

January 2, 2019

TO: State Boards of Accountancy and other interested parties
FROM: J. Coalter Baker, Chair – NASBA Uniform Accountancy Act Committee

As approved by the NASBA Board of Directors, we are releasing for comment revisions to the Uniform Accountancy Act's Model Rules that pertain to peer review (compliance assurance) programs. Some substantive changes are being proposed to Article 7. Overall, Rules 7-1 and 7-2 basically remain the same, and Rule 7-8 and most of 7-9 are unchanged but for numbering; however, the rest of Article 7 includes several significant changes that we would like you to review. Because these are significant changes, which the NASBA Compliance Assurance Committee has carefully worked through, the NASBA Board has voted to have the comment period extend until June 30. This should give all Boards time to review the changes and perhaps discuss them with other Boards at the Regional Meetings.

The goal of these changes was to make the Rules more closely reflect current practice than the existing Model Rules do. In the proposed changes, the term "peer review program" is used instead of "compliance assurance program" and there is no reference to a CARB oversight body. But more important than title changes, the Rules being proposed contain basic definitions, recognition of the AICPA and the State Societies as approved sponsoring organizations, requirement that non-AICPA members be allowed to participate in the AICPA's program, clarification of what needs to be done by a set date, guidance for the selection of Peer Review Oversight Committee members, and required submissions to the State Board. Please consider these rules in respect to your Board's current rules and consider where the Model Rule should fit.

The NASBA Compliance Assurance Committee, led by John Dailey, Jr., has done an incredible job of looking at what we have in the Model Rules now and what we need to have in the Model Rules. They have consulted with the American Institute of CPAs teams and the AICPA/NASBA Uniform Accountancy Act Committee in developing these proposed changes, but the process is not over. After we hear from interested parties during the comment period, the UAA Committee will reconvene and review those comments, incorporate any appropriate edits, and then make a final recommendation to the NASBA Board regarding whether to adopt these changes.

The UAA Committee would appreciate receiving your input in the form of comment letters submitted by June 30, 2019 to lhaberman@nasba.org.

Sincerely,



J. Coalter Baker, CPA
Chair, NASBA UAA Committee

ARTICLE 7
PERMITS TO PRACTICE – FIRMS
(changes highlighted)

Rule 7-1 – Applications.

- (a) Applications by firms for initial issuance and for renewal of permits pursuant to Section 7 of the Act shall be made on a form provided by the Board and, in the case of applications for renewal, shall be filed no earlier than [] months and no later than [] months prior to the expiration date. Applications will not be considered filed until the applicable fee and all required documents prescribed in these Rules are received. If an application for permit renewal is filed late, it shall also be accompanied by the delinquency fee prescribed in these Rules.**
- (b) A sole proprietor may apply simultaneously for a certificate or a renewal of a registration or a certificate and a firm permit.**
- (c) Applications shall include the firm name, addresses and telephone numbers of the main office and of any branch offices of the firm in this State, the name of the person in charge of each such branch office, and the names of the partners, shareholders, members, managers, directors, and officers whose principal place of business is in this State.**

Rule 7-2 - Notification of firm changes.

- (a) A firm registered pursuant to Section 7 of the Act shall file with the Board a written notification of any of the following events concerning the practice of public accountancy within this State within thirty (30) days after its occurrence:**
 - (1) Formation of a new firm;**
 - (2) Addition of a partner, member, manager, or shareholder;**
 - (3) Retirement, withdrawal or death of a partner, member, manager, or shareholder;**
 - (4) Any change in the name of the firm;**
 - (5) Termination of the firm;**
 - (6) Change in the management of any branch office in this State;**
 - (7) Establishment of a new branch office or the closing or change of address of a branch office in this State; and**
 - (8) Issuance of the firm's first attest or compilation report; or**

- (9) The occurrence of any event or events which would cause such firm not to be in conformity with the provisions of the Act or these Rules.
- (b) In the event of any change in legal form of a firm, such new firm shall, within thirty (30) days of the change, file an application for an initial permit in accordance with these Rules and pay the fee required by these Rules.
- (c) In the event a practice unit is sold, dissolved, or merged with the practice of one or more other practice units, determination of successor or predecessor practice unit(s), peer review year-end(s) and the peer review due date(s) will be made in accordance with the sponsoring organization's guidance.

Rule 7-3 - Peer review definitions.

- (a) "Administering Entity (AE)" – An entity approved by a Board-approved sponsoring organization to administer the Board-approved peer review program.
- (b) "Enrollment in a peer review program" means a firm is required to follow all requirements of the peer review process, cooperate with those performing and administering the peer review, comply with the peer review standards, and inform Administering Entities when firm changes occur.
- (c) "Peer Review Program" means the sponsoring organization's entire peer review process, including but not limited to the standards for administering, performing, and reporting on peer reviews, oversight procedures, training, and related guidance materials.
- (d) "Peer Review Oversight Committee" (PROC) – A Board-appointed committee of licensees approved by the Board for monitoring the Board-approved peer review program, including sponsoring organizations' Administering Entities, to provide reasonable assurance that Administering Entities and respective Peer Review Committee and Report Acceptance Bodies are functioning in a manner that effectively enforces the performance and reporting of peer review in accordance with peer review standards.
- (e) "Peer Review Standards" means the Board-approved professional standards and guidance for administering, performing, and reporting on peer reviews.
- (f) "Peer Reviewer/Reviewing Firm" means a certified public accountant/accounting firm responsible for conducting the peer review, holding a valid and active license to practice public accounting in good standing issued by this state or some other state, and meets the peer reviewer qualifications to perform peer reviews established in the Board-approved peer review standards.

(g) “Sponsoring Organization” means a Board-approved professional association, society, or other organization responsible for the facilitation and administration of peer reviews directly or through its Administering Entities and responsible for the oversight of the Administering Entities pursuant to the sponsoring organization’s peer review standards.

Rule 7-4 – Enrollment in Board-approved peer review program.

(a) Enrollment in a Board-approved peer review program, or other comparable compliance assurance program, is a condition for renewal of a permit for firms issuing attest and compilation reports. The Board requires licensees that issue attest or compilation reports pursuant to UAA 6(j) or UAA 7(a)(1)(A) and firms that issue such reports pursuant to UAA 7(a)(1)(C) to be enrolled in a Board-approved peer review program.

(b) A firm is not required to enroll in a Board-approved peer review program if its only level of service is performing preparation of financial statements (with or without disclaimer reports) under Statements on Standards for Accounting and Review Services (SSARs). However, if the firm elects to enroll in a Board-approved peer review program, it is required to have a peer review which would include preparation of financial statements within the scope of the review.

(c) A firm enrolled in a Board-approved peer review program shall schedule, undergo, and complete its initial peer review in compliance with the sponsoring organization’s peer review standards and related guidance. Ordinarily, a firm’s initial peer review is due 18 months from the date it enrolled or should have enrolled in a Board-approved peer review program. The “due date” is a date by which a review has taken place and all materials have been submitted to the Administering Entity.

(d) A firm enrolled in a Board-approved peer review program shall schedule, undergo and complete its subsequent peer reviews in compliance with the sponsoring organization’s peer review standards and related guidance. Ordinarily, subsequent peer reviews shall be due such that the peer review has taken place and all peer review materials are submitted to the Administering Entity within three years and six months from the peer review year-end of the previous peer review.

(e) The Board may accept peer review extensions granted by Administering Entities provided the Board is notified by the firm within 14 days from the date of the letter from the Administering Entity granting the extension.

(f) Requests for extensions of time to undergo a peer review shall be submitted to the Board in writing by the firm no later than the earlier of a firm’s renewal date or peer review due date (which is determined by the Administering Entity) and shall include any extensions granted by the Administering Entity. The Board may approve requests for extensions based upon good cause clearly outside the control of the firm including, but not limited to, health or military service.

(g) For good cause shown, the Board may grant or renew permits for a reasonable

period of time pending completion of the firm's peer review.

- (h) For firms required to be registered with and subject to inspection by the Public Company Accounting Oversight Board (PCAOB), the Board recognizes the PCAOB's inspection process for reviewing practices subject to its authority, which are not included in the scope of peer review programs. Firms subject to inspection by the PCAOB are also required to meet the peer review requirements under a Board-approved peer review program that covers the portion of the practice unit's practice not subject to the PCAOB permanent inspection.**

Rule 7-5 –Submission of peer review documents.

- (a) The objective of this reporting rule is primarily to reinforce the Board's efforts to ensure that only appropriately qualified CPA firms are engaged in the offering and rendering of services subject to peer review. Based upon its review of the documents submitted pursuant to this rule, the Board may consider, pursuant to hearing or by consent, additional corrective actions such as probation, practice limits, additional continuing education, pre-issuance reviews, more frequent peer reviews, and other measures including, in severe cases, discipline against the reviewed firm and any individual licensees employed or contracted by the reviewed firm.**

COMMENT: The reference in this Rule to possible discipline against "individual licensees employed or contracted by the reviewed firm" is not intended to include peer reviewers or their staffs with regard to firms they review.

- (b) The firm is required to submit a copy of the results of its most recently accepted peer review to the Board, which includes the following documents:**

(1) Peer review report which has been accepted by the administering entity.

(2) The firm's letter of response accepted by the administering entity, if applicable.

(3) The acceptance letter from the administering entity.

(4) Letter(s) accepting the documents signed by the firm with the understanding that the firm agrees to take any actions required by the Administering Entity, if applicable; and

(5) Letter signed by the Administering Entity notifying the firm that required actions have been appropriately completed, if applicable.

- (c) The firm shall submit the peer review documents in (b) (1) through (b) (3) above to the Board within 30 days of the administering entity's acceptance. The firm shall submit the document in (b) (4) to the Board within 30 days from the date the letter is signed by the firm or with submission of the firm's renewal application, whichever occurs first. The firm shall submit the document in (b) (5) to the Board within 30 days of the date of the letter or with submission of the firm's renewal application, whichever occurs first.**

- (d) The firm shall satisfy this document submission requirement by allowing the**

administering entity to provide the Board access to the documents via a secure website process such as the AICPA Facilitated State Board Access (FSBA).

Rule 7-6- Approved peer review sponsoring organizations, programs and peer review standards.

- (a) The Board shall approve peer review sponsoring organizations, program (s) and standards.**

COMMENT: Predecessor Administering Entities are to engage in candid dialogue with the appropriate Board(s) about any intent to discontinue administration of the peer review program. Further, Administering Entities are expected to speak to the board(s) regarding the change in administration prior to making a final decision. Communication with the Board shall be documented including a contact name and date/s of the communication in a form to be sent to the sponsoring organization. Consistency of administration is a primary objective when consolidating AEs. The intent is for Boards to have the same experience, regardless of an AE's physical location.

- (b) The Board recognizes the American Institute of Certified Public Accountants (AICPA) as an approved sponsoring organization and its peer review program and peer review standards, and the _XXXX Society of CPAs or its successor and other peer review programs administered by entities involved in the administration of the AICPA Peer Review Program. These organizations are not required to submit an application for approval to the Board. As condition of this approval, that sponsoring organization is required to provide its peer review services to nonmember licensees whose firms' principal place of business are located in this state so long as such nonmembers comply with the applicable peer review standards.**

- (c) The Board may terminate its approval of a sponsoring organization for cause following notice and opportunity for hearing. For purposes of this paragraph, "cause" includes but is not limited to failure to maintain an ongoing compliance with the requirements of this chapter.**

- (d) The Board may approve other peer review sponsoring organizations and programs. For an organization not specifically identified in these Rules as Board-approved to receive Board approval for its peer review program and standards, the organization must submit evidence to the satisfaction of the Board. At a minimum, the evidence shall include the standards, procedures, guidelines, oversight process, training materials, and related documents used to administer, perform, and accept peer reviews. The Board has the authority to request any other documents/information from an organization about its peer review program in determining whether to grant approval.**

Rule 7-7- Peer review oversight committee.

- (a) Peer Review Oversight Committee (PROC) shall be appointed or adopted by the Board to monitor the Board-approved peer review program, including sponsoring**

organizations' administering entities, to provide reasonable assurance that administering entities and respective Peer Review Committees (PRCs) and Report Acceptance Bodies (RABs) are functioning in a manner that effectively enforces the performance and reporting of peer reviews in accordance with peer review standards. The PROC or the Board's designee shall report to the Board on the conclusions and recommendations reached as a result of the PROC's activities at least annually.

(b) PROC members shall:

(1) Not have a conflict of interest.

(2) Be subject to removal or replacement by the Board at its discretion.

(3) Be required to sign a confidentiality agreement indicating they will not divulge any information to the Board that would identify any firm, licensee, or peer reviewer/reviewing firm as a result of their monitoring of the peer review process.

(4) Perform procedures which may consist of, but are not limited to, the following activities:

(i) Visiting the Administering Entities of the approved peer review program;

(ii) Reviewing sponsoring organization procedures for administering the program;

(iii) Meeting with an Administering Entity's Report Acceptance Body during consideration of the peer review documents;

(iv) Reviewing the Administering Entity's compliance with its program.

(c) The Board shall establish procedures and take all action necessary to ensure that the above materials remain privileged as to any third parties.

Rule 7-8- Internet practice.

A CPA firm offering or rendering professional services via a Web site shall provide in the Web site's homepage, a name, an address, and principal state of licensure as a means for regulators and the public to contact a responsible licensee in charge at the firm regarding complaints, questions, or regulatory compliance.

Rule 7-9 - Attest documentation and retention.

- (a) Licensees shall comply with all professional standards for attest documentation applicable to particular engagements, including, but not limited to, standards adopted by recognized standards setting bodies such as the Public Company Accounting Oversight Board (PCAOB), the Comptroller General of the United States, and the Auditing Standards Board.
- (b) If the applicable standards do not otherwise specify, the retention period for attest documentation shall be five (5) years and shall be measured from the report date.
- (c) If attest documentation is required to be kept for longer than provided in the applicable standards because of a pending Board investigation or disciplinary action, attest documentation shall not be destroyed until the licensee has been notified in writing by the Board of the closure of a Board investigation or disciplinary proceeding.

Rule 7-10- Unregistered firm compliance with applicable peer review documentation requirements.

Any firm not required to register in this state, but which provides attest and/or compilation services as permitted under Sections 7 and 23 of the Act, shall be required to maintain records as prescribed by Rule 7-9(b) regarding its participation in a comparable peer review program for any period in which the firm provided attest and/or compilation services in this state and shall provide copies of such records upon this Board's written request; provided, however, the Board shall not make such a request except upon good cause.

COMMENT: For purposes of this Rule, "good cause" is reasonable cause and not authorization for a notice requirement. Good cause for requesting peer review program records should be based upon a third -party complaint or other evidence of inadequate professional services of the type that would be subject to peer review.

