Annual Report on Peer Review Activities
January 1 – December 31, 2024

Purpose of this Report

The purpose of this Annual Report on Peer Review Activities is to provide a general overview of the Peer Review Program administered by the California Society of CPAs (CalCPA) and the results of oversight procedures performed by the CalCPA Peer Review Committee (Committee) during the calendar year of 2024.

I. Summary of Peer Review Program

CalCPA serves as the administering entity for the AICPA Peer Review Program for the states of California, Arizona and Alaska. AICPA bylaws require that members engaged in the practice of public accounting be associated with a firm that is enrolled in an approved practice-monitoring program if the services performed by such firm are within the scope of the AICPA's practice monitoring standards and the firm prepares reports in accordance with AICPA professional standards. For purposes of peer review under the AICPA program, an accounting and auditing practice includes engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARSs); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards (the Yellow Book)* issued by the U.S. Government Accountability Office; and Public Company Accounting Oversight Board (PCAOB) Standards.

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. This report is available in the peer review section of their website.

The Boards of Accountancy (BOAs) in California, Arizona and Alaska require firms that provide attestation services as part of their public accounting process to be enrolled in a practice monitoring program. The California and Arizona Boards of Accountancy provide for an exception for firms, which as their highest level of work, perform only preparation engagements in accordance with the provisions of the Statements on Standards for Accounting and Review Services (SSARS). The Alaska Board of Accountancy requires peer review, with an exception for firms that issue only compilation reports. The BOAs from all three states have designated CalCPA as an approved sponsoring organization to approve peer review reports issued for firms enrolled in peer review programs administered by CalCPA.

Firms enrolled in the peer review program are required to have a peer review every three years, the scope of which covers a one-year period. The review is conducted by an independent evaluator known as a peer reviewer and is not considered final until accepted by a committee of their peers, also known as report acceptance bodies (RABs). RABs must consist of at least three qualified individuals who are independent of the reviewed firm and the peer reviewer. In certain circumstances, reviewed firms are asked by the RAB to voluntarily complete one or more follow-up actions as a condition of acceptance by the RAB. See Exhibit D for a summary of required follow-up actions.

The following summarizes the different peer review types, objectives, and reporting requirements as defined under the AICPA *Standards:*

System Reviews: System reviews are for firms that perform engagements under the SASs or *Government Auditing Standards*, examination under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB, in addition to reviews, compilations, or other attestation engagements. The peer reviewer's objectives are to obtain reasonable assurance that the reviewed firm's system of quality control for its accounting and auditing practice has been designed and complied with to provide the firm reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects and report on the reviewed firm's system of quality control and communicate as required by the *Standards for Performing and Reporting on Peer Review*. The peer review report rating may be *Pass* (firm's system of quality control is adequately designed and the firm has complied with its system of quality control); *Pass with deficiencies* (firm has less than reasonable assurance of conformity with professional standards in one or more areas); *Fail* (firm's system of quality control is not adequately designed or complied with and there is little or no assurance of conforming with professional standards).

Engagement Reviews: Engagement reviews are for firms that only perform services under SSARS or services under the SSAEs not included in System Reviews. Engagement reviews focus on work performed and reports and financial statements issued on particular engagements (reviews, compilations, or agreed- upon procedures). The peer review report may be a rating of *Pass* (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and /or reported on in conformity with applicable professional standards in all material respects); *Pass with deficiencies* (nothing came to the reviewer's attention that caused him or her to believe the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects except for the deficiencies described in the report); or *Fail* (reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects). A report with a peer review rating of *Fail* is issued when deficiencies are evident on all of the engagements submitted for review.

See Exhibit A for a summary of results by type of peer review and the report issued; Exhibit B for a summary of report deficiencies; Exhibit C for a summary of engagements not performed and/or reported on in conformity with professional standards in all material respects.

II. Oversight Process and Procedures

The Peer Review Administrative Committee (PRAC) of the CalCPA Peer Review Committee monitors the oversight process. Each PRAC member has been approved by the Council of CalCPA and has current audit experience. The PRAC is responsible for reporting to the full Committee on the activities of the oversight program regarding peer reviewers. PRAC members meet during the year to review the oversights conducted, consider reviewer performance and consult with staff on the status of reviews. Guidance from the AICPA Peer Review Program Oversight Handbook is followed.

Oversight Selection

Annually, CalCPA will perform random and targeted oversights on reviews and reviewers using a risk-based approach. The selections are based on the criterion for selection as outlined in the AICPA Peer Review Program Oversight Handbook, Chapter 2. At least 2% of all reviews performed in a calendar year are subject to oversight and will include a minimum of 2 system and 2 engagement reviews.

Oversights are performed by either a member of the Peer Review Committee, other qualified peer reviewers or the program's technical reviewers. A Peer Review Committee member or designee will perform all system reviews and must-select engagement oversights. This committee member must meet team captain requirements and experience. The oversight reports are included in the report acceptance body process and all oversight reports are reviewed by the PRAC.

Firms: All firms are subject to oversight and are selected based on a number of factors including but not limited to the types of peer review reports the firm has previously received, whether it is the firm's first system review (after previously having an engagement review), and whether the firm conducts engagements in high-risk industries.

Reviewers: All peer reviewers are subject to oversight and may be selected based on a number of factors, including random selection, a notable and suspiciously too frequent submission of pass reports, conducting a significant number of reviews for firms with audits in high-risk industries, the performance of their first peer review, or performing high volumes of reviews. Oversight of a reviewer may also occur due to performance deficiencies or a history of performance deficiencies, such as issuance of an inappropriate peer review report, improperly considering matters that turn out to be significant, or failure to select an appropriate number of engagements.

Oversight Process

Oversights may be performed at the reviewed firm's office or at other locations. Oversighters are required to document the results of the oversight by completing an AICPA Oversight Checklist and preparing a report for the committee. Oversight reports are maintained in an electronic file at AICPA and CalCPA. See Exhibit E for a summary of oversights performed.

Biennially, the AICPA Peer Review Board performs an onsite oversight of CalCPA's administration of the AICPA Peer Review Program. A member of the AICPA Peer Review Board Oversight Task Force reviews files and interviews staff at the administrative office. In addition, the AICPA 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 website of CalCPA.

Number of Enrolled Firms as of January 31, 2025

Enrolled Firms by Number of Professionals			
Number of Professionals	**California**	**Arizona**	**Alaska**
Sole Practitioner	614	81	12
2-5	911	98	12
6-10	285	36	6
11-19	92	11	1
20-49	25	5	2
50-99	2	-	-
100+	1	-	-
Enrolled Firms with No Accounting and Auditing Practice	222	42	9
TOTAL	**2,152**	**273**	**42**

Exhibit A

Results by Type of Peer Review and Report Issued

Report Ratings	2024	
	QTY	%
SYSTEM REVIEWS		
Pass	260	71%
Pass with Deficiency	77	21%
Fail	28	8%
Total System	**365**	

ENGAGEMENT REVIEWS		
Pass	462	82%
Pass with Deficiency	68	12%
Fail	31	6%
Total Engagement	**561**	
REVIEWS TOTAL	**926**	

Exhibit B

Type and Number of Reasons for Report Deficiencies for System Reviews

Reasons for Report Deficiencies	2024
Acceptance and continuance of client relationships and specific engagements	6
Engagement performance	78
Human resources	44
Leadership responsibilities for quality within the firm (the Tone at the Top)	10
Monitoring	32
Relevant ethical requirements	4
TOTAL	**174**

Exhibit C

Number of Engagements Not Performed or Reported on in Conformity with Professional Standards in All Material Respects (Nonconforming Engagements)

	Reviewed	Nonconforming Engagements	%
Audits			
Single Audit	111	33	30%
Government Auditing Standards - All Other	98	16	16%
ERISA	170	37	22%
Statements on Auditing Standards and Other	433	84	19%
Reviews	560	96	17%
Compilations & Preparations			
With Disclosures	316	15	5%
Omit Disclosures	872	82	9%
Financial Forecast & Projections	0	0	0%
SOC Reports	2	0	0%
Agreed-Upon Procedures	115	21	18%
Other SSAEs	5	0	0%
TOTAL	**2,682**	**384**	**14%**

Exhibit D

Summary of Required Follow-up Actions
(Includes Corrective Actions and Implementation Plans)

Type of Follow-up Action	2024
Agree to Hire TC/Outside Party to Perform Inspection	2
Agree to Pre-issuance Review by TC/Outside Party	10
Agree to remediate deficiencies noted in your firm's peer review.	5
Does Not Perform Any [insert type] Engagements	8
Join EBPAQC	1
Join GAQC	3
Other	2
Submit Evidence of Proper Firm Licensure	5
Submit Inspection Report to TC/Outside Party for Review	4
Submit Monitoring Report to Team Captain/Outside Party for Review	7
Submit Proof of Certain CPE Taken	243
Submit to TC/Outside Party Post-issuance Review of Subsequent Engagements w/o wp's	2
Submit to TC/Outside Party Post-issuance Review of Subsequent Engagements w/ wp's	121
TC/Outside Party Review Correction of Non-Conforming Engagements	23
TC/Outside Party to Review Quality Control Document	3
TOTAL	**439**

Exhibit E

Oversight Results of Peer Review

Type of Peer Review	2024
SYS	12
ENG	9
TOTAL	**21**

Oversight Performed on the AE

The results of our most recent oversight performed by the AICPA Oversight Task Force, which covers only the AICPA Peer Review Program, are available on AICPA's website.