

Uniform

Accountancy

Rules

National Association of State Boards of Accountancy

August 2011

**ARTICLE 7
PERMITS TO PRACTICE -- FIRMS**

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 ~~by firms~~.

- (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 issued financial statements and accountant's reports

for each level of service ~~described in Rule 7-3~~; 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 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.

(c) 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.

~~(a)~~ — Rule 7-3 Peer Review – Definitions

~~(b)~~(a) “Peer Review Programs” 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.

~~(e)~~(b) “Peer Review Standards” means the Board-approved professional standards for administering, performing and reporting on peer reviews

~~(d)~~(c) “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 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

(d) “Sponsoring Organization” means a Board-approved professional society, or other organization responsible for the facilitation and administration of peer reviews through use of its peer review program and peer review standards.

Rule 7-34 ~~Successful completion~~ Enrollment in of an approved ~~Compliance Assurance~~ Peer Review Program as a condition for renewal of permit.

(a) As used herein, the term “Peer Review Program” includes, but is not limited to, any Board--approved peer review program and any peer reviewer performing a peer review under this section shall utilize standards for performing and reporting on peer reviews by a recognized national accountancy sponsoring organization whose standards are generally accepted by other regulatory authorities in the United States and are acceptable to the Board, including but not limited to the AICPA Standards for Performing and Reporting on Peer Reviews or other comparable peer review standards that have been approved by the Board.

- (b) In furtherance of its duty to protect the public regarding attest and compilation services, the Board requires all CPA firms offering or rendering such services to be enrolled in ~~and undergo a transparent compliance assurance~~ Board-approved peer review program approved by the Board and to comply with the applicable compliance assurance standards and guidance of that program.
- (c) ~~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.~~
- a. ~~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;~~
 - ~~(13) Referrals to the Board of cases requiring further investigation by the Board or its designees;~~
 - ~~(24) Verification that individuals in the firm responsible for supervising compilation or attest services, and signing the accountants’ report on financial statements for those engagements 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~~
- ~~(a) (6) Such other functions as the Board may assign to its designees.~~
- (a) 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, evidence of enrollment in a Board-approved Peer Review Program. ~~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.~~
- ~~(e) 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.~~
- ~~(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.~~

~~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.~~

~~(d) FirmsPractice units 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.~~

~~(e) Firms enrolled in a Board-approved peer review program shall schedule, undergo and complete its subsequent peer reviews in compliance with the sponsoring organizations peer review standards and related guidance. Subsequent peer reviews shall be completed such that the peer review has taken place and all peer review materials are submitted to the sponsoring organization within three years and six months from the peer review year end of the previous peer review.~~

~~(jj)(f) The Board may accept extensions for completing peer reviews granted by sponsoring organizations provided the Board is notified by the firm within 14 days from the date of the letter from the sponsoring organization granting the extension. 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 renewal date or peer review due date (which is determined by the sponsoring organization) and should include any extensions approved by the sponsoring organization. Ordinarily extensions are granted for the following reasons:~~

~~(1) Health;~~

~~(2) Military service; or~~

~~(3) Other good cause clearly outside of the control of the firm.~~

~~For good cause shown, the Board may grant or renew applications for a reasonable period of time pending completion of the firm's peer review.~~

~~**Rule 7-5—Submission of compliance assurance reports to the Board.**~~

~~**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 7-5 — Approved Peer Review Sponsoring Organizations, Programs and Peer Review Standards

- ~~(a) The Board shall approve peer review sponsoring organizations, program(s) and standards.~~
- ~~(b) The Board adopts the American Institute of Certified Public Accountants (AICPA) as an approved sponsoring organization and its peer review program and the XXXX Society of CPAs or its successor and other peer review programs administered by entities fully involved in the administration of the AICPA Peer Review Program. These organizations are not required to submit an application for approval to the Board.~~
- ~~(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.

- (e) For practice units required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB), the Board approves the PCAOB's inspection process for reviewing practices subject to its authority, which are not included in the scope of peer review programs. Firms receiving inspections under 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 process, should the firm have such a practice.

Rule 7-6 4 Peer Review Oversight Committee 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.~~

- (a) An peer review oversight committee (PROC) shall be appointed by the Board to monitor the compliance assurance programs sponsoring organizations to provide reasonable assurance that peer reviews are being conducted and reported on in accordance with peer review standards and report to the Board that on its conclusions and recommendations reached as a result of the assessment. the programs meet the requirements set out in the Act and these Rules.

(e)(b) The oversight committee PROC members shall:

- (1) only not include individuals include individuals who are not members of the Board or perform any enforcement related work for regulatory or governmental bodies, professional organizations (including but not limited to an AICPA ethics committee, AICPA Joint Trial Board or state professional ethics committee) or similar groups or subgroups, including consultants and other similar arrangements for the board; and may be removed or replaced by the Board in its discretion;
- (2) 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 oversighting have full access to the peer review process which is subject to oversight and may be required to sign a confidentiality agreement
- (3) Conduct oversight of approved peer review programs to provide reasonable assurance that such programs comply with the minimum standards for performing and reporting on peer reviews. The committee shall report to the Board any suggested modifications

to approved peer review programs and shall make recommendations regarding the continued approval of peer review programs.

~~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).~~

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

(i) Visiting the sponsoring organization of the approved peer review program;

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

(iii) Meeting with the sponsoring organization's Report Acceptance Body during consideration of peer review documents;

(iv) Reviewing the sponsoring organization's compliance with its-their program

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(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-~~86~~- 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-~~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 ~~or Rule 7-7(b)~~ 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 7-108 - Unregistered firm compliance with applicable ~~compliance assurance~~peer review 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 comply with Rule 7-4 ~~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 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 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.~~

**ARTICLE 11
ENFORCEMENT PROCEDURES -- INVESTIGATIONS**

Rule 11-1 - Review of professional work product.

The Board may solicit and receive publicly available reports of licensees and individuals with privileges under Section 23 of this Act and related financial statements from clients, public agencies, banks, and other users of financial statements on a general and random basis without regard to whether an application for renewal of the particular licensee is then pending or whether there is any formal complaint or suspicion of impropriety on the part of any particular licensee or an individual with privileges under Section 23 of this Act; and it may review such reports and otherwise proceed with respect to the results of any such review in the fashion prescribed in Rule 7-~~3.4~~ For purposes of this Rule, such reports may include publicly available inspection reports prepared by the PCAOB.

Rule 11-2 – Reporting convictions, judgments, and administrative proceedings.

- (a) Subject to Section 4(j) of the Act, Licensees shall notify the Board, on a form and in the manner prescribed by the Board, within thirty (30) days of:
- (1) Receipt of a peer review report pursuant to Rule 7-~~43(h)(3)~~ that indicates a fail peer report, or a PCAOB firm inspection report containing criticisms of or identifying potential defects in the quality control systems.
 - (2) Receipt of a second consecutive peer review report that indicates pass with deficiencies ~~is deficient~~ pursuant to Rules 7-~~43(h)(2)~~; or
 - (3) Imposition upon the licensee of discipline, including, but not limited to, censure, reprimand, sanction, probation, civil penalty, fine, consent decree or order, suspension, revocation, or modification of a license, certificate, permit or practice rights by:
 - (i) the Securities and Exchange Commission (SEC), PCAOB, Internal Revenue Service (IRS) (actions by the Director of Practice); or
 - (ii) another state board of accountancy for any cause other than failure to pay a professional license fee by the due date or failure to meet the continuing professional education requirements of another state board of accountancy; or
 - (iii) any other federal or state agency regarding the licensee’s conduct while rendering professional services; or
 - (iv) any foreign authority or credentialing body that regulates the practice of accountancy.

- (4) Occurrence of any matter reportable that must be reported by the licensee to the PCAOB pursuant to Sarbanes-Oxley Section 102(b)(2)(f) and PCAOB Rules and forms adopted pursuant thereto;**
- (5) Notice of disciplinary charges filed by the SEC, PCAOB, IRS, or another state board of accountancy, or a federal or state taxing, insurance or securities regulatory authority, or foreign authority or credentialing body that regulates the practice of accountancy;**
- (6) Any judgment, award or settlement of a civil action or arbitration proceeding of \$150,000 or more in which the licensee was a party if the matter included allegations of gross negligence, violation of specific standards of practice, fraud, or misappropriation of funds in the practice of accounting; provided, however, licensed firms shall only notify the Board regarding civil judgments, settlements or arbitration awards directly involving the firm's practice of public accounting in this state; or**
- (7) Criminal charges, deferred prosecution or conviction or plea of no contest to which the licensee is a defendant if the crime is:
 - (i) any felony under the laws of the United States or of any state of the United States or any foreign jurisdiction; or**
 - (ii) a misdemeanor if an essential element of the offense is dishonesty, deceit, or fraud.****
- (b) The licensee designated by each CPA firm pursuant to Section 7(c)(2)(A) of the Act (as responsible for the proper registration of the firm) shall report any matter reportable under this rule to which a non-licensee owner with a principal place of business in this state is a party.**
- (c) Reports of pending matters or reports of private litigation resolved by settlement or arbitration shall be deemed confidential records not subject to public disclosure (to the extent permitted by this State's law on Public Records) unless and until the pending matters are concluded or the Board commences a contested case proceeding based upon the subject matter of such reports.**
- (d) During the pendency of a reported matter, the reporting licensee may submit a written explanatory statement to be included in the licensee's record. If reported charges or allegations are subsequently concluded in the licensee's favor or otherwise closed without disciplinary action by this Board, upon the reporting licensee's request, documents received pursuant to said report shall be expunged from the Board's records.**

Comment: States should consider reducing or dropping a reporting requirement for pending

matters or reports of private litigation/arbitration if complying with the request requires the disclosure of otherwise confidential information, and their state laws require such reports to be treated as public records since the potential for abuse might outweigh the regulatory interest in such information. Boards adopting this rule should also consider expunging any self-reported records of charges or allegations that are dropped or otherwise resolved in favor of the reporting licensee and which are maintained by the Board as public records. In the alternative, States should defer implementation of self-reporting of such matters until the State has adopted Section 4(j) of the UAA Statute. See also the reporting requirements set out in Rule 5.

Rule 11-3 – Participation in multistate enforcement compacts.

Notwithstanding any other provision of law or regulation to the contrary, the Board may participate in any enforcement agreement or compact with other state boards of accountancy to facilitate public protection through the enforcement of this act and cooperate with others in the enforcement of accountancy statutes and rules of this and other states.

