

REGULATIONS

OF THE

RHODE ISLAND BOARD OF ACCOUNTANCY

ESTABLISHING PEER REVIEW STANDARDS

DECEMBER, 1998

1.0 INTRODUCTION, PURPOSE, FINDING

1.1 Introduction

~~The Rhode Island General Laws, § 5-3.1-4(f)(6), authorizes the Board of Accountancy (the "Board") to promulgate rules and regulations for reviewing and monitoring professional performance. Section 5-3.1-7(d) provides that the Board shall require, as a condition to renew annual permits to practice, that applicants undergo peer reviews conducted no more frequently than once every three years in such manner and producing such satisfactory result as the Board may specify.~~

1.2 Purpose

~~The purpose of these regulations is to establish a peer review program to monitor compliance with applicable accounting and auditing standards adopted by generally recognized standard setting bodies. The program shall emphasize education, including appropriate professional standards. In the event a practice unit's professional work is so substandard as to warrant disciplinary action, the Board shall take appropriate action to protect the public interest.~~

1.3 Finding

~~In considering the adoption of these regulations, the Board finds that there is no alternative approach which would be as effective and less burdensome to private persons as another regulation. The Board further finds that this regulation will not have a significant adverse impact on small business.~~

2.0 DEFINITIONS

~~The following words and terms, when used in these regulations, shall be construed as follows:~~

~~Practice Unit. Each firm, office or entity (partnership, corporation or sole~~

proprietorship) of a national, regional or local accounting firm engaged in the practice of public accounting within the State of Rhode Island.

Peer Review Year. The triennial calendar year within which the peer review for a particular practice unit must be completed.

Sponsoring Organization. An entity (individual firm, partnership, professional corporation or professional organization or association of the CPAs) that has met, and at all relevant times continues to meet, the standards specified by the Board for administering peer review. The Board shall maintain a list of sponsoring organizations which have applied for and received such designation by the Peer Review Oversight Committee. Sponsoring organizations shall include, but shall not be limited to, the following organizations: the Securities and Exchange Commission Practice Section (SECPS), Private Companies Practice Section (PCPS), National Society of Public Accountants, and the American Institute of Certified Public Accountants Peer Review Program, including, but not limited to, New England Peer Review.

3.0 PEER REVIEW PROGRAM

~~3.1 — Applicability. Participation in the program is required of each practice unit licensed or registered with the Board who performs accounting or auditing engagements, including, but not limited to, audits, reviews, compilations, forecasts, projections or other special reports.~~

~~3.2 — Operation. Each practice unit licensed or registered with the Board as of June 1, 1993, shall complete a peer review to commence no later than December 31, 1996. Each practice unit enrolled in a program of an approved sponsoring organization shall adopt the review date assigned by the sponsoring organization and shall notify the Board of such date. Each practice unit not enrolled in a review program shall be assigned a review year by the Board. Each~~

new practice unit registered with the Board after June 1, 1993, which enrolls in a program of an approved sponsoring organization shall adopt the review date assigned by the sponsoring organization and shall notify the Board of such date. Each new practice unit that does not enroll in a peer review program shall be assigned a peer review year within eighteen (18) months of the initial registration date. It is the responsibility of the practice unit to anticipate its needs for peer review services in sufficient time to enable the peer reviewer to complete the peer review within six months after the end of the peer review year.

3.3 Minimum Standards. The Board hereby adopts the "Standards for Performing and Reporting on Peer Reviews" promulgated by the American Institute of Certified Public Accountants, Inc. as its minimum standards for peer review of practice units; provided, however, that peer reviews performed by the National Society of Public Accountants shall be deemed to meet these requirements. This section shall not require any practice unit to become a member of any sponsoring organization.

4.0 PEER REVIEW OVERSIGHT COMMITTEE

4.1 — Oversight. The Board shall appoint a Peer Review Oversight Committee whose function shall be to oversee the peer review program created hereunder. The Committee shall designate and monitor the sponsoring organizations for compliance with and implementation of the minimum standards for performing and reporting on peer reviews. The Committee shall respond to all appropriate requests for clarification or interpretation of these regulations and shall determine any and all questions or disputes which might arise with respect to the scope, applicability or effect of these regulations. The Committee shall also make recommendations to the Board with respect to remedial action or the revocation,

suspension or refusal to renew any annual permit for failure to comply with this program.

~~4.2 Membership. The Peer Review Oversight Committee shall consist of three members, none of whom shall be current members of the Board. The Committee shall consist of:~~

- ~~A. One licensed public accountant who shall have significant experience in the preparation and/or use of financial statements; and~~
- ~~B. Two licensed certified public accountants with extensive current experience in accounting and auditing services and qualified to be a team captain under the AICPA program.~~

~~4.3 Review by the Board. Any sponsoring organization, practice unit, entity or individual aggrieved by any action of the Peer Review Oversight Committee may seek review thereof by the Board. Any final decision by the Board may be appealed to the Superior Court in accordance with and subject to the administrative procedures act.~~

5.0 MERGERS, DISSOLUTIONS AND SEPARATIONS

~~5.1 Mergers. In the event that two or more practice units of disparate sizes are merged or combined, the surviving practice unit shall retain the peer review year of the practice unit with the largest number of staff prior to merger or combination. In the event that two or more practice units with the same number of staff are merged or combined, the surviving practice unit shall retain the peer review year of the practice unit with the earlier peer review year prior to the merger or combination.~~

~~5.2 Dissolutions or Separations. In the event a practice unit is divided or dissolved, any new practice unit or units created therefrom shall retain the peer review year of the former practice unit. In the event such period is less than~~

~~eighteen (18) months, a new year shall be assigned so that the review occurs after eighteen (18) months of operation.~~

~~5.3 Exceptions. The Quality Review Oversight Committee, upon a showing that strict compliance with sections 5.1 or 5.2 will cause hardship, may authorize a change in a practice unit's peer review year.~~

6.0 EXTENSIONS

~~6.1 The Peer Review Oversight Committee may accept an extension, not to exceed 180 days, granted by a sponsoring organization for the conduct of a peer review. The practice unit shall notify the Committee within twenty (20) days of the date such extension is received by the practice unit.~~

7.0 EXEMPTIONS

~~7.1 — A practice unit which does not perform the services described in regulation 3.1 shall annually certify that fact to the Board and shall be exempt from peer review. A practice unit which begins providing these services must have a peer review within eighteen (18) months of the date such services were first provided.~~

8.0 ENFORCEMENT

~~8.1 — Permits. In the event a practice unit subject to peer review does not successfully complete its peer review by the end of its peer review year, the Board shall,~~

- ~~(a) withhold issuance of the annual permit of the practice unit until the peer review is satisfactorily completed; and~~
- ~~(b) withhold issuance of the annual permit of each individual licensee of the practice unit who was personally and substantially responsible for the failure of~~

~~the practice unit to successfully complete the peer review.~~

~~8.2 — Assessment. In the event a practice unit subject to peer review does not successfully complete its peer review by the end of its peer review year, the Board may assess a penalty of not more than \$250.00 against such practice unit. The Board may, for good cause shown, waive this penalty. The penalty provided for herein may be assessed whether or not the practice unit has sought or received an extension in accordance with section 6.1.~~

~~8.3 — Applicability. The assessment provided for in section 8.2 shall be applicable to practice units with peer review years ending December, 1998 or thereafter.~~

9.0 REPORTING

~~9.1 — Enrolled practice units. A practice unit which is enrolled in a peer review program of an approved sponsoring organization shall submit to the Peer Review Oversight Committee a copy of the letter or notice of acceptance issued by the sponsoring organization at the conclusion of the peer review process. In the event the sponsoring organization does not issue a letter of acceptance the practice unit shall submit to the Peer Review Oversight Committee a copy of the peer review report, the letter of comments, the matters for further consideration and the practice unit's letter of response, if any.~~

~~9.2 — Practice Units Not Enrolled. A practice unit not enrolled in a peer review program of an approved sponsoring organization shall engage a reviewer who is authorized to perform peer reviews for such an organization. The reviewer shall apply the minimum standards described in Regulation 3.3 and shall report directly to the Peer Review Oversight Committee. In the event a letter of comments or matters for further consideration are issued with the report, the practice unit shall submit its letter of response to the Committee.~~

~~9.3 Committee Review. The Peer Review Oversight Committee shall review all information submitted to the Committee in accordance with these Regulations. If the Committee determines the practice unit has satisfactorily completed the peer review the Committee shall promptly destroy all documents relating to that review. If the Committee determines the practice unit has not satisfactorily completed the peer review, the Committee shall forward all such documents to the Board with such recommendations for further action as the Committee deems appropriate.~~

10.0 RETENTION OF DOCUMENTS RELATING TO PEER REVIEWS.

~~10.1 Peer Reviewers. Each peer reviewer shall maintain in his, her or its files all documentation necessary to establish that each peer review performed by him, her or it confirmed to the peer review standards adopted by the Board, including the peer review working papers, the peer review report, the letter of comments, matters for further consideration, any letter of response or correspondence from the practice unit and any documents relating to proposed remedial actions and related implementation. These documents shall be retained in the peer reviewer's office for a period of time corresponding to the retention period of the relevant sponsoring organization and, upon request, shall be made available to the Peer Review Oversight Committee. In no event shall the retention period be less than six months.~~

~~10.2. Practice units. Each practice unit shall retain all documentation relating to its most recent peer review for not less than four (4) years.~~

11.0 ADOPTION

~~11.1 Authority. These regulations are promulgated and adopted in accordance with sections 5-3.1-4(f)(6), 5-3.1-4(g), and 42-35-4 of the Rhode Island~~

General Laws.

~~11.2 Effect. Except as otherwise provided in section 8.3, these regulations shall take effect twenty (20) days after filing with the Secretary of State in accordance with section 42-35-4(b) of the General Laws and shall apply prospectively to all peer reviews conducted on or after the effective date.~~

~~11.3 Prior regulations. These regulations supersede all prior regulations of the Board on this subject including, but not limited to, the Regulations Establishing Quality Review Standards dated August 22, 1996.~~

~~11.4 Severability. If any provision of these regulations or the application thereof to any practice unit or circumstance shall be held invalid, such invalidity shall not affect the provision or application of the regulations which have been given effect, and to this end the provisions of these regulations are declared to be severable.~~

1701-9/34164