



**SOUTH DAKOTA  
BOARD OF ACCOUNTANCY**

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Sioux Falls, SD 57104  
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**Agenda**

South Dakota Board of Accountancy Meeting  
Conference Call  
9:00 a.m. (CT)  
September 17, 2014

A=Action

D=Discussion

I=Information

Page

A-Approval of Minutes of Meeting August 11, 2014.....	2-3
A-Approval of Certificates and Firm Permits.....	4-5
A-Financial Statements through August 2014 .....	6-15
D-Executive Director's Report.....	16

**AICPA**

D-AICPA Discussion Paper on the Audit Process of Private Entities.....	17-37
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**EXECUTIVE SESSION**

Equivalent Reviews, South Dakota Reviews, and follow ups for Board Approval.....	Spt. Pkt.
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**FUTURE MEETING DATES (all times CT)**

October 27 – 8:30 Pierre, SD, Location TBD or 9:00 Conference Call



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South Dakota Board of Accountancy Meeting  
Minutes of Meeting  
Holiday Inn Downtown – Cascade Room  
August 11, 2014

The Board of Accountancy held a meeting at the Holiday Inn Downtown – Cascade Room in Sioux Falls, SD on Monday, August 11, 2014. Chair John Mitchell called the meeting to order at 8:34 a.m.

The following members were present: Holly Brunick, John Linn, Jr., John Mitchell, John Peterson, Marty Guindon, and David Pummel. A quorum was present.

Also present were Nicole Kasin, Executive Director; Julie Iverson, Senior Secretary; Brenda Page, Secretary; Aaron Arnold, Legal Counsel and Department of Labor & Regulation, and Dan Dustin; VP State Board Relations NASBA.

Chair John Mitchell asked if there were any additions to the agenda. The following were added:  
Additions to Firm Permits  
Addition to Financial Statements through July 2014  
AICPA Discussion Paper on the Audit Process of Private Entities  
Additions to Peer Review

A motion was made by John Peterson and seconded by Holly Brunick to approve the election of Board officers as follows: John Mitchell -Chair, John Linn, Jr. -Vice Chair, and David Pummel-Secretary/Treasurer. The motion unanimously carried.

A motion was made by John Peterson and seconded by Holly Brunick to approve June 23, 2014, meeting minutes. The motion unanimously carried.

A motion was made by John Linn, Jr. and seconded by David Pummel to approve the issuance of individual certificates and firm permits through August 8, 2014. The motion unanimously carried.

A motion was made by David Pummel and seconded by Marty Guindon to approve the financial statements through July 2014. The motion unanimously carried.

The Board discussed the annual meeting for NASBA which will be held November 2-5, 2014. The location of the meeting will be in Washington, D.C.

A motion was made by John Peterson and seconded by John Linn, Jr. to approve travel for two board members and the Executive Director to attend the NASBA annual conference in Washington, D.C. on November 2-5, 2014. The motion unanimously carried. The Executive Director will submit the necessary documents for travel.

The Board reviewed and discussed the FY16 proposed budget. Chair Mitchell noted that the proposed budget is intentionally a deficit budget.

A motion was made by John Peterson and seconded by David Pummel to approve the FY16 budget as amended. The motion unanimously carried.

Dan Dustin, VP State Board Relations NASBA made a presentation to the board on definition of attest, firm mobility, UAA pending projects, codification of AICPA code of conduct, CPA exam – practice analysis, peer review, enhancing audit quality and NASBA board nominations.

The following people with the South Dakota CPA Society joined the meeting at 9:30 a.m.: Laura Coome, Kevin Doyle, Mark Hopfinger and Amy Bourne.

The Board discussed the AICPA discussion paper on the audit process of private entities. The board tabled the discussion and answering of the questions until the September board meeting.

The Board and representatives from the SD CPA Society discussed the US DOL employee benefit audits and peer review concerns, concerns with firm mobility, future of learning, definition of attest and the society's recommendation for Lay Member position opening.

The Board took a break at 10:56 a.m. and the following people left the meeting: Laura Coome, Kevin Doyle, Mark Hopfinger, Amy Bourne and Dan Dustin.

The Board resumed the regular Board Meeting at 11:14 a.m.

Executive Director Kasin discussed her report on AICPA issues, the NASBA/ Prometric test center changing locations, the board newsletter, and online renewal statistics.

A motion was made by David Pummel and seconded by John Linn, Jr. to approve travel for one board member and the Executive Director to attend the AICPA workshop in Chicago, IL on September 8 & 9, 2014. The motion unanimously carried. The Executive Director will submit the necessary documents for travel.

A motion was made by John Linn, Jr. and seconded by Marty Guindon to enter into executive session for the deliberative process for peer reviews, follow-ups, complaints and consent agreements. The motion unanimously carried.

The Board came out of executive session.

A motion was made by Marty Guindon and seconded by Holly Brunick to accept the peer reviews, follow-ups, complaints and consent agreements as discussed in executive session. The motion unanimously carried.

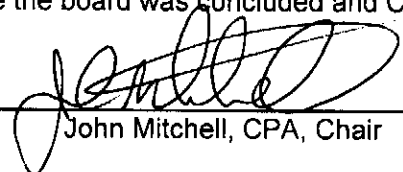
**FUTURE MEETING DATES** (all times CT)


September 17 – 9:00 – Conference Call

October 27 – 8:30 – Pierre, SD - (location TBD)

A motion was made by David Pummel and seconded by Holly Brunick to adjourn the meeting. The motion unanimously carried.

All business having come before the board was concluded and Chair John Mitchell adjourned the meeting at 12:48 p.m.

  
John Mitchell, CPA, Chair

Attest:   
Nicole Kasin, Executive Director

  
David Pummel, CPA, Sec/Treas

**CERTIFIED PUBLIC ACCOUNTANT CERTIFICATES  
BOARD COPY**

**Issued Through September 10, 2014**

<b>Number</b>	<b>Name</b>	<b>Date Issued</b>	<b>Location</b>
3157	Larry R. Jones	8/08/14	Rapid City, SD
3158	Kristen L. Reed	8/18/14	Rapid City, SD
3159	Dennis C. Nelles	8/18/14	Sturgis, SD
3160	Dana Marie Lee	9/02/14	Aberdeen, SD
2041	Matthew Kenyon	8/10/98	Austin, TX
3161	Krista Morse	9/09/14	Rapid City, SD
3162	Michelle Ann Willrodt	9/10/14	Chamberlain, SD
3163	Cynthia L. Wellard	9/10/14	Pierre, SD

**FIRM PERMITS TO PRACTICE PUBLIC ACCOUNTANCY  
BOARD COPY**

**Issued Through  
September 10, 2014**

<b>Number</b>	<b>Name</b>	<b>Date Issued</b>	<b>Basis/Comments</b>
1630	Myslajek Kemp & Spencer, Ltd. St. Louis Park, MN	08/13/14	Name Change
1631	Teresa Sveeggen, CPA Beresford, SD	08/29/14	New Firm

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STATE OF SOUTH DAKOTA  
CASH CENTER BALANCES  
AS OF: 08/31/2014

AGENCY: 10 LABOR & REGULATION  
BUDGET UNIT: 1031 BOARD OF ACCOUNTANCY

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	434,032.73	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			434,032.73	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			434,032.73	DR **	
BUDGET UNIT TOTAL 1031			434,032.73	DR ***	

BA0205A5 08/30/2014

STATE OF SOUTH DAKOTA  
MONTHLY EXPENDITURE REPORT  
FOR PERIOD ENDING: 08/31/2014

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AGENCY	BUDGET UNIT	CENTER-5	10	LABOR & REGULATION	BOARD OF ACCOUNTANCY	10310	BOARD OF ACCOUNTANCY	10310	COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
COMPANY NO 6503																			
COMPANY NAME PROFESSIONAL & LICENSING BOARDS																			
6503	1031000061802	51010100		CGEX140728		08/01/2014												2,046.00	DR
6503	1031000061802	51010100		CGEX140813		08/15/2014												2,232.00	DR
6503	1031000061802	51010100		CGEX140827		08/31/2014												1,860.00	DR
OBJSUB: 5101010 F-T EMP SAL & WAGES																			
6503	1031000061802	51010200		CGEX140728		08/01/2014												6,138.00	DR
6503	1031000061802	51010200		CGEX140813		08/15/2014												1,344.22	DR
6503	1031000061802	51010200		CGEX140827		08/31/2014												1,462.01	DR
OBJSUB: 5101020 P-T/TEMP EMP SAL & WAGES																			
6503	1031000061802	51010300		CGEX140827		08/31/2014												1,191.00	DR
OBJSUB: 5101030 BOARD & COMM MBRS FEES																			
OBJECT: 5101 EMPLOYER SALARIES																			
6503	1031000061802	51020100		CGEX140728		08/01/2014												420.00	DR
6503	1031000061802	51020100		CGEX140813		08/15/2014												10,555.23	DR
6503	1031000061802	51020100		CGEX140827		08/31/2014												244.74	DR
OBJSUB: 5102010 OASI-EMPLOYER'S SHARE																			
6503	1031000061802	51020200		CGEX140728		08/01/2014												763.61	DR
6503	1031000061802	51020200		CGEX140813		08/15/2014												203.42	DR
6503	1031000061802	51020200		CGEX140827		08/31/2014												221.64	DR
OBJSUB: 5102020 RETIREMENT-ER SHARE																			
6503	1031000061802	51020600		CGEX140728		08/01/2014												608.12	DR
6503	1031000061802	51020600		CGEX140813		08/15/2014												1,077.75	DR
6503	1031000061802	51020600		CGEX140827		08/31/2014												1,077.75	DR
OBJSUB: 5102060 HEALTH/LIFE INS.-ER SHARE																			
6503	1031000061802	51020800		CGEX140728		08/01/2014												3,233.25	DR
6503	1031000061802	51020800		CGEX140813		08/15/2014												2.04	DR
6503	1031000061802	51020800		CGEX140827		08/31/2014												2.22	DR
OBJSUB: 5102080 WORKER'S COMPENSATION																			
6503	1031000061802	51020900		CGEX140728		08/01/2014												6.09	DR
6503	1031000061802	51020900		CGEX140813		08/15/2014												1.53	DR
6503	1031000061802	51020900		CGEX140827		08/31/2014												1.66	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION																			
OBJECT: 5102 EMPLOYER BENEFITS																			
GROUP: 51 PERSONAL SERVICES																			
6503	1031000061802	52030200		CGEX140828		08/31/2014												4.57	DR
6503	1031000061802	52030200		CGEX140828		08/31/2014												4,615.64	DR
6503	1031000061802	52030200		CGEX140828		08/31/2014												15,170.87	DR
OBJSUB: 5203020 AUTO PRIV (IN-ST.) L/RTS																			
6503	1031000061802	52030300		CGEX140828		08/31/2014												90.40	DR
OBJSUB: 5203020 AUTO PRIV (IN-ST.) L/RTS																			
6503	1031000061802	52030300		CGEX140828		08/31/2014												90.40	DR
OBJSUB: 5203020 AUTO PRIV (IN-ST.) L/RTS																			
6503	1031000061802	52030300		CGEX140828		08/31/2014												180.80	DR
OBJSUB: 5203020 AUTO PRIV (IN-ST.) L/RTS																			
6503	1031000061802	52030300		CGEX140828		08/31/2014												296.74	DR

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STATE OF SOUTH DAKOTA  
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AGENCY 10 LABOR & REGULATION  
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY  
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL, #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
6503	103100061802	52030300	CGEX140828	08/31/2014	043876				252.34	DR
6503	103100061802	52030300	CGEX140828	08/31/2014	043877				145.78	DR
OBSUB: 5203030 AUTO-PRIV (IN-ST.) H/RTE										
6503	103100061802	52031000	CGEX140828	08/31/2014	043883				694.86	DR *
6503	103100061802	52031000	CGEX140828	08/31/2014	043876				56.75	DR
6503	103100061802	52031000	CGEX140828	08/31/2014	043882				56.75	DR
6503	103100061802	52031000	CGEX140828	08/31/2014	043877				56.75	DR
6503	103100061802	52031000	CGEX140828	08/31/2014	043884				56.75	DR
OBSUB: 5203100 LODGING/IN-STATE										
6503	103100061802	52031200	CGEX140828	08/31/2014	043876				340.50	DR *
6503	103100061802	52031200	CGEX140828	08/31/2014	043882				2.50	DR
6503	103100061802	52031200	CGEX140828	08/31/2014	043883				2.50	DR
6503	103100061802	52031200	CGEX140828	08/31/2014	043884				2.50	DR
OBSUB: 5203120 INCIDENTALS-TRAVEL-IN ST.										
6503	103100061802	52031500	CGEX140828	08/31/2014	043884				10.00	DR *
6503	103100061802	52031500	CGEX140828	08/31/2014	043878				47.00	DR
6503	103100061802	52031500	CGEX140828	08/31/2014	043876				38.00	DR
6503	103100061802	52031500	CGEX140828	08/31/2014	043883				35.00	DR
6503	103100061802	52031500	CGEX140828	08/31/2014	043882				26.00	DR
6503	103100061802	52031500	CGEX140828	08/31/2014	043882				26.00	DR
6503	103100061802	52031500	CGEX140828	08/31/2014	043877				26.00	DR
OBSUB: 5203150 NON-TAXABLE MEALS/IN-ST										
6503	103100061802	52040200	TRAVEL	08/31/2014	00120349	NATLASSNST	12005047		1,424.16	DR **
6503	103100061802	52040200	02665	08/31/2014					3,200.00	DR
OBSUB: 5204020 DUES & MEMBERSHIP FEES										
6503	103100061802	52041800	DP507100	08/31/2014					3,200.00	DR *
6503	103100061802	52041800	PL507057	08/31/2014					490.80	DR *
OBSUB: 5204180 COMPUTER SERVICES-STATE										
6503	103100061802	52042000	CENTRAL SERVICES	08/31/2014	02088240	MARCOINC	12201534		173.38	DR *
6503	103100061802	52042200	INVT2104079	08/31/2014					7.48	DR
OBSUB: 5204220 EQUIPMENT SERV & MAINT										
6503	103100061802	52042300	15SCI00002 AUG14	08/31/2014	00120790	SUNSETOFFI	12043890		7.48	DR *
6503	103100061802	52043400	JANITORIAL & MAINT SERV	08/08/2014	00114936	ELBOCOMPUT	12124520		122.86	DR *
6503	103100061802	52044600	COMPUTER SOFTWARE MAINT	08/31/2014	02088240	MARCOINC	12201534		122.50	DR *
6503	103100061802	52044900	EQUIPMENT RENTAL	08/31/2014	02087854	MCGINNISRO	12074040		57.00	DR *
6503	103100061802	52044900	ACCOUNTRENT2014	08/31/2014					1,269.45	DR *



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CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL. #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/ CR
		OBJSUB: 5204490	RENTS-PRIVATE OWNED PROP.							
6503	103100061802	52045300	TL507154	08/31/2014					1,269.45	DR *
6503	103100061802	52045300	111109001 JUL14	08/08/2014	00114563	MIDCONTINE	12023782		117.15	DR
6503	103100061802	52045300	2872359210870714	08/08/2014	00115122	ATTMOBILT	12279233		100.00	DR
6503	103100061802	52045300							66.93	DR
		OBJSUB: 5204530	TELECOMMUNICATIONS SVCS							
6503	103100061802	52045400	5159417006 0714	08/13/2014	02085955	XCELENERGY	12023853		284.08	DR *
		OBJSUB: 5204540	ELECTRICITY							
6503	103100061802	52045600	134690	08/31/2014	00120694	ECOWATER	12035896		47.09	DR *
		OBJSUB: 5204560	WATER							
6503	103100061802	52047400	CI105A-017	08/13/2014	212095				22.35	DR *
6503	103100061802	52047400	CI105A-017	08/13/2014	212095				2,179.88	DR
6503	103100061802	52047400	CI105A-017	08/13/2014	212095				2,179.88	DR
		OBJSUB: 5204740	BANK FEES AND CHARGES							
6503	103100061802	52049600	13576150	08/31/2014	00120349	NATLASSNST	12005047		2,179.88	DR *
		OBJSUB: 5204960	OTHER CONTRACTUAL SERVICE							
6503	103100061802	52050280	158829	08/20/2014	02087025	OFFICEMAXI	12162845		6,791.40	DR *
		OBJSUB: 5205028	OFFICE SUPPLIES							
6503	103100061802	52053200	1070-IN	08/20/2014	00117278	NATLASSNST	12005047		14,768.27	DR **
		OBJSUB: 5205320	PRINTING-COMMERCIAL							
6503	103100061802	52053500	1070-IN	08/20/2014	00117278	NATLASSNST	12005047		28.01	DR *
		OBJSUB: 5205350	POSTAGE							
6503	103100061802	52079010	46967	08/08/2014	00114936	ELBOCOMPUT	12124520		444.00	DR *
		OBJSUB: 5207901	COMPUTER HARDWARE							
6503	103100061802	5228000	TI105-008	08/06/2014					906.50	DR *
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						175.00	DR *
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							175.00	DR **
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						377.98	DR *
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							377.98	DR **
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						18,123.92	DR ***
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR ****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
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6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
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6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
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6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000	NONOP EXP/NONBGTD OF TR						33,294.79	DR *****
		OBJSUB: 5228000	OPERATING EXPENSES							
6503	103100061802	5228000							33,294.79	DR *****
		OBJSUB: 5228000	OPER TRANS OUT -NON BUDGT							
6503	103100061802	5228000								

**South Dakota Board of Accountancy**  
**Balance Sheet**  
As of August 31, 2014

	<u>Aug 31, 14</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
1130000 · Local Checking - US Bank	5,872.21
1140000 · Pool Cash State of SD	434,032.73
<b>Total Checking/Savings</b>	<u>439,904.94</u>
<b>Other Current Assets</b>	
1131000 · Interest Income Receivable	5,207.41
1213000 · Investment Income Receivable	970.07
<b>Total Other Current Assets</b>	<u>6,177.48</u>
<b>Total Current Assets</b>	446,082.42
<b>Fixed Assets</b>	
1670000 · Computer Software	
Original Cost	140,063.23
1770000 · Depreciation	<u>-130,004.55</u>
<b>Total 1670000 · Computer Software</b>	<u>10,058.68</u>
<b>Total Fixed Assets</b>	<u>10,058.68</u>
<b>TOTAL ASSETS</b>	<u><u>456,141.10</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
2110000 · Accounts Payable	12,444.50
<b>Total Accounts Payable</b>	<u>12,444.50</u>
<b>Other Current Liabilities</b>	
2430000 · Accrued Wages Payable	6,461.56
2810000 · Amounts Held for Others	15,398.99
<b>Total Other Current Liabilities</b>	<u>21,860.55</u>
<b>Total Current Liabilities</b>	34,305.05
<b>Long Term Liabilities</b>	
2960000 · Compensated Absences Payable	14,119.90
<b>Total Long Term Liabilities</b>	<u>14,119.90</u>
<b>Total Liabilities</b>	48,424.95
<b>Equity</b>	
3220000 · Unrestricted Net Assets	234,952.04
3300100 · Invested In Capital Assets	10,058.68
3900 · Retained Earnings	58,712.53
Net Income	<u>103,992.90</u>
<b>Total Equity</b>	<u>407,716.15</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>456,141.10</u></u>

# South Dakota Board of Accountancy

## Profit & Loss Budget vs. Actual

July through August 2014

	Jul - Aug 14	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	325.00	2,200.00	-1,875.00	14.8%
4293551 · Certificate Renewals-Active				
5208002 · Refunds	-10.00			
4293551 · Certificate Renewals-Active - Other	46,310.00	55,000.00	-8,690.00	84.2%
<b>Total 4293551 · Certificate Renewals-Active</b>	<b>46,300.00</b>	<b>55,000.00</b>	<b>-8,700.00</b>	<b>84.2%</b>
4293552 · Certificate Renewals-Inactive	14,900.00	19,000.00	-4,100.00	78.4%
4293553 · Certificate Renewals-Retired				
5208005 · REFUNDS	-40.00			
4293553 · Certificate Renewals-Retired - Other	590.00	750.00	-160.00	78.7%
<b>Total 4293553 · Certificate Renewals-Retired</b>	<b>550.00</b>	<b>750.00</b>	<b>-200.00</b>	<b>73.3%</b>
4293554 · Initial Firm Permits	300.00	900.00	-600.00	33.3%
4293555 · Firm Permit Renewals				
5208004 · REFUNDS	-150.00			
4293555 · Firm Permit Renewals - Other	11,260.00	15,000.00	-3,740.00	75.1%
<b>Total 4293555 · Firm Permit Renewals</b>	<b>11,110.00</b>	<b>15,000.00</b>	<b>-3,890.00</b>	<b>74.1%</b>
4293557 · Initial Audit	90.00	900.00	-810.00	10.0%
4293558 · Re-Exam Audit	330.00	2,460.00	-2,130.00	13.4%
4293561 · Late Fees-Certificate Renewals	2,250.00	3,700.00	-1,450.00	60.8%
4293563 · Late Fees-Firm Permit Renewals	250.00	800.00	-550.00	31.3%
4293564 · Late Fees-Peer Review	250.00	1,300.00	-1,050.00	19.2%
4293566 · Firm Permit Owners	68,835.00	78,000.00	-9,165.00	88.3%
4293567 · Peer Review Admin Fee	375.00	5,650.00	-5,275.00	6.6%
4293568 · Firm Permit Name Change	75.00	100.00	-25.00	75.0%
4293569 · Initial FAR	270.00	1,140.00	-870.00	23.7%
4293570 · Initial REG	60.00	660.00	-600.00	9.1%
4293571 · Initial BEC	120.00	930.00	-810.00	12.9%
4293572 · Re-Exam FAR	180.00	1,860.00	-1,680.00	9.7%
4293573 · Re-Exam REG	420.00	2,310.00	-1,890.00	18.2%
4293574 · Re-Exam BEC	330.00	2,310.00	-1,980.00	14.3%
4491000 · Interest and Dividend Revenue	0.00	8,500.00	-8,500.00	0.0%
4896021 · Legal Recovery Cost	0.00	1,000.00	-1,000.00	0.0%
<b>Total Income</b>	<b>147,320.00</b>	<b>204,470.00</b>	<b>-57,150.00</b>	<b>72.0%</b>
<b>Gross Profit</b>	<b>147,320.00</b>	<b>204,470.00</b>	<b>-57,150.00</b>	<b>72.0%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	10,230.01	72,759.00	-62,528.99	14.1%
5101020 · P-T/Temp Emp Sal & Wages	6,546.85	18,779.00	-12,232.15	34.9%
5101030 · Board & Comm Mbrs Fees	840.00	4,372.00	-3,532.00	19.2%
5102010 · OASI-Employer's Share	1,274.56	7,362.00	-6,087.44	17.3%
5102020 · Retirement-ER Share	1,006.62	5,492.00	-4,485.38	18.3%
5102060 · Health /Life Ins.-ER Share	5,388.75	22,007.00	-16,618.25	24.5%
5102080 · Worker's Compensation	10.08	254.00	-243.92	4.0%
5102090 · Unemployment Insurance	7.57	91.00	-83.43	8.3%
5203010 · Auto-State Owned	0.00	1,000.00	-1,000.00	0.0%
5203020 · Auto-Private-Ownes Low Mileage	180.80	400.00	-219.20	45.2%
5203030 · In State-Auto- Priv. High Miles	694.86	1,500.00	-805.14	46.3%
5203100 · In State-Lodging	340.50	1,000.00	-659.50	34.1%
5203120 · In State-Incidentals to Travel	10.00	100.00	-90.00	10.0%
5203140 · InState-Tax Meals Not OverNigt	0.00	100.00	-100.00	0.0%
5203150 · InState-Non-Tax Meals OverNight	198.00	400.00	-202.00	49.5%
5203220 · OS-Auto Private Low Mileage	0.00	100.00	-100.00	0.0%
5203260 · OS-Air Commercial Carrier	0.00	6,000.00	-6,000.00	0.0%
5203280 · OS-Other Public Carrier	0.00	500.00	-500.00	0.0%
5203300 · OS-Lodging	0.00	7,800.00	-7,800.00	0.0%
5203320 · OS-Incidentals to Travel	0.00	450.00	-450.00	0.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	1,300.00	-1,300.00	0.0%
5204010 · Subscriptions	0.00	1,000.00	-1,000.00	0.0%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	300.00	-300.00	0.0%

# South Dakota Board of Accountancy

## Profit & Loss Budget vs. Actual

### July through August 2014

	Jul - Aug 14	Budget	\$ Over Budget	% of Budget
5204040 · Consultant Fees-Accounting	0.00	7,100.00	-7,100.00	0.0%
5204160 · Workshop Registration Fees	0.00	6,000.00	-6,000.00	0.0%
5204180 · Computer Services-State	78.00	600.00	-522.00	13.0%
5204181 · Computer Development Serv-State	412.80	10,400.00	-9,987.20	4.0%
5204200 · Central Services	2,182.29	7,000.00	-4,817.71	31.2%
5204220 · Equipment Service & Maintenance	11.92	300.00	-288.08	4.0%
5204230 · Janitorial/Maintenance Services	245.72	1,560.00	-1,314.28	15.8%
5204340 · Computer Software Maintenance	122.50	1,500.00	-1,377.50	8.2%
5204360 · Advertising-Newspapers	0.00	1,000.00	-1,000.00	0.0%
5204440 · Newsletter Publishing	444.00	1,100.00	-656.00	40.4%
5204460 · Equipment Rental	711.00	4,000.00	-3,289.00	17.8%
5204480 · Microfilm and Photography	0.00	700.00	-700.00	0.0%
5204490 · Rents Privately Owned Property	2,538.90	15,234.00	-12,695.10	16.7%
5204510 · Rent-Other	230.80	250.00	-19.20	92.3%
5204530 · Telecommunications Services	446.12	2,800.00	-2,353.88	15.9%
5204540 · Electricity	94.03	865.00	-770.97	10.9%
5204560 · Water	22.35	240.00	-217.65	9.3%
5204590 · Insurance Premiums/Surety Bonds	0.00	1,710.00	-1,710.00	0.0%
5204740 · Bank Fees and Charges	3,118.34	5,500.00	-2,381.66	56.7%
5205020 · Office Supplies	28.01	2,000.00	-1,971.99	1.4%
5205310 · Printing State	0.00	500.00	-500.00	0.0%
5205320 · Printing/Duplicating/Binding Co	33.00	1,000.00	-967.00	3.3%
5205330 · Supplemental Publications	0.00	700.00	-700.00	0.0%
5205340 · Microfilm Supplies/Materials	0.00	300.00	-300.00	0.0%
5205350 · Postage	906.50	2,000.00	-1,093.50	45.3%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207900 · Computer Hardware	175.00	4,800.00	-4,625.00	3.6%
5207950 · System Development	0.00	500.00	-500.00	0.0%
5207955 · Computer Hardware Other	0.00	500.00	-500.00	0.0%
5207960 · Computer Software Expense	0.00	500.00	-500.00	0.0%
5228000 · Operating Transfers Out-NonBudg	591.36	7,400.00	-6,808.64	8.0%
5228030 · Depreciation Expense	1,005.86	12,070.40	-11,064.54	8.3%
<b>Total Expense</b>	<b>43,327.10</b>	<b>257,195.40</b>	<b>-213,868.30</b>	<b>16.8%</b>
<b>Net Ordinary Income</b>	<b>103,992.90</b>	<b>-52,725.40</b>	<b>156,718.30</b>	<b>-197.2%</b>
<b>Net Income</b>	<b>103,992.90</b>	<b>-52,725.40</b>	<b>156,718.30</b>	<b>-197.2%</b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR MONTHLY COMPARISON**  
**August 2014**

	<u>Aug 14</u>	<u>Aug 13</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Ordinary Income/Expense</b>				
Income				
4293550 · Initial Individual Certificate	125.00	250.00	-125.00	-50.0%
4293551 · Certificate Renewals-Active	6,200.00	8,300.00	-2,100.00	-25.3%
4293552 · Certificate Renewals-Inactive	2,100.00	3,550.00	-1,450.00	-40.9%
4293553 · Certificate Renewals-Retired	150.00	100.00	50.00	50.0%
4293554 · Initial Firm Permits	200.00	100.00	100.00	100.0%
4293555 · Firm Permit Renewals	1,610.00	2,100.00	-490.00	-23.3%
4293557 · Initial Audit	60.00	90.00	-30.00	-33.3%
4293558 · Re-Exam Audit	120.00	300.00	-180.00	-60.0%
4293561 · Late Fees-Certificate Renewals	2,250.00	1,600.00	650.00	40.6%
4293563 · Late Fees-Firm Permit Renewals	150.00	700.00	-550.00	-78.6%
4293564 · Late Fees-Peer Review	0.00	200.00	-200.00	-100.0%
4293566 · Firm Permit Owners	7,275.00	17,335.00	-10,060.00	-58.0%
4293567 · Peer Review Admin Fee	0.00	300.00	-300.00	-100.0%
4293568 · Firm Permit Name Change	50.00	25.00	25.00	100.0%
4293569 · Initial FAR	120.00	90.00	30.00	33.3%
4293570 · Initial REG	30.00	60.00	-30.00	-50.0%
4293571 · Initial BEC	30.00	90.00	-60.00	-66.7%
4293572 · Re-Exam FAR	30.00	120.00	-90.00	-75.0%
4293573 · Re-Exam REG	60.00	240.00	-180.00	-75.0%
4293574 · Re-Exam BEC	180.00	150.00	30.00	20.0%
<b>Total Income</b>	<u>20,740.00</u>	<u>35,700.00</u>	<u>-14,960.00</u>	<u>-41.9%</u>
<b>Gross Profit</b>	<u>20,740.00</u>	<u>35,700.00</u>	<u>-14,960.00</u>	<u>-41.9%</u>
Expense				
5101010 · F-T Emp Sal & Wages	6,138.00	6,139.06	-1.06	0.0%
5101020 · P-T/Temp Emp Sal & Wages	3,997.23	2,707.39	1,289.84	47.6%
5101030 · Board & Comm Mbrs Fees	420.00	660.00	-240.00	-36.4%
5102010 · OASI-Employer's Share	763.61	707.12	56.49	8.0%
5102020 · Retirement-ER Share	608.12	530.78	77.34	14.6%
5102060 · Health /Life Ins.-ER Share	3,233.25	1,817.28	1,415.97	77.9%
5102080 · Worker's Compensation	6.09	11.50	-5.41	-47.0%
5102090 · Unemployment Insurance	4.57	2.84	1.73	60.9%
5203020 · Auto-Private-Ownes Low Mileage	180.80	180.80	0.00	0.0%
5203030 · In State-Auto- Priv. High Miles	694.86	694.86	0.00	0.0%
5203100 · In State-Lodging	340.50	350.00	-9.50	-2.7%
5203120 · In State-Incidentals to Travel	10.00	0.00	10.00	100.0%
5203150 · InState-Non-Tax Meals OverNight	198.00	215.00	-17.00	-7.9%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204160 · Workshop Registration Fees	0.00	1,090.00	-1,090.00	-100.0%
5204180 · Computer Services-State	0.00	150.00	-150.00	-100.0%
5204181 · Computer Development Serv-State	0.00	2,591.55	-2,591.55	-100.0%
5204200 · Central Services	173.38	199.42	-26.04	-13.1%
5204220 · Equipment Service & Maintenance	7.48	13.58	-6.10	-44.9%
5204230 · Janitorial/Maintenance Services	122.86	122.86	0.00	0.0%
5204460 · Equipment Rental	654.00	654.00	0.00	0.0%
5204490 · Rents Privately Owned Property	1,269.45	1,269.45	0.00	0.0%
5204510 · Rent-Other	230.80	200.00	30.80	15.4%
5204530 · Telecommunications Services	161.93	435.29	-273.36	-62.8%
5204540 · Electricity	46.94	48.87	-1.93	-4.0%
5204560 · Water	22.35	0.00	22.35	100.0%
5204740 · Bank Fees and Charges	2,179.88	2,654.46	-474.58	-17.9%
5205020 · Office Supplies	0.00	78.88	-78.88	-100.0%
5205320 · Printing/Duplicating/Binding Co	33.00	10.35	22.65	218.8%
5228000 · Operating Transfers Out-NonBudg	377.98	365.77	12.21	3.3%
5228030 · Depreciation Expense	0.00	1,005.86	-1,005.86	-100.0%
<b>Total Expense</b>	<u>25,075.08</u>	<u>28,106.97</u>	<u>-3,031.89</u>	<u>-10.8%</u>
<b>Net Ordinary Income</b>	<u>-4,335.08</u>	<u>7,593.03</u>	<u>-11,928.11</u>	<u>-157.1%</u>
<b>Net Income</b>	<u><b>-4,335.08</b></u>	<u><b>7,593.03</b></u>	<u><b>-11,928.11</b></u>	<u><b>-157.1%</b></u>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
 July through August 2014

	<u>Jul - Aug 14</u>	<u>Jul - Aug 13</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	325.00	575.00	-250.00	-43.5%
4293551 · Certificate Renewals-Active	46,300.00	56,250.00	-9,950.00	-17.7%
4293552 · Certificate Renewals-Inactive	14,900.00	19,300.00	-4,400.00	-22.8%
4293553 · Certificate Renewals-Retired	550.00	800.00	-250.00	-31.3%
4293554 · Initial Firm Permits	300.00	100.00	200.00	200.0%
4293555 · Firm Permit Renewals	11,110.00	13,700.00	-2,590.00	-18.9%
4293557 · Initial Audit	90.00	180.00	-90.00	-50.0%
4293558 · Re-Exam Audit	330.00	540.00	-210.00	-38.9%
4293560 · Late Fees-Initial Certificate	0.00	100.00	-100.00	-100.0%
4293561 · Late Fees-Certificate Renewals	2,250.00	1,600.00	650.00	40.6%
4293563 · Late Fees-Firm Permit Renewals	250.00	700.00	-450.00	-64.3%
4293564 · Late Fees-Peer Review	250.00	500.00	-250.00	-50.0%
4293566 · Firm Permit Owners	68,835.00	85,670.00	-16,835.00	-19.7%
4293567 · Peer Review Admin Fee	375.00	675.00	-300.00	-44.4%
4293568 · Firm Permit Name Change	75.00	75.00	0.00	0.0%
4293569 · Initial FAR	270.00	180.00	90.00	50.0%
4293570 · Initial REG	60.00	60.00	0.00	0.0%
4293571 · Initial BEC	120.00	120.00	0.00	0.0%
4293572 · Re-Exam FAR	180.00	360.00	-180.00	-50.0%
4293573 · Re-Exam REG	420.00	390.00	30.00	7.7%
4293574 · Re-Exam BEC	330.00	300.00	30.00	10.0%
<b>Total Income</b>	<b>147,320.00</b>	<b>182,175.00</b>	<b>-34,855.00</b>	<b>-19.1%</b>
<b>Gross Profit</b>	<b>147,320.00</b>	<b>182,175.00</b>	<b>-34,855.00</b>	<b>-19.1%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	10,230.01	10,325.24	-95.23	-0.9%
5101020 · P-T/Temp Emp Sal & Wages	6,546.85	4,627.12	1,919.73	41.5%
5101030 · Board & Comm Mbrs Fees	840.00	960.00	-120.00	-12.5%
5102010 · OASI-Employer's Share	1,274.56	1,183.76	90.80	7.7%
5102020 · Retirement-ER Share	1,006.62	897.13	109.49	12.2%
5102060 · Health /Life Ins.-ER Share	5,388.75	3,634.56	1,754.19	48.3%
5102080 · Worker's Compensation	10.08	19.43	-9.35	-48.1%
5102090 · Unemployment Insurance	7.57	4.81	2.76	57.4%
5203010 · Auto--State Owned	0.00	147.84	-147.84	-100.0%
5203020 · Auto-Private-Ownes Low Mileage	180.80	180.80	0.00	0.0%
5203030 · In State-Auto- Priv. High Miles	694.86	694.86	0.00	0.0%
5203100 · In State-Lodging	340.50	350.00	-9.50	-2.7%
5203120 · In State-Incidentals to Travel	10.00	0.00	10.00	100.0%
5203150 · InState-Non-Tax Meals OverNight	198.00	215.00	-17.00	-7.9%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204160 · Workshop Registration Fees	0.00	1,090.00	-1,090.00	-100.0%
5204180 · Computer Services-State	78.00	225.00	-147.00	-65.3%
5204181 · Computer Development Serv-State	412.80	4,902.30	-4,489.50	-91.8%
5204200 · Central Services	2,182.29	1,409.69	772.60	54.8%
5204220 · Equipment Service & Maintenance	11.92	17.49	-5.57	-31.9%
5204230 · Janitorial/Maintenance Services	245.72	245.72	0.00	0.0%
5204340 · Computer Software Maintenance	122.50	0.00	122.50	100.0%
5204440 · Newsletter Publishing	444.00	0.00	444.00	100.0%
5204460 · Equipment Rental	711.00	711.00	0.00	0.0%
5204490 · Rents Privately Owned Property	2,538.90	2,538.90	0.00	0.0%
5204510 · Rent-Other	230.80	200.00	30.80	15.4%
5204530 · Telecommunications Services	446.12	571.74	-125.62	-22.0%
5204540 · Electricity	94.03	100.78	-6.75	-6.7%
5204560 · Water	22.35	0.00	22.35	100.0%
5204740 · Bank Fees and Charges	3,118.34	2,762.58	355.76	12.9%
5205020 · Office Supplies	28.01	78.88	-50.87	-64.5%
5205320 · Printing/Duplicating/Binding Co	33.00	24.15	8.85	36.7%
5205350 · Postage	906.50	0.00	906.50	100.0%
5207900 · Computer Hardware	175.00	0.00	175.00	100.0%

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
**July through August 2014**

	<u>Jul - Aug 14</u>	<u>Jul - Aug 13</u>	<u>\$ Change</u>	<u>% Change</u>
5228000 · Operating Transfers Out-NonBudg	591.36	578.64	12.72	2.2%
5228030 · Depreciation Expense	1,005.86	2,011.72	-1,005.86	-50.0%
<b>Total Expense</b>	<u>43,327.10</u>	<u>43,909.14</u>	<u>-582.04</u>	<u>-1.3%</u>
<b>Net Ordinary Income</b>	<u>103,992.90</u>	<u>138,265.86</u>	<u>-34,272.96</u>	<u>-24.8%</u>
<b>Net Income</b>	<u><u>103,992.90</u></u>	<u><u>138,265.86</u></u>	<u><u>-34,272.96</u></u>	<u><u>-24.8%</u></u>

## **EXECUTIVE DIRECTOR'S REPORT**

Nicole Kasin

### **AICPA Issues**

I attended the AICPA workshop on attest & CPA firm mobility in Chicago, IL on September 8 and 9, 2014.

The workshop provided an opportunity to brainstorm and have discussions with colleagues on the definition of attest and CPA firm mobility. There was great dialog among the participants and updating the definition of attest in most jurisdictions was either going to occur in the upcoming legislative session or in the near future for others.

The discussion in regards to firm mobility focused more on other areas that may need to be addressed: peer review, firm names, CPE, firm ownership, collective databases being updated and accessible, and the DOL Audit issue. Once those issues are addressed and more uniform across the jurisdictions then there may be more movement in regards to the firm mobility issue.

### **NASBA /PROMETRIC**

The new test center location opened August 22. It is a corporate store of Prometric and there are 5 testing stations. There have been a few issues in regards to the new staff (timing, interruptions, long check in process, etc.) and both I and Prometric have been looking into the matters that candidates are bringing to our attention by completing a center problem report or emailing me.

### **Electronic Data Management Storage**

I have been working with BIT to develop and gain access to have our files stored electronically instead of using the microfilm/microfiche process. In the next few weeks, all office staff will have training on the program and we will begin to scan documents. At this time we will begin with documents from July 1, 2013 and moving forward. The records retention schedule will be updated with the Department and sent in for approval with the record retention board.

### **Renewal Statistics – Follow-up**

At the august meeting a request was made to know how many firms had renewed in the prior three years. For fiscal year 2013 it was 285 firms, fiscal year 2014 it was 276 firms, and for fiscal year 2015 it was 270 firms.

### **Rules Review**

A review on the rules is being completed and a rules hearing will occur at the October meeting. If there are any rules that the board members would like me to address specifically, please email me the information immediately.

### **Board Discussion**

- Any New Business/topics?



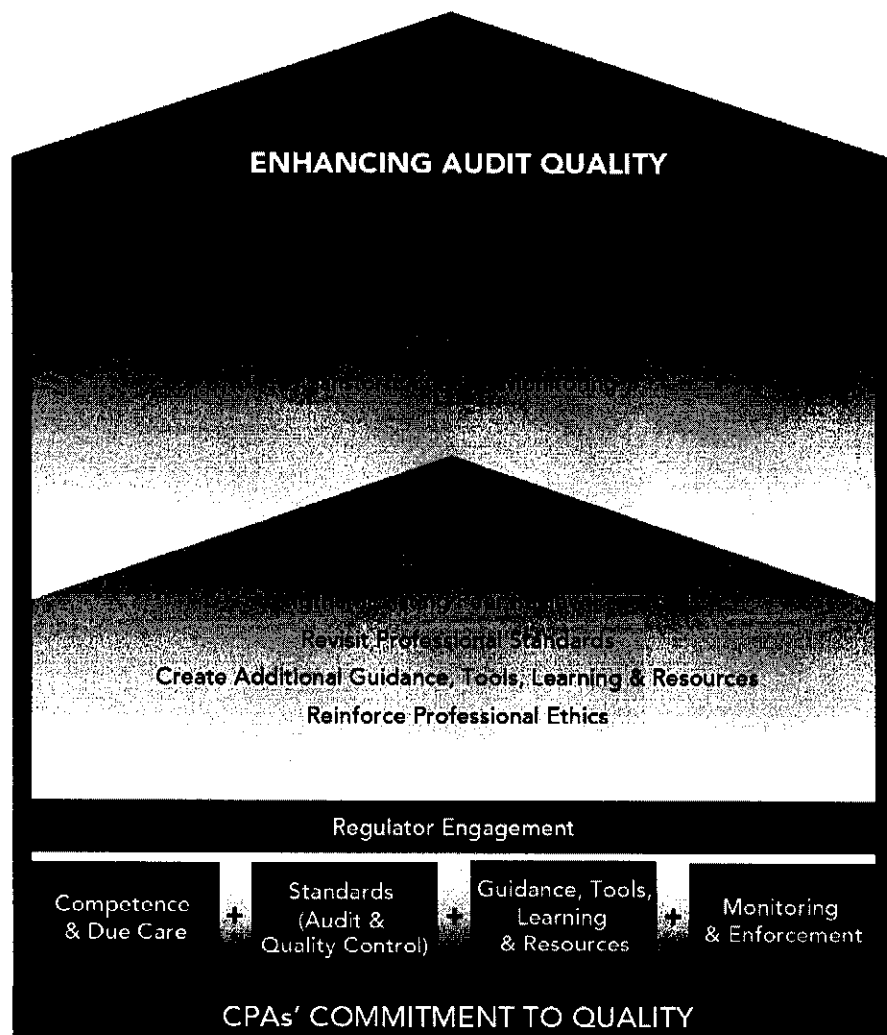


# Plans and Perspectives for the U.S. CPA Profession

*A discussion paper seeking input from all stakeholders  
in the audit process of private entities.*



Released for comment: Aug. 7, 2014  
Feedback due: Nov. 7, 2014



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## **Executive Summary**

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest.

In the current business environment, the rapid pace of change is driving complexity and that trend is not likely to abate. Increased complexity presents challenges to practitioners in public accounting as they strive to continually perform high-quality financial statement audits of private entities<sup>1</sup>. To preserve their prominent and respected role in the business community, CPAs must, and will, meet and overcome these challenges.

With that in mind, in May 2014 the AICPA launched its Enhancing Audit Quality initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

EAQ is based on a two-phased approach. Phase 1 involves planned and proposed efforts that will begin to improve quality in the near term. Some of these efforts have already been approved by appropriate AICPA boards or committees and are under way, while others are ideas for exploration and comment. Phase 2 centers around the transformation of the current peer review program into a practice monitoring process that marries technology with human oversight.

This paper outlines the near- and longer-term plans and proposals to address quality issues related to financial statement audits of private entities. The more significant changes and efforts include:

### **Competence and Due Care**

- Continue serving the public interest by aligning the CPA Exam with real-world practice for newly licensed CPAs. Determine marketplace needs through periodic comprehensive research efforts to maintain the exam's relevance and adequately assess competence of CPA candidates.
- Ensure that all CPAs who perform financial statement audits adhere to the requirements in the AICPA Code of Professional Conduct, including but not limited to competence and due care.

### **Auditing and Quality Control Standards**

- Monitor the use of the Auditing Standards Board's new clarified auditing standards to ensure they are being consistently understood and implemented to achieve high-quality audits. Revise standards, issue supplemental guidance or provide additional education and tools as necessary.

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<sup>1</sup> For the purposes of this paper, "private entities" refers to all non-SEC registrants, including but not limited to not-for-profit organizations, employee benefit plans and governmental entities.

- Identify and better understand where and how audit deficiencies occur and their root causes so revisions can be made to the appropriate standards and/or guidance.
- Consider whether more specificity is needed in the quality control standards to drive quality performance.

### **Guidance, Tools, Learning and Resources**

- Enhance curricula, content and methods of instruction to support the major topical areas the profession serves, including but not limited to challenging areas such as employee benefit plan audits, governmental audits and financial reporting.
- Release a rigorous, profession-wide competency framework that has been validated by experts and regulators from around the globe.
- Develop additional individual and suites of resources or educational courses based upon areas of concern uncovered in peer reviews.

### **Practice Monitoring (Peer Review)**

- Perform more extensive peer review procedures on high-risk and complex areas and engagements.
- Address the risks posed by low-volume auditors of high-risk and complex engagements by requiring the firm, in all cases where material non-conformity with applicable professional standards is noted, to engage a third party to perform pre- or post-issuance reviews of those engagements in the future with periodic reporting to a peer review Report Acceptance Body (RAB).
- Evaluate firms' engagements in "new" industries promptly, rather than waiting for their next peer review.
- Enhance the quality of peer reviewers by introducing a streamlined process for barring reviewers who do not meet required performance criteria.
- Establish systems to facilitate the identification of the firm and engagement populations subject to peer review.
- Explore ways in which peer review reporting can better articulate information users find meaningful.
- Facilitate the prevention of audit quality issues before they start by developing a next generation of peer review that provides firms with near real-time feedback on their accounting and auditing practice, enabling them to quickly leverage and implement prescriptive measures, in some instances even before an engagement is completed.

### **Ethics Enforcement**

- Use publicly available information to proactively identify deficient audits (including governmental single audits and employee benefit plan audits) and require members to correct the deficiencies.
- Consider sanctions, including admonishment, suspension or expulsion from AICPA membership, when a firm has failed to provide the AICPA Peer Review Program with a complete list of engagements that should be subject to review. The AICPA's action would be reported to the appropriate regulators.

## Dialogue and Feedback

Engagement by all those interested in private entity audits is critical throughout this initiative. Input from those stakeholders will be considered and will influence the AICPA's plans and proposals. As a result, specific proposals and exposure drafts will be developed *after* this discussion paper's comment period and released for public comment, where applicable. CPAs in public accounting and business, federal and state regulators and legislators, accounting educators, and users of audited financial statements are just some of the many audiences from whom the AICPA seeks feedback.

To facilitate gathering input, this paper contains questions on various issues. Stakeholders are encouraged to answer them and offer other feedback that the Institute can use as it considers further action on its proposals. Providing input through the AICPA Community website ([aicpa.org/EAQpaper](http://aicpa.org/EAQpaper)) is preferred so others can respond to posted comments. Each question in the paper links to where the question appears on the site and another link in the question box accesses a forum where all the questions appear to simplify answering multiple questions in different sections. In addition, comments may be submitted by sending an email or letter to [EAQ@aicpa.org](mailto:EAQ@aicpa.org). For comments not posted online, responses are regarded as being on the public record unless the respondent specifically states otherwise (that is, the comments will be treated as confidential). Feedback is requested by November 7, 2014.

## ENHANCING AUDIT QUALITY

### Introduction

The U.S. accounting profession has a long and proud history of providing high-quality services that protect the public interest. CPAs' core values of integrity, objectivity and competence are the bedrock for all of the profession's efforts. In his inaugural speech in October 2013, AICPA Chairman of the Board of Directors William E. Balhoff, CPA, CGMA, CFF, observed:

"The quality of our work and of our people are the two most important factors in establishing and maintaining our profession's reputation. CPAs take pride in doing the right thing, the right way. Quality enables the marketplace to trust us as accountants, auditors and advisers. It also fuels our drive toward relevance in an ever-changing business world."

Today's business and regulatory environment continues to demand more of CPAs, and the pace of change is faster than ever. Financial reporting has become more challenging and accounting issues more complex. In the midst of ongoing change, the CPA profession works continuously to adapt to new developments so that CPAs can maintain their commitment to quality and the public interest.

### Commitment to Quality

While CPAs provide a wide range of services, auditing is fundamental to the profession. Only CPAs are authorized by law to perform audits of financial statements. Company management, lenders, investors, regulators and other stakeholders rely on the CPA's

audit opinion when making business decisions or assessing whether financial information can be trusted.

Most auditors perform quality work and continually seek to further sharpen their skills, knowledge and experience in an effort to perform the highest-quality financial statement audits. However, based on information from peer reviews, audit concerns sometimes arise from inadequate education or training, noncompliance with certain aspects of auditing or quality control standards, or a lack of experience working in specialized areas. The AICPA has set out to reinforce the quality of the audit services provided by the profession and address any deficiencies that may be identified.

### **An Initiative to Further Boost Audit Quality**

In October 2012, the AICPA began an initiative to improve audit performance by enhancing the peer review process going forward. This initial focus on the future of peer review led to a broader Enhancing Audit Quality initiative. EAQ, launched in May 2014, is a holistic effort to look at auditing of private entities through multiple touch points, especially where quality issues have emerged. Many AICPA committees, boards and staff contributed to the EAQ. This comprehensive view makes it possible to align the objectives of all AICPA efforts regarding audit performance and collectively improve the quality of audit services delivered by the profession.

EAQ consists of a two-phased approach:

- Phase 1 involves planned and proposed efforts that will begin to improve quality in the near term. Some of these efforts have already been approved by appropriate AICPA boards or committees and are under way, while others are ideas for exploration and comment. This paper outlines the approved changes or requirements, as well as the AICPA's thinking on potential changes in four areas: professional standards and related implementation guidance; additional guidance, tools, learning and resources; amendments to the existing peer review program; and efforts in the ethics enforcement process. This paper is designed primarily to collect input from stakeholders on potential changes in these areas.
- Phase 2 centers around the transformation of the current peer review program into a practice monitoring process that marries technology with human oversight, and makes a closer, more real-time connection among a firm's accounting and auditing engagements, the AICPA and the individuals performing the practice monitoring. The result would be earlier detection of firm and engagement quality issues. In fall 2014, a concept paper detailing the vision for this new system will be released for public discussion and comment.

### **Elements of Quality**

Several components form the foundation of quality private entity financial statement audits: due care and the performance of professional services with competence and diligence; professional standards, including Statements on Auditing Standards and Quality Control Standards that drive engagement performance and quality; guidance, tools, learning and resources that facilitate competence and enable practitioners to provide valuable services in the highest professional manner to benefit the public, employers and clients; practice monitoring (peer review) designed to periodically

evaluate the quality of engagement performance and remediate deficiencies; and enforcement designed to evaluate performance and sanction individuals where non-compliance or poor engagement performance is not remediated. This discussion paper highlights the AICPA's plans and proposals using each of these components to maintain and enhance excellence in the audit process.



## Competence and Due Care

Instilling CPAs' sense of commitment to the public trust begins with accounting education and the Uniform CPA Examination. The CPA Exam is designed to ensure that only individuals with sufficient technical knowledge and skills may become licensed as U.S. CPAs. Every few years, and likely more often in the future, the AICPA evaluates the exam's content and methods for testing the application of knowledge. The goal is to keep the Exam relevant, given the quick pace of change in the business environment. In 2017, the AICPA will launch the next version of the Exam so that candidates who pass the Exam will demonstrate the competencies the marketplace demands.

Once a candidate becomes a CPA, he or she must uphold the principles of the AICPA Code of Professional Conduct. The Code is the anchor of the CPA profession and compliance with it is a requirement of AICPA membership. Licensed CPAs who are not AICPA members must adhere to it as well when it is adopted by reference by the state boards of accountancy that license them. CPAs who violate the Code are subject to remedial and disciplinary action by the AICPA Professional Ethics Division and may be subject to enforcement action by a state board of accountancy.

The Code makes clear that CPAs must adhere to the highest level of integrity in performing all their professional responsibilities. One of the Code's most important provisions addresses due care, stating in part that every member should observe the profession's technical and ethical standards and strive continually to improve their competence and the quality of their services.

At the heart of due care is the quest for excellence. Due care requires members to perform their professional services with competence and diligence, with concern for the best interests of those for whom the services are performed and consistent with the profession's public responsibility. Competence is derived from a combination of education and experience and a commitment to stay current with the constantly changing body of knowledge relevant to the services they perform.

Besides individual knowledge, competence also involves establishing the limitations of one's capabilities by acknowledging that consultation or referral may be required when a professional engagement exceeds the member's or firm's capabilities. Each member is



responsible for evaluating whether education, experience and judgment are adequate for the responsibility to be assumed.

Due care also requires a member to adequately plan and supervise any professional activity for which he or she is responsible.

Questions:

1. How can the profession reinforce the importance of the Code and ensure that all CPAs performing private entity financial statement audits adhere to the due care and competence requirements?
2. What are CPAs' challenges and obstacles in exercising due care?
3. Should the AICPA provide additional (specific) guidance on what it means to be competent? If so, in what areas? What suggestions do you have to define competence?
4. What methods, other than existing ones, should the profession consider to facilitate the right match of competency with an audit engagement?

[See all questions in this paper.]

## **Auditing and Quality Control Standards**

Quality and the public interest are at the center of the Auditing Standards Board's mission statement. It states, "(t)he mission of the ASB is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to non-issuers in an effective and efficient manner."

Under its recently completed five-year Clarity Project, the ASB rewrote generally accepted auditing standards (GAAS) and the quality control standards so that auditors can better understand and apply them. As part of its 2014 - 2015 work plan, the ASB will monitor whether the new standards are being consistently understood and implemented. If not, the ASB will determine whether revisions are required to the standards or supplemental guidance, or if more education and tools are necessary.

Further, working with the AICPA Peer Review Board and the Employee Benefit Plan and Governmental Audit Quality Center Executive Committees, the ASB will evaluate common practice issues identified through the peer review process and the root cause of audit deficiencies to assess whether more specific guidance, education or other practice tools would aid firms in applying the auditing and quality control standards.

The ASB also will consider the need for more specificity in the quality control standards, such as guidance addressing engagement acceptance, engagement team competency, when and how an Engagement Quality Control Review (EQCR) should be performed, and how to improve monitoring and inspection of a firm's system of quality control, with special emphasis on the design effectiveness of the firm's policies and procedures.

The ASB's 2014 - 2015 work plan includes several other projects designed to enhance audit quality, including:

- Improving the communicative value and relevance of the auditor's report through proposed revisions to GAAS, including revisions to the going concern standard and other information outside the basic financial statements requirements.
- Identifying and developing any necessary revisions to GAAS on auditing disclosures.

In addition to the ASB's work to improve audit quality, the AICPA Assurance Services Executive Committee is looking to the future of assurance services and seeking to leverage technology to develop new methodologies that will contribute to the effectiveness, timeliness and efficiency of the audit process. ASEC is working to provide insight into the traditional audit approach, how it has evolved, and how it might continue to evolve into the future audit.

This effort includes considering how data analytics will help to promote and further the use of continuous auditing. Data is expanding at an accelerating rate as a result of technology; therefore, auditors must be able to analyze this data more deeply. Through new audit technologies and methodologies, auditors will also be able to provide assurance more continuously, resulting in audit reporting that is timelier and more relevant to users.

**Questions:**

5. Do you believe revisions should be made to the ASB's auditing or firm quality control standards to improve audit quality in the near term? If so, what specific revisions would you propose and why do you believe they would improve audit quality?
6. Are revisions needed to the auditing or quality control standards to address specific industries or regulated areas? If so, what revisions are needed and what industries or areas should be addressed?
7. What other guidance is needed to help practitioners apply the auditing and quality control standards to improve audit performance and quality?

[See all questions in this paper.]

## **Guidance, Tools, Learning and Resources**

Part of the AICPA's mission is to "provide members with the resources, information and leadership that enable them to provide valuable services in the highest professional manner to benefit the public, employers and clients." To fulfill its mission, the AICPA issues authoritative audit, attest, compilation and review guidance as well as a variety of resources that support implementation of those standards. The AICPA also provides resources that help CPAs enhance their professional competency and the quality of accounting and auditing services they provide.

In its continuous quest to prepare the profession for tomorrow's opportunities and challenges, the AICPA recently undertook a major effort to assess the learning environment and the trends shaping it. The Future of Learning Task Force has issued recommendations on ways to modernize how CPAs learn and grow their competencies. The recommendations are based on input from the diverse perspectives of association leaders, educators, CPAs in business, public accounting firm leaders, regulators and state CPA societies. The overarching goal is to give CPAs readily accessible education and resources that strengthen their performance and reflect the many ways in which professionals learn.

Using insights gleaned through research for the Future of Learning project, the AICPA is enhancing curricula, content and methods of instruction to support the major topical areas the profession serves. This includes challenging areas such as employee benefit plan audits, governmental audits and financial reporting. Resources already available or in development cover areas that include audit staff essentials, employee benefit plans and peer review. All such curricula include exams and other methods designed to measure competence.

In 2014, the AICPA will release a rigorous, profession-wide competency framework that has been validated by experts and regulators from around the globe. It will include competency models for all key technical areas within which CPAs practice and will allow professionals to understand their current levels of competency in a particular area and needed growth or improvement.

The AICPA also develops resources to interpret and provide implementation guidance for audit, attest and compilation and review standards, including authoritative guides. These guides will be updated as areas of concern are uncovered in peer reviews and new resources will be developed as necessary to meet practitioners' needs.

Among the most challenging private entity audits are those in specialized industries, including employee benefit plans and governments. As a result, 10 years ago the AICPA established the Governmental and Employee Benefit Plan Audit Quality Centers. Firms that are members of the centers demonstrate a commitment to quality, and, in fact, more frequently achieve a "Pass" rating on peer reviews than non-center member firms. New initiatives for the Centers include adding new membership requirements to drive quality audit performance as well as best practices and case study resources to further boost quality. Additionally, in conjunction with the efforts detailed under the "Standards" section of this paper, the Auditing Standards Board will be considering whether certain of the Center membership requirements should be incorporated into the quality control standards or implementation guidance with application to all firms that perform these types of audits.

In addition, the recently launched Center for Plain English Accounting will support regional and local firms on accounting and auditing services. The CPEA offers a national, one-stop resource to help firms with challenging or complex technical accounting and auditing issues. Employee benefit plan audits are one of the key initial topics of focus for CPEA.

**Question:**

8. Based on your use of audit engagement training tools and resources, what additional authoritative publications or non-authoritative guidance, tools or training could be developed for audits of financial statements that would enhance competencies and drive quality engagement performance? For which industries or specialized topics is it difficult to obtain educational and professional resources?

[See all questions in this paper.]

## **Practice Monitoring**

In 2012, the AICPA began a comprehensive and visionary exploration of the next generation of its practice monitoring efforts. The AICPA Peer Review Program monitors the quality of firms' accounting and auditing engagements and evaluates the systems under which those engagements are performed. Participation in the peer review program is mandatory for AICPA membership<sup>2</sup>. In addition, peer review is now required for licensure in nearly all states.

Much has changed over the 35 years that the AICPA's Peer Review Program has been in existence, including the complexity of business, the volume and intricacy of standards and the expectations of financial reporting stakeholders. At the same time, recent technological innovations afford the profession the opportunity to make dramatic upgrades to peer review that will enable adaptation to an ever-changing environment.

The goal for the next generation of peer review is a practice monitoring program focused on continual improvement and a commitment to quality in a changing world. The first component of this section of the paper will discuss the concept of "Practice Monitoring of the Future."

Recognizing that many enhancements can and should be made to the existing peer review program as Practice Monitoring of the Future is being developed, the AICPA Peer Review Board (PRB) approved a plan in early 2014 to implement substantive changes to the current peer review process. These near-term enhancements will be discussed in the second component of this section.

## **Practice Monitoring of the Future**

With an eye on the evolving needs of CPAs and the marketplace, in fall 2012 the AICPA's governing Council considered whether the current peer review process was

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<sup>2</sup> To be admitted to or retain their membership in the AICPA, members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program or, if practicing in firms not eligible to enroll, are themselves enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice-monitoring standards and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

designed to effectively monitor audit performance now and in the future. Council envisioned a practice monitoring program that reflects a complex, quickly changing business environment, making use of current technology. Shortly thereafter, the AICPA Board of Directors endorsed the formation of a task force that is taking a fresh look at peer review and developing a concept for Practice Monitoring of the Future (the Concept).

The Concept imagines a process that provides firms with near real-time feedback regarding their accounting and auditing practices, enabling them to quickly leverage and implement prescriptive measures, in some instances even before an engagement is completed. The underlying principle of the Concept is that earlier detection of engagement deficiencies will promote audit and accounting quality while serving the public interest.

The Concept as currently envisioned has five facets:

- Continuous analytic evaluation
- Human review
- Intervention
- Periodic inspection
- Oversight

The cornerstone of the Concept would be a cutting-edge tool(s) that would use the latest technology to provide each firm with a continuous overview of its processes and adherence to quality measures. The Concept is expected to roll out in phases, with each succeeding phase building on lessons learned from previous phases. Using the latest (and future) technological advances, the tool(s) would become an integral part of the peer review process.

To perfect the Concept and create a new technology-driven program that detects issues earlier, the AICPA is committed to engaging stakeholders while the Concept is in development. The Institute will seek insights from CPAs/firms, state societies, state boards of accountancy, peer reviewers, regulators and other stakeholders on the Concept when the concept paper is issued in fall 2014.

## **Near-Term Enhancements to Peer Review**

### ***Enhance Quality of Peer Reviewers***

A peer review is only as good as the reviewer who performs it. Reviewers must have the necessary experience and expertise to effectively identify deficiencies at the reviewed firm and recommend appropriate corrective actions. The poor performance of a few reviewers could undermine the credibility of the program as a whole.

Although peer reviewers are engaged by the reviewed firm, they have an obligation to the profession to serve the public interest by performing high-quality reviews. To make sure the pool of peer reviewers consists of the highest quality reviewers, the PRB is proposing a streamlined process for barring peer reviewers from performing reviews if they do not meet defined performance criteria. To reinforce that peer reviewers serve the public, reviewers would affirmatively agree to certain conditions that would allow the AICPA to remove them from the reviewer pool if performance issues are identified.

The PRB is proposing that all reviewers of “must-select” engagements<sup>3</sup> subject to the Employment Retirement Income Security Act or Government Auditing Standards should come from firms that are members of the applicable AICPA Audit Quality Center. Membership in an Audit Quality Center provides individual CPAs with resources that enhance their ability to perform specified engagements. Importantly, peer review results show that members of an Audit Quality Center are more likely to receive a “Pass” peer review report than non-members.

Further, the PRB is proposing that reviewers of must-select engagements<sup>3</sup> attend annual industry-specific training, which would incorporate a competency exam. Peer review team captains, the CPAs who have ultimate responsibility for the peer review, would be required to attend annual peer review, audit and attest training targeted at areas that the PRB has determined warrant particular attention. This training would also include a competency exam.

The PRB is also proposing that all *new* team captains participate in an AICPA peer reviewer curriculum that would include interactive web-based education divided into topical modules with a competency exam at the conclusion of each module.

Lastly, the PRB is considering other significant changes that would enhance the consistency of peer reviewer performance and evaluation. For example, currently each peer review report must be approved by a Report Acceptance Body or RAB before the review is complete. Under a pilot program commenced in June 2014, the number of RAB meetings subject to real-time oversight by PRB members and AICPA staff will increase dramatically.

Proposed revisions to the reviewer performance and qualification guidance are expected to be exposed for public comment in fall 2014. Feedback to this discussion paper will be considered as guidance is developed.

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<sup>3</sup> In a system review, the peer reviewer must select for review at least one of each type of engagement subject to Government Auditing Standards (GAS) or that involve, Employment Retirement Income Security Act (ERISA), the Federal Deposit Insurance Corporation Improvement Act (FDICIA), carrying broker-dealers, or Service Organization Control (SOC) 1 or 2 reports. Additionally, if the firm performs engagements of entities subject to OMB Circular A-133, at least one such engagement must also be selected for review.

**Questions:**

9. What advantages and challenges do these changes present? How could potential challenges or unintended consequences be minimized or avoided?
10. Will removal of poor performing peer reviewers and the suggested training programs increase reviewer quality? Why or why not?
11. What effect do you expect these requirements will have on the peer review program's ability to maintain a sufficient number of qualified peer reviewers? If you expect them to have an adverse impact on the peer reviewer pool, what implementation steps could mitigate the impact?
12. What effect do you expect these requirements will have on peer review stakeholders and on the peer review program as a whole? What should the PRB require of new peer reviewers to give reasonable assurance that they will develop and maintain the experience and expertise to perform high-quality peer reviews?

[See all questions in this paper.]

### ***Address Risks Posed by Low-Volume Auditors of High-Risk Engagements***

The AICPA Professional Ethics Executive Committee (PEEC) has undertaken an initiative to use publicly available information to proactively identify deficient audits and require members to correct those deficiencies. Through this initiative and its traditional investigations, PEEC has noted that those performing a low volume (five or fewer) of audits in a must-select category have a higher risk of failure to comply with applicable professional standards. The PRB has identified trends consistent with these findings.

The risk posed by performing a low volume of high-risk audits applies to firms of all sizes, from a sole practitioner audit generalist to a large multi-office firm that performs one engagement in a particular high risk industry. The PRB is considering two new processes to help mitigate the risks presented by these firms.

#### **Require Pre- or Post-Issuance Review in All Instances of Non-Conformity**

To address the quality issues identified at firms performing five or fewer audits in a must-select category, firms that fail to conform to applicable professional standards in all material respects would be required to engage a third-party to perform pre- or post-issuance review on future audits in that industry. This would be mandatory regardless of whether any broader systemic deficiencies or findings were identified during the peer review.

#### **Evaluate “New” Industry Engagements Promptly**

The PRB recognizes that it is in the public interest to provide firms with feedback that enables them to correct deficiencies in a timely manner. When a firm performs an

engagement in a must-select industry and that industry was not covered by its most recent peer review, the PRB would require a post-issuance review of the engagement shortly after the report is issued. If the firm fails to comply with applicable professional standards, corrective action would be required.

Questions:

13. What are the advantages and disadvantages of these changes? Are there potential unintended consequences? How could they be avoided or minimized?
14. Should these requirements extend to firms that audit five or fewer engagements in any one industry (not just must-select industries)?

[See all questions in this paper.]

### ***Deepen Review of High-Risk Industries and Areas of Concern***

This initiative is designed to increase audit quality by focusing firms and peer reviewers on high-risk audit areas and high-risk and/or emerging industries, using a combination of training and robust reviews. The PRB will analyze environmental trends, standards changes, issues identified in peer reviews and feedback from a variety of stakeholders and sources to pinpoint industries and risk areas that require particular attention from peer reviewers. These areas will be the subject of in-depth review procedures during the peer review.

Initial focus areas include:

- Independence as it relates to nonattest services provided to audit clients, particularly with respect to sufficiency of the client's skills, knowledge and experience to oversee the services.
- Sufficiency of audit evidence – in particular, sampling, risk assessment and internal controls.
- Employee benefit plan audits, including audits of employee stock ownership plans and government pensions.
- Municipalities that issue securities.

In addition to the initial focus areas, the PRB continues to explore other emerging risk areas.

Once a risk area is identified, the AICPA will alert practitioners, offer specific training and development, and measure firm compliance through "deep dive" reviews using targeted peer review procedures. Areas of focus will generally remain "deep dive" areas for at least three years, and additional areas of focus will be identified annually.



Questions:

15. What are the advantages and disadvantages of this initiative? If there are potential disadvantages or unintended consequences, how can they be avoided or minimized?
16. Peer reviewers currently review complete sets of engagement working papers in order to cover a reasonable cross section of the engagements performed by each firm. The PRB is considering a new approach where reviewers would still obtain a reasonable cross section but would only review those sections of engagements that represent particularly high risk. Which approach do you support and why?
17. Are the targeted risk areas that the AICPA has identified for initial focus appropriate? What other high risk areas should the PRB consider?

[See all questions in this paper.]

### ***Improve Engagement and Firm Tracking***

Any comprehensive practice monitoring system must start with a complete population of firms and engagements. Currently, firms are required to enroll in the peer review program based on their engagement profile and service mix and self-report their engagements that would be subject to peer review. However, the PRB is increasingly finding firms that do not report their engagements properly or that should be enrolled in the program but are not.

Under this initiative, the AICPA will seek to minimize omissions from the firm and engagement populations subject to peer review. This undertaking will be challenging, since no single database identifies every CPA firm licensed to perform audit and attest work. Similarly, no single database identifies every private entity audit and attest engagement performed.

To provide greater assurance of a complete engagement and firm population, the PRB will educate peer reviewers and firms, improve peer review practice aids, and identify and leverage sources of engagement and firm data (e.g., DOL eFAST 2, Single Audit Clearinghouse, Dun and Bradstreet, NASBA Accountancy Licensee Database).

Firms that fail to properly report their engagements may be subject to termination from the program and referral to their state boards of accountancy. In addition, the AICPA Professional Ethics division may consider sanctions, including admonishment, suspension or expulsion from AICPA membership when a firm fails to provide the AICPA Peer Review Program with a complete list of engagements that should be subject to peer review.

Questions:

18. Recent changes were made to peer review practice aids to bring more attention to the completeness of the peer review population. These changes include revisions to the firm representation letter and additional questions in the Team Captain Checklist (System Reviews) and Review Captain Summary (Engagement Reviews). What other measures could ensure that peer reviewers receive complete information on the engagement population and that firms understand their responsibility to accurately report data?
19. How could the information provided be verified? What databases could be leveraged?

Team Captain Checklist  
Review Captain Summary

[See all questions in this paper.]

***Create a National Group of Technical Experts Reporting Directly to the PRB***

The PRB has engaged a group of highly experienced industry specialists to perform surprise evaluations of must-select engagements after the peer review has been performed, but before it has been finalized (accepted and issued). The evaluation results will be considered by the RAB to determine whether corrective action should be required of the reviewed firm. In addition, the RAB and PRB will consider whether there were any issues with the performance of the peer reviewer (up to and including whether he or she should be prohibited from performing future reviews).

When issues related to must-select engagements are noted on a firm's most recent peer review, these specialists will also evaluate must-select engagements performed by the firm after the peer review year and prior to the next to assess the effectiveness of the corrective actions that were required by the RAB and whether firms that have not corrected or addressed related issues have failed to cooperate with the program.

In addition, the group of experts will be tasked with identifying the root causes of non-compliance with professional standards. Problems with standards will be communicated to the appropriate standard setter and issues that stem from inadequate tools, guidance or resources will be communicated to the appropriate division of the AICPA or training providers.

**Questions:**

20. What are the advantages and challenges presented by these changes? How could related potential challenges or unintended consequences be minimized or avoided?
21. What effect do you expect these requirements will have on the peer review program's ability to maintain the current pool of peer reviewers and attract new ones? If you expect them to have an adverse impact, what implementation steps could mitigate the impact?
22. What effect do you expect these requirements will have on other peer review stakeholders and on the peer review program as a whole?

[See all questions in this paper.]

***Make Peer Review Results More Informative***

Peer review stakeholders and other observers sometimes find peer review results difficult to understand. For example, report users may question how a firm's peer review can identify one or more engagements that have a material departure from professional standards yet the firm receives an overall pass report. Users may consider the peer review reporting model confusing, or they may require additional information beyond what is included in the peer review report in order to assess the quality of a firm.

This initiative is exploring ways in which peer review reporting can better articulate the information users find meaningful. The first step in achieving this goal is gathering input from peer review report users.

**Questions:**

23. Are the current report rating grades (pass, pass with deficiencies, fail) clear and meaningful? Do you find these categories useful? If not, how would you change the report rating grades? (The peer review reporting model is discussed briefly starting on page 21 of the Peer Review Q&A and in more detail starting in paragraph .94 of the Peer Review Standards; links to these materials appear below.)
24. What actions, if any, does your organization take when a firm receives a pass, pass with deficiencies or fail report? What actions do you think should be taken by others?
25. What information about a firm would be useful in better understanding, evaluating and using its peer review report? How should it be made available?
26. Which model do you find more helpful: the peer review reporting model (opinion on the overall system of quality control) or the reporting model used by many regulatory bodies (a list of engagements and topics of deficiencies)? Could a hybrid model better meet your needs? If so, what would that model look like?
27. Please share any other suggestions for enhancing the transparency and usability of peer review reporting. Explain how your suggestions would be helpful to you and what you will be able to do with the improved reporting.
28. How would your suggestions for improvement enhance audit quality? How will they be more beneficial for the users of the report?
29. Beyond what is mentioned throughout the "Practice Monitoring" section of this paper, what other requirements should the AICPA Peer Review Program consider that would meaningfully impact audit quality?

[Peer Review Q&A](#)

[Peer Review Standards](#)

[See all questions in this paper.]

## **Maintaining Excellence**

The CPA profession is highly regarded for serving and protecting the public interest. This reputation stands on the quality of the services CPAs provide with competence, diligence and expertise. In a world of ongoing and rapid change and complexity, the CPA profession is committed to addressing the challenges raised and performing services at the highest level of quality.

CPAs should be proud of the steps the profession has taken to maintain and improve quality. The proposals throughout the paper are just another step in the profession's long history of self-evaluation as it constantly seeks to adapt and improve.

The AICPA's opportunities for ongoing enhancement would be impossible without input from CPAs and other stakeholders. We encourage all of you to be part of the dialogue and help advance the profession. While any formal proposals to change guidance will be exposed for public comment later, seeking input at this early stage in the process offers

practitioners and stakeholders an opportunity to shape the efforts outlined under the EAQ initiative. The Institute appreciates and looks forward to stakeholders' ideas and insights. Together we can build an initiative that will enable us to maintain audit quality and safeguard the public interest.

Comments may be posted to the AICPA Community website ([aicpa.org/EAQpaper](http://aicpa.org/EAQpaper)). Each question links to the where the question appears on the site and another link in the question box provides access to a discussion forum where all the questions appear to facilitate answering multiple questions from different sections. In addition, comments may be submitted by sending an email or letter to [EAQ@aicpa.org](mailto:EAQ@aicpa.org). For comments not posted online, responses are regarded as being on the public record unless the respondent specifically states otherwise (that is, the comments will be treated as confidential). Feedback is requested by November 7, 2014.