

1
2 **UNIFORM ACCOUNTANCY ACT**
3

4 **Section 7**
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8 **(h) The Board shall by rule require as a condition to renewal of permits under this**
9 **Section, that applicants undergo, no more frequently than once every three years,**
10 **peer reviews conducted in such manner as the Board shall specify, and such review**
11 **shall include a verification that individuals in the firm who are responsible for**
12 **supervising attest and compilation services and sign or authorize someone to sign the**
13 **accountant's report on the financial statements on behalf of the firm meet the**
14 **competency requirements set out in the professional standards for such services,**
15 **provided that any such rule --**

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17 **(1) shall be promulgated reasonably in advance of the time when it first becomes**
18 **effective;**

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20 **(2) shall include reasonable provision for compliance by an applicant showing that**
21 **it has, within the preceding three years, undergone a peer review that is a**
22 **satisfactory equivalent to peer review generally required pursuant to this**
23 **subsection (h);**

24
25 **(3) shall require, with respect to any organization administering peer review**
26 **programs contemplated by paragraph (2), that it be subject to evaluations by**
27 **the Board or its designee, to periodically assess the effectiveness of the peer**
28 **review program under its charge, and**

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30 **(4) *may require that organizations administering peer review programs provide**
31 **to the Board information as the Board designates by rule; and**

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33 **(5) *shall require with respect to peer reviews contemplated by paragraph (2) that**
34 **licensees timely remit such peer review documents as specified by Board Rule**
35 **or upon Board request and that such documents be maintained by the Board in**
36 **a manner consistent with Section 4(j) of this Act.**

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38 *** Due to its 1988 commitment to its members, the AICPA cannot support this**
39 **provision at this time.**

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41 *COMMENT:* The AICPA and NASBA both agree that periodic peer reviews are an important
42 means of maintaining the general quality of professional practice.

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44 In the interests of providing flexibility where appropriate or desirable, this provision would give
45 the Board latitude when to require reviews. Paragraph (2) is intended to recognize that there are
46 other valid reasons besides state regulation for which firms may undergo peer reviews (for
47 example, as a condition to membership in the AICPA). It is also intended to avoid unnecessary

1 duplication of such reviews, by providing for the acceptance of peer reviews performed by other
2 groups or organizations whose work could be relied on by the Board. If a peer review requirement
3 is established by the Board, paragraph (3) requires that the Board assure that there is an evaluation
4 of the administration of the peer review program(s) which is accepted by the Board, which is
5 performed either by the Board or its designee. Paragraph (4) would require the administering
6 entities of peer review programs to provide the Board information, as required by rule. Paragraph
7 (5) requires that licensees remit peer review documents to the Board, as specified by rule, and that
8 these documents would be maintained subject to the confidentiality provision in Section 4(j) of the
9 Act.

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11 Paragraphs (4) and (5) primarily address the ability of the Board to have direct access to peer
12 review results. Previous editions of the UAA contained language that could have been interpreted
13 to either not permit or to limit state boards' access to results of the peer review process. Language
14 that restricted the Board's ability to access the results of peer review was consistent with the
15 AICPA's commitment to its membership to maintain the confidentiality of peer review materials
16 that were generated through the AICPA peer review program. However, in response to regulatory
17 concerns it was determined that new language was needed to provide for greater transparency. At
18 its spring 2004 meeting, AICPA's governing Council approved a resolution in support of increased
19 transparency in the peer review process. However, as a result of the AICPA's 1988 commitment
20 to its membership to maintain the confidentiality of peer review results, the AICPA's Council will
21 not act on its resolution without a vote of the AICPA's membership. The AICPA will not pursue
22 a vote of its membership until the membership has fully considered the issues surrounding this
23 matter. Until that time, a solution for the UAA was crafted that recognized the authority of state
24 boards of accountancy to take action and at the same time allowed the Institute to keep its
25 commitment to the AICPA membership on confidentiality of peer review materials. For that
26 reason, paragraphs (4) and (5) are marked with an asterisk (*) that states "Due to its 1988
27 commitment to its members, the AICPA cannot support this provision at this time."
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29 The term "peer review" is defined in section 3(n).

UAA MODEL RULES

Rule 7-3 - Successful completion of an approved Compliance Assurance Program including, but not limited to, “peer review” programs or other comparable programs which have been approved by the Board, as a condition for renewal of permit.

- (a) In furtherance of its duty to protect the public regarding attest services, the Board requires all CPA firms offering or rendering such services to be enrolled in, and undergo, a transparent compliance assurance program approved by the Board and to comply with the applicable compliance assurance standards of that program. ~~As used herein, the term “Compliance Assurance Program” includes, but is not limited to, “peer review” programs or other comparable programs which have been approved by the Board in accordance with the requirements set forth below.~~
- (b) The Compliance Assurance functions may be performed by a committee established by the Board, qualified contractors approved by the Board or substantially equivalent programs [such as the peer review program administered by the AICPA] acceptable to the Board. The Board may establish procedures to perform the following functions:
- (1) Review of financial statements and the reports of licensees thereon, to assess their compliance with applicable professional standards;
 - (2) Improvement of reporting practices of licensees through education and remediation;
 - (3) Referrals to the Board of cases requiring further investigation by the Board or its designees;
 - (4) Verification that individuals in the firm responsible for supervising compilation or attest services, and signing the accountants’ report on financial statements on behalf of the firm, meet the competency requirements set out in applicable professional standards;
 - (5) Verification that a certificate holder who issues compilation reports for the public other than through a CPA firm, who supervises such services and/or signs the compilation report on such financial statements, meets the competency requirements set out in applicable professional standards; and
 - (6) Such other functions as the Board may assign to its designees.
- (c) On and after _____, each applicant for renewal of a certificate under Section 6 of the Act in the case of a certificate holder who issues compilation reports to the public other than through a CPA firm, and each applicant for renewal of a firm permit to practice under Section 7 of the Act, shall furnish in connection with their application, with respect to each office maintained by the applicant in this State, one copy of each of the following kinds of reports, together with their accompanying financial statements,

issued by the certificate holder or office during the twelve month period next preceding the date of application, if any report of such kind was issued during such period:

- (1) A compilation report;
 - (2) A review report;
 - (3) An audit report;
 - (4) ~~A report of the examination of prospective financial information~~ Engagements performed under SSAE.
- (d) The Board may also solicit for review reports of licensees and related financial statements from clients, public agencies, banks, and other users of financial statements.
- (e) Any documents submitted in accordance with subsection (b) may have the name of the client, the client's address and other identifying facts omitted, provided that the omission does not render the type or nature of the enterprise undeterminable. The identities of the sources of financial statements and reports received by the Board from other than the licensees who issued the reports shall be preserved in confidence. Reports submitted to the Board pursuant to subsection (b), and comments of reviewers and of the Board on such reports or workpapers relating thereto, also shall be preserved in confidence except that they may be communicated by the Board to the licensees who issued the reports.
- (f) The review of financial statements and reports of the licensees thereon shall be directed toward the following:
- (1) Presentation of financial statements in conformity with generally accepted accounting principles;
 - (2) Compliance by licensees with generally accepted auditing standards;
 - (3) Compliance by licensees with other professional standards; and
 - (4) Compliance by licensees with the Rules of the Board and other regulations relating to the performance of compilation and attest services as herein defined.
- (g) The reviews of the financial statements and the reports of the licensees shall be conducted as follows:
- (1) Compilation level services will be subject to a desk review;
 - (2) Review level services will be subject to a field review in the offices of the licensee;
 - (3) Audit level services and reports of examination of prospective financial information will be subject to a field review in the offices of the licensee;

- (4) Additional reports and financial statements may be selected during the performance of a desk review or an on-premise field review based upon the size and complexity of the reviewed firm as judged by the Board or its designee to adequately assess the quality of the reviewed firm's professional attest practice.
- (h) A firm's review shall result in one of three findings:
- (1) Pass;
 - (2) Pass with deficiencies; or
 - (3) Fail.
- (i) In any instance where the Board finds a deficiency in the professional work of a licensee, it shall advise the licensee in writing of the deficiency. The Board may request the licensee to meet with it to discuss deficiencies. If the Board determines that a report is substandard or seriously questionable, the Board may direct that a review of the workpapers be conducted by an independent reviewer other than the person who performed the review of the report. The findings of any such review of the workpapers shall be transmitted by the reviewer to the Board.
- (j) In gathering information about the professional work of licensees, the Board may make use of investigators, either paid or unpaid, who are not members of the Board.
- (k) The results of the reviews will be transmitted to the Board's office within 45 days after completion of any review report.

Rule 7-4 - Equivalent reviews as a condition for renewal of a permit.

- (a) The requirements of Rule 7-3 shall not apply with respect to any firm or certificate holder which within the three years immediately preceding the application had been subjected to a comprehensive and appropriately administered compliance assurance program as determined and approved by the Board.
- (b) ~~An Peer Review-oversight~~ Oversight committee-Committee (PROC) shall be appointed by the Board to monitor the compliance assurance programs and report to the Board that the programs meet the requirements set out in the Act and these Rules. The oversight committee shall:
- (1) only include individuals who are not members of the Board;
 - (2) have full access to the peer review process which is subject to oversight and may be required to sign a confidentiality agreement to have this access;
 - (3) provide the Board with the names of those certificate holders and firms which have undergone and have had accepted an equivalent review as well as whether

such certificate holders and firms are meeting the terms, conditions, and remedial actions, if any, required by the reviewing organization;

(4) establish, as directed by the Board, procedures designed to ensure confidentiality of documents furnished or generated in the course of the review;

~~(5) coordinate oversight functions conducted within the state with national oversight objectives and procedures adopted by the NASBA Compliance Assurance Review Board (CARB).~~

(c) The Board shall establish procedures and take all action necessary to ensure that the above materials remain privileged as to any third parties, except those materials subject to public disclosure as provided herein.

Rule 7-5 – Submission of compliance assurance reports to the Board.

(a) Firms qualifying for exemption from compliance assurance review as provided by the provisions of Rule 7-4 shall notify and affirmatively request the administering entity performing the qualifying satisfactorily equivalent compliance assurance reviews [such as those conducted by AICPA peer review programs and the entities administering those reviews] to provide Board access to the reports within 45 days after the administering entity's acceptance of any ~~review~~ report.

(b) Regarding any report required to be submitted to the Board pursuant to this rule, the reviewed firm must retain, for a period of seven (7) years from the date of the report acceptance, all of the following: compliance assurance report [or "peer review report"], ~~letter of comments~~, letter of response, acceptance letter signed by the reviewed firm agreeing to take corrective actions, and letter of completion indicating that the firm's compliance assurance review is complete. Upon request of the Board, the reviewed firm or individual shall timely submit such documentation to the Board;

(c) 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 compliance assurance. Based upon its review of the reports 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.

(d) For good cause shown the Board may grant or renew applications for a reasonable period of time pending completion.

Rule 7-8 - Unregistered firm compliance with applicable compliance assurance requirements.

Any firm not required to register in this state, but which provides attest services as permitted under Sections 7 and 23 of the Act, shall maintain records as prescribed by Rule 7-5(b) regarding its participation in a comparable Compliance Assurance Program for any period in which the firm provided attest 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 Compliance Assurance Programs 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.

