

# ARKANSAS REGISTER

## Transmittal Sheet Use only for FINAL and EMERGENCY RULES



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Use Only:

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Department N/A

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Jimmy Corley james.corley@arkansas.gov

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Contact Person

E-mail Address

Date

### CERTIFICATION OF AUTHORIZED OFFICER

I Hereby Certify That The Attached Rules Were Adopted  
In Compliance with the Arkansas Administrative Act. (ACA 25-15-201 et. seq.)

Jimmy Corley  
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4/23/18  
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## Rule 20 Peer Review Program

### 20.1 PURPOSE

- (a) Pursuant to ACA 17-12-508, effective January 1, 2019 the Board requires licensees who issue attest reports to enroll in a board-approved peer review program to monitor licensees' compliance with applicable accounting and auditing standards adopted by generally recognized standard setting bodies. The program shall emphasize education, including remedial procedures, which may be recommended or required when financial statement reports do not comply with professional standards. In the event a licensee does not comply with established professional standards, or a licensee's professional work is so inadequate as to warrant disciplinary action, the Board shall take appropriate action as to protect the public interest.

### 20.2 DEFINITIONS

The following words and terms used in this subchapter shall have the following meanings, unless the context clearly indicates otherwise.

- a) **Enrollment in a peer review program** means a licensee 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 sponsoring organizations when changes within the licensee's practice occur.
- b) **Deficiency in a system review** means one or more findings that the peer reviewer has concluded that due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the reviewed licensee's system of quality control taken as a whole, could create a situation in which the licensee would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed licensee has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- c) **Deficiency in an engagement review** is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and / or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review and there are no other deficiencies, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- d) **Deficient report** means any report which is classified as pass with deficiencies or fail.
- e) **Engagement Review** means a peer review where the peer reviewer

evaluates and reports on whether engagements submitted for review by the practice unit are performed and reported on in conformity with applicable professional standards in all material respects.

- f) **Fail on a system review** means significant deficiencies have been identified and the licensee's system of quality control is not suitably designed to provide the licensee with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the licensee has not complied with its system of quality control to provide the licensee with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- g) **Fail on an engagement review** means the engagements submitted for review were not performed and / or reported in conformity with applicable professional standards in all material respects.
- h) **Pass on a system review** means the reviewed licensee's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the licensee with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- i) **Pass on an engagement review** means nothing came to the reviewer's attention that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects.
- j) **Pass with deficiencies on a system review** means the design of the licensee's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the licensee with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.
- k) **Pass with deficiencies on an engagement review** means that nothing came to the attention of the reviewer that caused him / her to believe that the engagements submitted for review were not performed in and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report.
- l) **Peer Review due date** must be a date within six (6) months after the peer review year end, plus any extensions granted by the sponsoring organization or the Board.
- m) **Peer Review** means a Board approved study, appraisal, or review of one or more aspects of the attest services rendered by a licensee in the practice of public accounting, performed by a person or persons who hold a license as a Certified Public Accountant in this or another U.S. jurisdiction and not affiliated with the licensee being reviewed.
- n) **Peer Review Standards** means the Board approved professional standards for administering and reporting on peer reviews.
- o) **Peer review year end** means the year end as determined by the licensee

and its reviewer.

- p) **Performance of Services** is deemed to start when an engagement letter or signed or agreement reached.
- q) **Significant deficiency in a system review** means one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed licensee's system of quality control or compliance with it such that the reviewed licensee's system of quality control taken as a whole does not provide the reviewed licensee with reasonable assurance of performing and / or reporting in conformity with applicable professional standards in all respects.
- r) **Significant deficiency in an engagement review** means the review team captain concludes that all engagements submitted for review were not performed and / or reported on in conformity with applicable professional standards in all material respects. The exception is when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which would ordinarily result in a report with a peer review rating of *pass with deficiencies*.
- s) **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. The Board shall periodically publish a list of sponsoring organizations, which have been approved by the Board.
- t) **System Review** means a peer review intended to provide the peer reviewer with a reasonable basis for expressing an opinion on whether, during the year under review:
  - 1) The licensee's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards; and
  - 2) The licensee's quality control practices and procedures were being complied with to provide the licensee with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

### 20.3 STANDARDS FOR PEER REVIEWS AND SPONSORING ORGANIZATIONS

- a) The Board shall approve peer review sponsoring organizations, program(s), and standards. Qualifying sponsoring organizations shall include any organization approved by the Board.
- b) Licensees required to enroll in a peer review program are not required to become a member of any sponsoring organization.
- c) The Board adopts the American Institute of Certified Public Accountants (AICPA) and its peer review program and the Arkansas Society of CPAs or its successor and other peer review programs administered by entities

involved in the administration of the AICPA Peer Review Program as approved sponsoring organizations. These organizations are not required to submit an application for approval to the Board. The Board may approve other peer review sponsoring organizations and programs.

- d) 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.
- e) 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 that the overall program and standards are similar to those of the AICPA Peer Review Program. 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.
- f) 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.

#### **20.4 ENROLLMENT AND PARTICIPATION**

- (a) Enrollment in the board approved peer review program is required of each licensee that performs attest services as provided in ACA 17-12-508(a).
- (b) Enrollment is required as follows:
  - (1) An existing licensee required to participate under paragraph (a) of this subsection shall enroll in a board-approved peer review program administered by an approved sponsoring organization. Licensees 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.
  - (2) An existing licensee that subsequently begins providing services as set forth in paragraph (a) of this subsection shall notify the Board of the change in status within thirty (30) days and provide the Board with enrollment information within twelve (12) months of the date the attest services were performed. Ordinarily, a licensee's initial peer review is due 18 months from the date it enrolled or should have enrolled in a Board-approved peer review program.
  - (3) Licensees enrolled in a Board-approved peer review program shall schedule, undergo and complete their 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.

(4) A licensee is not required to enroll in a Board-approved peer review program if its highest level of service is performing compilations or preparation of financial statements under Statements on Standards for Accounting and Review Services (SSARs). However, if the licensee enrolls in a Board-approved peer review program, it is required to have a peer review which would include compilations and preparation of financial statements within the scope of the review.

(5) Licensees 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 inspection process, should the licensee have such a practice.

- (c) In the event that a firm licensee is merged, otherwise combined, dissolved, or separated, the sponsoring organization shall determine which firm is considered the succeeding firm. Any dispute of the sponsoring organization's determination shall be resolved by the Board. The succeeding firm shall retain its peer review status and the peer review due date.
- (d) The Board may accept extensions granted by the sponsoring organization to complete a peer review, provided the Board is notified by the licensee within thirty (30) days from the date of the letter granting the extension.

Requests for extensions of time to undergo a peer review shall be submitted to the Board in writing by the licensee no later than the earlier of a licensee 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 licensee.

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

- (e) A licensee whose enrollment in a peer review program that has been rejected by a sponsoring organization for whatever reason shall notify the Board of:
  - (1) The name of sponsoring organization rejecting the enrollment;
  - (2) Reasons for the rejection;
  - (3) The name of subsequently selected sponsoring organization.
- (f) A licensee choosing to change to another sponsoring organization may do so only once a final acceptance letter has been issued indicating that all outstanding corrective actions have been completed and outstanding fees paid.

## **20.5 EFFECT OF CONSECUTIVE DEFICIENT REPORTS**

- (a) A licensee (including a succeeding firm licensee) which receives two (2) consecutive pass with deficiencies reports and/or one (1) fail report, may be required by the Board or its designee to have an accelerated peer review. The year-end and due date of such peer review is to be determined by the Board giving consideration of the time required for the licensee to implement remedial actions.

- (b) If the accelerated review required by subsection (a) above results in a deficient report:
  - (1) The licensee may complete any service requiring a peer review for which field work has already begun only if:
    - (a) Prior to the issuance of any report, the engagement is reviewed and approved by a third party acceptable to the Board or its designee; and
    - (b) The engagement is completed within (90) days of the acceptance of the peer review report, and letter of response (when applicable) by the sponsoring organization;
  - (2) The licensee shall be referred to the Compliance Committee of the Board for enforcement investigation.
  - (3) A licensee may petition the Board for a waiver from the provisions of this rule.

## 20.6 REPORTING TO THE BOARD

- (a) Licensees enrolled in a board-approved peer review program on or after January 1, 2019 are 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 a sponsoring organization.
  - 2) The licensee's letter of response accepted by the sponsoring organization.
  - 3) The acceptance letter from the sponsoring organization.
  - 4) Letter(s) accepting the documents signed by the licensee with the understanding that the licensee agrees to take any actions required by the sponsoring organization, if applicable; and
  - 5) Letter signed by the sponsoring organization notifying the licensee that required actions have been appropriately completed, if applicable.
- (b) The licensee shall submit the peer review documents in (a)(1) through (a)(3) above to the Board within 30 days of the sponsoring organization's acceptance. The licensee shall submit the document in (a) (4) to the Board within 30 days from the date the letter is signed by the licensee or with submission of licensee renewal application, whichever occurs first. The licensee shall submit the documents in (a) (5) to the Board within 30 days of the date of the letter or with submission of license renewal application, whichever occurs first.
- (c) Licensees must satisfy the above document submission requirement by allowing the sponsoring organization to provide the Board access to the documents via a secure website process such as the AICPA Facilitated State Board Access (FSBA). If a sponsoring organization does not have access to a secure website, the licensee would be required to submit the documents in subsection (a) directly to the Board by the deadlines prescribed in subsection (b).
- (d) Licensees that are inspected by the PCAOB shall submit a copy of any report or Part 1 findings and any other public portion of the report from the inspection to the Board within 30 days of receipt of such report.

- (e) Any document submitted to the Board under this subsection is confidential pursuant to ACA 17-12-508(d).

## **20.7 PEER REVIEW OVERSIGHT COMMITTEE**

- (a) The Board shall appoint a Peer Review Oversight Committee (PROC) for the purpose of:
  - 1) Monitoring sponsoring organizations to provide reasonable assurance that peer reviews are being conducted and reported on in accordance with peer review standards;
  - 2) Reviewing the policies and procedures of sponsoring organizations as to their conformity with the peer review minimum standards; and
  - 3) Reporting to the Board on the conclusions and recommendations reached as a result of performing functions in paragraphs (1) and (2) of this subsection.
  
- (b) The PROC shall consist of three (3) members nominated by the Chair and approved by the Board, none of whom is a current member of the Board. Subsequent committee members shall serve three (3) year terms. Compensation, if any, of the PROC members shall be set by the Board, not to exceed one hundred fifty dollars (\$150) per hour. Each member of the PROC must be active in (or retired from within the previous five (5) years) the practice of public accounting at the supervisory level or above in the accounting or auditing function while serving on the committee or any employee involved at a supervisory level or above in an audit function of a state or local government. The member or member's firm must be enrolled in an approved peer review program and have received a pass report on its most recently completed peer review. A majority of the committee members must satisfy the qualifications required of system peer review team captains as established and reported in the AICPA Standards for Performing and Reporting on Peer Reviews.
  - 1) No more than one PROC member may be from the same firm.
  - 2) A PROC member may not concurrently serve or perform any enforcement related work for regulatory or governmental bodies or professional organizations (including but not limited to AICPA ethics committee, AICPA Joint Trial Board or state society professional ethics committee).
  - 3) A PROC member may not participate in any discussion or have any vote with respect to a reviewed licensee when the committee member lacks independence or has a conflict of interest. The Board may appoint alternate committee member(s) to serve in these situations.
  
- (c) Information concerning a specific licensee or reviewer obtained by the PROC during oversight activities shall be confidential, and the licensee's or reviewer's identity shall not be reported to the Board. PROC reports submitted to the Board shall not contain information concerning specific licensees, firms, or reviewers.
  
- (d) As determined by the Board, the PROC shall make periodic recommendations to the Board, but not less than annually, as to the continuing qualifications of each sponsoring organization as an approved sponsoring organization.



- (e) The PROC may:
- 1) Establish and perform procedures for ensuring that reviews are performed and reported on in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews or other standards as approved by the Board and the rules promulgated herein by the Board;
  - 2) Review remedial and corrective actions prescribed that address the deficiencies in the reviewed licensee's system of quality control policies and procedures;
  - 3) Monitor the prescribed remedial and corrective actions to determine compliance by the reviewed licensee;
  - 4) Observe the report acceptance process to determine that viewpoints of acceptance body members are openly discussed; and
  - 5) Communicate to the Board on a recurring basis:
    - a) Problems experienced by the enrolled licensees in their systems of quality control as noted in the peer reviews conducted by the sponsoring organization;
    - b) Problems experienced in the implementation of the peer review program; and
    - c) A summary of the historical results of the peer review program.
- (f) Committee members shall become disqualified to serve on the PROC if any of the provisions that qualify the committee member no longer exist or by majority vote of the Board.