

ARIZONA STATE BOARD OF ACCOUNTANCY
PEER REVIEW OVERSIGHT ADVISORY COMMITTEE
2013 Annual Report

August 7, 2013

Arizona State Board of Accountancy
100 N. 15th Avenue, Suite 165
Phoenix, AZ 85007

Re: 2013 PROAC Report

Dear Board Members:

It is with pleasure that I present the 2013 Annual Report of the Peer Review Oversight Advisory Committee (PROAC) to the Arizona State Board of Accountancy (the Board). PROAC has continued to make significant progress in refining the Peer Review oversight process and the completion of educational enhancement reviews (EER). This is my first year as Chairman of the Committee, and I have been elected to be the Chairman for the following year.

In order to save the Board's time and to present our information in a summarized manner, several bullet points are listed below. If any of the Board members would like to have any additional information regarding any of these issues, please contact me.

1. **Committee Statistics**: during the fiscal year 2013, PROAC processed 169 peer review reports. In addition, 55 educational enhancement reviews were conducted. This resulted in 33 letters of concern (60%) and three referrals for further Board action (mandatory Peer Review).
2. **Outreach Efforts**: in response to the Board's request "to get the word out" regarding deficiencies in compilation reports, members of the PROAC and Board staff developed a seminar entitled Compilations 101 – How to Stay out of Trouble with the State Board. The seminar was presented in August 2012 with the Arizona Society of CPA's and had in excess of 95 attendees at the seminar. In January 2013, members of the PROAC and Board staff presented the same seminar at the annual ASCPA Accounting and Reporting Standards Conference. We are currently scheduled to present the seminar to the Tucson Society of CPA's in December, 2013.
3. **Advocacy Efforts** – members of the PROAC attended a Law Review Committee Meeting and corresponded with other members of the Law Review Committee to discuss proposed changes to the Arizona Statutes with respect to non-disclosure compilation services and the definition of compilation services. It is my understanding that the Board is still debating the recommendation of the PROAC to require mandatory peer review for all firms preparing compiled financial

statements including those that omit substantially all disclosures. Further, it was the consensus of the committees at this time to not attempt to independently define compilation services but to rather use the definition developed by the American Institute of CPA's (AICPA). It should be further noted that the AICPA's Accounting and Review Services Committee (ARSC) is currently scheduled to meet in August, 2013 to discuss a reissuance of an exposure draft to redefine compilation services. The ARSC is expected to remove the preparation of financial statements from compilation services and consider it a non-attest service.

4. **Policy Update** – Members of the PROAC have drafted a policy regarding consecutive uncorrected deficiencies noted in peer reviews, a copy of which is attached. It is the Committee's belief that if a Firm has consecutive fail or pass with deficiencies peer review reports, the Committee should review the nature of the reported deficiencies and determine whether or not the Firm should be referred to the Board for further action. Per my attendance at the National Peer Review Oversight Committee Summit, it was noted that several states have policies on consecutive uncorrected deficiencies and that the trend is to have these firms be subject to an accelerated Peer Review.

The PROAC has also discussed the requirement for Committee Members to sign confidentiality agreements; a copy of the draft is attached.

Summary

Due to the continued high percentage of EERs that result in letters of concern and/or referral to the Board for enforcement action, it is the PROAC Committee's consensus that the Board should consider mandatory Peer Review for all firms that issue any compilation reports (whether or not including disclosures). It should be noted that currently it is estimated that 270 firms are "in the queue" for having an EER conducted within the next five years. This number changes on a weekly basis but shows the number of firms who have elected not to have a Peer Review. A firm that is selected for an EER would not be subject to another EER for five years. We believe that a five-year cycle is too long and allows firms issuing deficient reports to continue issuing reports without appropriate oversight. The three-year Peer Review cycle provides for timely oversight that would increase the quality of reports issued in Arizona.

Sincerely,

Timothy R. Coffey, CPA
GRASS COFFEY & SCHARLAU, CPA'S