

To: UAA Peer Review Task Force

From: AICPA Peer Review Team

We appreciate the opportunity to assist the UAA Committee (Committee) with the massive undertaking of updating the UAA Act (the Act) and UAA rules (rules) related to peer review. To assist with the process, we are providing suggested revisions in track changes in Attachment 1 (the Act) and Attachment 2 (rules) and have provided explanations for the suggested revisions in this document which will be helpful as you consider the proposed changes.

The AICPA, in collaboration with state CPA societies have provided many of these suggestions to numerous state boards (Boards) when they were updating their statutes or rules related to peer review. Many have included or are in the process of updating their laws or rules to include many of these suggestions.

Note: Changes to the documents are based on the assumption that firms/practice units that only perform preparation services will not be required to be enrolled in a peer review program. This aligns with *Standards for Performing and Reporting on Peer Review (Standards)*. However, if a Board were to require enrollment in peer review for firms that only perform preparation services, that requirement would need to be added to their respective statute/rules.

### **Explanation of proposed changes to the Uniform Accountancy Act (Seventh Edition)**

During our review of the Act, we focused on sections that related (directly or indirectly) to peer review. In recent years, peer review has focused on competency of the individuals responsible for and performing attest and compilation engagements. The peer review process has identified numerous situations where those individuals did not have sufficient level of competency to perform engagements thus resulting in engagements that were not performed in accordance with professional standards in all material respects. Therefore, we encourage the UAA committee to raise the level of expected performance for all licensees. Several of the revisions below suggest changes that focus on competency and performance.

#### **Fourth section of the Fundamental Principles (UAA 1-3)**

This section indicates the requirements for licensing persons based on minimum qualifications. In order to perform professional services, an individual should possess sufficient level of professional qualification and competency to perform such services. To protect the general public, licensees should possess more than a minimum level of professional qualifications. There is an expectation of the general public that performance of services should exceed “adequate.”

### **SECTION 3 DEFINITIONS (UAA 3-2 and 3-4)**

#### **Compilation**

As noted above, the proposed revisions assume that firms/practice units that only perform preparation services would not be required to be enrolled in a peer review program. As currently defined, the definition of “Compilation” (UAA 3-2) could be interpreted as including both compilations and preparation services. Therefore, we suggest revising the definition of compilation to clearly indicate preparation services are not included in the definition. To assist with the definition of compilation, we suggest contacting Accounting and Review Services Committee (ARSC) at the AICPA.

### Peer Review

We suggest the Committee revisit the definition of peer review (UAA 3-4). It incorporates the term “one or more aspects of the professional work of a certificate holder or CPA firm that issues attest or compilation reports.” The term “professional work” is not defined in the Act or rules so it is difficult to ascertain exactly what work would be encompassed in a peer review. With the term “professional work” not defined, one might conclude tax or other services are included in peer review. To assist the committee, we have provided suggested revisions.

### SECTION 7 FIRM PERMITS TO PRACTICE, ATTEST AND COMPILATION COMPETENCY AND PEER REVIEW (UAA-7-4 and UAA-7-5)

Competency is a critical component of an individual performing professional services. However, peer review measures more than just competency. In section (h), we recommend the Committee consider expanding this. Our suggestion is to indicate that the licensee perform engagements in accordance with the professional services for such engagements.

### SECTION 10 ENFORCEMENT- GROUNDS FOR DISCIPLINE (UAA10-2)

Section (b) (1) was modified to clarify the Board’s requirement when a firm is required to have a peer review as an enforcement action. The firm would follow all of the requirements of the Board approved program. The current language “in such fashion” is somewhat ambiguous and should be deleted. The firm should also be given a deadline for compliance; therefore, we suggest adding “in a time frame” as the Board may specify.

### **Explanation of proposed revisions and comments on the UAA Model Rules**

Based on recent changes in Board statutes and regulations, Boards are moving away from having their own compliance assurance program and referring to the AICPA Peer Review Program or State CPA Society Peer Review Programs in their statute or rules. These programs are typically more robust than a Board’s compliance assurance program.

As of now, there are only a handful of states that still have their own compliance assurance program. Because these states permit licensees to elect to have their peer review performed by one of the other peer review programs and AICPA member firms are required to be enrolled in the AICPA Peer Review Program, there are a minimal number of firms that have a compliance assurance review by their Board.

As stated in Section 7 (h) of the Act, in 2004, AICPA’s governing Council approved a resolution in support of increased transparency in the peer review process. Due to the AICPA’s commitment to its membership to maintain the confidentiality of peer review results, the AICPA’s Council will not act on its resolution without a vote of the AICPA’s membership. The AICPA will not pursue a vote of its membership until the membership has fully considered the issues surrounding this matter. Until that time, a solution for the UAA was crafted that recognized the authority of state Boards of accountancy to take action and at the same time allowed the Institute to keep its

commitment to the AICPA membership on confidentiality of peer review materials. We stand by our commitment to AICPA membership and believe Boards should not access or require submission of peer review reports or documents.

Therefore, our revisions primarily focus on elimination of rules related to (1) a Board having a compliance assurance program and (2) access to or submission of peer review reports by Boards.

#### RULE 7-2 Notification of firm changes

We suggest modifying the title of this rule to indicate it is referring specifically to firm changes. Rewording the title to indicate this section relates to firm changes makes it less ambiguous.

With numerous changes related to firm mergers, dissolution, etc. occurring throughout the country, we believe the sponsoring organization should determine which firm, if any, should be the successor firm for peer review purposes. Several factors need to be considered when determining if there is a successor firm. Allowing sponsoring organizations that use peer review standards and guidance will provide for consistent treatment of determining a firm's next peer review when such events occur.

#### RULE 7-3 (new)

We included key definitions of terms that are used throughout the remaining peer review rules in Section 7. These definitions provide a description of certain terms which will provide for consistent interpretation and usage of the term.

#### RULE 7-4 (Formerly Rule 7-3)

The Act refers to "peer review" and not "compliance assurance." The original title of this rule uses the term "Compliance Assurance Program." We are not aware of any Boards that use this term in lieu of peer review or quality review program. For consistency and easy identification of the program name, this should be revised to refer to "Peer Review Program."

In addition, we deleted "successful completion" in the title because "successful" is ambiguous. We believe a review is successful if a firm that receives a fail report and appropriately remediates and demonstrates such remediation in a timely fashion and then receives a pass on its next peer review. Enrollment in a peer review program requires a firm to follow all requirements of the peer review process and inform sponsoring organizations when changes in the firm occur. Enrolled firms must cooperate with those performing and administering the review and comply with the peer review standards. Therefore we suggest removing the term "successful" and replace it with enrollment.

Note: For easier reference to the revisions of Attachment 2 outlined below, original sections of the rules are noted as "former" sections.

#### SECTION (a) (New)

Revisions to this section include Board approval of the peer review program, provides that the program should be acceptable by other regulatory bodies, recognizes standards for performing

and reporting on peer reviews including AICPA *Standards for Performing and Reporting on Peer Reviews* or other programs that are comparable.

#### SECTION (b) (formerly Section (a))

Based on Boards moving away from having their own “Compliance Assurance Program,” this section has been revised to remove all functions related to such program and replaced with the obligation of firms performing attest and/or compilation services to be enrolled in a Board-approved program.

#### Former SECTION (c)

This section has been deleted because it outlined requirements for Boards that performed their own compliance assurance functions by a committee of the Board. Deleting this section does not forego the ability for a Board to continue to have its own compliance assurance program, however we believe the functions performed by a Board should meet the requirements in revised Section (a).

#### SECTION (c)

This section specifically relates to individuals or firms that perform compilation services in a non-CPA owned entity. The Committee may want to consider combining this with section (b).

#### Former SECTIONS (d) – (k)

With deletion of a Board’s compliance assurance program, these requirement are not necessary. Former Sections (d) – (k) have been deleted.

#### SECTION (d)

This section provides guidance when a firm must undergo an initial peer review. To protect the public, a firm should have its initial peer review due eighteen months from the date it should have enrolled. Details of enrollment and initial reviews should be addressed in the peer review standards.

#### SECTION (e)

This section outlines the requirements for subsequent reviews. Subsequent reviews of an enrolled firm should be completed within three years and six months from the previous peer review year end. Further details, such as definition of completion, should be addressed in the peer review standards.

#### SECTION (f)

In certain situations, a firm should be granted extensions. These extensions should be approved by the sponsoring organization that administers the firm’s peer review. Once approved by the sponsoring organization, the firm should provide a copy of the extension to the Board.

Placement of the language to grant or renew a license for good cause has been moved below the extension provision.

#### Former Rule 7-5

This section related to the submission of documents required of a compliance assurance program. With the deletion of such program, this rule has been deleted in its entirety.

Former section (d) was moved to Rule 7-4 Section (f).

#### RULE 7-5 (new)

This rule outlines the requirements of sponsoring organizations, approval and termination of sponsoring organizations by the Board, and approval of organizations that currently administer the AICPA Peer Review Program.

#### SECTION (a)

Boards should be able approve or terminate sponsoring organizations. This section allows Boards to approve sponsoring organizations.

#### SECTION (b)

With tens of thousands of firms already enrolled in a peer review program administered by the AICPA and various state CPA societies, this section provides approval of the AICPA and a named CPA society as well as other societies that administer the AICPA Peer Review Program as approved sponsoring organizations.

#### SECTION (c)

As stated in Section (a), the Board should be permitted to approve or terminate a sponsoring organization. This section allows the Board to terminate its approval of a sponsoring organization for "cause."

#### SECTION (d)

Although Section (b) provides approval for AICPA and state CPA societies to be sponsoring organizations, this section also allows for other organizations to be approved sponsoring organizations. This section provides baseline requirements for other organizations not described in Section (b).

#### SECTION (e)

This section recognizes and approves the inspections performed by the PCOAB for firms registered and inspected by the PCAOB. It further explains that firms are still required to meet requirements of a Board-approved peer review program if they perform engagements that are not subject to the PCAOB's permanent inspection program.

#### RULE 7-6 (Formerly Rule 7-4)

This section is a guide to the requirements and responsibilities of a peer review oversight committee (PROC). The title for this section has been revised to reflect “peer review oversight committee (PROC).”

Any reference to a Compliance Assurance Committee and their duties have been replaced with qualifications, requirements and responsibilities of a PROC.

#### Former SECTION (a)

This section is no longer required with the elimination of a compliance assurance program administered by Boards.

#### SECTION (a)

This section mandates the Board to appoint a PROC and explains, at a high level, the objective of a PROC.

We recognize that several states require PROCs but the reality is that some Boards have difficulty finding candidates to be on PROC's. If this will be a continued concern, the committee should consider changing the word “shall” to “may” in this section.

#### SECTION (b)

Section (b) (1) outlines the requirements of an individual to be a member of the PROC. It has been expanded to indicate a member of the PROC should not be involved in any enforcement related work since that would be considered a conflict of interest either in fact or appearance.

Section (b) (2) mandates that confidentiality agreement be signed by each PROC member and such agreement would prohibit the disclosure of specific firm, licensee, or peer reviewer/reviewing firm that may be obtained as a result of oversight processes.

Section (b) (3) provides specificity to the objective of the PROC oversight, reporting and recommendations to the Board when modifications to the approved peer review program are made by the sponsoring organization.

Section (b) (4) outlines the procedures to be performed by the PROC.

#### Section (c)

Due to our commitment to our members that peer review results should remain confidential, we do not believe any materials should be subject to public disclosure unless it is a requirement of professional standards or as part of the peer review process such as when a firm is dropped or terminated.

#### Rules 7-8 and 7-9 (Former Rules 7-6 and 7-7)

These rules have been renumbered as a result of the above mentioned changes. Our proposed revisions do not impact the current content. However, the Committee should review these to determine if these requirements need to be revised.

### Rule 7-10 (Former Rule 7-8)

This rule has been modified to indicate that firms not required to register in the state should meet the requirement in Rule 7-4 which requires enrollment in a Board-approved peer review program.

### Rule 11-2

We have revised Section (a) (1) and (2) to reflect the intent of the Rule 7-3 (h) (3) and (2), now deleted, to reflect the terms “fail” and “pass with deficiencies” in their peer review report.

### **Facilitated State Board Access (FSBA)**

When peer review became mandatory for AICPA membership in 1988, as stated above, the results were deemed confidential. Only the firm could communicate the results of its accepted peer review to others or agree to have results posted to the AICPA public file to meet a firm’s membership in the PCPS or Audit Quality Centers. In the 25+ years since peer review became mandatory for AICPA membership, 52 of the 55 state Boards have adopted a peer review requirement.

Although we don’t support submission of documents to any third party, many Boards are requiring their licensees to submit certain peer review documents as a condition of licensure. In order to assist firms in complying with peer review document submission requirements, the AICPA created the Facilitated State Board Access (FSBA) process. The process allows firms to give permission to the AICPA or their sponsoring organization to give Boards timely access to the firms’ documents via a Board access only website.

The permissioning for FSBA is accomplished through various opt out and opt in procedures which is based on each Board’s regulations. Some Boards now require their licensees to participate in the FSBA process; others recognize it as an acceptable process to meet the peer review document submission requirements. The documents accessible to Boards through FSBA are:

- (1) Peer review report which has been accepted by the sponsoring organization.
- (2) The firm’s letter of response (accepted by the sponsoring organization), if applicable.
- (3) The acceptance letter from the sponsoring organization
- (4) Letter(s) accepting the documents signed by the firm with the understanding that the firm agrees to take any actions required by the sponsoring organization), if applicable; and
- (5) Letter signed by the sponsoring organization notifying the firm that required actions have been appropriately completed, if applicable.

### Summary

We believe the proposed revisions to the Act and rules provide the committee with a good starting point with their endeavors to change the peer review sections.

We appreciate the opportunity to assist the Committee with updating the Uniform Accountancy Act and rules related to peer review. With many Boards eliminating their own Compliance Assurance Programs, we believe the revisions are essential in assisting Boards updating their statute and regulations. Peer review is complex and we are willing to assist the committee as they move through the process.

