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TITLE 872 INDIANA BOARD OF ACCOUNTANCY

Proposed Rule LSA Document #03-270

DIGEST

Adds 872 IAC 1-6 to establish the requirements and procedures for a quality review program for CPA and PA firms. Effective 30 days after filing with the secretary of state.

872 IAC 1-6

SECTION 1. 872 IAC 1-6 IS ADDED TO READ AS FOLLOWS:

Rule 6. Quality Review

872 IAC 1-6-1 Applicability

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-6

Sec. 1. (a) This rule establishes a quality review program for CPA and PA firms issued a permit under IC 25-2.1-5.

(b) This rule does not apply to AP firms issued a registration under IC 25-2.1-6. *(Indiana Board of Accountancy; 872 IAC 1-6-1)*

872 IAC 1-6-2 “Approved quality review program” defined

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-5-8; IC 25-2.1-5-9

Sec. 2. “Approved quality review program” means a peer review program:

(1) administered by an oversight body established by the board under section 7 of this rule; and

(2) meeting the requirements of this rule, including the:

(A) AICPA document incorporated by reference in section 11 of this rule (applicable to CPA and PA firms); or

(B) NSA document incorporated by reference in section 12 of this rule (applicable to PA firms only).

(Indiana Board of Accountancy; 872 IAC 1-6-2)

872 IAC 1-6-3 “Attest” defined

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-1-3.8

Sec. 3. “Attest” has the meaning set forth in IC 25-2.1-1-3.8. *(Indiana Board of Accountancy; 872 IAC 1-6-3)*

872 IAC 1-6-4 “Compilation” defined

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-1-6.3

Sec. 4. Compilation” has the meaning set forth in IC 25-2.1-1-6.3. *(Indiana Board of Accountancy; 872 IAC 1-6-4)*

872 IAC 1-6-5 “Firm location” defined

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-5-5

Sec. 5. “Firm location” means an individual office location of a CPA or PA firm that is required to be registered under IC 25-2.1-5-5(a)(1) or IC 25-2.1-5-5(b)(1). (Indiana Board of Accountancy; 872 IAC 1-6-5)

872 IAC 1-6-6 “Quality review” defined

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-1-12

Sec. 6. “Quality review” has the meaning set forth in IC 25-2.1-1-12. (Indiana Board of Accountancy; 872 IAC 1-6-6)

872 IAC 1-6-7 Quality review oversight committee

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-5-8; IC 25-2.1-5-9

Sec. 7. (a) The board shall appoint a quality review oversight committee to assist it in the implementation of the quality review program.

(b) The oversight committee shall consist of three (3) licensees who have an active certificate as a certified public accountant or public accountant.

(c) An appointment under this section is for a term of three (3) years, except for an appointment to fill a vacancy shall be for the remainder of the unexpired term. A committee member may continue to serve until the member’s successor is appointed and qualified. An oversight committee member may be reappointed at the end of each term.

(d) Notwithstanding subsection (c), the initial appointment to the committee shall be:

- (1) one (1) committee member for the term of one (1) year;**
- (2) one (1) committee member for the term of two (2) years; and**
- (3) one (1) committee member for a term of three (3) years.**

The duration of these terms shall be calculated from July 1, 2004. (Indiana Board of Accountancy; 872 IAC 1-6-7)

872 IAC 1-6-8 Responsibilities of oversight committee

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-5-8; IC 25-2.1-5-9

Sec. 8. The quality review oversight committee is responsible for the following:

- (1) Monitoring approved quality review programs and reporting periodically to the board on whether these programs meet the requirements of this rule.**
- (2) Evaluating the determinations and recommendations in each quality review report submitted by the firm.**
- (3) Submitting an annual report to the board that includes statistics on the impact and effect of the quality review program and a list of firms that have undergone quality reviews under this rule.**
- (4) Carrying out other duties as delegated by the board necessary for the administration and enforcement of this rule.**

(Indiana Board of Accountancy; 872 IAC 1-6-8)

872 IAC 1-6-9 Requirements for firms

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-5

Sec. 9. (a) This section applies to renewal of firm permits that expire on or after June 30, 2006.

(b) During the three (3) year period preceding a firm's application for renewal of a permit under IC 25-2.1-5, a firm shall complete a quality review in compliance with this rule, unless the firm is not required to have a quality review under subsection (d)(2). Failure of a firm to complete a quality review may result in the denial of the renewal of the firm's permit under IC 25-2.1-5.

(c) Each firm where attest or compilation services are performed shall be covered by a quality review. A single quality review report covering all locations may be submitted for firms with multiple firm locations.

(d) Each application for renewal of a permit under IC 25-2.1-5 shall include:

(1) a letter certifying acceptance of the quality review report issued to the firm by the oversight committee; or

(2) a certification that the firm is not required to have a quality review because it has not performed any attest or compilation engagements since the last expiration of the firm permit.

(e) For the 2006 renewal, the period under subsection (d)(2) shall be since June 30, 2005, rather than since the last expiration of the firm permit.

(f) Before commencement of an attest or compilation engagement, a firm that was not required to obtain a quality review under subsection (d)(2) shall notify the board and shall complete a quality review within eighteen (18) months of such notification.

(g) In order to renew an expired firm permit, a firm shall complete a quality review in compliance with this rule. An exemption under subsection (d)(2) shall be calculated as if the firm permit had been renewed before its expiration.

(h) Each firm is responsible for the cost of the quality reviews under this rule.

(i) A quality review obtained after June 30, 2003, but before the effective date of this rule, shall fulfill the requirements for obtaining a quality review for the 2006 renewal as long as the quality review was done in a manner consistent with this rule. (*Indiana Board of Accountancy; 872 IAC 1-6-9*)

872 IAC 1-6-10 Reports; confidentiality

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1-5-8; IC 25-2.1-5-9

Sec. 10. (a) An approved quality review program administrator shall determine and report the following to the oversight committee with respect to each firm that is reviewed:

(1) Any recommendations concerning the possible improvement of the quality of the firm location's professional services.

(2) Whether the firm is not in general conformity with applicable professional standards.

(3) If the firm is not in general conformity, any significant departures from applicable professional standards.

(b) A firm that is the subject of a quality review may submit to the oversight committee a response to the determinations and recommendations contained in the quality review report.

(c) Quality review reports and related comments and work papers shall be retained by the oversight committee for a period of at least three (3) years from the date of submission or until acceptance by the oversight committee of the firm location's next quality review report, whichever is later.

(d) All proceedings, records, and work papers related to a quality review performed under this rule are privileged as provided in IC 25-2.1-5-8 and are not subject to discovery, subpoena, or other means of legal

process or introduction into evidence unto a civil action, arbitration, administrative proceeding, or board proceeding.

(e) Subject to IC 25-2.1-5-9, a member of the review committee or an individual who was involved with or who performed a quality review may not testify in a civil action, arbitration, administrative proceeding, or board proceeding to matters:

- (1) produced, presented, disclosed, or discussed during, or in connection with, the quality review process; or
- (2) that involve findings, recommendations, evaluations, opinions, or other actions of the approved quality review program, the oversight committee, or individual reviewers or committee members.

(Indiana Board of Accountancy; 872 IAC 1-6-10)

872 IAC 1-6-11 AICPA standards for peer/quality review program

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 25-2.1

Sec. 11. (a) That certain document being titled Standards for Performing and Reporting on Peer Reviews (copyright 2000, effective January 1, 2001), as published by the American Institute of Certified Public Accountants (AICPA), 1211 Avenue of the Americas, New York, New York 10036-8775 is hereby incorporated by reference as if fully set out in this rule except for the revision stated in this section. This document applies to quality reviews performed before January 1, 2005.

(b) That certain document being titled Standards for Performing and Reporting on Peer Reviews (copyright 2004, effective January 1, 2005), as published by the American Institute of Certified Public Accountants (AICPA), 1211 Avenue of the Americas, New York, New York 10036-8775 is hereby incorporated by reference as if fully set out in this rule except for the revision stated in this section. This document applies to quality reviews performed after December 31, 2004.

(c) Whenever “should” is used in the Standards for Performing and Reporting on Peer Reviews, it shall be construed as mandatory. However, minor variations from these requirements by the reviewer conducting a quality review are acceptable in the reviewer’s professional judgment as long as the basic requirements are met.

(d) The Standards for Performing and Reporting on Peer Reviews is incorporated by reference in this rule to establish substantive standards for quality reviews. Any requirement for membership in the AICPA or other organization or the involvement of any AICPA entity or state CPA society in the quality review process shall not apply. The quality review program under this rule is administered by the board and the quality review oversight committee established under section 7 of this rule. However, this subsection shall not be construed to limit the involvement of either the AICPA or the state CPA society in any quality review activity involving their members as long as the resulting quality review complies with this rule.

(e) If any provision of the Standards for Performing and Reporting on Peer Reviews conflict in any way with IC 25-2.1 or this title, it shall not apply. *(Indiana Board of Accountancy; 872 IAC 1-6-11)*

872 IAC 1-6-12 NSA standards for peer/quality review program

Authority: IC 25-2.1-2-15; IC 25-2.1-5-8; IC 25-2.1-5-9

Affected: IC 4-22-2

Sec. 12. (a) That certain document being titled National Society of Accountants Peer Review Program Manual (copyright 2002), as published by the National Society of Accountants (NSA), 1010 Fairfax Street, Alexandria, Virginia 22314 is hereby incorporated by reference as if fully set out in this rule except for the revision stated in this section. No subsequent editions, amendments, supplements, or releases of this document will be in effect in Indiana or adopted by the board except by following the rulemaking provisions of IC 4-22-2.

(b) The National Society of Accountants Peer Review Program Manual is incorporated by reference in this rule to establish substantive standards for quality reviews. Any requirement for membership in the NSA or the involvement of any NSA entity in the quality review process shall not apply. The quality review program under this rule is administered by the board and the quality review oversight committee established under section 7 of this rule. However, this subsection shall not be construed to limit the involvement of NSA in any quality review activity involving their members as long as the resulting quality review complies with this rule.

(c) If any provision of the National Society of Accountants Peer Review Program Manual conflicts in any way with IC 25-2.1 or this title, it shall not apply. (Indiana Board of Accountancy; 872 IAC 1-6-12)

Notice of Public Hearing

Under IC 4-22-2-24, notice is hereby given that on June 18, 2004 at 10:30 a.m., at the Indiana Government Center-South, 402 West Washington Street, Conference Center Room 5, Indianapolis, Indiana the Indiana Board of Accountancy will hold a public hearing on proposed amendments to establish the requirements and procedures for a quality review program for CPA and PA firms. Copies of these rules are now on file at the Indiana Government Center-South, 302 West Washington Street, Room E034 and Legislative Services Agency, One North Capitol, Suite 325, Indianapolis, Indiana and are open for public inspection.

Gerald H. Quigley
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Professional Licensing Agency