
Engagement Performance	14	3
Human Resources	1	2
Acceptance & Continuance of Clients & Engagements	2	1
Monitoring	8	2
Totals	28	9

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	0	0
Human Resources	0	0
Acceptance & Continuance of Clients & Engagements	0	0
Monitoring	0	0
Totals	0	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 2014. 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)	144	25	22	9
Audits – GAS– All Others	139	25	26	10
Audits – ERISA	285	51	52	30
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	7	0	0	0
Audits – Other	443	53	174	53
Reviews	545	35	288	44
Compilations with Disclosures	374	21	167	22
Compilations without Disclosures	1067	126	786	113
Preparation Engagements	1	0	0	0
Fin Forecast and Proj- examination	2	0	0	0
Fin Forecast and Proj- other	12	2	2	0
Examinations of Written Assertions	12	0	1	0
Reviews of Written Assertions	0	0	0	0
Agreed Upon Procedures	98	2	18	1
SSAEs - SOC Engagements	7	0	0	0
SSAEs - Other	2	0	2	0
Totals	3138	340	1538	282
% Substandard		11%		18%

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)	10	1	2	1
Audits – GAS – All Others	16	4	1	0
Audits – ERISA	26	10	2	1
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	2	1	0	0
Audits – Other	50	6	6	0
Reviews	81	2	16	1
Compilations with Disclosures	48	4	8	0
Compilations without Disclosures	134	8	21	6
Preparation Engagements	0	0	0	0
Fin Forecast and Proj- examination	0	0	0	0
Fin Forecast and Proj- other	1	0	0	0
Examinations of Written Assertions	2	0	1	0
Reviews of Written Assertions	0	0	1	0
Agreed Upon Procedures	13	0	4	0
SSAEs - SOC Engagements	0	0	0	0
SSAEs - Other	0	0	1	0
Totals	383	36	63	9
% Substandard		9%		14%

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)	7	0	0	0
Audits – GAS – All Others	3	0	0	0
Audits – ERISA	4	0	0	0
Audits – FDICIA	0	0	0	0
Audit – Broker/Dealer	0	0	0	0
Audits – Other	15	0	0	0
Reviews	25	2	1	0
Compilations with Disclosures	15	0	1	0
Compilations without Disclosures	23	3	0	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
Reviews of Written Assertions	0	0	0	0
Agreed Upon Procedures	4	0	0	0
SSAEs - SOC Engagements	0	0	0	0
SSAEs - Other	0	0	0	0
Totals	96	5	2	0
% Substandard		5%		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 2014, 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	110	130
Submit copy of monitoring report	18	14
Submit to TC revisit-general	15	12
Submit to TC review of sub engagements w/ workpapers	45	25
Does not perform any audit engagements	20	28
Totals		

Arizona Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	13	4
Submit copy of monitoring report	2	0
Submit to TC revisit -- general	2	0
Submit to TC review of sub engagements w/ workpapers	7	2
Does not perform any audit engagements	6	1
Totals	30	7

Alaska Firms Type of Follow-up Action	^AICPA Peer Review Program	CalCPA Peer Review Program
Submit proof of CPE taken	3	0
Totals	3	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 - 6	9	System	GAGAS - 3	5
	ERISA - 3			ERISA - 2	
Engagement		11	Engagement		13

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	1
	ERISA - 1			ERISA-1	
Engagement		2	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 - 1	1	System	GAGAS-0	0
	ERISA - 0			ERISA-0	
Engagement		2	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	163	67	41%
Arizona	16	6	37%
Alaska	1	1	100%
Total	180	74	41%

Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	December 3, 2013
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	November 19-21, 2014