



**SOUTH DAKOTA
BOARD OF ACCOUNTANCY**
301 E. 14th Street, Suite 200
Sioux Falls, SD 57104
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Agenda
South Dakota Board of Accountancy Meeting
Holiday Inn – Ambassador Room
8:00 a.m. (CT)
October 17, 2011

A=Action	
D=Discussion	
I=Information	Page
A-Approval of Minutes of Meeting September 17, 2011.....	2-3
A-Approval of Certificates & Firm Permits.....	4-5
A-Financial Statements through September 2011.....	6-14
D-Executive Director's Report.....	15-18
9:30 Hearing for Richard Law.....	19-23
10:00 Hearing for Mark Kiroff.....	24-29
10:30 Hearing for Stacey Gray.....	30-34
11:00 Hearing for Bradley Whitsell.....	35-37
AICPA	
D-AICPA/NASBA CPE Standards Executive Summary and Exposure Draft.....	38-59
D-White Paper on final changes for Performing and Reporting on Peer Review	60-91
D-Exposure Draft Omnibus Proposal Professional Ethics Division.....	92-107
EXECUTIVE SESSION	
Equivalent Reviews for Board Approval.....	Spt. Pkt.
FUTURE MEETING DATES (all times CT)	
November 18, 9:00 – Conference Call	
December 19, 9:00 – Conference Call	



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South Dakota Board of Accountancy
Minutes of Meeting-Conference Call
September 19, 2011-9:00 a.m.

The Board of Accountancy held a meeting by conference call on Monday, September 19, 2011. Chair Holly Brunick called the meeting to order at 9:09 a.m.

Roll call was taken to confirm that the following members were present: Holly Brunick, Marty Guindon, David Olson, John Linn, Jr., John Mitchell, and John Peterson. A quorum was present.

Also present were Nicole Kasin, Executive Director; Tricia Nussbaum, Secretary; Aaron Arnold, Legal Counsel and Todd Kolden – DLR Administration.

Chair Holly Brunick asked if there were any additions to the agenda. There were no additions.

A motion was made by John Mitchell and seconded by David Olson to approve the August 8, 2011, meeting minutes. A roll call vote was taken. The motion unanimously carried.

A motion was made by Marty Guindon and seconded by John Peterson to approve the issuance of individual certificates and firm permits through September 16, 2011. A roll call vote was taken. The motion unanimously carried.

Nicole Kasin noted that board staff is still working with Marty Guindon regarding interest income received.

A motion was made by David Olson and seconded by John Linn, Jr. to approve the financial statements through August 2011. A roll call vote was taken. The motion unanimously carried.

The Board reviewed the online renewal statistics for FY11 and FY12. Overall, they are pleased with the number of licensees that renew online and hope to continue to see an increase.

Nicole Kasin explained in her Executive Director's Report the response from NASBA regarding the letter that was sent to NASBA from the Board supporting the majority position of the Blue Ribbon Panel to engage FAF in the creation of a separate standard setting board.

The Board deferred the discussion on the AICPA/NASBA CPE Standards Executive Summary and Exposure Draft and the AICPA's White Paper on final changes for Performing and Reporting on Peer Review till the meeting in October.

The Board briefly discussed NASBA's candidate care report 2Q11, the meeting minutes from the Board of Directors on April 29, 2011, and the meeting highlights from the Board of Directors on July 29, 2011.

The Board completed the NASBA Regional Director's quarterly focus questions.

The Board was given the new UAA Sixth Edition as of August 2011 and the UAA Model Rules Revised.

A motion was made by Marty Guindon and seconded by David Olson to enter into executive session for the deliberative process for peer reviews and CPE Negotiated Consent Agreements. A roll call vote was taken. The motion unanimously carried.

The Board came out of executive session.

A motion was made by Marty Guindon and seconded by John Linn, Jr. to accept the peer reviews and CPE Negotiated Consent Agreements as discussed in executive session. A roll call vote was taken. The motion unanimously carried.

The Board discussed possible changes that need to be made to the CPE Rules regarding restricting the number of online course hours that can be submitted and the quality of online CPE. The Board requested Executive Director Kasin gather further information for future discussions.

FUTURE MEETING DATES (all times CT)

October 17 – 8:00 a.m. Sioux Falls – Holiday Inn Ambassador Room

November 18 – 9:00 a.m. Conference Call

December 19 – 9:00 a.m. Conference Call

A motion was made by Marty Guindon and seconded by John Linn, Jr. to adjourn the meeting. A roll call vote was taken. The motion unanimously carried.

All business having come before the board was concluded and Chair Holly Brunick adjourned the meeting at 10:45 a.m.

Holly Brunick, CPA, Chair

Attest: _____
Nicole Kasin, Executive Director

John Peterson, Sec/Treasurer

**CERTIFIED PUBLIC ACCOUNTANT CERTIFICATES
BOARD COPY**

Issued Through October 12, 2011

Number	Name	Date Issued	Location
2996	Ryan Scott Donahue	9/21/11	Sioux Falls, SD
2997	Joel Douglas Corlew	10/5/11	Yankton, SD

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

**Issued Through
October 12, 2011**

Number	Name	Date Issued	Basis/Comments
1536	Bures & Associates, P.C. Sioux Falls, SD	09/28/11	Additional Location
1537	Vilhauer Raml & Snyder P.C. Watertown, SD	10/04/11	Name Change

BA1409R1

STATE OF SOUTH DAKOTA
CASH CENTER BALANCES
AS OF: 09/30/2011

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

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	403,681.83	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			403,681.83	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			403,681.83	DR **	
BUDGET UNIT TOTAL 1031			403,681.83	DR ***	

STATE OF SOUTH DAKOTA
MONTHLY EXPENDITURE REPORT
FOR PERIOD ENDING: 09/30/2011

AGENCY 10 LABOR
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPVL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/ CR
COMPANY NO 6503										
COMPANY NAME PROFESSIONAL & LICENSING BOARDS										
6503	103100061802	51010100	CGEX110827	09/02/2011					2,729.76	DR
6503	103100061802	51010100	CGEX110914	09/16/2011					2,977.92	DR
6503	103100061802	51010100	CGEX110928	09/30/2011					2,729.76	DR
OBJSUB: 5101010 F-T EMP SAL & WAGES										
6503	103100061802	51010200	CGEX110827	09/02/2011					8,437.44	DR *
6503	103100061802	51010200	CGEX110914	09/16/2011					722.81	DR
6503	103100061802	51010200	CGEX110928	09/30/2011					791.70	DR
									702.55	DR
OBJSUB: 5101020 P-T/TEMP EMP SAL & WAGES										
6503	103100061802	51010300	CGEX110928	09/30/2011					2,217.06	DR *
									240.00	DR
OBJSUB: 5101030 BOARD & COMM MBS FEES										
6503	103100061802	51020100	CGEX110827	09/02/2011					240.00	DR *
6503	103100061802	51020100	CGEX110914	09/16/2011					10,894.50	DR **
6503	103100061802	51020100	CGEX110928	09/30/2011					244.03	DR
									268.30	DR
									260.85	DR
OBJSUB: 5102010 OASI-EMPLOYER'S SHARE										
6503	103100061802	51020200	CGEX110827	09/02/2011					773.18	DR *
6503	103100061802	51020200	CGEX110914	09/16/2011					207.16	DR
6503	103100061802	51020200	CGEX110928	09/30/2011					226.17	DR
									205.94	DR
OBJSUB: 5102020 RETIREMENT-ER SHARE										
6503	103100061802	51020600	CGEX110827	09/02/2011					639.27	DR *
6503	103100061802	51020600	CGEX110914	09/16/2011					766.89	DR
6503	103100061802	51020600	CGEX110928	09/30/2011					766.89	DR
									766.89	DR
OBJSUB: 5102060 HEALTH/LIFE INS.-ER SHARE										
6503	103100061802	51020800	CGEX110827	09/02/2011					2,300.67	DR *
6503	103100061802	51020800	CGEX110914	09/16/2011					9.67	DR
6503	103100061802	51020800	CGEX110928	09/30/2011					10.56	DR
									9.62	DR
OBJSUB: 5102080 WORKER'S COMPENSATION										
6503	103100061802	51020900	CGEX110827	09/02/2011					29.85	DR *
6503	103100061802	51020900	CGEX110914	09/16/2011					3.45	DR
6503	103100061802	51020900	CGEX110928	09/30/2011					3.77	DR
									3.43	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/2011					10.65	DR *
6503	103100061802	52040200	CGEX110914	09/16/2011					3,753.62	DR **
6503	103100061802	52040200	CGEX110928	09/30/2011					14,648.12	DR ***
									3,200.00	DR
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
6503	103100061802	52040200	CGEX110827	09/02/201						

STATE OF SOUTH DAKOTA
MONTHLY EXPENDITURE REPORT
FOR PERIOD ENDING: 09/30/2011

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AGENCY 10 LABOR
BUDGET UNIT 1031 BOARD OF ACCOUNTANCY
CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPVL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/ CR
6503	103100061802	52042000	WORKSHOP REGISTRATION FEE PL208057	09/30/2011					2,385.00	DR *
									158.67	DR
6503	103100061802	52042300	CENTRAL SERVICES 12SC100008 SEP11	09/23/2011	99776892	SUNSETOFFI	12043890		158.67	DR *
									119.86	DR
6503	103100061802	52043400	JANITORIAL & MAINT SERV 26399	09/09/2011	99772719	ELBOCOMPPT	12124520		119.86	DR *
6503	103100061802	52043400	26505	09/30/2011	99779039	ELBOCOMPPT	12124520		78.75	DR
									81.25	DR
6503	103100061802	52044600	COMPUTER SOFTWARE MAINT H2724930	09/16/2011	01971368	MAILFINANC	12219369		160.00	DR *
									597.00	DR
6503	103100061802	52044900	EQUIPMENT RENTAL ACCOUNTNETOCT11	09/23/2011	01971898	MCGINNISRO	12074040		597.00	DR *
									1,269.45	DR
6503	103100061802	52045300	RENTS-PRIVATE OWNED PROP. DP207105	09/16/2011					1,269.45	DR *
6503	103100061802	52045300	TL208162	09/30/2011					658.00	DR
									81.62	DR
6503	103100061802	52045400	TELECOMMUNICATIONS SVCS 5159417006 0811	09/09/2011	01970454	XCELENERGY	12023853		739.62	DR *
									72.73	DR
6503	103100061802	52045400	ELECTRICITY CI102A029B	09/27/2011	133632				72.73	DR *
				09/27/2011	133632				661.59	DR
				09/27/2011	133632				661.59	CR
				09/27/2011	133632				331.59	DR
6503	103100061802	52049600	BANK FEES AND CHARGES 13383721	09/30/2011	99778345	NATLASSNST	12005047		331.59	DR *
									9,096.28	DR
6503	103100061802	52049600	OTHER CONTRACTUAL SERVICE CONTRACTUAL SERVICES CS208037	09/30/2011					9,096.28	DR *
									18,130.20	DR **
									17.64	DR
6503	103100061802	52050200	OFFICE SUPPLIES SUPPLIES & MATERIALS T102-024	09/27/2011					17.64	DR *
									17.64	DR **
									441.91	DR
6503	103100061802	52280000	OPER TRANS OUT -NON BUDGT NONOP EXP/NONBGTD OP TR GROUP: 52 COMP: 6503 CNTR: 103100061802 B. UNIT: 1031						441.91	DR *
									441.91	DR **
									18,589.75	DR ***
									33,237.87	DR ****
									33,237.87	DR *****
									33,237.87	DR *****

South Dakota Board of Accountancy
Balance Sheet
As of September 30, 2011

	Sep 30, 11
ASSETS	
Current Assets	
Checking/Savings	
1130000 · Local Checking - US Bank	3,140.93
1140000 · Pool Cash State of SD	403,681.83
Total Checking/Savings	406,822.76
Other Current Assets	
1131000 · Cash-Security Lending Collatera	14,957.90
1213000 · Investment Income Receivable	1,806.99
Total Other Current Assets	16,764.89
Total Current Assets	423,587.65
Fixed Assets	
1670000 · Computer Software	
Original Cost	140,063.23
1770000 · Depreciation	-95,805.07
Total 1670000 · Computer Software	44,258.16
Total Fixed Assets	44,258.16
TOTAL ASSETS	467,845.81
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2110000 · Accounts Payable	3,451.88
Total Accounts Payable	3,451.88
Other Current Liabilities	
2810000 · Amounts Held for Others	29,884.87
Total Other Current Liabilities	29,884.87
Total Current Liabilities	33,336.75
Long Term Liabilities	
2960000 · Compensated Absences Payable	12,338.53
Total Long Term Liabilities	12,338.53
Total Liabilities	45,675.28
Equity	
3220000 · Unrestricted Net Assets	212,100.58
3300100 · Invested In Capital Assets	44,258.16
3900 · Retained Earnings	30,235.30
Net Income	135,576.49
Total Equity	422,170.53
TOTAL LIABILITIES & EQUITY	467,845.81

South Dakota Board of Accountancy

Profit & Loss Budget vs. Actual

July through September 2011

	Jul - Sep 11	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
4293550 · Initial Individual Certificate	550.00	3,000.00	-2,450.00	18.3%
4293551 · Certificate Renewals-Active	53,890.00	49,000.00	4,890.00	110.0%
4293552 · Certificate Renewals-Inactive	20,150.00	19,500.00	650.00	103.3%
4293553 · Certificate Renewals-Retired	670.00	700.00	-30.00	95.7%
4293554 · Initial Firm Permits	500.00	1,250.00	-750.00	40.0%
4293555 · Firm Permit Renewals	19,700.00	18,350.00	1,350.00	107.4%
4293557 · Initial Audit				
5208011 · REFUNDS	-30.00			
4293557 · Initial Audit - Other	330.00	600.00	-270.00	55.0%
Total 4293557 · Initial Audit	300.00	600.00	-300.00	50.0%
4293558 · Re-Exam Audit	720.00	1,890.00	-1,170.00	38.1%
4293560 · Late Fees-Initial Certificate	50.00			
4293561 · Late Fees-Certificate Renewals	2,500.00	4,000.00	-1,500.00	62.5%
4293563 · Late Fees-Firm Permit Renewals	550.00	800.00	-250.00	68.8%
4293564 · Late Fees-Peer Review	100.00	1,100.00	-1,000.00	9.1%
4293566 · Firm Permit Individual	69,160.00	64,000.00	5,160.00	108.1%
4293567 · Peer Review Admin Fee	150.00	5,650.00	-5,500.00	2.7%
4293568 · Firm Permit Name Change	80.00	100.00	-20.00	80.0%
4293569 · Initial FAR	240.00	990.00	-750.00	24.2%
4293570 · Initial REG	330.00	530.00	-200.00	62.3%
4293571 · Initial BEC	300.00	780.00	-480.00	38.5%
4293572 · Re-Exam FAR	420.00	1,710.00	-1,290.00	24.6%
4293573 · Re-Exam REG	420.00	1,800.00	-1,380.00	23.3%
4293574 · Re-Exam BEC	600.00	1,920.00	-1,320.00	31.3%
4491000 · Interest and Dividend Revenue	11,505.78	15,000.00	-3,494.22	76.7%
4896021 · Legal Recovery Cost	1,250.00	1,000.00	250.00	125.0%
Total Income	184,135.78	193,670.00	-9,534.22	95.1%
Gross Profit	184,135.78	193,670.00	-9,534.22	95.1%
Expense				
5101010 · F-T Emp Sal & Wages	15,137.88	66,239.00	-51,101.12	22.9%
5101020 · P-T/Temp Emp Sal & Wages	4,151.30	19,380.00	-15,228.70	21.4%
5101030 · Board & Comm Mbrs Fees	600.00	4,020.00	-3,420.00	14.9%
5102010 · OASI-Employer's Share	1,410.84	6,549.00	-5,138.16	21.5%
5102020 · Retirement-ER Share	1,157.36	5,147.00	-3,989.64	22.5%
5102060 · Health /Life Ins.-ER Share	4,252.79	17,869.00	-13,616.21	23.8%
5102080 · Worker's Compensation	54.02	133.00	-78.98	40.6%
5102090 · Unemployment Insurance	19.30	55.00	-35.70	35.1%
5203010 · Auto--State Owned	0.00	1,000.00	-1,000.00	0.0%
5203020 · Auto-Private-Ownes Low Mileage	180.80	300.00	-119.20	60.3%
5203030 · In State-Auto- Priv. High Miles	446.96	1,700.00	-1,253.04	26.3%
5203100 · In State-Lodging	407.50	1,000.00	-592.50	40.8%
5203120 · In State-Incidentals to Travel	0.00	100.00	-100.00	0.0%
5203140 · InState-Tax Meals Not Overnigt	9.00	100.00	-91.00	9.0%
5203150 · InState-Non-Tax Meals OverNight	130.00	500.00	-370.00	26.0%
5203230 · OS-Auto Private High Mileage	0.00	100.00	-100.00	0.0%
5203260 · OS-Air Commercial Carrier	0.00	6,700.00	-6,700.00	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	350.00	-350.00	0.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	1,000.00	-1,000.00	0.0%
5204010 · Subscriptions	0.00	1,500.00	-1,500.00	0.0%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	500.00	-500.00	0.0%
5204160 · Workshop Registration Fees	2,385.00	5,400.00	-3,015.00	44.2%
5204180 · Computer Services-State	117.00	600.00	-483.00	19.5%
5204181 · Computer Development Serv-State	1,455.20	10,400.00	-8,944.80	14.0%
5204200 · Central Services	1,566.21	7,000.00	-5,433.79	22.4%
5204220 · Equipment Service & Maintenance	23.79	300.00	-276.21	7.9%
5204230 · Janitorial/Maintenance Services	359.58	1,560.00	-1,200.42	23.1%
5204340 · Computer Software Maintenance	212.50	1,000.00	-787.50	21.3%

South Dakota Board of Accountancy
Profit & Loss Budget vs. Actual
 July through September 2011

	Jul - Sep 11	Budget	\$ Over Budget	% of Budget
5204360 · Advertising-Newspapers	0.00	2,100.00	-2,100.00	0.0%
5204440 · Newsletter Publishing	0.00	1,100.00	-1,100.00	0.0%
5204460 · Equipment Rental	877.80	4,500.00	-3,622.20	19.5%
5204480 · Microfilm and Photography	462.66	700.00	-237.34	66.1%
5204490 · Rents Privately Owned Property	2,538.90	15,531.00	-12,992.10	16.3%
5204530 · Telecommunications Services	450.18	2,500.00	-2,049.82	18.0%
5204540 · Electricity	177.74	865.00	-687.26	20.5%
5204560 · Water	44.70	240.00	-195.30	18.6%
5204590 · Insurance Premiums/Surety Bonds	0.00	1,710.00	-1,710.00	0.0%
5204740 · Bank Fees and Charges	2,531.98	2,700.00	-168.02	93.8%
5205020 · Office Supplies	100.26	1,700.00	-1,599.74	5.9%
5205310 · Printing State	0.00	500.00	-500.00	0.0%
5205320 · Printing/Duplicating/Binding Co	49.80	1,000.00	-950.20	5.0%
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	0.00	3,100.00	-3,100.00	0.0%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207900 · Computer Hardware	0.00	4,800.00	-4,800.00	0.0%
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	1,030.66	7,400.00	-6,369.34	13.9%
5228030 · Depreciation Expense	3,017.58	12,070.40	-9,052.82	25.0%
Total Expense	48,559.29	237,818.40	-189,259.11	20.4%
Net Ordinary Income	135,576.49	-44,148.40	179,724.89	-307.1%
Net Income	135,576.49	-44,148.40	179,724.89	-307.1%

South Dakota Board of Accountancy
PREVIOUS YEAR MONTHLY COMPARISON
September 2011

	Sep 11	Sep 10	\$ Change	% Change
Ordinary Income/Expense				
Income				
4293550 · Initial Individual Certificate	50.00	400.00	-350.00	-87.5%
4293551 · Certificate Renewals-Active	7,540.00	8,500.00	-960.00	-11.3%
4293552 · Certificate Renewals-Inactive	3,900.00	5,750.00	-1,850.00	-32.2%
4293553 · Certificate Renewals-Retired	280.00	360.00	-80.00	-22.2%
4293554 · Initial Firm Permits	150.00	0.00	150.00	100.0%
4293555 · Firm Permit Renewals	2,550.00	3,750.00	-1,200.00	-32.0%
4293557 · Initial Audit	90.00	120.00	-30.00	-25.0%
4293558 · Re-Exam Audit	300.00	330.00	-30.00	-9.1%
4293561 · Late Fees-Certificate Renewals	200.00	1,400.00	-1,200.00	-85.7%
4293563 · Late Fees-Firm Permit Renewals	50.00	150.00	-100.00	-66.7%
4293564 · Late Fees-Peer Review	0.00	50.00	-50.00	-100.0%
4293566 · Firm Permit Individual	5,005.00	9,230.00	-4,225.00	-45.8%
4293567 · Peer Review Admin Fee	0.00	75.00	-75.00	-100.0%
4293568 · Firm Permit Name Change	0.00	25.00	-25.00	-100.0%
4293569 · Initial FAR	90.00	270.00	-180.00	-66.7%
4293570 · Initial REG	150.00	60.00	90.00	150.0%
4293571 · Initial BEC	150.00	150.00	0.00	0.0%
4293572 · Re-Exam FAR	150.00	360.00	-210.00	-58.3%
4293573 · Re-Exam REG	120.00	210.00	-90.00	-42.9%
4293574 · Re-Exam BEC	210.00	390.00	-180.00	-46.2%
4491000 · Interest and Dividend Revenue	11,505.78	16,547.72	-5,041.94	-30.5%
4896021 · Legal Recovery Cost	600.00	0.00	600.00	100.0%
Total Income	33,090.78	48,127.72	-15,036.94	-31.2%
Gross Profit	33,090.78	48,127.72	-15,036.94	-31.2%
Expense				
5101010 · F-T Emp Sal & Wages	4,467.00	1,608.13	2,858.87	177.8%
5101020 · P-T/Temp Emp Sal & Wages	1,153.34	452.12	701.22	155.1%
5101030 · Board & Comm Mbrs Fees	-480.00	-342.00	-138.00	-40.4%
5102010 · OASI-Employer's Share	362.20	127.67	234.53	183.7%
5102020 · Retirement-ER Share	337.21	123.61	213.60	172.8%
5102060 · Health /Life Ins.-ER Share	1,185.23	421.79	763.44	181.0%
5102080 · Worker's Compensation	15.74	3.51	12.23	348.4%
5102090 · Unemployment Insurance	5.62	1.74	3.88	223.0%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204160 · Workshop Registration Fees	2,385.00	2,385.00	0.00	0.0%
5204180 · Computer Services-State	60.00	57.00	3.00	5.3%
5204181 · Computer Development Serv-State	322.00	48.00	274.00	570.8%
5204200 · Central Services	158.67	64.37	94.30	146.5%
5204220 · Equipment Service & Maintenance	3.01	5.95	-2.94	-49.4%
5204230 · Janitorial/Maintenance Services	119.86	119.86	0.00	0.0%
5204460 · Equipment Rental	93.60	93.60	0.00	0.0%
5204490 · Rents Privately Owned Property	0.00	1,269.45	-1,269.45	-100.0%
5204530 · Telecommunications Services	95.00	167.14	-72.14	-43.2%
5204540 · Electricity	54.22	56.85	-2.63	-4.6%
5204560 · Water	22.35	23.35	-1.00	-4.3%
5204740 · Bank Fees and Charges	230.59	237.15	-6.56	-2.8%
5205020 · Office Supplies	33.73	0.00	33.73	100.0%
5205320 · Printing/Duplicating/Binding Co	13.80	10.35	3.45	33.3%
5228000 · Operating Transfers Out-NonBudg	0.00	254.32	-254.32	-100.0%
5228030 · Depreciation Expense	1,005.86	1,005.86	0.00	0.0%
Total Expense	14,844.03	11,394.82	3,449.21	30.3%
Net Ordinary Income	18,246.75	36,732.90	-18,486.15	-50.3%
Net Income	18,246.75	36,732.90	-18,486.15	-50.3%

South Dakota Board of Accountancy
PREVIOUS YEAR TO DATE MONTHLY COMPARISON
 July through September 2011

	<u>Jul - Sep 11</u>	<u>Jul - Sep 10</u>	<u>\$ Change</u>	<u>% Change</u>
Ordinary Income/Expense				
Income				
4293550 · Initial Individual Certificate	550.00	775.00	-225.00	-29.0%
4293551 · Certificate Renewals-Active	53,890.00	54,550.00	-660.00	-1.2%
4293552 · Certificate Renewals-Inactive	20,150.00	19,900.00	250.00	1.3%
4293553 · Certificate Renewals-Retired	670.00	650.00	20.00	3.1%
4293554 · Initial Firm Permits	500.00	300.00	200.00	66.7%
4293555 · Firm Permit Renewals	19,700.00	19,900.00	-200.00	-1.0%
4293557 · Initial Audit	300.00	270.00	30.00	11.1%
4293558 · Re-Exam Audit	720.00	690.00	30.00	4.4%
4293560 · Late Fees-Initial Certificate	50.00	0.00	50.00	100.0%
4293561 · Late Fees-Certificate Renewals	2,500.00	5,500.00	-3,000.00	-54.6%
4293563 · Late Fees-Firm Permit Renewals	550.00	1,100.00	-550.00	-50.0%
4293564 · Late Fees-Peer Review	100.00	300.00	-200.00	-66.7%
4293566 · Firm Permit Individual	69,160.00	68,015.00	1,145.00	1.7%
4293567 · Peer Review Admin Fee	150.00	450.00	-300.00	-66.7%
4293568 · Firm Permit Name Change	80.00	75.00	5.00	6.7%
4293569 · Initial FAR	240.00	540.00	-300.00	-55.6%
4293570 · Initial REG	330.00	180.00	150.00	83.3%
4293571 · Initial BEC	300.00	420.00	-120.00	-28.6%
4293572 · Re-Exam FAR	420.00	630.00	-210.00	-33.3%
4293573 · Re-Exam REG	420.00	570.00	-150.00	-26.3%
4293574 · Re-Exam BEC	600.00	810.00	-210.00	-25.9%
4491000 · Interest and Dividend Revenue	11,505.78	16,547.72	-5,041.94	-30.5%
4896021 · Legal Recovery Cost	1,250.00	0.00	1,250.00	100.0%
Total Income	184,135.78	192,172.72	-8,036.94	-4.2%
Gross Profit	184,135.78	192,172.72	-8,036.94	-4.2%
Expense				
5101010 · F-T Emp Sal & Wages	15,137.88	12,420.41	2,717.47	21.9%
5101020 · P-T/Temp Emp Sal & Wages	4,151.30	3,558.17	593.13	16.7%
5101030 · Board & Comm Mbrs Fees	600.00	798.00	-198.00	-24.8%
5102010 · OASI-Employer's Share	1,410.84	1,226.01	184.83	15.1%
5102020 · Retirement-ER Share	1,157.36	958.72	198.64	20.7%
5102060 · Health /Life Ins.-ER Share	4,252.79	3,489.35	763.44	21.9%
5102080 · Worker's Compensation	54.02	27.17	26.85	98.8%
5102090 · Unemployment Insurance	19.30	13.57	5.73	42.2%
5203020 · Auto-Private-Ownes Low Mileage	180.80	271.20	-90.40	-33.3%
5203030 · In State-Auto- Priv. High Miles	446.96	398.12	48.84	12.3%
5203100 · In State-Lodging	407.50	93.00	314.50	338.2%
5203140 · InState-Tax Meals Not OverNigt	9.00	9.00	0.00	0.0%
5203150 · InState-Non-Tax Meals OverNight	130.00	137.00	-7.00	-5.1%
5203260 · OS-Air Commercial Carrier	0.00	1,345.10	-1,345.10	-100.0%
5203280 · OS-Other Public Carrier	0.00	42.00	-42.00	-100.0%
5203300 · OS-Lodging	0.00	1,840.40	-1,840.40	-100.0%
5203320 · OS-Incidentals to Travel	0.00	61.00	-61.00	-100.0%
5203350 · OS-Non-Taxable Meals Overnight	0.00	259.00	-259.00	-100.0%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204160 · Workshop Registration Fees	2,385.00	2,465.00	-80.00	-3.3%
5204180 · Computer Services-State	117.00	171.00	-54.00	-31.6%
5204181 · Computer Development Serv-State	1,455.20	2,376.00	-920.80	-38.8%
5204200 · Central Services	1,566.21	1,553.19	13.02	0.8%
5204220 · Equipment Service & Maintenance	23.79	25.43	-1.64	-6.5%
5204230 · Janitorial/Maintenance Services	359.58	359.58	0.00	0.0%
5204340 · Computer Software Maintenance	212.50	265.00	-52.50	-19.8%
5204440 · Newsletter Publishing	0.00	486.89	-486.89	-100.0%
5204460 · Equipment Rental	877.80	1,474.80	-597.00	-40.5%
5204480 · Microfilm and Photography	462.66	0.00	462.66	100.0%
5204490 · Rents Privately Owned Property	2,538.90	3,808.35	-1,269.45	-33.3%
5204530 · Telecommunications Services	450.18	640.71	-190.53	-29.7%
5204540 · Electricity	177.74	205.04	-27.30	-13.3%
5204560 · Water	44.70	23.35	21.35	91.4%
5204740 · Bank Fees and Charges	2,531.98	2,020.58	511.40	25.3%
5205020 · Office Supplies	100.26	101.09	-0.83	-0.8%
5205320 · Printing/Duplicating/Binding Co	49.80	332.97	-283.17	-85.0%

South Dakota Board of Accountancy
PREVIOUS YEAR TO DATE MONTHLY COMPARISON
 July through September 2011

	<u>Jul - Sep 11</u>	<u>Jul - Sep 10</u>	<u>\$ Change</u>	<u>% Change</u>
5205350 · Postage	0.00	507.15	-507.15	-100.0%
5228000 · Operating Transfers Out-NonBudg	1,030.66	1,089.14	-58.48	-5.4%
5228030 · Depreciation Expense	3,017.58	3,017.58	0.00	0.0%
Total Expense	<u>48,559.29</u>	<u>51,070.07</u>	<u>-2,510.78</u>	<u>-4.9%</u>
Net Ordinary Income	<u>135,576.49</u>	<u>141,102.65</u>	<u>-5,526.16</u>	<u>-3.9%</u>
Net Income	<u>135,576.49</u>	<u>141,102.65</u>	<u>-5,526.16</u>	<u>-3.9%</u>

EXECUTIVE DIRECTOR'S REPORT

Nicole Kasin

Inactive CPAs on Volunteer Boards

A discussion on the position of the Board for the following circumstance:

An Inactive CPA sits on a board (charitable organization) as an advisor. He is a voting member of the board and does have extensive knowledge in advising for investments. The organization is not a publicly traded company and there is minimal if any compensation for being on the charitable board.

Is it ok for the individual to remain in an inactive status?

CPE Audits

On October 12, 2011, 141 licensees (74 public practice and 67 private industry) were sent a notice that they had been selected for CPE Audits. The licensee must submit the required documentation to the board office by December 1, 2011.

International Assembly for Collegiate Business Education (IACBE)

The IACBE is a national accreditation body. They have sent the attached letter requesting the boards input on a few questions.

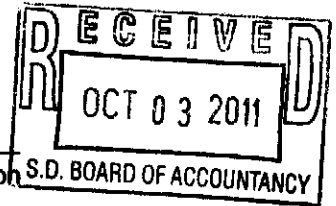
The Board had discussed regional accreditation and nation accreditation a few years prior. Since the letter addresses this issue I am asking to see if the board would like to revisit the issue of national accreditation.

ARSD 20:75:02:12 recognizes the regional accrediting agencies.

ARSD 20:75:02:13 recognizes the provisions for non-accredited colleges or universities.



International Assembly for Collegiate Business Education



September 28, 2011

South Dakota Board of Accountancy
Attn: Nicole Kasin, Executive Director
301 East 14th Street, Suite 200
Sioux Falls, SD 57104

RE: Accreditation of Accounting Programs

The *International Assembly for Collegiate Business Education* (IACBE) currently accredits bachelors-, masters-, and doctoral-level business administration programs in the United States as well as internationally. Many of our member schools also offer accounting programs that are administratively housed in and supported by the business departments and, while our organization recognizes those programs as part of the accredited business degrees, we are not currently specifically accrediting accounting degrees. The purpose of this letter is two-fold:

First, we know that many states have a provision that requires those who sit for the CPA exam to "have graduated from a college or university whose business/accounting program was accredited by a nationally-recognized accrediting body." The IACBE has been offering specialized business accreditation since 1997 and received recognition for up to 10 years from the Council of Higher Education Accreditation (CHEA) at their January 2011 meeting. If your state has this requirement, we are requesting that your state board recognize the IACBE as a "nationally-recognized accrediting body."

Secondly, we need your help. Enclosed with this letter are the 17 characteristics of excellence in business education that are the foundation of the IACBE accreditation process, and all member schools must demonstrate compliance with and assessment of the following nine principles as part of the accreditation process:

- Principle 1: Outcomes Assessment
- Principle 2: Strategic Planning
- Principle 3: Curriculum
- Principle 4: Faculty
- Principle 5: Scholarly and Professional Activities
- Principle 6: Resources
- Principle 7: Internal and External Relationships
- Principle 8: International Business Education
- Principle 9: Educational Innovation

International Assembly for Collegiate Business Education
P.O. Box 3960, Olathe, Kansas 66063, USA

Tel: +1 913.631.3009 • Fax: +1 913.631.9154 • Email: iacbe@iacbe.org • Web: www.iacbe.org

Additionally, all accredited member schools must file annual reports with the IACBE as well as publically disclose assessment results on an annual basis on their institutional web sites. I invite you to visit our web site at www.iacbe.org for additional information about what we do and how we do it.

The IACBE is now at the point where we are considering expanding specialized accreditation to accounting programs specifically to aid the accounting graduates from our member schools in moving through their respective State Boards of Accountancy process for purposes of sitting for the CPA examination. To make this decision, we would appreciate the following information from you:

1. In your state, does graduation from an accredited accounting program make a difference in qualifying to sit for the CPA exam?
2. If so, what, specifically, would you expect to see included (and assessed) in an accounting program?
3. In your opinion, how would "excellence in accounting education" be defined?

Thank you in advance for providing us with information regarding your process. If you have any questions about IACBE or the accreditation we provide, please do not hesitate to call.

Sincerely,



Margareta Smith Knopik, Ph.D.
Vice President and Chief Operations Officer
mknopik@iacbe.org

Enc: Characteristics of Excellence in Business Education

Characteristics of Excellence in Business Education

The IACBE promotes and recognizes excellence in business education in institutions of higher education worldwide. Excellence in business education is multidimensional and may be interpreted in different ways depending on the educational, historical, cultural, legal/regulatory, and organizational environments in which the academic business unit operates. The IACBE recognizes and respects this fact, but however it is interpreted, excellence in business education normally exhibits the following common characteristics:

- The academic business unit has a clearly defined mission and broad-based goals that are consistent with those of the institution.
- The academic business unit strives for higher levels of overall performance consistent with its mission as reflected in its student learning outcomes, operational effectiveness, and the accomplishment of its mission and broad-based goals.
- The academic business unit engages in a strategic planning process that is driven by the approved mission and broad-based goals of the academic business unit, is consistent with the strategic planning process of the institution, and is in touch with the realities of business education and the marketplace.
- The academic business unit has developed and implemented an outcomes assessment process that promotes continuous improvement in its business programs and its operations, and is linked to the strategic plans of both the academic business unit and the institution.
- The academic business unit develops students, both personally and professionally, into well-educated, ethical, and competent business professionals.
- The academic business unit operates in an environment that encourages and promulgates innovation and creativity in business education.
- The academic business unit has meaningful and effective linkages between the classroom and practitioners in the business community, thereby contributing to the assurance of currency in and relevance of its business programs.
- The academic business unit encourages both internal and external cooperative relationships with other educational units and institutions that are consistent with its mission and broad-based goals.
- Faculty members in the academic business unit integrate ethical viewpoints and principles in their teaching activities.
- Faculty members in the academic business unit strive to be effective teachers who are current in their professional fields and are active in contributing to their institutions and disciplines. Furthermore, members of the business faculty are positively engaged within their academic business unit and contribute to its mission and broad-based goals through appropriate faculty development and faculty evaluation processes.
- The mix of academic and professional credentials of the business faculty is worthy of the respect of the academic and business communities.
- The missions of the institution and the academic business unit are effectively communicated to current and prospective students.
- The institution provides resources to the academic business unit that are adequate to accomplish its mission and broad-based goals.
- The curricula in business programs reflect the missions of the institution and its academic business unit, and are consistent with current, acceptable business practices and the expectations of professionals in the academic and business communities.
- The curricula in business programs ensure that students understand and are prepared to deal effectively with critical issues in a changing global business environment.
- The content of business courses is delivered in a manner that is appropriate, effective, and stimulates learning.
- The organizational structures of the institution and the academic business unit support excellence in business education.

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR & REGULATION
BOARD OF ACCOUNTANCY**

IN THE MATTER OF

**RICHARD K. LAW
Certificate No. 1993**

**COMPLAINT &
NOTICE OF HEARING**

Respondent.

TO: Richard K. Law
7D, Block 5, City Garden, North Point
Hong Kong, China

PLEASE TAKE NOTICE that an administrative hearing in the above-entitled matter will be held before the South Dakota Board of Accountancy on **Monday, October 17, 2011, at 9:30 a.m. CDT**, or as soon thereafter as the matter can be heard, at the Holiday Inn City Centre, located at 100 W. 8th St. Sioux Falls, South Dakota, in the Ambassador Room.

This hearing is being held pursuant to the legal authority and jurisdiction granted to the State Board of Accountancy (Board), under SDCL Chapter 36-20B and SDCL Chapter 1-26.

The purpose of this hearing will be to determine whether Richard K. Law, Certificate No. 1993, is in violation of state statutes or administrative rules, thus resulting in the Board taking disciplinary action against Mr. Law.

Following the hearing, the Board shall issue findings of fact, conclusions of law, and a decision that may take such actions as are authorized by SDCL Chapter 36-20B, including, but not limited to, denial, suspension or revocation of Certificate No. 1993. Additionally, pursuant to SDCL 1-26-29.1, should this proceeding result in discipline, the Board may assess all or part of its actual expenses for this proceeding against you.

This hearing is a contested case as that term is defined in SDCL 1-26-1 (2). As such, this hearing is an adversarial proceeding. You have the right to be present at the hearing and to be represented by an attorney. These and other due process rights will be forfeited if they are not exercised at the hearing. If you intend to be represented by an attorney, please inform the undersigned of your attorney's name, address, and telephone number.

If you do not appear at the scheduled time of the hearing, the matter may be dismissed or it may be decided on the basis of evidence presented at the hearing.

If the amount in controversy exceeds \$2,500.00 or if a property right may be terminated, a party to the contested case may require the agency to use the Office of Hearing Examiners by giving notice of the request to the agency no later than 10 days after service of this notice of hearing.

Notice of the Board's decision will be sent to you within 30 days after this matter is fully submitted to it, unless such time is extended by the Board pursuant to SDCL 1-26-30.1.

The decision based on the hearing may be appealed to the Circuit Court and the State Supreme Court, as provided by law.

If you or anyone participating in the hearing on your behalf requires accommodations due to a disability, contact Nicole Kasin at (605) 367-5770 and suitable arrangements will be made.

Statutes and Rules involved in this hearing:

36-20B-27. Renewal of certificate--Continuing education requirement--Exception:

For renewal of a certificate under this chapter, a licensee shall participate in a program of learning designed to maintain professional competency. The program of learning shall comply with rules, promulgated by the board pursuant to chapter 1-26. A licensee shall complete one hundred twenty hours of continuing education in each three-year renewal period. The board may, by rule promulgated pursuant to chapter 1-26, establish an exception to this requirement for certificate holders who do not perform or offer to perform for the public one or more kinds of services involving the use of accounting or auditing skills, including issuance of reports on financial statements or of one or more kinds of management advisory, financial advisory, or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters. Any licensee granted such an exception by the board must place the word, inactive, adjacent to their CPA title or PA title on any business card, letterhead, or any other document or device, with the exception of their CPA certificate or PA license, on which their CPA or PA title appears.

36-20B-40. Disciplinary action--Remedies available to board--Grounds:

The board may, in accordance with chapter 1-26, revoke any certificate, license, or permit issued pursuant to this chapter or corresponding provisions of prior law or revoke or limit practice privileges under the provisions of § 36-20B-66 or 36-20B-67; suspend any such certificate, license, or permit, or refuse to renew any such certificate, license, or permit for a period of not more than five years; reprimand, censure, or limit the scope of practice of any licensee; impose an administrative fine not exceeding one thousand dollars, or place any licensee on probation, all with or without terms, conditions, and limitations, for any one or more of the following reasons:

3. Failure, on the part of a holder of a certificate, license, or permit under this chapter or registration under this chapter, or of a certificate, license or permit issued by another

- state, to maintain compliance with the requirements for issuance or renewal of such certificate, license, permit, or registration or to report changes to the board.
6. Violation of any provision of this chapter or rule, promulgated by the board pursuant to chapter 1-26, or violation of professional standards.

20:75:04:11. Review of continuing professional education credits.

Certificate holders are subject to verification of all continuing professional education credits submitted to the board. Annually, the board may randomly select holders of individual certificates who are in the three-year renewal cycle for review of continuing professional education credits. The period to be reviewed may be one to three reporting years prior to the request. The board shall determine the number selected for review each year based on a percentage of the number of individuals holding certificates at the time of the random selection. An individual selected for a review must provide documentation to verify attendance or completion of all courses reported to the board for continuing professional education credit.

If an individual does not meet the requirements of continuing professional education in SDCL 36-20B-27, § 20:75:04:07, 20:75:04:08, 20:75:04:09, or 20:75:04:10, an adjustment of hours may be made administratively if an audit of continuing education credits creates discrepancies in the individual's total number of hours during a year.

20:75:04:15. Documentation for continuing professional education credit.

A CPA or PA must document the credit claimed with the following acceptable evidence of completion:

1. For group and independent study programs, a certificate or other verification supplied by the CPE program sponsor;
2. For self-study programs, a certificate supplied by the CPE program sponsor after satisfactory completion of an examination;
3. For instruction credit, a certificate, program outline, or other verification supplied by the CPE program sponsor;

Facts supporting the alleged violations:

1. On October 18, 2010, Mr. Law was sent notice in regards to being randomly selected for a CPE audit;
2. On November 27, 2010, Mr. Law sent an email requesting copies of his reported CPE for year ending June 30, 2008, and year ending June 30, 2009. Executive Director Kasin emailed the requested documents on November 29, 2010;

3. On December 3, 2010, Mr. Law was sent a second letter indicating documentation for claimed CPE had not been received for his CPE audit. The Board requested him to submit the required documentation for claimed CPE within 15 days;
4. Mr. Law submitted partial documentation on December 18, 2010;
5. On January 10, 2011, Executive Director Kasin emailed Mr. Law and informed him that submitted CPE documentation was insufficient to verify all CPE hours claimed for the 3 year period. Mr. Law was asked to submit the documentation to verify the claimed CPE by January 25, 2011;
6. On January 24, 2011, Mr. Law emailed Executive Director Kasin for clarification on documentation needed for claimed CPE courses;
7. On January 24, 2011, Executive Director Kasin replied to Mr. Law. Mr. Law was referenced to the chapter on CPE administrative rules 20:75:04. Mr. Law was informed that the submitted CPE documentation was insufficient to verify all CPE hours claimed for the 3 year period;
8. Mr. Law failed to submit sufficient documentation to verify CPE courses reportedly taken in the period of July 1, 2007 to June 30, 2008. He provided documentation for 11.5 hours of CPE for the period ending June 30, 2008. He failed to provide documentation for 72 hours of CPE claimed for the period ending June 30, 2008. He failed to provide documentation to verify that he met the minimum of 20 hours of CPE each year as required in ARSD 20:75:04:07;
9. Mr. Law failed to submit sufficient documentation to verify CPE courses reportedly taken in the period of July 1, 2008 to June 30, 2009. He provided documentation for 51 hours of CPE for the period ending June 30, 2009. He failed to provide documentation for 18 hours of CPE claimed for the period ending June 30, 2009;
10. Mr. Law failed to submit sufficient documentation to verify CPE courses reportedly taken in the period of July 1, 2009 to June 30, 2010. He provided documentation for 35 hours of CPE for the period ending June 30, 2010. He failed to provide documentation for 18 hours of CPE claimed for the period ending June 30, 2010;
11. Mr. Law failed to submit documentation to verify the 120 hours of CPE claimed for the period ending June 30, 2008.
12. Mr. Law failed to submit documentation to verify the 120 hours of CPE claimed for the period ending June 30, 2010.
13. Mr. Law failed the CPE audit for the three year period ending June 30, 2010, by not submitting verifying documentation for all claimed CPE.

NOTICE: Pursuant to SDCL 36-20B-39, the Secretary of State for the State of South Dakota, Jason M. Gant, is being served as Mr. Law's agent for service of process.

Date this 13 day of September, 2011



Nicole Kasin
Executive Director
South Dakota Board of Accountancy
301 E. 14th St., Suite 200
Sioux Falls, SD 57501
605-367-5770

CERTIFICATE OF SERVICE

I hereby certify that on the 13 day of September, 2011, I sent, by Certified Mail, return receipt requested, and by U.S. First Class Mail, postage prepaid, a true and correct copy of the Complaint and Notice of Hearing to:

Jason M. Gant
Secretary of State
500 E. Capitol Ave.
Pierre, SD 57501-5070
Agent for Service of Process for Respondent

Richard K. Law
7D, Block 5, City Garden, North Point
Hong Kong, China
Respondent



Nicole Kasin

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR & REGULATION
BOARD OF ACCOUNTANCY**

IN THE MATTER OF

**MARK A. KIROFF
Certificate No. 2848**

**COMPLAINT &
NOTICE OF HEARING**

Respondent

TO: Mark A. Kiroff
5336 S. 145th St.
Omaha, NE 68137

PLEASE TAKE NOTICE that an administrative hearing in the above-entitled matter will be held before the South Dakota Board of Accountancy on **Monday, October 17, 2011, at 10:00 a.m. CDT**, or as soon thereafter as the matter can be heard, at the Holiday Inn City Centre, located at 100 W. 8th St. Sioux Falls, South Dakota, in the Ambassador Room.

This hearing is being held pursuant to the legal authority and jurisdiction granted to the State Board of Accountancy (Board), under SDCL Chapter 36-20B and SDCL Chapter 1-26.

The purpose of this hearing will be to determine whether Mark A. Kiroff, Certificate No. 2848, is in violation of state statutes or administrative rules, thus resulting in the Board taking disciplinary action against Mr. Kiroff.

Following the hearing, the Board shall issue findings of fact, conclusions of law, and a decision that may take such actions as are authorized by SDCL Chapter 36-20B, including, but not limited to, denial, suspension or revocation of Certificate No. 2848. Additionally, pursuant to SDCL 1-26-29.1, should this proceeding result in discipline, the Board may assess all or part of its actual expenses for this proceeding against you.

This hearing is a contested case as that term is defined in SDCL 1-26-1(2). As such, this hearing is an adversarial proceeding. You have the right to be present at the hearing and to be represented by an attorney. These and other due process rights will be forfeited if they are not exercised at the hearing. If you intend to be represented by an attorney, please inform the undersigned of your attorney's name, address, and telephone number.

If you do not appear at the scheduled time of the hearing, the matter may be dismissed or it may be decided on the basis of evidence presented at the hearing.

If the amount in controversy exceeds \$2,500.00 or if a property right may be terminated, a party to the contested case may require the agency to use the Office of Hearing Examiners by giving notice of the request to the agency no later than 10 days after service of this notice of hearing.

Notice of the Board's decision will be sent to you within 30 days after this matter is fully submitted to it, unless such time is extended by the Board pursuant to SDCL 1-26-30.1.

The decision based on the hearing may be appealed to the Circuit Court and the State Supreme Court, as provided by law.

If you or anyone participating in the hearing on your behalf requires accommodations due to a disability, contact Nicole Kasin at (605) 367-5770 and suitable arrangements will be made.

Statutes and Rules involved in this hearing:

36-20B-29. Information to be provided concerning status of certificate or permit in another state--Personal and criminal information:

An applicant for initial issuance or renewal of a certificate under this chapter shall in the application, list any state in which the applicant has applied for or holds a certificate, license, or permit and list any past denial, revocation, or suspension of a certificate, license, or permit. Each holder of or applicant for a certificate under this chapter shall notify the board in writing, within thirty days after its occurrence, of any issuance, denial, revocation, or suspension of a certificate, license, or permit by another state, change of address or employment, or any conviction of a felony.

36-20B-40. Disciplinary action--Remedies available to board—Grounds:

The board may, in accordance with chapter 1-26, revoke any certificate, license, or permit issued pursuant to this chapter or corresponding provisions of prior law or revoke or limit practice privileges under the provisions of § 36-20B-66 or 36-20B-67; suspend any such certificate, license, or permit, or refuse to renew any such certificate, license, or permit for a period of not more than five years; reprimand, censure, or limit the scope of practice of any licensee; impose an administrative fine not exceeding one thousand dollars, or place any licensee on probation, all with or without terms, conditions, and limitations, for any one or more of the following reasons:

1. Fraud or deceit in obtaining a certificate or permit;
2. Cancellation, revocation, suspension, or refusal to renew a certificate, license, or permit to engage in the practice of public accountancy in any other state for any cause;
3. Failure, on the part of a holder of a certificate, license, or permit under this chapter or registration under this chapter, or of a certificate, license or permit issued by another

- state, to maintain compliance with the requirements for issuance or renewal of such certificate, license, permit, or registration or to report changes to the board.
6. Violation of any provision of this chapter or rule, promulgated by the board pursuant to chapter 1-26, or violation of professional standards.
 8. Conviction of a felony, or of any crime an element of which is dishonesty or fraud, under the laws of the United States, of this state, or of any other state if the acts involved would have constituted a crime under the laws of this state;
 9. Performance of any fraudulent act while holding a certificate, license, or permit or privilege issued under this chapter or prior law;
 11. Making any false or misleading statement or verification, in support of an application for a certificate, registration, or permit filed by another; and

20:75:03:03. Application for renewal of certificates – Fees:

An application for the renewal of a certificate or registration shall be made on a form provided by the board and shall be filed no later than the expiration date set by this section. An application is not considered filed until the applicable fee is received.

An applicant for renewal of a certificate under SDCL chapter 36-20B shall list in the application any state in which the applicant has applied for or holds a certificate or a permit as a CPA and shall list any past denial, revocation, or suspension of a certificate or permit by any other state.

Any application for renewal of certificates shall be accompanied by evidence satisfactory to the board that the applicant has complied with the continuing professional education requirements under SDCL 36-20B-27 and chapter 20:74:04.

Any license not renewed and which has not been surrendered to the board, is deemed to have expired. Any individual desiring to renew an expired license shall comply with the requirements of this section. The applicant shall pay all applicable fees and penalties for late filing for each year the license was expired.

An application for renewal must be received by the board by August 1 or must be postmarked by August 1. An application completed on the internet must be submitted on or before 11:59 p.m. central time on August 1, to be considered on time. The fee for annual renewal submitted on time is \$50. The fee for annual renewal submitted late is \$100.

An application for renewal is considered late if the continuing education requirement has not been met and an extension has not been granted. Failure to receive a renewal notice does not constitute an adequate reason for failing to renew the certificate in a timely manner.

The fee to replace a certificate lost or destroyed for any reason or to change a name is \$25. The fee must accompany the application for an individual certificate, renewal of a certificate, or request for replacement of a certificate.

Facts supporting the alleged violations:

1. On or about October 31, 2008, Mark Kiroff submitted to the Board his application for a reciprocal license. Based on the application submitted by Mr. Kiroff and the additional information provided by him, the Board issued certificate number 2848 effective 3/9/2009.
2. Mr. Kiroff's application for reciprocal certificate contained the following questions and answers:
 - ☐ yes ☒ no Have you been charged, arrested, convicted, found guilty of, received a prayer for judgment continued, or pleaded nolo contendere to any criminal offense (excluding non-criminal traffic infractions)?
 - ☐ yes ☒ no Have you had an application for a certificate or license denied or a certificate or license suspended, canceled, or revoked by any state or federal agency, or governing or licensing board?
 - ☐ yes ☒ no Have you been investigated, charged, or disciplined; or are you currently under investigation by a governing or licensing board or by a state or federal agency or the AICPA or any state CPA society?
 - ☐ yes ☒ no Have you been party to any civil suit, bankruptcy action, administrative proceeding, or binding arbitration; the basis of which is grounded upon an allegation of negligence, dishonesty, fraud, misrepresentation, or incompetence?

Contrary to the answers to the questions set forth above, Mr. Kiroff had been convicted of a felony, an element of which was dishonesty, fraud, misrepresentation or incompetence.

3. Mr. Kiroff was the defendant in *USA v. Kiroff*, (Case No. 4:04-cr-40031-LLP-1), in the United States District Court for the District of South Dakota (Southern Division) which was filed on March 18, 2004. On May 7, 2004, Mr. Kiroff entered a guilty plea of felony charges of bank fraud and the initial disposition consisted of 1 day imprisonment; 3 years supervised release with conditions; 6 months home confinement; \$179,971.06 restitution and a \$100 special assessment. Thereafter, in October 2005, the supervised release portion of the sentence was revoked and Mr. Kiroff was sentenced to 12 months and 1 day imprisonment.
4. Mr. Kiroff did not renew his certificate for year ending July 31, 2011. His certificate went into an expired status effective August 1, 2010.
5. On July 15, 2011, the State Board of Public Accountancy of Nebraska revoked Mr. Kiroff's NE certificate number 4577 and active permit to practice (Reg. No. 29474) on the grounds of violations of provisions of the Public Accountancy Act and Board Rules and Regulations of the State of Nebraska by pleading guilty to a felony in the United States District Court for the District of South Dakota in 2004.

6. On or about August 19, 2011, Mr. Kiroff submitted an application for active certificate renewal for the period ending July 31, 2012.
7. Mr. Kiroff's application for active certificate renewal contained the following questions and answers:
- ☐ yes ☒ no Have you been charged, arrested, convicted, found guilty of, received a prayer for judgment continued, or pleaded nolo contendere to any criminal offense (excluding non-criminal traffic infractions)?
- ☐ yes ☒ no Have you had an application for a certificate or license denied or a certificate or license suspended, canceled, or revoked by any state or federal agency, or governing or licensing board?
- ☐ yes ☒ no Have you been investigated, charged, or disciplined; or are you currently under investigation by a governing or licensing board or by a state or federal agency or the AICPA or any state CPA society?
- ☐ yes ☒ no Have you been party to any civil suit, bankruptcy action, administrative proceeding, or binding arbitration; the basis of which is grounded upon an allegation of negligence, dishonesty, fraud, misrepresentation, or incompetence?

Contrary to the answers to the questions set forth above, Mr. Kiroff had a certificate or license suspended, canceled, or revoked by any state or federal agency, or governing or licensing board and had been convicted of a felony, an element of which was dishonesty, fraud, misrepresentation or incompetence.

Date this 13 day of September, 2011



Nicole Kasin
Executive Director
South Dakota Board of Accountancy
301 E. 14th St., Suite 200
Sioux Falls, SD 57501
605-367-5770

CERTIFICATE OF SERVICE

I hereby certify that on the 13 day of September, 2011, I sent, by Certified Mail, return receipt requested, and by U.S. First Class Mail, postage prepaid, a true and correct copy of the Complaint and Notice of Hearing to:

Mark A. Kiroff
5336 S. 145th St.
Omaha, NE 68137
Respondent



Nicole Kasin

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR & REGULATION
BOARD OF ACCOUNTANCY**

IN THE MATTER OF

**STACEY GRAY
Certificate No. 2260**

**COMPLAINT &
NOTICE OF HEARING**

Respondent

TO: Stacey L. Gray
11784 N. Strahorn Rd.
Hayden Lake, ID 83835

PLEASE TAKE NOTICE that an administrative hearing in the above-entitled matter will be held before the South Dakota Board of Accountancy on **Monday, October 17, 2011, at 10:30 a.m. CDT**, or as soon thereafter as the matter can be heard, at the Holiday Inn City Centre, located at 100 W. 8th St. Sioux Falls, South Dakota, in the Ambassador Room.

This hearing is being held pursuant to the legal authority and jurisdiction granted to the State Board of Accountancy (Board), under SDCL Chapter 36-20B and SDCL Chapter 1-26.

The purpose of this hearing will be to determine whether Stacey L. Gray, Certificate No. 2260, is in violation of state statutes or administrative rules, thus resulting in the Board taking disciplinary action against Ms. Gray.

Following the hearing, the Board shall issue findings of fact, conclusions of law, and a decision that may take such actions as are authorized by SDCL Chapter 36-20B, including, but not limited to, denial, suspension or revocation of Certificate No. 2260. Additionally, pursuant SDCL 1-26-29.1, should this proceeding result in discipline, the Board may assess all or part of its actual expenses for this proceeding against you.

This hearing is a contested case as that term is defined in SDCL 1-26-1 (2). As such, this hearing is an adversarial proceeding. You have the right to be present at the hearing and to be represented by an attorney. These and other due process rights will be forfeited if they are not exercised at the hearing. If you intend to be represented by an attorney, please inform the undersigned of your attorney's name, address, and telephone number.

If you do not appear at the scheduled time of the hearing, the matter may be dismissed or it may be decided on the basis of evidence presented at the hearing.

If the amount in controversy exceeds \$2,500.00 or if a property right may be terminated, a party to the contested case may require the agency to use the Office of Hearing Examiners by giving notice of the request to the agency no later than 10 days after service of this notice of hearing.

Notice of the Board's decision will be sent to you within 30 days after this matter is fully submitted to it, unless such time is extended by the Board pursuant to SDCL 1-26-30.1.

The decision based on the hearing may be appealed to the Circuit Court and the State Supreme Court, as provided by law.

If you or anyone participating in the hearing on your behalf requires accommodations due to a disability, contact Nicole Kasin at (605) 367-5770 and suitable arrangements will be made.

Statutes and Rules involved in this hearing:

36-20B-40. Disciplinary action--Remedies available to board—Grounds:

The board may, in accordance with chapter 1-26, revoke any certificate, license, or permit issued pursuant to this chapter or corresponding provisions of prior law or revoke or limit practice privileges under the provisions of § 36-20B-66 or 36-20B-67; suspend any such certificate, license, or permit, or refuse to renew any such certificate, license, or permit for a period of not more than five years; reprimand, censure, or limit the scope of practice of any licensee; impose an administrative fine not exceeding one thousand dollars, or place any licensee on probation, all with or without terms, conditions, and limitations, for any one or more of the following reasons:

3. Failure, on the part of a holder of a certificate, license, or permit under this chapter or registration under this chapter, or of a certificate, license or permit issued by another state, to maintain compliance with the requirements for issuance or renewal of such certificate, license, permit, or registration or to report changes to the board.
6. Violation of any provision of this chapter or rule, promulgated by the board pursuant to chapter 1-26, or violation of professional standards;
11. Making any false or misleading statement or verification, in support of an application for a certificate, registration, or permit filed by another;

20:75:03:03. Application for renewal of certificates – Fees:

An application for the renewal of a certificate or registration shall be made on a form provided by the board and shall be filed no later than the expiration date set by this section. An application is not considered filed until the applicable fee is received.

An applicant for renewal of a certificate under SDCL chapter 36-20B shall list in the application any state in which the applicant has applied for or holds a certificate or a permit as a CPA and shall list any past denial, revocation, or suspension of a certificate or permit by any other state.

Any application for renewal of certificates shall be accompanied by evidence satisfactory to the board that the applicant has complied with the continuing professional education requirements under SDCL 36-20B-27 and chapter 20:74:04.

Any license not renewed and which has not been surrendered to the board, is deemed to have expired. Any individual desiring to renew an expired license shall comply with the requirements of this section. The applicant shall pay all applicable fees and penalties for late filing for each year the license was expired.

An application for renewal must be received by the board by August 1 or must be postmarked by August 1. An application completed on the internet must be submitted on or before 11:59 p.m. central time on August 1, to be considered on time. The fee for annual renewal submitted on time is \$50. The fee for annual renewal submitted late is \$100.

An application for renewal is considered late if the continuing education requirement has not been met and an extension has not been granted. Failure to receive a renewal notice does not constitute an adequate reason for failing to renew the certificate in a timely manner.

The fee to replace a certificate lost or destroyed for any reason or to change a name is \$25. The fee must accompany the application for an individual certificate, renewal of a certificate, or request for replacement of a certificate.

20:75:05:16. Communications from board:

A licensee shall, when requested, respond to communications from the board within 30 days after the mailing of the communications by registered or certified mail to the address shown on the records of the board.

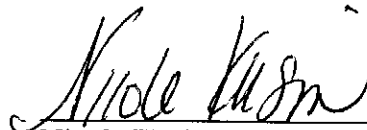
Facts supporting the alleged violations:

1. On or about April 8, 2002, Ms. Gray submitted to the board her application for an initial CPA certificate. Based on the application submitted by Ms. Gray and the additional information provided by her, the Board issued certificate number 2260 effective May 14, 2002.
2. Ms. Gray did not renew her certificate for year ending July 31, 2011. Her certificate went into an expired status effective August 1, 2010.
3. On or about December 3, 2010, the Board received a complaint against Ms. Gray.

4. On or about December 23, 2010, the Board sent correspondence to Ms. Gray in regards to the investigation of the complaint and offered the opportunity to respond. No response was received from Ms. Gray.
5. On or about September 1, 2011, Ms. Gray submitted an application for active certificate renewal for the period ending July 31, 2012.
6. Ms. Gray's application for active certificate renewal contained the following questions and answers:
 - ☐ yes ☒ no Have you been charged, arrested, convicted, found guilty of, received a prayer for judgment continued, or pleaded nolo contendere to any criminal offense (excluding non-criminal traffic infractions)?
 - ☐ yes ☒ no Have you had an application for a certificate or license denied or a certificate or license suspended, canceled, or revoked by any state or federal agency, or governing or licensing board?
 - ☐ yes ☒ no Have you been investigated, charged, or disciplined; or are you currently under investigation by a governing or licensing board or by a state or federal agency or the AICPA or any state CPA society?
 - ☐ yes ☒ no Have you been party to any civil suit, bankruptcy action, administrative proceeding, or binding arbitration; the basis of which is grounded upon an allegation of negligence, dishonesty, fraud, misrepresentation, or incompetence?

Contrary to the answers to the questions set forth above, Ms. Gray had been investigated, charged or disciplined by a governing or licensing board, the South Dakota Board of Accountancy.

Date this 13 day of September, 2011




Nicole Kasin
Executive Director
South Dakota Board of Accountancy
301 E. 14th St., Suite 200
Sioux Falls, SD 57104
605-367-5770

CERTIFICATE OF SERVICE

I hereby certify that on the 13 day of September, 2011, I sent, by Certified Mail, return receipt requested, and by U.S. First Class Mail, postage prepaid, a true and correct copy of the Complaint and Notice of Hearing to:

Stacey L. Gray
11784 N. Strahorn Rd.
Hayden Lake, ID 83835
Licensee/Respondent



Nicole Kasin

**STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR & REGULATION
BOARD OF ACCOUNTANCY**

IN THE MATTER OF

**BRADLEY D. WHITSELL
Certificate No. 2873**

**COMPLAINT &
NOTICE OF HEARING**

Respondent

TO: Bradley D. Whitsell
 1432 W. Waterstone Drive
 Sioux Falls, SD 57108

PLEASE TAKE NOTICE that an administrative hearing in the above-entitled matter will be held before the South Dakota Board of Accountancy on **Monday, October 17, 2011, at 11:00 a.m. CDT**, or as soon thereafter as the matter can be heard, at the Holiday Inn City Centre, located at 100 W. 8th St. Sioux Falls, South Dakota, in the Ambassador Room.

This hearing is being held pursuant to the legal authority and jurisdiction granted to the State Board of Accountancy (Board), under SDCL Chapter 36-20B and SDCL Chapter 1-26.

The purpose of this hearing will be to determine whether Bradley D. Whitsell, Certificate No. 2873, is in violation of state statutes or administrative rules, thus resulting in the Board taking disciplinary action against Mr. Whitsell.

Following the hearing, the Board shall issue findings of fact, conclusions of law, and a decision that may take such actions as are authorized by SDCL Chapter 36-20B, including, but not limited to, denial, suspension or revocation of Certificate No. 2873. Additionally, pursuant to SDCL 1-26-29.1, should this proceeding result in discipline, the Board may assess all or part of its actual expenses for this proceeding against you.

This hearing is a contested case as that term is defined in SDCL 1-26-1 (2). As such, this hearing is an adversarial proceeding. You have the right to be present at the hearing and to be represented by an attorney. These and other due process rights will be forfeited if they are not exercised at the hearing. If you intend to be represented by an attorney, please inform the undersigned of your attorney's name, address, and telephone number.

If you do not appear at the scheduled time of the hearing, the matter may be dismissed or it may be decided on the basis of evidence presented at the hearing.

If the amount in controversy exceeds \$2,500.00 or if a property right may be terminated, a party to the contested case may require the agency to use the Office of Hearing Examiners by giving notice of the request to the agency no later than 10 days after service of this notice of hearing.

Notice of the Board's decision will be sent to you within 30 days after this matter is fully submitted to it, unless such time is extended by the Board pursuant to SDCL 1-26-30.1.

The decision based on the hearing may be appealed to the Circuit Court and the State Supreme Court, as provided by law.

If you or anyone participating in the hearing on your behalf requires accommodations due to a disability, contact Nicole Kasin at (605) 367-5770 and suitable arrangements will be made.

Statutes and Rules involved in this hearing:

36-20B-40. Disciplinary action--Remedies available to board—Grounds:

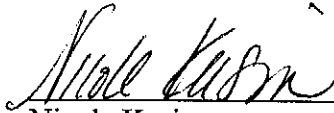
The board may, in accordance with chapter 1-26, revoke any certificate, license, or permit issued pursuant to this chapter or corresponding provisions of prior law or revoke or limit practice privileges under the provisions of § 36-20B-66 or 36-20B-67; suspend any such certificate, license, or permit, or refuse to renew any such certificate, license, or permit for a period of not more than five years; reprimand, censure, or limit the scope of practice of any licensee; impose an administrative fine not exceeding one thousand dollars, or place any licensee on probation, all with or without terms, conditions, and limitations, for any one or more of the following reasons:

8. Conviction of a felony, or of any crime an element of which is dishonesty or fraud, under the laws of the United States, of this state, or of any other state if the acts involved would have constituted a crime under the laws of this state;
9. Performance of any fraudulent act while holding a certificate, license, or permit or privilege issued under this chapter or prior law;

Facts supporting the alleged violations:

1. Mr. Whitsell has an inactive CPA license, license number 2873, valid through July 31, 2012.
2. Mr. Whitsell was the defendant in *USA v. Whitsell*, (Case No. 4:11-cr-40056-LLP), in the United States District Court for the District of South Dakota (Southern Division) which was filed on June 6, 2011. On August 22, 2011, Mr. Whitsell entered a guilty plea of felony charge of mail fraud. Sentencing for the guilty plea has not occurred as of the date of this complaint.

Date this 13 day of September, 2011

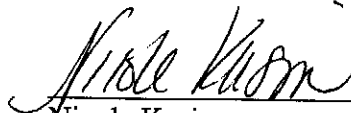


Nicole Kasin
Executive Director
South Dakota Board of Accountancy
301 E. 14th St., Suite 200
Sioux Falls, SD 57501
605-367-5770

CERTIFICATE OF SERVICE

I hereby certify that on the 13 day of September, 2011, I sent, by Certified Mail, return receipt requested, and by U.S. First Class Mail, postage prepaid, a true and correct copy of the Complaint and Notice of Hearing to:

Bradley D. Whitsell
1432 W. Waterstone Drive
Sioux Falls, SD 57108
Licensee/Respondent



Nicole Kasin

Executive Summary of the Recommended Revisions to the CPE Standards by the Joint AICPA/NASBA CPE Standards Committee:

The Statement on Standards for Continuing Professional Education (CPE) Programs (*Standards*) is published jointly by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to provide a framework for the development, presentation, measurement, and reporting of CPE programs. The Standards were last revised in 2002.

In May 2010, NASBA and the CPE Advisory Committee provided a forum for an open and candid discussion of the *Standards*. A key outcome of the forum was to develop a Task Force to help review, analyze and implement suggestions and changes to the *Standards*.

The NASBA CPE Advisory Committee with input from NASBA leadership selected 13 Task Force participants. Careful consideration was given as to the composition of the Task Force to ensure that all facets of the CPE community were represented. The Task Force is comprised of CPE program sponsors; CPE Advisory Committee members; state board of accountancy members; state society members; educators and a representative of the AICPA (provider side).

The Task Force developed its recommended revisions to the *Standards* and presented them to a Joint CPE Standards Committee made up of representatives from the AICPA and NASBA. The Joint CPE Standards Committee has finalized its recommendation to present to the respective AICPA and NASBA Boards of Directors at their upcoming meetings at the end of July/early August.

Overall:

The recommended revised *Standards* were organized to provide a more user-friendly format. A Table of Contents has been added with key word descriptions. Additionally, an Introduction has been included explaining the current revision process and the steps for future revisions and clarifications to the *Standards*.

Preamble:

Clarifications -

- Language included to provide flexibility for innovation in learning techniques.
- Language included to provide for future considerations around outcome based learning.
- Statement that the *Standards* provide the basic foundation for sound educational programs (the “minimum”)—sponsors may and can provide enhanced educational and evaluative techniques to programs.

Definitions:

Clarifications -

- Terms moved from glossary to front of document as definitions—terms considered part of the Standards
- Minor revisions/adjustments to definitions of other terms.

Additions -

- Definitions added for the following terms: archived; group internet based program; group live program; and word count formula.

Standards for CPAs:

Clarifications -

- Language modified in recommended revised *Standards* to describe as “General Guidelines for CPAs.” The intent of this section of the *Standards* is to inform CPE sponsors of the general responsibilities of CPAs in regards to CPE—not to be the reference source for CPAs for CPE compliance.
- Regarding acceptable fields of study for CPE, a link to the LearningMarket webpage that includes the NASBA 23 fields of study (subject areas) of CPE will be provided in the document.

Standards for CPE Program Sponsors:

Program Development:

Clarifications -

- Courses must specify knowledge level using basic, intermediate, advanced, update or overview.
- All courses must contain a publication or revision date.
- Course updates must occur as soon as feasible. Courses in subjects that undergo frequent changes must be reviewed at least once a year. Other courses must be reviewed at least every two years.
- Participation of at least one CPA is required in the development of every accounting and auditing course. The participation of a CPA, tax attorney or enrolled agent is required in the development of courses if in the field of taxes. The individual could be involved in the initial course development or the development review process.
- True/False questions are not permitted in final examination for self study programs.
- All courses must include an expiration date (the time in which the learner must complete the final exam). For individual course, the expiration date is one year from the date of purchase or enrollment.
- Minimum requirements for instructional materials for self-study have been provided.

Additions –

- Standard added for the development of group internet based programs—delivery method not included in the 2002 *Standards*.
- If objective type questions are used, at least three review questions and five final exam questions must be included per CPE credit.
- Providing feedback on the final exam is permitted; however, sponsor must ensure that question bank is of sufficient size to minimize overlap for the typical repeat test-taker.

Program Presentation:

Clarifications -

- Required elements in evaluation forms were reduced/streamlined to focus on the core elements of the CPE experience.

Additions –

- Separate requirements for promotional materials for sponsors conducting in-house training and those sponsors whose courses are developed for sale/external audiences.

Program Measurement:**Clarifications -**

- Requires that group internet based programs include a monitoring mechanism to verify participants are participating for the duration of the course. If polling questions are used as the monitoring mechanism, at least three polling questions must be used per CPE credit hour.
- Clarifications made on pilot testing – use of non-CPAs as pilot testers for program sponsors that are subject to various regulatory requirements that mandate a minimum number of CPE credits and offer courses to non-CPAs. Using a representative completion time for pilot testing versus “average.”
- Clarification on CPE credit for instructor/author to refer to regulations and maximums established by state boards.

Additions –

- Sponsors may recommend one-half CPE credits for self-study programs (equal to 25 minutes).
- Word count formula permitted as an alternate to pilot testing for determining the recommended CPE credits for self-study programs.

Program Reporting:**Clarifications -**

- Sponsors should provide participants documentation of their participation in a program at or after the conclusion of the program.
- Clarification on who is considered the CPE program sponsor for awarding NASBA-approved CPE credits.
- Clarification that documentation may be retained in paper or electronically for a minimum of 5 years.
- Clarifications on maintenance of documentation as basis for determining CPE credits for self-study programs for pilot testing and word count formula.

EXPOSURE DRAFT

Statement on Standards for Continuing Professional Education (CPE) Programs

**Jointly Issued by the American Institute of
Certified Public Accountants (AICPA) and the
National Association of State Boards of
Accountancy (NASBA)**

August 2011

Please submit comments by October 13, 2011 to:

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Introduction

Continuing professional education is required for CPAs to maintain their professional competence and provide quality professional services. CPAs are responsible for complying with all applicable CPE requirements, rules and regulations of state boards of accountancy, as well as those of membership associations and other professional organizations.

The Statement on Standards for Continuing Professional Education (CPE) Programs (*Standards*) is published jointly by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to provide a framework for the development, presentation, measurement, and reporting of CPE programs. The *Standards* were last revised in 2002.

In May 2010, NASBA and the CPE Advisory Committee provided a forum for an open and candid discussion of the *Standards*. A key outcome of the forum was to develop a Task Force to help review, analyze and implement suggestions and changes to the *Standards*.

The NASBA CPE Advisory Committee with input from NASBA leadership selected 13 Task Force participants. Careful consideration was given as to the composition of the Task Force to ensure that all facets of the CPE community were represented. The Task Force is comprised of CPE program sponsors; CPE Advisory Committee members; state board of accountancy members; state society members; educators and a representative of the AICPA (provider side).

The Task Force developed its recommended revisions to the *Standards* and presented its recommendations to a Joint CPE Standards Committee made up of representatives from the AICPA and NASBA. The Joint CPE Standards Committee presented its recommendation to the respective AICPA and NASBA Boards of Directors. In August 2011, the *Standards* exposure draft was released for comment. The revisions to the *Standards* were approved by the AICPA Board of Directors on _____, 2011 and the NASBA Board of Directors on _____, 2011.

The *Standards* are intended to be an "evergreen" document. As questions arise related to implementation and application of the *Standards*, the questions will be presented to the CPE Standards Working Group whose composition will be similar to that of the Task Force. The CPE Standards Working Group will meet quarterly and scheduled meeting dates will be posted on the NASBA website, LearningMarket.org. NASBA will communicate the findings of the CPE Standards Working Group to the specific CPE program sponsor. Authoritative interpretations will only be issued by the CPE Advisory Committee in limited cases when the matter is not addressed in the *Standards*, cannot be addressed specifically with the CPE program sponsor, or cannot be addressed in the Best Practices document. All interpretations issued by the CPE Advisory Committee will be reviewed and considered by the Joint AICPA/NASBA CPE Standards Committee upon the next revision of the *Standards*.

Preamble

- 01.** The right to use the title "Certified Public Accountant" (CPA) is regulated in the public interest and imposes a duty to maintain public confidence and current knowledge, skills, and abilities in all areas in which they provide services. CPAs must accept and fulfill their ethical responsibilities to the public and the profession regardless of their fields of employment.¹
- 02.** The profession of accountancy is characterized by an explosion of relevant knowledge, ongoing changes and expansion, and increasing complexity. Advancing technology, globalization of commerce, increasing specialization, proliferating regulations, and the complex nature of business transactions have created a dynamic environment that requires CPAs to continuously maintain and enhance their knowledge, skills, and abilities.
- 03.** The continuing development of professional competence involves a program of lifelong educational activities. Continuing Professional Education (CPE) is the term used in these standards to describe the educational activities that assist CPAs in achieving and maintaining quality in professional services.
- 04.** The following standards have been broadly stated in recognition of the diversity of practice and experience among CPAs. They establish a framework for the development, presentation, measurement, and reporting of CPE programs and thereby help to ensure that CPAs receive the quality CPE necessary to satisfy their obligations to serve the public interest. These standards may also apply to other professionals by virtue of employment or membership. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit.
- 05.** Advances in technology, delivery and workplace arrangements may lead to innovative learning techniques. Learning theory may evolve to include more emphasis on outcome based learning. These standards anticipate innovation in CPE in response to these advances. Sponsors must ensure innovative learning techniques are in compliance with the standards. CPE program sponsors are encouraged to consult with NASBA with questions related to compliance with the standards when utilizing innovative techniques.
- 06.** These standards create a basic foundation for sound educational programs. Sponsors may wish to provide enhanced educational and evaluative techniques to all programs.

¹ The term "CPAs" is used in these standards to identify all persons who are licensed and/or regulated by boards of accountancy.

Article I - Definitions

Advanced. Learning activity level most useful for individuals with mastery of the particular topic. This level focuses on the development of in-depth knowledge, a variety of skills, or a broader range of applications. Advanced level programs are often appropriate for seasoned professionals within organizations; however, they may also be beneficial for other professionals with specialized knowledge in a subject area.

Archived. A learning activity through which a group program has been recorded for future use.

Basic. Learning activity level most beneficial to CPAs new to a skill or an attribute. These individuals are often at the staff or entry level in organizations, although such programs may also benefit a seasoned professional with limited exposure to the area.

Continuing Professional Education (CPE). An integral part of the lifelong learning required to provide competent service to the public. The set of activities that enables CPAs to maintain and improve their professional competence.

CPE credit hour. Fifty minutes of participation in a program of learning.

CPE program sponsor. The individual or organization responsible for issuing the certificate of completion, and maintaining the documentation required by these standards. The term CPE program sponsor may include associations of CPAs, whether formal or informal, as well as employers who offer in-house programs.

Evaluative feedback. Specific response to incorrect answers to questions in self-study programs.

Group Internet based program. An educational process designed to permit a participant to learn a given subject through interaction with an instructor and other participants by using the Internet.

Group live program. An educational process designed to permit a participant to learn a given subject through interaction with an instructor and other participants either in a classroom or conference setting.

Group program. Any group live or group internet based programs.

Independent study. An educational process designed to permit a participant to learn a given subject under a learning contract with a CPE program sponsor.

Instructional methods. Delivery strategies such as case studies, computer-assisted learning, lectures, group participation, programmed instruction, teleconferencing, use of audiovisual aids, or work groups employed in group, self-study, or independent study programs or other innovative programs.

Intermediate. Learning activity level that builds on a basic program, most appropriate for CPAs with detailed knowledge in an area. Such persons are often at a mid-level within the organization, with operational and/or supervisory responsibilities.

Internet-based programs. A learning activity through a group program or a self-study program that is designed to permit a participant to learn the given subject matter via the Internet. To qualify as either a group or self-study program, the Internet learning activity must meet the respective standards.

Learning activity. An educational endeavor that maintains or improves professional competence.

Learning contract. A written contract signed by an independent study participant and a qualified CPE program sponsor prior to the commencement of the independent study.

Learning objectives. Specifications on what participants should accomplish in a learning activity.

Learning objectives are useful to program developers in deciding appropriate instructional methods and allocating time to various subjects.

Overview. Learning activity level that provides a general review of a subject area from a broad perspective. These programs may be appropriate for professionals at all organizational levels.

Pilot test. Sampling of at least three independent individuals representative of the intended participants to measure the representative completion time as one method to determine the recommended CPE credit for self-study programs.

Professional competence. Having requisite knowledge, skills, and abilities to provide quality services as defined by the technical and ethical standards of the profession. The expertise needed to undertake professional responsibilities and to serve the public interest.

Program of learning. A collection of learning activities that are designed and intended as continuing education and that comply with these standards.

Reinforcement feedback. Specific responses to correct answers to questions in self-study programs.

Self study program. An educational process designed to permit a participant to learn a given subject without major involvement of an instructor.

Word count formula. A method to determine the recommended CPE credit for self study programs that uses a formula including word count of learning material, number of questions and exercises, and duration of audio and video segments.

Update. Learning activity level that provides a general review of new developments. This level is for participants with a background in the subject area who desire to keep current.

Article II – General Guidelines for CPAs

2.01 Professional Competence. All CPAs should participate in learning activities that maintain and/or improve their professional competence.²

Selection of learning activities should be a thoughtful, reflective process addressing the individual CPA's current and future professional plans, current knowledge and skills level, and desired or needed additional competence to meet future opportunities and/or professional responsibilities.

CPAs fields of employment do not limit the need for CPE. CPAs performing professional services need to have a broad range of knowledge, skills, and abilities. Thus, the concept of professional competence may be interpreted broadly. Accordingly, acceptable continuing education encompasses programs contributing to the development and maintenance of professional skills.

The fields of study at [\[include link\]](#) represent the primary knowledge and skill areas needed by CPAs to perform professional services in all fields of employment.

To help guide their professional development, CPAs may find it useful to develop a learning plan. Learning plans are structured processes that help CPAs guide their professional development. They are

² The terms "should" and "must" are intended to convey specific meanings within the context of this *Joint AICPA/NASBA Statement on Standards for Continuing Professional Education Programs*. The term "must" is used in the standards applying to CPAs and CPE program sponsors to convey that CPAs and CPE program sponsors are not permitted any departure from those specific standards. The term "should" is used in the standards applying to both CPAs and CPE program sponsors and is intended to convey that CPAs and CPE program sponsors are encouraged to follow such standards as written.

dynamic instruments used to evaluate and document learning and professional competence development. They may be reviewed regularly and modified as CPAs' professional competence needs change. Plans include: a self-assessment of the gap between current and needed knowledge, skills, and abilities; a set of learning objectives arising from this assessment; and learning activities to be undertaken to fulfill the learning plan.

2.02 CPE Compliance. CPAs must comply with all applicable CPE requirements.

CPAs are responsible for compliance with all applicable CPE requirements, rules, and regulations of state licensing bodies, other governmental entities, membership associations, and other professional organizations or bodies. CPAs should contact each appropriate entity to which they report to determine its specific requirements or any exceptions it may have to the standards presented herein.

Periodically, CPAs participate in learning activities which do not comply with all applicable CPE requirements, for example specialized industry programs offered through industry sponsors. If CPAs propose to claim credit for such learning activities, they must retain all relevant information regarding the program to provide documentation to state licensing bodies and/or all other professional organizations or bodies that the learning activity is equivalent to one which meets all these standards.

2.03 CPE Credits Record Documentation. CPAs are responsible for accurate reporting of the appropriate number of CPE credits earned and must retain appropriate documentation of their participation in learning activities.

To protect the public interest, regulators require CPAs to document maintenance and enhancement of professional competence through periodic reporting of CPE. For convenience, measurement is expressed in CPE credits. However, the objective of CPE must always be maintenance/enhancement of professional competence, not attainment of credits. Compliance with regulatory and other requirements mandates that CPAs keep documentation of their participation in activities designed to maintain and/or improve professional competence. In the absence of legal or other requirements, a reasonable policy is to retain documentation for a minimum of five years from the end of the year in which the learning activities were completed.

Participants must document their claims of CPE credit. Examples of acceptable evidence of completion include:

- For group and independent study programs, a certificate or other verification supplied by the CPE program sponsor.
- For self-study programs, a certificate supplied by the CPE program sponsor after satisfactory completion of an examination.
- For instruction credit, appropriate supporting documentation that complies with the requirements of the respective state boards subject to the guidelines in Standard 15 in Standards for CPE Program Measurement.
- For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received.
- For university or college non-credit courses, a certificate of attendance issued by a representative of the university or college.
- For published articles, books, or CPE programs, (1) a copy of the publication (or in the case of a CPE program, course development documentation) that names the writer as author or contributor, (2) a statement from the writer supporting the number of CPE hours claimed, and (3) the name and contact information of the independent reviewer(s) or publisher.

2.04 Reporting CPE Credits. CPAs who complete sponsored learning activities that maintain or improve their professional competence must claim no more than the CPE credits recommended by CPE program sponsors subject to the state board regulations.

CPAs may participate in a variety of sponsored learning activities, such as workshops, seminars and conferences, self-study courses, Internet-based programs, and independent study. While CPE program

sponsors determine credits, CPAs must claim credit only for activities through which they maintained or improved their professional competence. CPAs who participate in only part of a program must claim CPE credit only for the portion they attended or completed.

2.05 Independent Study. CPAs may engage in independent study under the direction of a CPE program sponsor who has met the applicable standards for CPE program sponsors when the subject matter and level of study maintain or improve their professional competence.

Independent study is an educational process designed to permit a participant to learn a given subject under the guidance of a CPE program sponsor. Participants in an independent study program must:

- Enter into a written learning contract with a CPE program sponsor who must comply with the applicable standards for CPE program sponsors. A learning contract:
 1. Specifies the nature of the independent study program and the time frame over which it is to be completed, not to exceed 15 weeks.
 2. Specifies that the output must be in the form of a written report that will be reviewed by the CPE program sponsor or a qualified person selected by the CPE program sponsor.
 3. Outlines the maximum CPE credit that will be awarded for the independent study program, but limits credit to actual time spent.
- Accept the written recommendation of the CPE program sponsor as to the number of credits to be earned upon successful completion of the proposed learning activities. CPE credits will be awarded only if:
 1. All the requirements of the independent study as outlined in the learning contract are met,
 2. The CPE program sponsor reviews and signs the participant's report,
 3. The CPE program sponsor reports to the participant the actual credits earned, and
 4. The CPE program sponsor provides the participant with contact information.

The credits to be recommended by an independent study CPE program sponsor must be agreed upon in advance and must be equated to the effort expended to improve professional competence. The credits cannot exceed the time devoted to the learning activities and may be less than the actual time involved.

- Retain the necessary documentation to satisfy regulatory requirements as to the content, inputs, and outcomes of the independent study.

Article III – Standards for CPE Program Sponsors

3.01 - General Standards

Standard No. 1. CPE program sponsors are responsible for compliance with all applicable standards and other CPE requirements.

S1 - 01. CPE requirements of licensing bodies and others. CPE program sponsors may have to meet specific CPE requirements of state licensing bodies, other governmental entities, membership associations, and/or other professional organizations or bodies. Professional guidance for CPE program sponsors is available from NASBA; state-specific guidance is available from the state boards of accountancy. CPE program sponsors should contact the appropriate entity to determine requirements.

3.02 - Standards for CPE Program Development

Standard No. 2. Sponsored learning activities must be based on relevant learning objectives and outcomes that clearly articulate the knowledge, skills, and abilities that can be achieved by participants in the learning activities.

S2 - 01. Program knowledge level. Learning activities provided by CPE program sponsors for the benefit of CPAs must specify the knowledge level, content, and learning objectives so that potential participants can determine if the learning activities are appropriate to their professional competence development needs. Knowledge levels consist of basic, intermediate, advanced, update, and overview.

Standard No. 3. CPE program sponsors must develop and execute learning activities in a manner consistent with the prerequisite education, experience, and/or advance preparation of participants.

S3 - 01. Prerequisite education and experience. To the extent it is possible to do so, CPE program sponsors should make every attempt to equate program content and level with the backgrounds of intended participants. All programs must clearly identify prerequisite education, experience, and/or advance preparation, if any, in precise language so that potential participants can readily ascertain whether they qualify for the program.

Standard No. 4. CPE program sponsors must use activities, materials, and delivery systems that are current, technically accurate, and effectively designed. All courses must contain a publication or revision date. Courses must be revised as soon as feasible following changes to relative codes, laws, rulings, decisions, interpretations, etc. Courses in subjects that undergo frequent changes must be reviewed by an individual with subject matter expertise at least once a year to verify the currency of the content. Other courses must be reviewed at least every two years.

S4 - 01. Developed by a subject matter expert. Learning activities must be developed by individuals or teams having expertise in the subject matter. Expertise may be demonstrated through practical experience or education.

Standard No. 5. CPE program sponsors of group and self-study programs must ensure learning activities are reviewed by qualified persons other than those who developed the programs to assure that the program is technically accurate and current and addresses the stated learning objectives. These reviews must occur before the first presentation of these materials and again after each significant revision of the CPE programs. For all programs, the participation of at least one CPA is required in the development of every program in accounting and auditing. The participation of a CPA, tax attorney, or IRS enrolled agent is required in the development of each program in the field of study of taxes. As long as this requirement is met at some point during the development process, a program would be in compliance. Whether to have this individual involved during the development or the review process is at the CPE program sponsor's discretion.

S5 - 01. Qualifications of reviewers. Individuals or teams qualified in the subject matter must review programs. When it is impractical to review certain programs in advance, such as lectures given only once, greater reliance should be placed on the recognized professional competence of the instructors or presenters. Using independent reviewing organizations familiar with these standards may enhance quality assurance.

Standard No. 6. CPE program sponsors of independent study learning activities must be qualified in the subject matter.

S6 - 01. Requirements of independent study sponsor. A CPE program sponsor of independent study learning activities must have expertise in the specific subject area related to the independent study. The CPE program sponsor must also:

- Review, evaluate, approve, and sign the proposed independent study learning contract, including agreeing in advance on the number of credits to be recommended upon successful completion.
- Review and sign the written report developed by the participant in independent study.
- Retain the necessary documentation to satisfy regulatory requirements as to the content, inputs, and outcomes of the independent study.

Standard No. 7. Group internet based programs must employ learning methodologies that clearly define learning objectives, guide the participant through the learning process, and provide evidence of a participant's satisfactory completion of the program.

S7 - 01. Live instructor during program presentation. Group internet based programs must have a live instructor while the program is being presented. Program participants must be able to interact with the live instructor simultaneously while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). Once a group internet based program is recorded or archived for future presentation, it will continue to be considered a group internet based program only where a live subject matter expert facilitates the recorded presentation. Any future presentations that do not include a live subject matter expert will be considered a self study program and must meet all self study delivery method requirements with the exception of the basis for CPE credit. CPE credit for an archived group program will be equal to the CPE credit awarded to the original presentation.

Standard No. 8. Self study programs must employ learning methodologies that clearly define learning objectives, guide the participant through the learning process, and provide evidence of a participant's satisfactory completion of the program.

S8 - 01. Guide participant through learning process. To guide participants through a learning process, CPE program sponsors of self-study programs must elicit participant responses to test for understanding of the material. Learners must participate in activities during instruction to demonstrate achievement of learning objectives. Appropriate feedback must be provided. Achievement of learning objectives must be confirmed after the course through a final assessment.

S8 - 02. Use of review questions. Review questions must be placed at the end of each learning activity throughout the program in sufficient intervals to allow the learner the opportunity to evaluate the material that needs to be re-studied. If objective type questions are used, at least three review questions per CPE credit must be included (or two review questions if the program is marketed for one-half CPE credits).

S8 - 03. Evaluative and reinforcement feedback on review questions. If the multiple choice method is used, evaluative feedback for each incorrect response must explain why each response is wrong and reinforcement feedback must be provided for correct responses. If rank order or matching questions are used, then it is permissible to provide single feedback to explain the correct response. Simulations and other innovative tools that guide participants through structured decisions could provide feedback at irregular intervals or at the end of the learning experience. In those situations, single feedback would be permissible. True/false questions are allowed as review questions but are not included in the number of review questions required per CPE credit. Forced choice questions, when used as part of an overall learning strategy, are allowed as review questions and can be counted in the number of review questions required per CPE credit. There is no minimum passing rate required for review questions.

S8 - 04. Final examination requirements. To provide evidence of satisfactory completion of the course, CPE program sponsors of self-study programs must require participants to successfully complete a final examination with a minimum-passing grade of at least 70 percent before issuing CPE credit for the course. Examinations may contain questions of varying format (for example, multiple-choice, essay, and simulations). At least five questions/scored responses per CPE credit must be included on the final examination (or three final exam questions if the program is marketed for one-half CPE credits). For example, the final examination for a five-credit course must include at least 25 questions. Alternatively, a five and one-half credit course must include at least 28 questions. Except in courses where recall of information is the learning strategy, duplicate review and final exam questions are not allowed. True/false questions are not permissible on the final examination, effective as of January 1, 2014.

S8 - 05. Feedback on final examination. Providing feedback on the final examination is at the discretion of the CPE program sponsor. However, if feedback is provided on the final examination, then

the CPE program sponsor must ensure that the question test bank is of sufficient size to minimize overlap of questions on the final examination for the typical repeat test-taker. In addition, any provided feedback must comply with the feedback for review questions as described in S8 – 03.

S8 – 06. Program/course expiration date. All courses must include an expiration date (the time by which the learner must complete the final examination). For individual courses, the expiration date is one year from the date of purchase or enrollment. For a series of courses to achieve an integrated learning plan, the expiration date may be longer.

S8 – 07. Based on materials developed for instructional use. Self study programs must be based on materials specifically developed for instructional use and not on third party materials. Self study programs requiring only the reading of general professional literature, IRS publications, or reference manuals followed by a test will not be acceptable. However, the use of the publications and reference materials in self-study programs as supplements to the instructional materials could qualify if the self study program complies with each of the CPE standards.

Instructional materials for self study include teaching materials which are written for instructional educational purposes. These materials must demonstrate the expertise of the author(s). At a minimum, instructional materials must include the following items:

1. An overview of topics;
2. The ability to find information quickly;
3. The definition of key terms;
4. Instructions to participants;
5. Review questions with feedback; and
6. Final exam.

3.03 - Standards for CPE Program Presentation

Standard No. 9. CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. For CPE program sponsors whose courses are developed for sale and/or for external audiences (i.e., not Internal training), CPE program sponsors must inform participants in advance of:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and field of study [include link].
- Prerequisites.
- Program level.
- Advance preparation.
- Program content.
- Course registration requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement (explaining final authority of acceptance of CPE credits) [include link].

For CPE program sponsors whose courses are purchased or developed for internal training only, CPE program sponsors must inform participants in advance of:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and field of study [Include link].
- Prerequisites.
- Advance preparation.
- Program level (for optional internal courses only).

S9 – 01. Disclose significant features of program in advance. For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, Internet notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

S9 – 02. Disclose advance preparation and/or prerequisites. CPE program sponsors must distribute program materials in a timely manner and encourage participants to complete any advance preparation requirements. All programs must clearly identify prerequisite education, experience, and/or advance preparation requirements, if any, in the descriptive materials. Prerequisites, if any, must be written in precise language so that potential participants can readily ascertain whether they qualify for the program.

Standard No. 10. CPE program sponsors must ensure instructors are qualified with respect to both program content and instructional methods used.

S10 – 01. Qualifications of instructors. Instructors are key ingredients in the learning process for any group program. Therefore, it is imperative that CPE program sponsors exercise great care in selecting qualified instructors for all group programs. Qualified instructors are those who are capable, through training, education, or experience of communicating effectively and providing an environment conducive to learning. They must be competent and current in the subject matter, skilled in the use of the appropriate instructional methods and technology, and prepared in advance.

S10 - 02. Evaluation of instructors' performance. CPE program sponsors should evaluate the instructor's performance at the conclusion of each program to determine the instructor's suitability to serve in the future.

Standard No. 11. CPE program sponsors must employ an effective means for evaluating learning activity quality with respect to content and presentation, as well as provide a mechanism for participants to assess whether learning objectives were met.

S11 - 01. Required elements of evaluation. The objectives of evaluation are to assess participant satisfaction with specific programs and to increase subsequent program effectiveness. Evaluations, whether written or electronic, must be solicited from participants and instructors for each program session, including self-study, to determine, among other things, whether:

- Stated learning objectives were met.
- Stated prerequisite requirements were appropriate and sufficient.
- Program materials were relevant and contributed to the achievement of the learning objectives.
- Time allotted to the learning activity was appropriate.
- If applicable, individual instructors were effective.

S11 - 02. Evaluation results. CPE program sponsors must periodically review evaluation results to assess program effectiveness and should inform developers and instructors of evaluation results.

Standard No. 12. CPE program sponsors must ensure instructional methods employed are appropriate for the learning activities.

S12 - 01. Evaluate instructional method in context of program presentation. CPE program sponsors must evaluate the instructional methods employed for the learning activities to determine if the delivery is appropriate and effective.

S12 – 02. Facilities and technology appropriateness. Learning activities must be presented in a manner consistent with the descriptive and technical materials provided. Integral aspects in the learning

environment that should be carefully monitored include the number of participants and the facilities and technologies employed in the delivery of the learning activity.

3.04 - Standards for CPE Program Measurement

Standard No. 13. Sponsored learning activities are measured by actual program length, with one 50-minute period equal to one CPE credit. Sponsors may recommend one-half CPE credits under the following scenarios:

- **Group** – after the first credit has been earned.
- **Self study** – one-half increments (equal to 25 minutes) are permitted.

The CPA claiming CPE credits should refer to respective state board requirements regarding acceptability of one-half CPE credits.

S13 – 01. Learning activities with individual segments. For learning activities in which individual segments are less than 50 minutes, the sum of the segments would be considered one total program. For example, five 30-minute presentations would equal 150 minutes and would be counted as three CPE credits. When the total minutes of a sponsored learning activity are greater than 50, but not equally divisible by 50, the CPE credits granted must be rounded down to the nearest one-half credit. Thus, learning activities with segments totaling 140 minutes would be granted two and one-half CPE credits.

S13 – 02. Responsibility to monitor attendance. While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must demonstrate reasonable efforts to monitor group learning participation to assign the correct number of CPE credits.

S13 – 03. Monitoring mechanism for group internet based programs. In addition to meeting all other applicable group program standards and requirements, group internet based programs must employ some type of monitoring mechanism to verify that participants are participating during the duration of the course. The monitoring mechanism must be of sufficient frequency and lack predictability to provide assurance that participants have been engaged throughout the program. If polling questions are used as a monitoring mechanism, at least three polling questions must be used per CPE credit hour. CPE program sponsors should verify with respective state boards on specific polling requirements.

S13 – 04. Small group viewing of group internet based programs. In situations where small groups view a group internet based program such that one person logs into the program and asks questions on behalf of the group, documentation of attendance is required in order to award CPE credits to the group of participants. Participation in the group must be documented and verified by the small group facilitator in order to authenticate attendance for program duration.

S13 – 05. University or college credit course. For university or college credit courses that meet these CPE Standards, each unit of college credit shall equal the following CPE credits:

- Semester System 15 credits
- Quarter System 10 credits

S13 – 06. University or college non-credit course. For university or college non-credit courses that meet these CPE standards, CPE credit shall be awarded only for the actual classroom time spent in the non-credit course.

S13 – 07. Participant preparation time. Credit is not granted to participants for preparation time.

S13 – 08. Committee or staff meetings qualification for CPE credits. Only the portions of committee or staff meetings that are designed as programs of learning and comply with these standards qualify for CPE credit.

Standard No. 14. CPE credit for self study learning activities must be based on one of the following educationally sound and defensible methods:

Method 1: Pilot test of the representative completion time.

Method 2: Computation using the prescribed word count formula.

S14 – 01. Method 1 - Sample group of pilot testers. A sample of intended professional participants must be selected to test program materials in an environment and manner similar to that in which the program is to be presented. The sample group must consist of at least three qualified individuals who are independent of the program development group. For those courses whose target audience includes CPAs, the sample group must be licensed CPAs currently subject to state CPE requirements as defined by state board requirements and possess the appropriate level of knowledge before taking the program. For those sponsors who are subject to various regulatory requirements that mandate a minimum number of CPE credits and offer courses to non-CPAs, those courses do not have to be pilot tested by licensed CPAs.

S14 – 02. Method 1 - CPE credit based on representative completion time. The sample does not have to ensure statistical validity; however, if the results of pilot testing are inconsistent, then the sample must be expanded or any inconsistent results eliminated. CPE credit must be recommended based on the representative completion time for the sample. Completion time includes the time spent taking the final examination and does not include the time spent completing the course evaluation. Pilot testers must not be informed about the length of time the program is expected to take to complete. If substantive changes are subsequently made to program materials, further pilot tests of the revised program materials must be conducted to affirm or amend, as appropriate, the representative completion time.

S14 – 03. Method 1 - Requirement for re-pilot testing. If, subsequent to course release, actual participant completion time warrants a change in CPE credit hours, re-pilot testing is required to substantiate a change in CPE credit prospectively.

S14 – 04. Method 1 - Pilot testing when course is purchased from vendor or other developer. CPE program sponsors may purchase courses from other vendors or course developers. For purchased courses where pilot tests were conducted and provided, CPE program sponsors must review results of the course developer's pilot test results to ensure that the results are appropriate. For purchased courses where no pilot tests were conducted or provided, CPE program sponsors must conduct pilot testing.

S14 – 05. Method 2 – Basis for prescribed word count formula. The prescribed word count formula begins with a word count of the number of words contained in the text of the required reading of the self study program and should exclude any material not critical to the achievement of the stated learning objectives for the program. Examples of information material that are not critical and therefore excluded from the word count are: course introduction; instructions to the learner; author/course developer biographies; table of contents; glossary; and appendices containing supplementary reference materials.

Again, only course content text that is critical to the achievement of stated learning objectives should be included in the word count formula. If an author/course developer determines, for example, that including the entire accounting rule or tax regulation is beneficial to the learner, the accounting rule or tax regulation should be included as an appendix to the course as supplementary reference material and excluded from the word count formula. Only pertinent paragraphs or sections of the accounting rule or tax regulation required for the achievement of stated learning objectives should be included in the actual text of the course and therefore included in the word count formula.

Review questions, exercises and final examination questions are considered separately in the calculation and should not be included in the word count.

S14 – 06. Method 2 – Consideration of audio and video segments in word count formula. If audio and video segments of a self study program constitute additional learning for the participant (i.e., not

narration of the text), then the actual audio/video duration time may be added to the time calculation as provided in the prescribed word count formula.

S14 – 07. Method 2 – Calculation of CPE credit using the prescribed word count formula. The word count for the text of the required reading of the program is divided by 180, the average reading speed of adults. The total number of review questions, exercises and final examination questions is multiplied by 1.85, which is the estimated average completion time per question. These two numbers plus actual audio/video duration time, if any, are then added together and the result divided by 50 to calculate the CPE credit for the self study program. When the total minutes of a self study program are not equally divisible by 50, the CPE credits granted must be rounded down to the nearest one-half credit.

$$[(\# \text{ of words}/180) + \text{actual audio/video duration time} + (\# \text{ of questions} * 1.85)]/50 = \text{CPE credit}$$

Standard No. 15. Instructors or discussion leaders of learning activities may receive CPE credit for their preparation and presentation time to the extent the activities maintain or improve their professional competence and meet the requirements of these CPE standards.

S15 – 01. Instructor CPE credit parameters. Instructors, discussion leaders, or speakers who present a learning activity for the first time may receive CPE credit for actual preparation time subject to regulations and maximums established by the state boards. For repeat presentations, CPE credit can be claimed only if it can be demonstrated that the learning activity content was substantially changed and such change required significant additional study or research.

S15 – 02. Authoring and presenting a program. The CPA claiming CPE credits should refer to respective state board requirements.

Standard No. 16. Writers of published articles, books, or CPE programs may receive CPE credit for their research and writing time to the extent it maintains or improves their professional competence.

S16 – 01. Requirement for review from independent party. Writing articles, books, or CPE programs for publication is a structured activity that involves a process of learning. For the writer to receive CPE credit, the article, book, or CPE program must be formally reviewed by an independent party. CPE credits should be claimed only upon publication.

S16 – 02. Authoring and presenting a program. As a general rule, receiving CPE credits for authoring and presenting the same program should not be allowed. The CPA claiming CPE credits should refer to respective state board requirements.

Standard No. 17. CPE credits recommended by a CPE program sponsor of independent study must not exceed the time the participant devoted to complete the learning activities specified in the learning contract.

S17 – 01. CPE credits agreed to in advance. The credits to be recommended by an independent study CPE program sponsor must be agreed upon in advance and must be equated to the effort expended to improve professional competence. The credits cannot exceed the time devoted to the learning activities and may be less than the actual time involved.

3.05 - Standards for CPE Program Reporting

Standard No. 18. CPE program sponsors must provide program participants at or after the conclusion of the program with documentation of their participation (certificate of completion), which includes the following:

- CPE program sponsor name and contact information.

- Participant's name.
- Course title.
- Course field of study. [include link]
- Date offered or completed.
- If applicable, location.
- Type of instructional/delivery method used.
- Amount of CPE credit recommended.
- Verification by CPE program sponsor representative.
- Sponsor identification number or registration number, if required by the state boards.
- NASBA time statement stating that CPE credits have been granted on a 50-minute hour.
- Any other statements required by state boards.

S18 – 01. Entity to award CPE credits and acceptable documentation. The CPE program sponsor is the individual or organization responsible for issuing the certificate of completion and maintaining the documentation required by these standards. The entity whose name appears on the certificate of completion is responsible for validating the CPE credits claimed by a participant. CPE program sponsors must provide participants with documentation to support their claims of CPE credit. Acceptable evidence of completion includes:

- For group and independent study programs, a certificate or other verification supplied by the CPE program sponsor.
- For self-study programs, a certificate supplied by the CPE program sponsor after satisfactory completion of an examination.
- For instruction credit, appropriate supporting documentation that complies with the requirements of the respective state boards subject to the guidelines in Standard 15 in Standards for CPE Program Measurement.
- For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received.
- For university or college non-credit courses, a certificate of attendance issued by a representative of the university or college.
- For published articles, books, or CPE programs, (1) a copy of the publication (or in the case of a CPE program, course development documentation) that names the writer as author or contributor, (2) a statement from the writer supporting the number of CPE hours claimed, and (3) the name and contact information of the independent reviewer(s) or publisher.

Standard No. 19. CPE program sponsors must retain adequate documentation (electronic or paper) for a minimum of five years to support their compliance with these standards and the reports that may be required of participants.

S19 – 01. Required documentation elements. Evidence of compliance with responsibilities set forth under these standards which is to be retained by CPE program sponsors includes, but is not limited to:

- Records of participation.
- Dates and locations.
- Instructor names and credentials.
- Number of CPE credits earned by participants.
- Results of program evaluations.

Information to be retained by developers includes copies of program materials, evidence that the program materials were developed and reviewed by qualified parties, and a record of how CPE credits were determined.

S19 – 02. Maintenance of documentation as basis for CPE credit for self study programs. For CPE program sponsors using Method 1 (pilot tests) as the basis for CPE credit for self study programs, appropriate pilot test records must be retained regarding the following:

- When the pilot test was conducted.
- The intended participant population.
- How the sample was determined.
- Names and credentials and relevant experience of sample pilot test participants.
- A summary of pilot test participants' actual completion time.
- Statement from pilot tester to confirm that the pilot tester is independent from the course development group and that the pilot tester was not informed in advance of the expected completion time.

For CPE program sponsors using Method 2 (word count formula) as the basis for CPE credit for self study programs, the word count formula calculation as well as the supporting documentation for the data used in the word count formula (e.g., word count; number of review questions, exercises and final examination questions; duration of audio and/or video segments, if applicable; and actual calculation) must be retained.

Effective dates:

Unless otherwise established by state licensing bodies and/or other professional organizations, these Standards are to be effective as follows:

1. For group programs and independent study – January 1, 2012.
2. For self study programs being published for the first time – January 1, 2012.
3. For self study programs already in existence as of December 31, 2011 – January 1, 2014.

White Paper

Changes to the
AICPA STANDARDS FOR PERFORMING
AND REPORTING ON PEER REVIEWS and
Related INTERPRETATIONS
Based on the June 1, 2010 Exposure Draft
(QCM & CPE REVIEWS)

Effective for QCM and Peer Reviews Commencing on or After January 1, 2012

August 15, 2011

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NOTICE TO READERS

The purpose of this white paper is to assist you in understanding the revisions made to the *AICPA Standards for Performing and Reporting on Peer Reviews* and related *Interpretations* (collectively, *Standards*), which mainly address the peer review independence concerns related to reviewers that are involved in the development and/or maintenance of quality control materials. These revisions are effective for QCM and peer reviews commencing on or after January 1, 2012. This paper provides a bridge between the key changes proposed in the June 1, 2010 exposure draft and the final changes made (included as Attachment A).

This paper also provides background and other pertinent information about feedback received by the AICPA Peer Review Board (Board) from respondents to the June 1, 2010 exposure draft, explains the consideration given to that feedback by the Board, and describes the rationale behind the Board's adoption of the final changes to the *Standards*.

The Board always welcomes feedback and dialogue; however, this document is not an exposure draft.

Those reading and relying on this paper should already be knowledgeable about the current *Standards* and other guidance issued by the Board related to the application of the changes.

The Peer Review Board ("Board") recently approved several changes to the *Standards for Performing and Reporting on Peer Reviews* and related *Interpretations* (collectively "*Standards*") based upon the feedback received on the June 1, 2010 exposure draft. The June 1, 2010 exposure draft focused on the section of the *Standards* for performing and reporting on QCM and CPE Program reviews, and addressed the ability of individuals involved in the development and/or maintenance of QCM or CPE programs to peer review firms that use those materials as an integral part of their systems of quality control. The Board developed the finalized changes explained below to address those independence concerns raised in the exposure draft and be responsive to the feedback received.

Comparison of Key Changes

<i>1/1/2012 Standards</i>	<i>6/1/2010 Exposure Draft</i>	<i>1/1/2009 Standards</i>
<p>1. Requires triennial reviews of the system to develop and maintain QCM, and the resultant aids, as an independence remedy when a provider firm (or a firm affiliated with a provider) wants to peer review a user firm that integrally relies on the materials.</p> <p>(Paragraphs .159 - .161, .163)</p> <p>Requires provider firms that want to peer review user firms to have their own firm's review administered by the National PRC.</p> <p>(Paragraph 162, Interpretation 11-1)</p> <p>Removes the requirement for provider associations to undergo triennial reviews. Associations can</p>	<p>1. Removes the requirement for triennial reviews, and makes reviews of both QCM and CPE programs voluntary.</p>	<p>1. Requires triennial reviews of the system to develop and maintain QCM and/or CPE programs, and the resultant aids, as an independence remedy when a provider firm wants to peer review a user firm, or when a provider association wants to form review team or have firm-on-firm reviews within the association.</p>

<p>voluntarily undergo such reviews.</p> <p>(Interpretation 26-1)</p>		
<p>2. Addresses the independence of review team members when they were involved in the development and/or maintenance of the materials, report to those directly involved in the development and/or maintenance of the material, or receive more than a de minimus amount of the revenues or other monies generated by the marketing and sale of the materials.</p> <p>(Interpretation 21-1-c)</p>	<p>2. Impairs the independence of all personnel within a provider firm to perform peer reviews of user firms.</p>	<p>2. Requires triennial reviews of the system to develop and maintain QCM and/or CPE programs, and the resultant aids, as an independence remedy when a provider firm wants to peer review a user firm, or when a provider association wants to form review team or have firm-on-firm reviews within the association.</p>
<p>3. Revises the QCM report and the Representation Letter to call attention to the user firm's responsibility to use and modify the materials appropriately.</p> <p>(Paragraph 175, Appendix R; Appendix B)</p>	<p>3. Not addressed.</p>	<p>3. Not addressed.</p>
<p>4. Entirely removes reviews of CPE programs from the <i>Standards</i>, including the June 2010 proposed procedures for</p>	<p>4. Provides new procedures for performing reviews of CPE programs. Revises the opinion for CPE program reviews such that it only</p>	<p>4. Requires triennial reviews of the system to develop and maintain QCM and/or CPE programs, and the</p>

<p>performing such reviews.</p> <p>Allows CPE program provider firms to perform peer reviews of user firms when a principles-based assessment determines there are no independence impairments.</p> <p>(Interpretation 21-7)</p>	<p>addresses the system (and not the resultant aids).</p>	<p>resultant aids, as an independence remedy when a provider firm wants to peer review a user firm, or when a provider association wants to form review team or have firm-on-firm reviews within the association.</p>
<p>5. Provides principles-based guidance for determining when independence impairments may exist based on the significance of a reviewer or reviewing firm's contributions to the development and/or maintenance of QCM or CPE programs that are integral to the user firm.</p> <p>(Interpretations 21-7, 21-9, 21-20 – 21-22)</p>	<p>5. Impairs the independence of all personnel within a provider firm to perform peer reviews of user firms.</p>	<p>5. Uses the concept of "integral" when considering whether a peer review is required to cure an independence impairment.</p>

Background

On June 1, 2010, the Board issued an exposure draft that proposed three key revisions to the *Standards*:

1. Revisions and clarifications of the guidance for those involved in the development and maintenance of quality control materials (QCM) or CPE programs such that they are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs (*user firms*). The proposed changes would have impacted firms that develop and maintain QCM or CPE programs (*provider firms*) as well as associations of CPA firms that develop and maintain QCM or CPE programs (*provider association*). These changes were proposed to address the perceived conflict of interest that any person involved in the development or maintenance of a provider's QCM or CPE programs has with respect

to user firms, and the pressure that such interest places on peer review independence and objectivity. This was the primary focus of the exposure draft.

The proposed changes attempted to conform the guidance to the underlying intent of paragraphs 21 – 22 of the *Standards*. The proposed revisions would have precluded any personnel from a provider firm from participating on the review team of a firm that uses QCM or CPE programs that provider firm developed, regardless of whether the review team is formed by a different reviewing firm or by an association (association formed review team). In addition, the proposed revisions would have precluded any personnel from an association member firm that participated in the development or maintenance of the association's QCM or CPE programs from serving on the review team of a firm that uses the association's QCM or CPE programs, regardless of whether the review team is formed by a different reviewing firm or by the association. Further, under the proposed changes CPA owners of a provider (whether a firm or another entity) that are also peer reviewers could not participate on the review team of a user firm.

2. As a result of the proposed revisions and clarifications above, the exposure draft also recommended removal of the provision requiring providers to undergo a triennial peer review of the system to develop and maintain QCM or CPE programs, and the resultant materials. The proposed changes gave providers the voluntary option to undergo such a review.
3. Lastly, the exposure draft proposed revisions to the procedures for performing a CPE program review for those providers that elect to undergo such a review. The proposed changes shifted the CPE program report opinion (and the review procedures) to the system to produce such materials, instead of the current focus on both the system and the resultant aids.

For additional information on the changes proposed in the June 1, 2010 exposure draft (including the full explanatory memorandum), please access the exposure draft [here](#).

The Feedback Process

The Board solicited feedback on the proposed changes above through comment letters, surveys, and discussions with several peer review stakeholders during the summer of 2010. Two major trends emerged from the feedback received:

- I. Disagreement among respondents over the broadness of the proposed independence remedies for those peer reviewing firms that also develop and maintain QCM.

Respondents agreed with the proposed revisions to safeguard the independence of peer reviewing firms, expressed that the proposed revisions went too far, or expressed that the proposed revisions did not go far enough. Some of the feedback requested further clarification of the point at which a provider firm's independence would become impaired with respect to user firms (for example, establishing a "bright-line" for when an

independence impairment would occur). Of those respondents expressing that the proposed revisions went too far, most recommended that the independence impairment should be at the level of the individual, and not the firm. Many suggested that an individual reviewer's extent of involvement, level of effort, role, and materiality of QCM-related compensation should factor into independence impairment considerations. Other respondents expressed that the current independence remedy of reviewing the system to develop and maintain QCM and the resultant materials was sufficient and needed no modification or addition.

II. Differentiating the independence concerns for those individuals and/or firms that develop and maintain CPE programs from those that develop and maintain QCM.

The respondents drew a clear line between the independence concerns related to providers of QCM and providers of CPE programs. The majority of respondents communicated that the Board should apply the remedies for independence impairments to developers of QCM, and not to developers and/or presenters of CPE programs. Those respondents expressed that the burden of responsibility lies with the firms, who determine how to apply the information it obtains via CPE programs, and implementing that information into its system of quality control. There was also concern that peer reviewers hired by state societies or the AICPA as CPE developers/presenters would have independence impairments with respect to attendee firms.

Determining a New Approach

Over the course of several meetings, the QCM & CPE and Standards Task Forces carefully analyzed and considered all of the comment letters, surveys, etc. These task forces recommended several feedback-based revisions to the direction set forth in the exposure draft. The task forces provided these recommendations and related additional changes to the *Standards* to the Board for further vetting and confirmation. This process resulted in the changes explained below.

QCM Independence Safeguards

As mentioned above, a main point of dissension in the comment letters and other feedback received was the best way to address the independence concerns between provider firms and user firms. This point was deliberated over the course of several meetings. Ultimately, the Board determined that implementing independence safeguards instead of strict prohibition was the most appropriate course of action. In developing the current approach, the task forces relied upon the concepts of the "covered persons" guidance in ET 101-1 (as suggested by respondents).

Under this new approach, a provider firm is required to undergo a QCM review before it can perform a user firm's peer review. However, any individuals involved in the development and/or maintenance of the QCM, those directly reporting to those involved in the development

and/or maintenance of the QCM, and those that receive more than a de minimus amount of the revenues generated by the sale or marketing of the QCM are prohibited from being on the review team. This guidance is applicable regardless of whether the individuals participating in the development and/or maintenance of the QCM are from a provider firm or a firm affiliated with or related to a provider.

The administration of QCM reviews will remain with the National PRC. Further, since provider firms arguably have inter-related systems of quality control for the firm and for the development and maintenance of QCM, the National PRC will mandatorily administer the provider firm's own peer review. Provider firms can elect to combine the two types of reviews for efficiency.

Associations are no longer required to undergo any type of review in order to permit member firms to peer review each other, as originally proposed in the exposure draft. However, the guidance in the preceding paragraph also applies to any personnel from firms that are involved in the association's system to develop and maintain QCM (if applicable).

The Board concluded that this approach fairly ensures that independence and objectivity between peer reviewers and reviewed firms are preserved.

Changes to the QCM Report Language

While one purpose of the QCM review is determining whether the materials are reliable aids, the responsibility to use and/or modify the materials in an appropriate manner to yield the desired results (engagements performed in accordance with professional standards and/or regulatory requirements in all material respects) lies with the user firm. Several respondents emphasized this point in their feedback. In order to clarify the user firm's responsibility, the Board modified the QCM report language to note the users' responsibilities, and potential limitations of the QCM opined on. In addition, the representations letter now has an additional representation addressing the firm's incorporation of QCM into its system of quality control.

Removal of CPE Program Reviews

Several respondents expressed a lack of understanding of the need for CPE reviews. While other respondents did not question the need for these types of reviews, they did question whether there was an independence threat with respect to the development and/or maintenance of CPE programs that created a need for additional procedures or guidance. The Board considered this feedback, as well as several additional key points:

- The changes to the guidance discussed above removes the requirement for associations to undergo any type of review in order to allow member firms to peer review each other, or to allow the association to form review teams. In recent history, only associations have obtained CPE reviews.
- Most state societies and boards of accountancy have various rules and procedures in place to approve and/or accept CPE program providers within their respective jurisdictions.
- An opinion on the system to develop and maintain CPE programs does not include any evaluation of the presentation of the materials, which is the most critical part of the CPE program.

Based on the above considerations, the Board determined there was no need for the *Standards* to offer this type of review, or require responsibility to oversee the conduct of such reviews.

CPE Provider Independence Safeguards

Several comment letters requested further clarification in this area. The Board considered this feedback but concluded that it cannot establish rules and “bright-line” guidance to address every situation, and such guidance would be inconsistent with principles-based *Standards*. However, the Board did develop interpretations to aid reviewers and firms in determining whether there are independence concerns on a case-by-case basis. The guidance includes several considerations for reviewers and firms when performing this assessment.

Other Changes

1. Refining the definition of QCM in the *Standards*

The *Standards* previously included personnel manuals, inspection checklists, hiring forms, etc. in the definition of QCM. The Board removed these types of materials from the definition in order to maintain the focus on engagement performance aids.

2. Defining due dates for QCM reviews

The *Standards* previously referred to the guidance for performing regular firm System and Engagement reviews to address areas such as review due dates. However, since failing to have a QCM review by the due date would not result in the termination of a provider firm’s enrollment in peer review, the Board determined that it was necessary to have separate guidance addressing QCM review due dates (to avoid confusion).

3. Conforming changes to Appendix A

The section of Appendix A that discusses QCM and CPE Programs was revised to remove the references to CPE program reviews and refine the explanation and intent of QCM reviews, how they are performed, the scope of QCM reviews, etc. based on the changes explained above.

4. New Interpretations

The Board approved several new interpretations providing examples and important considerations for making principles-based assessments of potential independence impairments.

5. Formatting Changes

In order to improve the organization of the guidance, some paragraphs were moved and renumbered.

August 22, 2011 Exposure Draft

The Board received feedback from QCM reviewers and the National PRC that the Standards did not provide sufficient guidance for planning and performing QCM reviews. As additional guidance focusing on procedural aspects of the performance of QCM reviews was unrelated to the nature of the changes proposed in the June 1, 2010 exposure draft, the Board determined that it was necessary to issue a second, unrelated exposure draft. These new proposed changes focus on the planning and performance of QCM reviews, but also address peer reviewer qualification, QCM provider and reviewer cooperation, and publicizing QCM review information. Once posted, you can access the exposure draft in the Peer Review section of the [Exposure Draft](#) page of AICPA.org.

How to Learn More

Your input greatly enhanced the development of these final revisions. While these changes are final and comments are no longer being solicited, you are welcome to share any thoughts or suggestions on the final changes described in this white paper by sending an email to prptechnical@aicpa.org or calling 919-402-4502 and asking to speak with a technical manager. Thank you for your interest in peer review.

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Final Changes to the Peer Review Standards & Interpretations

Performing and Reporting on Reviews of Quality Control Materials (QCM)

Introduction

.154 Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm's system of quality control. Such materials provide guidance to assist firms in performing and reporting in conformity with professional standards and may include, but are not limited to, such items as engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams

.155 Organizations (hereinafter referred to as *providers*) may sell or otherwise distribute to CPA firms (hereinafter referred to as *user firms*) QCM that they have developed.

.156 Providers may elect voluntarily or be required to have an independent review of their system of quality control for the development and maintenance of the QCM they have developed, and of the resultant materials (see paragraph 159). The reasons for having such a review include but are not limited to:

- a.* Providing reasonable assurance to user firms that the provider's system of quality control to develop and maintain QCM is appropriately designed and complied with, and that the resultant materials are reliable aids to assist them in conforming with all those components which are integral to the professional standards the materials purport to encompass.
- b.* Providing more cost-effective peer reviews for firms that use such materials by allowing the peer reviewers of user firms to place reliance on the results of the QCM review in evaluating the design of the user firm's system of quality control.
- c.* Ensuring that independence and objectivity on peer reviews of user firms is maintained when such peer reviews are performed by providers.

.157 A summary of the nature, objectives, scope, limitations of, and procedures performed on QCM reviews is included in appendix A.

Objectives of a QCM Review

.158 The objectives of a review of QCM developed by a provider are determining:

a. Whether the provider's system for the development and maintenance of the QCM was suitably designed and was being complied with during the year under review to provide user firms with reasonable assurance that the materials are reliable aids.

b. Whether the resultant materials are reliable aids to assist user firms in conforming with all those components which are integral to the professional standards the materials purport to encompass.

Applicability

.159 Generally, there are two categories of providers:

a. A CPA firm and/or its affiliate or related entity (see interpretations) that develops and maintains QCM (collectively, a *provider firm*). A provider firm is ordinarily permitted to perform the peer review of a user firm if an independent review of both the provider firm's system of quality control for the development and maintenance of the QCM and the provider firm's resultant materials (the *QCM review*) is performed as a safeguard of independence.

b. Any other type of organization that does not fall under the description of a provider firm (*voluntary provider*), including an association of CPA firms providing QCM or a third party organization that provides QCM as a primary function of its business.

All QCM reviews are administered by the National PRC and performed in accordance with these standards.

.160 With respect to a provider firm, the initial QCM review is due within six months of the elected year-end date. The initial QCM review is required to be completed before the provider firm can be scheduled to perform the peer review of a user firm. A provider firm's subsequent QCM review has a due date of three years and six months from the year-end of the previous QCM review. The due date for a QCM review is the date by which the QCM review report, letter of response (if applicable), and the QCM reviewer's working papers are to be submitted to the National PRC. If the QCM review working papers are not submitted by the due date, the provider firm will no longer be independent to perform peer reviews of user firms after that date (i.e. the necessary independence safeguard was not implemented timely, which is considered non-cooperation).

.161 Subsequent to the QCM review, if there are substantial changes in either the system for the development and maintenance of the materials or in the resultant materials themselves, the provider firm should consult with the National PRC to determine whether an accelerated QCM review is required.

.162 In addition, a provider firm that will perform the peer review of a user firm is required to have its own firm's subsequent peer reviews administered by the National PRC (from the point of scheduling the QCM review onward) (see interpretations).

.163 Voluntary providers of QCM that elect (but are not required) to have a QCM review should consult with the National PRC. Reviews of providers that voluntarily elect to have a QCM review under these standards must comply with the standards in all respects.

.164 Materials relating to audits of SEC issuers performed pursuant to the standards of the PCAOB are not within the scope of these standards.

.165 The National PRC will administer reviews of QCM based on the standards and the RAB Handbook. Where not otherwise addressed in this section, QCM reviewers and providers should refer to the other sections of the Standards for Performing and Reporting on Peer Reviews for additional guidance on performing, reporting on, and accepting QCM reviews.

Qualifications for Serving as a QCM Reviewer

.166 The National PRC establishes minimum requirements to qualify as a QCM reviewer. In addition to the peer reviewer qualifications set forth in the paragraphs under "Organizing the System or Engagement Review Team" and "Qualifying for Service as a Peer Reviewer" (see paragraphs 26–35) and in the interpretations, the National PRC will consider other factors in determining whether a potential QCM reviewer is qualified (see interpretations). Members of the QCM review team must be approved by the National PRC prior to the commencement of the review. Final approval of QCM review teams is at the National PRC's discretion.

Procedures for Planning and Performing QCM Reviews

.167 The provider should identify the materials, whether QCM or CPE program materials, to be reviewed and on which an opinion is to be expressed. A QCM or CPE review should include a study and evaluation of the system for the development and maintenance of the QCM or CPE program that have been identified and a review of the materials themselves. Where not otherwise addressed in the following list, the peer reviewer should refer to the guidance for performing and reporting on System Reviews (see paragraphs 36–101) and accepting System and Engagement Reviews (see paragraphs 132–140) for additional guidance on performing, reporting on, and accepting QCM and CPE reviews.

.168 A provider's system for the development and maintenance of the materials normally should include:

- a.* A requirement that the materials be developed by individuals qualified in the subject matter.

b. A requirement that the materials be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass.

c. Procedures to ensure the currency and relevancy of the materials.

d. Procedures for soliciting and evaluating feedback from users of the materials.

e. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider's policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating.

f. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

.169 A study and evaluation of the system for the development and maintenance of the materials normally should include the following procedures:

a. Reviewing and evaluating the procedures established for developing and maintaining the materials.

b. Reviewing and evaluating the procedures established for updating (including distributing) the materials to ensure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials (and for communicating any relevant changes in professional standards to program participants if new professional standards are issued prior to updating the CPE programs).

c. Reviewing the technical competence of the developer(s) or updater(s) of the materials.

d. Obtaining evidence that the materials were reviewed for technical accuracy by qualified person(s) other than the developer(s) or updater(s).

e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's intention to update the materials.

f. Reviewing the system developed for soliciting and evaluating feedback from users of the materials.

.170 A QCM or CPE review team should review the resultant materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass.

Reporting on QCM Reviews

General

.171 The QCM review team should furnish the provider with a written report and the final FFC forms within 30 days of the date of the exit conference or by the provider's review due date, whichever is earlier. A report on a QCM review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the team captain performing the review. The report in a QCM review ordinarily should be dated as of the date of the exit conference. See interpretations for guidance on notification requirements and submission of review documentation to the administering entity.

Forming Conclusions on the Type of Report to Issue in a QCM Review

.172 The following circumstances ordinarily would be considered deficiencies or significant deficiencies:

- a.* The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary (i.e. a scope limitation).
- b.* The provider's system of quality control for the development and maintenance of QCM, as designed, did not provide reasonable assurance that reliable aids had been developed or maintained.
- c.* The degree of compliance with the provider's system of quality control for the development and maintenance of QCM was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed or maintained.
- d.* The resultant QCM are not reliable aids to assist user firms in conforming with the components integral to the professional standards the materials purport to encompass (generally resulting from the condition described in *b.* and/or *c.*).

.173 In those instances in which the QCM review team determines that a report with a review rating of *pass with deficiencies* or *fail* is required, all the reasons should be disclosed, and the QCM review team should consult with the National PRC prior to the issuance of the report.

Preparing the Report in a QCM Review

.174 The standard form for a review report on QCM with a review rating of *pass*, *pass with deficiencies*, and *fail* are included in appendixes R, "Illustration of a Report With a Review Rating of *Pass* in a Review of Quality Control Materials;" S, "Illustration of a Report with a Review Rating of *Pass with Deficiencies* in a Review of Quality Control Materials;" and T, "Illustration of a Report with a Review Rating of *Fail* in a Review of Quality Control Materials," respectively.

.175 A QCM report with a rating of *pass*, *pass with deficiencies*, or *fail* contains elements similar to those in a System Review report. As such, the written report in a QCM Review should:

- a. State at the top of the page the title "Quality Control Materials Review Report".
- b. State that the system of quality control for the development and maintenance of the materials and the resultant materials in effect at the year-end covered by the QCM review were reviewed.
- c. State that the review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.
- d. State that the provider is responsible for designing and complying with a system of quality control that provides reasonable assurance that the materials are reliable aids to assist users in performing and reporting in conformity with the components which are integral to the professional standards that the materials purport to encompass.
- e. State that the reviewer's responsibility is to express an opinion on the design of the system of quality control, the provider's compliance with that system, and the reliability of the resultant materials based on the review.
- f. State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials review are described in the standards.
- g. Include a URL reference to the AICPA Web site where the standards are located.
- h. State that the users of the materials are responsible for implementing, tailoring, and augmenting the materials as appropriate.
- i. State that there may be important elements of a quality control system in accordance with Statements on Quality Control Standards that are not part of the materials that have been subject to this QCM review.
- j. Identify the different review ratings that the provider could receive.
- k. In a report with a review rating of *pass*:
 - Express an opinion that the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids

- Express an opinion that the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass as of year-end.
- State at the end of the opinion paragraph that therefore the report reflects a review rating of *pass*.
- Reports with a review rating of *pass* do not contain any findings, deficiencies, significant deficiencies, or recommendations.

l. In a report with a review rating of pass with deficiencies:

- Express an opinion that, except for the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids; and/or
- Express an opinion that, except for the deficiencies described above, the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass as of year-end.
- State at the end of the opinion paragraph that therefore the report reflects a review rating of *pass with deficiencies*.

m. In a report with a review rating of fail:

- Express an opinion that as a result of the significant deficiencies described above, the system of quality control for the development and maintenance of the quality control materials was not suitably designed and being complied with during the year ended, and therefore cannot provide reasonable assurance that the materials are reliable aids.
- Express an opinion that also, as a result of the significant deficiencies described above, the quality control materials are not reliable aids and do not assist users in conforming with the components which are integral to the professional standards the materials purport to encompass as of year-end.
- State at the end of the opinion paragraph that therefore the provider has received a review rating of *fail*.

n. Include, for reports with a review rating of pass with deficiencies or fail, written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered).

o. Identify, for any deficiencies or significant deficiencies included in the report with a review rating of pass with deficiencies or fail any that were also made in the report issued on the provider's previous QCM review.

Provider Responses on QCM Reviews

.176 If the provider receives a report with a review rating of *pass with deficiencies* or *fail*, then the provider should respond in writing to the deficiencies and significant deficiencies and related recommendations identified in the report, if applicable. The letter of response should be addressed to the National PRC and should describe the action(s) planned (including timing) or taken by the provider with respect to each deficiency in the report. If the provider disagrees with one or more of the deficiencies or significant deficiencies, its response should describe the reasons for such disagreement. In the event that a material error or omission in the QCM is uncovered by the QCM review team, the response also should describe the provider's plan for notifying known users of that error or omission. The provider should submit the letter of response for review and comment to the team captain prior to submitting the response to the National PRC.

.177 The provider should submit a copy of the report and its letter of response to the National PRC by the provider's review due date. Prior to submitting the response to the National PRC, the provider should submit the response to the team captain for review, evaluation, and comment. If the provider receives a report with a review rating of *pass*, a letter of response is not applicable, and the provider does not submit a copy of the report to the National PRC.

.178 The provider should also respond on the FFC forms, if any are developed, to findings and related recommendations. These responses should describe the plan (including timing) the provider has implemented or will implement with respect to each finding. They should be submitted to the team captain no later than two weeks after the exit conference. FFC forms are submitted by the team captain with the applicable working papers to the National PRC.

.179 If, after a discussion with the team captain, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the National PRC for assistance in the matter (see paragraph 93). If the provider still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.

Appendix A

Summary of the Nature, Objectives, Scope, Limitations of, and Procedures

Performed in System and Engagement Reviews and Quality Control Materials Reviews (as Referred to in a Peer Review or QCM Review Report) [excerpted]

Quality Control Materials Reviews

17. An organization (hereinafter referred to as *provider*) may sell or otherwise distribute quality control materials (QCM) that they have developed to CPA firms (hereinafter referred to as *user firms*). QCM may be all or part of a user firm's documentation of their system of quality control, and may include manuals, guides, programs, checklists, practice aids (forms and questionnaires) and similar materials intended for use in conjunction with a user firm's accounting and auditing practice. User firms rely on QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials (as described in the preceding paragraphs).

18. A QCM review is a study and appraisal by an independent evaluator (known as a *QCM reviewer*) of a provider's QCM as well as the provider's system of quality control to develop and maintain QCM (hereinafter referred to as *provider's system*). The QCM reviewer's objective is to determine whether the provider's system is designed and complied with and whether the QCM produced by the provider are appropriate, so that user firms can rely on the QCM. The scope of a QCM review only covers materials related to accounting and auditing engagements under U.S. professional standards. The scope does not include SEC guidance, nor does it cover materials for tax or consulting services.

19. To plan a QCM review, a QCM reviewer obtains an understanding of (1) the provider's QCM, including the industries and professional standards that they cover, and (2) the design of the provider's system, including the provider's policies and procedures and how it ensures that they are being complied with. The QCM reviewer assesses the risk levels implicit within different aspects of the provider's system and QCM. The QCM reviewer obtains this understanding through inquiry of provider personnel, review of documentation on the provider's system, and review of the QCM.

20. Based on the QCM reviewer's planning procedures, the reviewer looks at the provider's QCM, including the instructions, guidance, and methodology therein. The scope of a QCM Review encompasses those QCM which the provider elects to include in the QCM review report; QCM designed to aid user firms with tax or other non-attest services are outside of the scope of this type of review. The QCM reviewer will also look at the provider's system and will test elements including but not limited to requirements regarding the qualifications of authors and developers; procedures for ensuring that QCM are current; procedures for reviewing the technical accuracy of the QCM; and procedures for soliciting feedback from users. The extent of a provider's policies and procedures and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the provider and the nature of the materials provided to users. Variance in individual performance and

professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible. The objectives of obtaining an understanding of the provider's system and the QCM forms the basis for the QCM reviewer's conclusions in the QCM review report.

21. When a provider receives a QCM Review report from an approved QCM reviewer with a review rating of *pass*, this means the provider's system is designed and being complied with and the QCM produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials. If a provider receives a QCM review report with a review rating of *pass with deficiencies*, this means the provider's system is designed and being complied with and the QCM produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials, except in certain situations that are explained in detail in the review report. When a provider receives a report with a review rating of *fail*, the QCM reviewer has determined that the provider's system is not suitably designed or being complied or the QCM produced by the provider are not appropriate, and the reasons why are explained in detail in the report.

22. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A QCM Review is based on the review of the provider's system and QCM. It is directed at assessing whether the provider's system is designed and complied with and whether the QCM produced by the provider are appropriate so that user firms have reasonable, not absolute, assurance that they can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials. Consequently, a QCM Review would not necessarily detect all weaknesses in the provider's system, all instances of noncompliance with it, or all aspects of the QCM that should not be relied upon. Projection of any evaluation of a system or QCM to future periods is subject to the risk that the system or QCM may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Appendix B
Considerations and Illustrations of Firm Representations

Illustration of a Representation Letter That has No Significant Matters to Report to the Team Captain or Review Captain

(The firm may tailor the language in this illustration and may refer to attachments to the letter as long as adequate representations pertaining to the matters discussed above, as applicable, are included to the satisfaction of the team captain or review captain.)

October 31, 20XX
To the Team Captain or Review Captain

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review. We have also provided a list of all engagements to the [team captain, review captain, or administering entity] with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review. We have also provided the [team captain or review captain] with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. In addition, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end. We understand the intended uses and limitations of the quality control materials we have adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist us in conforming with the Statements on Quality Control Standards and professional standards applicable to our accounting and auditing practice in all material respects. We have also discussed the content of our PCAOB inspection report with the [team captain or review captain] (if applicable).

Sincerely,

[Name of reviewed firm]

Appendix R

Illustration of a Report with a Review Rating of *Pass* in a Review of Quality Control Materials

Quality Control Materials Review Report

April 30, 20XX

Executive Board
XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [identify each item covered by the opinion or refer to an attached listing] (hereafter referred to as *materials*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The provider is responsible for designing and complying with a system of quality control that provides reasonable assurance that the materials are reliable aids to assist users in conforming with the components which are integral to the professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system, the provider's compliance with that system, and the reliability of the resultant materials, based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at www.aicpa.org/prsummary.

Users of the materials are responsible for implementing, tailoring, and augmenting the materials as appropriate. There may be important elements of a quality control system in accordance with Statements on Quality Control Standards that are not part of the materials that have been subject to this review.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX, to provide reasonable assurance that the materials are reliable aids. Also, in our opinion, the quality control materials^{††} referred to above are reliable aids at December 31, 20XX to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass. Organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. This review has resulted in a review rating of *pass*.

ABC & Co.^{||||}

^{||||} The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

Peer Reviews To Be Administered by the National Peer Review Committee

11-1 Question—Paragraphs .11,.128, and .161 of the standards note that peer reviews intended to meet the requirements of the program should be carried out in conformity with the standards under the supervision of a state CPA society, group of state CPA societies, the National PRC, or other entity (hereinafter, administering entity) approved by the board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC? What other criteria relate to the firms previously enrolled in the Center for Public Company Audit Firms Peer Review Program (CPCAF PRP) and to that program’s peer reviewers?

Interpretation—Firms are required to have their review administered by the National PRC if they meet any of the following criteria:

- a. The firm is required to be registered with and inspected by the PCAOB.
- b. The firm performs audits of non-SEC issuers pursuant to the standards of the PCAOB.
- c. The firm is a provider of QCM (or affiliated with a provider of QCM) that are used by firms it peer reviews.

Firms that are not required to have their review administered by the National PRC may choose to do so. However, such firms are subject to the National PRC’s administrative fee structure and should familiarize themselves with that structure prior to making such a decision.

If corrective or monitoring actions were imposed by the CPCAF Peer Review Committee on a CPCAF PRP firm or peer reviewer, those actions will carryover to the firm’s enrollment and the peer reviewer’s involvement in the AICPA Peer Review Program, unless the actions were specific to the CPCAF PRP, as determined by the board.

Independence, Integrity, and Objectivity

21-1 Question —Paragraph .21 of the standards states that independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review and that the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities. What criteria have been established by the board?

Interpretation—c. Relationships With the Reviewed Firm [excerpted]

Reviewing firms should consider any family or other relationships between the management at organizational and functional levels of the reviewing firm, affiliate relationships, alternative practice structures, and common ownership of entities that provide products or services and the firm to be reviewed, and should assess the possibility of an impairment of independence. For peer review purposes (including QCM reviews), entities that are affiliated to, are a part of an alternative practice structure with, or share common ownership with a reviewing firm are

considered to be a part of the reviewing firm when assessing the independence of the reviewing firm.

If the fees for any services provided between firms, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team are material to any of those firms, independence for the purposes of this program is impaired.

If arrangements exist between the reviewed firm and the reviewing firm (and any of its affiliates or related entities) or the firm of any member of the review team whereby expenses, office facilities, or personnel are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, extensive consultation, or preissuance reviews of financial statements and reports. In such circumstances, the firms involved are sharing services that are an integral part of their systems of quality control.

If the reviewing firm has provided or sold quality control materials to the reviewed firm (such as manuals, guides, checklists, practice aids, etc.) independence for the purposes of this program is impaired. However, the impairment would be removed if an independent review of the quality control materials was performed and submitted to the National PRC before the commencement of the reviewed firm's peer review (see paragraphs 159 and 160, and Interpretation 199-1). In addition, whether or not an independent review of the quality control materials was performed, the review team members cannot be directly involved in the development and/or maintenance of the provider firm's materials, report to those that were directly responsible for the development and/or maintenance of the materials, or receive more than a de minimus amount of revenues or other monies generated by the sale of the materials.

21-7 Question—Firm A is engaged to perform the peer review of Firm B. Firm B's staff attends CPE programs developed by Firm A. Can Firm A perform a peer review of Firm B?

Interpretation—Yes, as long as Firm A has not effectively become a part of Firm B's system of quality control. If Firm A (or any affiliates of or entities related to Firm A) develops and customizes CPE specifically to Firm B's needs, both firms would need to assess the extent and degree of customization to determine whether Firm A has become a part of Firm B's system of quality control, or had a significant enough impact on that system such that Firm A's independence would be impaired. Factors to consider include the degree of customization, the significance of the programs to Firm B's system of quality control, whether Firm A was involved in determining the type of CPE programs that Firm B needs, etc. Based on the factors considered, if the nature of Firm A's relationship with Firm B effectively makes Firm A a part of Firm B's system of quality control, Firm A's independence is impaired for the first peer review immediately subsequent to the training provided.

For example, if Firm A developed and presented CPE programs and training for Firm B that were customized to Firm B's practice, including using some of Firm B's engagements as examples and

learning tools, Firm A's independence is impaired for the first peer review immediately subsequent to the training provided. However, Firm A would be permitted to perform any successive peer reviews.

This assessment should be made by both firms prior to the commencement of the peer review. Firm B should consult with the administering entity if needed.

21-9 Question—Firm B uses Firm A's internally-developed accounting and auditing manual as its primary reference source. Can Firm A perform a peer review of Firm B, or can Firm B perform a peer review of Firm A?

Interpretation—No, unless Firm A has had a QCM review performed that covers its accounting and auditing manual and any other of its reference material used by Firm B as a primary reference source (see "Performing and Reporting on Reviews of Quality Control Materials (QCM)" in the standards). This is also applicable if the manual is developed by an affiliate of Firm A, or any other entity related to Firm A. If this is Firm A's initial QCM review, then Firm A is not independent to perform the peer review of Firm B until the QCM review is accepted. For all subsequent QCM reviews, Firm A will remain independent with respect to Firm B as long as the QCM review is submitted by the due date. If Firm A elects not to have a QCM review performed before Firm B's peer review commences, Firm A would not be considered independent for purposes of conducting the peer review. In all circumstances, the review team members cannot be directly involved in the development and/or maintenance of Firm A's accounting and auditing manual, report to those that were directly responsible for the development and/or maintenance of the manual, or receive more than a de minimus amount of fees or other monies from the total revenues generated by the sale of the manual.

21-20 Question— Firm A purchases an accounting and auditing manual developed by an association that it belongs to as its primary reference source. Personnel from Firm B that are also peer reviewers aided the association with the development of the manual by authoring significant sections of the manual. The association receives annual approval to form review teams for its member firms. Can the association include reviewers from Firm B on the review team to peer review Firm A?

Interpretation—Yes, as long as the following personnel from Firm B are not included on the review team: personnel directly involved in the development and/or maintenance of the association's accounting and auditing manual (i.e. those that authored sections of the manual), report to those that were directly responsible for the development and/or maintenance of the manual, or receive more than a de minimus amount of fees or other monies from the total revenues generated by the sale of the manual that aided the association with the development of the manual are not included on the review team.

21-21 Question—ABC, Inc. (an affiliate of Firm A) is a provider of audit manuals and guides for various industries. Firm B purchases an industry-specific audit manual from ABC, Inc. to assist with performing audit engagements for a niche industry. The niche industry represents

an insignificant portion of Firm B's overall audit and attest practice. Firm B does not purchase any other practice aids or manuals from ABC, Inc. Can Firm A perform the peer review of Firm B?

Interpretation—Yes, unless either the niche industry grows to become a more significant part of the firm's overall practice and the same audit manual is used, or the niche industry is a must select industry. If either occurs, then the industry manual would be assessed as being integral to Firm B's system of quality control, and Firm A's independence would be impaired (see Interpretations 21-1c and 159-1 for additional information on affiliate relationships). If ABC, Inc. had the relevant audit manual undergo an independent QCM review in compliance with the standards, Firm A's independence would not be impaired. However, any reviewers from Firm A that participated in the development and/or maintenance of ABC, Inc.'s materials, report to those that were directly responsible for the development and/or maintenance of the materials, or receive more than a de minimus amount of the revenues generated from the sale of the materials would not be independent of Firm B, and would not be approved as a part of the review team under any circumstances. This is applicable regardless of the nature of the materials purchased by Firm B, and includes audit programs, practice aids, etc.

If the nature of the audit manual or guide purchased and adopted is not integral to Firm B's system of quality control, independence would not be impaired. Factors that should be considered in assessing whether or not the manual is an integral part of the system of quality control include the size of the impacted portion of the firm's practice (by industry, level of service, engagement hours, etc), the risk associated with that portion of the firm's practice (for example, must select industries), the degree of reliance placed on the manual, the significance of the guidance provided by the manual to the related engagements, etc.

21-22 *Question*—Reviewers from Firm A provide technical consultation to a third-party provider of QCM. The extent of the consultation entails reviewing portions of various guides for technical accuracy, and providing feedback (if any) to the provider. The reviewers have no control over whether their feedback is addressed or how it impacts the end products ultimately marketed as the guides. Firm B uses guides developed by the provider as an integral part of its system of quality control. Can Firm A perform the peer review of Firm B?

Interpretation—Yes, Firm A would be independent for purposes of conducting the peer review of Firm B. However, when reviewers provide consulting or other services to third party providers, they should assess whether their individual contributions were sufficiently significant to make them a part of the provider's system. In this circumstance, the extent of the reviewers' contributions does not make them a part of the provider's system of quality control. Similarly, if the reviewers from Firm A authored or edited portions of a third-party provider's guides or other materials, they should also assess the degree and impact of their contributions.

If the reviewers' contributions went beyond simple consultation and entailed more formal technical review and approval procedures as a part of the development and maintenance process, or if the reviewers exercised control within the development and maintenance process

such that feedback and comments had to be addressed or incorporated into the materials, then the independence of Firm A is impaired. Firm A's independence would also be impaired if the reviewers authored or edited substantial portions of the guides. In both of these scenarios, the reviewers' contributions are significant to the provider's development and maintenance process, such that the reviewers' have effectively become a part of the provider's system of quality control.

If the provider elected to have an independent QCM review, and the scope of the review included the materials technically reviewed, authored, etc. by the reviewers, then Firm A's independence would no longer be impaired. However, the specific reviewers from Firm A that participated in the development and/or maintenance of the materials, report to those that were directly responsible for the development and/or maintenance of the materials, or receive more than a de minimus amount of the revenues generated from the sale of the materials would not be independent of Firm B.

Associations of CPA Firms and Association Formed Review Teams

26-1 Question—Paragraph .26 of the standards states that a review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team). What criteria have been established by the board for association formed review teams?

Interpretation—Associations of CPA firms include any group, affiliations, or alliances of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services. Firms and other entities in the association cooperate with one another to provide professional services.

A member firm of an association may conduct a peer review of another association-member firm enrolled in the program, provided that the association is not a network as defined by Interpretation 26-2 and the association receives annual approval from the board. The National PRC administers this process on behalf of the board. The association must submit an AIF to the National PRC that must be approved by the board prior to any aspect of the review being planned, scheduled, or performed.

The AIF contains questions regarding general information about the association, independence matters, and whether the association requests to be approved to assist its members in the formation of review teams, provide technical assistance to such review teams, or do both. All review teams must still be approved by the administering entity. The AIF is subject to oversight by the board.

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other AICPA members in the same association enrolled in the program. Furthermore:

a. Annual approval of the AIF does allow, where the association is not a network and has answered the specific questions making such a request, the association the ability to assist its members in the formation of review teams (association formed review teams) or to provide technical assistance to such review teams.

b. The reviewed firm and administering entity, not the association, is ultimately responsible for ensuring that its peer review is scheduled, performed, and completed in a timely manner.

c. Annual approval of the AIF does not grant the association the authority to administer the program; therefore, the association is not deemed an approved administering entity.

d. Approval of the AIF is not an endorsement of, approval of, or has any applicability to a separate peer review program that an association may conduct or administer for non-AICPA members.

e. If the association makes any representations (in brochures, directories, pamphlets, Web pages, or any marketing or selling materials regarding its member firms in obtaining engagements), in order for the AIF to be approved such representations must be objective and quantifiable.

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the program, in addition to the independence requirements related to network firms appearing in Interpretation 26-2 and other peer review independence requirements, the association and its member firms must meet the following independence criteria:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. For purposes of this requirement, *professional services* include accounting, tax, personal financial planning, litigation support, and professional services for which standards are promulgated by bodies designated by AICPA Council.

b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

c. Referral or participating work among member firms is arranged directly by the firms involved.

An association may voluntarily elect to have an independent QCM review of its system of quality control to develop and maintain quality control materials used by its member firms (see paragraphs .154-.179 of the standards). An association may wish to have such a review to enable its member firms that use the materials it develops to have more efficient peer reviews. Associations that elect to have this type of review should consult with AICPA program staff.

An association formed review team,

- a. requires that a majority of the review team members, including the team captain in a System Review, and all members in an Engagement Review, be from association member firms.
- b. performs peer reviews in accordance with these standards, interpretations, and other guidance and the peer review report is issued on the letterhead of the team captain or review captain's firm and signed in the name of the team captain or review captain's firm (not the association).

Peer reviews performed by association-formed review teams are subject to oversight by the board and the administering entities and other bodies agreed upon by the board and the administering entity.

Independent QCM Reviews

159-1 Question—Paragraph .159 of the standards refers to an *affiliate* or *related entity* as considerations in determining whether the QCM review is required. What does an affiliate mean in this context, and how can an affiliate relationship lead to a required QCM review?

Interpretation—For QCM review purposes, a CPA firm has an affiliate relationship with another entity if the firm controls or has the power to control the other entity (or vice versa), if there is mutual ownership of the firm and the other entity, or if a third party controls or has the power to control both the firm and the other entity. If a CPA firm is affiliated with an entity that is a provider of quality control materials (QCM), and the CPA firm performs peer reviews of other firms, the CPA firm is considered a provider firm. The CPA firm's independence will be impaired to perform peer reviews of firms that use the QCM sold by the affiliate, unless an independent review on the QCM is completed.

161-1 Question—The standards note that in the event of substantial changes in a provider's system of quality control to develop and maintain materials, or substantial changes in the materials themselves, the provider should consult with the National PRC to determine whether an accelerated QCM review is warranted. What are factors that the National PRC will consider in making this determination?

Interpretation—The National PRC will consider the following (at a minimum) in determining whether the provider should have an accelerated review:

- The reasons for and types of changes in the system, the resultant materials, or both
- The period of time since the last QCM review
- The rating of the last QCM report

If the provider is a provider firm that performs peer reviews of user firms, and the provider firm's system of quality control or the resultant materials underwent substantial changes, it may be necessary for the provider firm to have an accelerated QCM review in order to maintain independence with respect to user firms.

166-1 Question—Paragraph .166 of the standards indicates that the National PRC will consider other factors (in addition to the qualifications set forth in the paragraphs under “Organizing the System or Engagement Review Team” and “Qualifying for Service as a Peer Reviewer”) in determining whether a peer reviewer is appropriately qualified to perform a QCM peer review. What are the other considerations?

Interpretation—The National PRC, as the administering entity for QCM reviews, establishes the qualifications necessary to perform a QCM review. In addition to the peer reviewer qualifications set forth in paragraphs 26-35, reviewers of QCM must have relevant and current industry experience in their own firm. The National PRC will also consider the history and nature of reviewer feedback, AICPA or administering entity imposed peer reviewer restrictions, and other pertinent factors.

Subsequent to the approval of a QCM reviewer, situations may arise which causes the reviewer to no longer meet the qualifications for serving as a QCM reviewer. Such situations include (but are not limited to):

- Suspension or termination of AICPA membership
- Change in the status of the reviewer's CPA license from active status
- Eligibility criteria to serve as a peer reviewer in paragraph .31 are no longer met
- Communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of the peer reviewer firm's accounting and auditing practice, and/or notifications of limitations or restrictions on the peer reviewer's firm's right to practice.

It is the responsibility of the provider to ensure that review team members continue to meet the qualifications. Peer reviewers that have a conflict of interest with respect to the QCM under review will not be approved as a QCM review team member. Examples of individuals with conflicts of interest include someone who assisted in the materials' development or maintenance process, uses the materials as an integral part of their firm's system of quality control, or is an individual from a firm that is a member of the association whose materials are under review.

EXPOSURE DRAFT

OMNIBUS PROPOSAL

AICPA PROFESSIONAL ETHICS DIVISION

PROPOSED NEW AND REVISED INTERPRETATIONS AND PROPOSED DELETIONS OF ETHICS RULINGS

September 23, 2011

Comments are requested by November 23, 2011

Prepared by the AICPA Professional Ethics Executive Committee for comments from persons interested in independence, behavioral, and technical standards matters.

Comments should be addressed to Lisa A. Snyder, director of the Professional Ethics Division, at lsnyder@aicpa.org.

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September 23, 2011

This exposure draft contains important proposals for review and comment by the AICPA's membership and other interested parties regarding pronouncements for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the proposed pronouncements are included in this exposure draft.

After the exposure period is concluded, and PEEC has evaluated the comments, PEEC may decide to publish one or more of the proposed pronouncements. Once published, the pronouncements become effective on the last day of the month in which they are published in the *Journal of Accountancy*, except if otherwise stated in the pronouncements.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by November 23, 2011. All written replies to this exposure draft will become part of the public record of the AICPA.

All comments received will be considered by PEEC at its next open meeting.

Please send comments to Lisa A. Snyder, director of the Professional Ethics Division, via e-mail at lsnyder@aicpa.org.

Sincerely,

Wes Williams, *Chair*
AICPA Professional Ethics Executive Committee

Lisa A. Snyder, *Director*
AICPA Professional Ethics Division

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Proposed Revision to Interpretation No. 203-1 and Proposed New Interpretation No. 203-5 Under Rule 203

Explanation

The Professional Ethics Executive Committee (PEEC) is exposing for comment a proposed revision to Interpretation No. 203-1, "Departures From Established Accounting Principles," under Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .02), and a new Interpretation No. 203-5, "Financial Statements Prepared Pursuant to Financial Reporting Frameworks Not Promulgated by Bodies Designated by Council," under Rule 203 to clarify that members are not precluded from preparing or reporting on financial statements that have been prepared in accordance with certain financial reporting frameworks.

Specifically, Rule 203 states, in part, that "[a] member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles ... if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles" Appendix A, "Counsel Resolution Designating Bodies to Promulgate Technical Standards," of the Code of Professional Conduct lists the following bodies designated by Council: the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, and the International Accounting Standards Board.

Notwithstanding Rule 203, members have been permitted to prepare and report on financial statements that have been prepared using financial reporting frameworks other than those promulgated by a body designated by Council. For example, Statement on Auditing Standards (SAS) No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, AU sec. 534), provides guidance for an auditor practicing in the United States who is engaged to report on the financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States. Similarly, AU section 623 *Special Reports* (AICPA, *Professional Standards*), provides guidance on reporting on financial statements prepared in conformity with an other comprehensive basis of accounting (OCBOA). More recently, on November 9, 2010, the Auditing Standards Board (ASB) issued an exposure draft containing the proposed SAS *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*. (This proposed SAS would supersede SAS No. 51.) The proposed SAS addresses circumstances in which an auditor practicing in the United States is engaged to report on financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country not adopted by a body designated by Council to establish generally accepted accounting principles (GAAP) when such audited financial statements are intended for use outside the United States. Under the proposed SAS, when financial statements are prepared in accordance with a financial reporting framework generally accepted in another country, and such financial statements are also intended for use in the United States, the SAS would require the inclusion of an emphasis-of-matter paragraph that highlights the foreign financial reporting framework used in the preparation of the financial statements and that indicates that such framework differs from U.S. GAAP.

Accordingly, to clarify that a member would not be in violation of Rule 203 when preparing or reporting on financial statements that have been prepared using a financial reporting framework that is not promulgated by a body designated by Council to establish such principles, PEEC believes that certain revisions are necessary to Interpretation No. 203-1. In addition, PEEC is proposing a new Interpretation No. 203-5 that describes the types of financial reporting frameworks that a member may report on that are not promulgated by a Council-designated body. Such financial reporting frameworks would include financial reporting frameworks generally accepted in another country; financial reporting frameworks prescribed by an agreement or contract, as subject to the requirements of the ASB and Accounting and Review Services Committee; and OCBOA. When reporting under such financial frameworks, however, the member must make clear the financial reporting framework that was used.

Text of Proposed Revision

(Additions appear in **boldface italic**, and deletions are stricken.)

.02 203-1—Departures fFrom eEstablished aAccounting pPrinciples

~~Rule 203 [ET section 203.01] was adopted to require compliance with accounting principles promulgated by the body designated by Council to establish such principles. There is a strong presumption that adherence to officially established accounting principles would in nearly all instances result in financial statements that are not misleading.~~

~~However, I~~ In the establishment of accounting principles, it is difficult to anticipate all of the circumstances to which such principles might be applied. ***There is a strong presumption that adherence to officially established accounting principles would, in nearly all instances, result in financial statements that are not misleading.*** ~~This r~~Rule 203 therefore recognizes that upon occasion, there may be unusual circumstances where the literal application of pronouncements on accounting principles would have the effect of rendering financial statements misleading. In such cases, the proper accounting treatment is that which will render the financial statements not misleading.

The question of what constitutes unusual circumstances, as referred to in rule 203 [ET section 203.01], is a matter of professional judgment involving the ability to support the position that adherence to a promulgated principle would be regarded generally by reasonable persons as producing a misleading result.

Examples of events ***that*** ~~which~~ may justify departures from a principle are new legislation or the evolution of a new form of business transaction. An unusual degree of materiality or the existence of conflicting industry practices are examples of circumstances ***that*** ~~which~~ would not ordinarily be regarded as unusual in the context of rule 203 [ET section 203.01].

Text of Proposed New Interpretation

203-5—Financial Statements Prepared Pursuant to Financial Reporting Frameworks Not Promulgated by Bodies Designated by Council

Rule 203 does not preclude a member from preparing or reporting on financial statements that have been prepared pursuant to financial reporting frameworks that are not promulgated by bodies designated by Council, such as (a) financial reporting frameworks generally accepted in another country; (b) financial reporting frameworks prescribed by an agreement or contract, as subject to the requirements of the Auditing Standards Board or Accounting and Review Services Committee; or (c) an other comprehensive basis of accounting, including statutory financial reporting provisions required by law or a U.S or foreign governmental regulatory body to whose jurisdiction the entity is subject.

In such circumstances, however, the financial statements or reports should not purport that the financial statements are in accordance with generally accepted accounting principles promulgated by a body designated by Council, and the financial statements or reports, or both, on those financial statements should make clear the financial reporting framework(s) used.

Proposed Revision to Interpretation No. 501-1 Under Rule 501

Explanation

PEEC is exposing for comment proposed revisions to Interpretation No. 501-1, “Response to Requests by Clients and Former Clients for Records,” under Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .02). PEEC undertook this project because there appeared to be confusion among members regarding withholding client records when fees remain unpaid by a client, obligations to return electronic client records, and requirements concerning the provision of a member’s work product to a client.

Unpaid Fees

Some state boards of accountancy prohibit members from withholding records due to unpaid fees from a client, but the existing interpretation allows withholding certain records when there are fees due to the member. PEEC reconsidered the issue of whether a member should be able to withhold certain records due to unpaid client fees and agreed that its existing position was still appropriate. However, PEEC believed that due to the fact that a state board of accountancy may prohibit such action, it was important to highlight the member’s requirement to comply with his or her state board rules regarding a client’s request for records. Accordingly, the reminder to members that they must comply with their state board’s rules has been moved to the beginning of the interpretation.

Currently, a member would not be in violation of the existing interpretation if he or she failed to comply with more restrictive rules and regulations of the applicable regulatory bodies but complied with the interpretation. Upon further consideration, PEEC believed that it was necessary to add a provision that failure to comply with the more restrictive provisions would constitute a violation of the interpretation.

Electronic Records

PEEC added wording to clarify that a member is not required to convert records from one electronic format to another, although the member should provide records in the requested format if such records are already available in that format and in the member’s custody and control. In addition, when a member has created a document during an engagement, such as a spreadsheet that contains underlying formulas, PEEC believes that the member should not be required to provide the underlying formulas unless the member was engaged to provide such formulas, or the formulas support the client’s records (that is, fall under the definition of *supporting records*). Finally, the phrase *hardcopy or electronic* was added to the definition of *client-provided records* to provide additional clarity.

Member’s Work Products

A new category for member’s work products was added to the interpretation to address deliverables that result from the engagement. PEEC added tax returns as an example of a member’s work product and, as a result, deleted tax returns as an example of client records

prepared by the member because it believes that tax returns are more appropriately classified under this new category.

PEEC believes that the member should be allowed to withhold his or her work product under several circumstances. Specifically, in addition to withholding the work product due to unpaid client fees for the work product, PEEC believes that the work product may also be withheld for purposes of complying with professional standards or if threatened or outstanding litigation exists concerning the engagement or member's work.

Finally, PEEC edited the definition of *member's working papers* to show that records that are prepared by the client for use in a specific member engagement are considered the member's working papers, not client-provided records.

PEEC believes that the proposed revisions will add clarity and facilitate consistent, appropriate application of the interpretation.

Text of Proposed Revision

(Additions appear in **boldface italic**, and deletions are stricken.)

.02 501-1—Response to ~~Requests by e~~Clients and ~~f~~Former ~~e~~Clients for ~~Records~~

Terminology

The following terms are defined *subsequently* below solely for use with this interpretation:

- *Client-provided records* are accounting or other records belonging to the client that were provided to the member by, or on behalf of, the client, including ***hardcopy or electronic*** reproductions of such records.
- *Client records prepared by the member* are accounting or other records (for example, ~~tax returns~~, general ledgers, subsidiary journals, and supporting schedules, such as detailed employee payroll records and depreciation schedules) that the member was engaged to prepare for the client.
- *Supporting records* are information not reflected in the client's books and records that are otherwise not available to the client, with the result that the client's financial information is incomplete. For example, supporting records include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) that are produced by the member during an engagement (for example, an audit).
- *Member's working papers* include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses, and schedules prepared by the client at the request of the member ***and solely for purposes of the engagement***.
- *Member's work products, such as tax returns, are deliverables as set forth in the terms of the engagement.*

Interpretation

Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body. For example, certain state boards of accountancy do not permit a member to withhold certain records notwithstanding fees due to the member for the work performed. Failure to comply with the more restrictive provisions contained in the rules and regulations of the applicable regulatory body concerning the return of client records would constitute a violation of this interpretation.

When a client or former client (client) makes a request for client-provided records, client records prepared by the member, ~~or~~ supporting records, ***or member's work products*** that are in the custody or control of the member or the member's firm (member) that have not previously been provided to the client, the member should respond to the client's request as follows:¹

¹ The member is under no obligation to retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed.

- *Client provided records* in the member's custody or control should be returned to the client.
- *Client records prepared by the member* should be provided to the client, except that client records prepared by the member may be withheld if the preparation of such records is not complete, or there are fees due *to* the member for the engagement to prepare those records.
- *Supporting records* relating to a completed and issued work product should be provided to the client, except that such supporting records may be withheld if there are fees due to the member for the specific work product.
- *Member's work products should be provided to the client, except that such work products may be withheld if there are fees due to the member for the specific work product, or the work product is incomplete. In addition, the member may withhold his or her work product for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues) or if threatened or outstanding litigation exists concerning the engagement or member's work.*

Once the member has complied with these requirements, he or she is under no ethical obligation to comply with any subsequent requests to again provide such records or copies of such records. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

Member's working papers are the member's property and need not be provided to the client under provisions of this interpretation; however, such requirements may be imposed by state and federal statutes and regulations, and contractual agreements.

In connection with any request for client-provided records, client records prepared by the member, ~~or~~ supporting records, *or member's work products*, the member may:

- ~~C~~charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client;³
- ~~P~~provide the requested records in any format usable by the client³; and
- ~~M~~make and retain copies of any records returned or provided to the client.

The member is not required to convert records that are not in electronic format to electronic format *or to convert electronic records into a different type of electronic format*. However, if the client requests records in a specific format, and the ~~member was engaged to prepare the records in that format~~ *records are available in such format within the member's custody and control*, the client's request should be honored. *In addition, the member is not required to provide the client with formulas unless the formulas support the client's underlying*

³ ~~The member is not required to convert records that are not in electronic format to electronic format. However, if the client requests records in a specific format and the member was engaged to prepare the records in that format, the client's request should be honored.~~

accounting or other records, or the member was engaged to provide such formulas as part of a completed work product.

Where a member is required to return or provide records to the client, the member should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made. The fact that the statutes of the state in which the member practices grants the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation. ~~In addition, certain states have laws and regulations that impose obligations on the member greater than the provisions of this interpretation and should be complied with.~~

Proposed Deletion of Ethics Ruling No. 74 Under Rule 101

Explanation

PEEC recommends this ruling be deleted because

- a.* the requirements of SASs and Statements on Standards for Accounting and Review Services (SSARSS) determine the appropriate course of action when a member or his or her firm is not independent with respect to a client, and
- b.* it is inconsistent with a revision made to SSARSS that now allows a member to disclose in his or her compilation report why his or her independence is impaired.

Text of Proposed Deletion

74. Audits, Reviews, or Compilations and a Lack of Independence

.148 Question—If a member or his or her firm is not independent with respect to a client, is it permissible to issue an audit, review, or compilation report for that client?

.149 Answer—A member or his or her firm may not issue an audit or review report if not independent of the client. A compilation report may be issued provided that the report specifically discloses the lack of independence without giving reasons for the impairment.

[Revised, July 2002, to reflect conforming changes necessary due to the revision of Interpretation No. 101-1.]

Proposed Deletion of Ethics Ruling No. 135 Under Rule 505

Explanation

PEEC recommends this ruling be deleted because it is inconsistent with Interpretation No. 101-17, "Networks and Network Firms," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .19), and related definitions.

Text of Proposed Deletion

135. Association of Firms Not Partners

.269 Question—Three CPA firms wish to form an association—not a partnership—to be known as "Smith, Jones & Associates." Is there any impropriety in this?

.270 Answer—The use of such a title is not permitted since it might mislead the public into thinking a true partnership exists. Instead, each firm is advised to use its own name on its letterhead, indicating the other two as correspondents.