

## **Rule 14 QUALITY REVIEW PROGRAM**

### **14.1 PURPOSE**

There is hereby established a Quality Review Program (the "Program"). The purpose of the Program is to improve the quality of financial reporting and to assure that the public can rely on the fairness of presentation of financial information on which licensees issue compilation reports. The Program emphasizes education and rehabilitation rather than disciplinary action. Appropriate educational programs or procedures will ordinarily be recommended or required where reporting does not comply with appropriate professional standards. However, when a licensee is unwilling or unable to comply with such standards, or a licensee's professional work is so egregious as to warrant disciplinary action, such action may be taken as the appropriate means of protecting the public interest.

### **14.2 REPEALED**

### **14.3 QR SURVEY**

Quality Review (QR) is to be conducted annually on one third of the licensees on a rotating basis. QR may be required more frequently as provided herein.

- a) The Board will mail a QR survey to one-third of its licensees annually. The recipient shall return the completed survey form within the time specified and submit reports, for QR purposes, when compilation reports have been issued during the QR period as stated in the instructions in said survey form.
- b) Failure to respond to the QR survey mailed by the Board or to submit reports for QR purposes, when reports were issued during the subject period, shall be a basis for the non-renewal of the license, after notice and hearing, as provided by Ark. Code Ann. § 17-12-507.
- c) In response to the QR survey, the licensee shall submit the most recently issued compilation report with disclosures and compilation report without disclosures since initial licensure by the Board or since June 30th of the year the latest QR survey was completed by the licensee.
- d) Submission to the Board of an acceptable peer review report, performed by a CPA, PA or firm, licensed in this or another state, and the individual CPA or PA is qualified pursuant to the provisions of Rule 14.4-14.5(a)-(e), or 14.11, which is conducted consistent with a peer review program authorized by a professional accounting organization and approved by the Board, dated within the QR period or the thirty months immediately preceding the QR period, will exempt the licensee from QR. For purposes of this paragraph, acceptable peer review reports shall be those classifications designated by the peer review program that are generally comparable to pass and pass with deficiencies QR reports as defined in Rule 14.8, and which the Board identifies in its approval of the individual peer review program as comparable to pass and pass with deficiencies QR reports.
- (e) A firm or licensee registered in a jurisdiction other than Arkansas that is not required to register in this state pursuant to A.C.A. § 17-12-311 or A.C.A. § 17-12-401 and that performs engagements for clients in this state that are performed in accordance with Statements on Standards for Accounting and Review Services

(SSARS), such as compilations and reviews, must receive an acceptable peer review performed by a CPA, PA or firm in lieu of the Quality Review required under Rule 14.3 or must receive an acceptable quality review performed under the rules of the state of licensure.

#### **14.4 QR REVIEWERS**

The QR reviewers shall have the following qualifications:

- a) Licensed by and in good standing with the Board,
- b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review with no fail reports within three years immediately preceding the appointment,
- c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- d) Shall have a minimum of 5 years of experience in accounting and auditing, including experience in compilations.

#### **14.5 TEAM CAPTAINS**

Team captains shall have the following qualifications:

- a) Licensed by and in good standing with the Board,
- b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review with no fail reports within three years immediately preceding the appointment,
- c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- d) Shall have a minimum of 5 years of experience in accounting and auditing, including experience in compilations.
- e) Shall have served as a quality reviewer for a minimum of one year, and
- f) Shall be approved by the QR Consultant.

#### **14.6 QR CONSULTANT**

The QR consultant shall have the following qualifications:

- a) Licensed by and in good standing with the Board,
- b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review with no fail reports within three years immediately preceding the appointment,
- c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- d) Shall have a minimum of 5 years of experience in accounting and auditing, including experience in compilations, and

- e) Shall be approved by the Board.

#### **14.7 QR PROCEDURE**

The QR process shall include:

- (a) Review and classification of the report and a statement of reasons for the classification by an assigned reviewer.
- (b) Review of that classification and reasons therefore by the QR team captain who may make appropriate changes after consulting with the assigned reviewer.
- (c) Review of that classification and reasons therefore by the Board's QR Consultant who may make appropriate changes after consulting with both the assigned reviewer and team captain.

#### **14.8 QR CLASSIFICATIONS**

The QR will result in a determination whether each report rating is fail, pass with deficiencies, or fail.

- (a) "Pass" means that the report contains no deficiencies or only minor deficiencies.
- (b) "Pass with Deficiencies" means that the report contains more serious deficiencies, such as departures from the technical reporting or accounting standards set forth in Board Rule 8, but of the type that will not render the statement materially inaccurate or misleading.
- (c) "Fail" means that the report is materially inaccurate or misleading; such a report violates one or more significant reporting standards, seriously departs from Generally Accepted Accounting Principles, or does not include material disclosures necessary for a fair presentation.
- (d) "Deficiency" means a failure to comply with any provision in the Professional Standards identified in Board Rule 8.

#### **14.9 NOTIFICATION AND RESPONSE**

- (a) The licensee will be notified in writing of the QR classification of each report. Notice of pass with deficiencies and fail reports shall be by certified mail, return receipt requested. No response is necessary for a "pass" or "pass with deficiencies" classification, and QR will be closed. If the licensee who has received a pass with deficiencies classification disagrees, he should notify the Board in writing within 30 days. The notification will instruct the licensee who has received a fail classification to reply to the Board in writing within 30 days.

(b) Pass with Deficiencies classification. If the licensee agrees with the pass with deficiencies classification, no reply is necessary and the QR is complete. However, if the licensee disagrees with the classification, he may, but is not required to file a notice including an explanation of his objection, citations to applicable professional standards, and any relevant documentation supporting his objection to the classification for consideration by QR Consultant. This notice must be written and filed with the Board within 30 days. After reconsideration of the Summary of Deficiencies and Comments, original documents from the licensee, and any supplemental information from the licensee that may have been requested by the QR Team, the QR Consultant will affirm the classification of or reclassify the licensee's report. The licensee will be notified of this result in writing for informational purposes. The QR will be closed and the licensee will remain in the same QR cycle.

(c) Fail Classification.

(1) First fail classification.

- a) Within 30 days the licensee shall respond in writing to the Board's notification of a first fail classification stating whether he agrees or disagrees with that classification.
- b) If the licensee agrees with the fail classification, the Board shall request that the licensee obtain 16 hours of CPE in specific subjects. Said CPA is intended to be educational, for the purpose of improving the quality of the licensee's reports, rather than disciplinary in nature, shall not be self-study, and shall be approved in advance by the Board's Executive Director. The licensee shall complete said CPE hours and deliver acceptable documentation thereof to the Board on or before June 30 of the following year.
- c) If the licensee disagrees with the fail classification, he may deliver written notice to the Board within 30 days explaining the objection to the classification, citation to applicable professional standards and any relevant documentation supporting the licensee's objection to the classification. The QR Consultant shall review the Summary of Deficiencies and Comments, original documents from the licensee, and any supplemental information from the licensee that may have been requested by the QR Team, and will affirm the classification or reclassify the licensee's report. The licensee will be provided written notice of the QR Consultant's review of the report by certified mail, return receipt requested.
- d) The licensee can appeal the QR Consultant's decision on the classification and obtain a hearing by the Board by filing a written notice of appeal with the Board within 30 days. The Board shall notify the licensee of the time and place of the hearing and shall consider the classification of the report based solely upon the record considered by the QR Consultant as per paragraph (b). When the evidence of record that the report is a fail report is considered, the Board will consider all relevant facts. Should the facts show convincingly that the report should be classified as "fail", the Board will consider the report as fail. If the evidence of record is equally balanced, or the Board cannot find that the facts are convincing, the Board shall determine that the report should not be classified as fail. Should the Board find that the report should be classified as fail, it may

require appropriate action by the licensee that is designed to assure that the licensee's professional services are performed consistent with applicable professional standards as provided under these procedures.

- e) Following any first fail classification of the report that becomes final prior to appeal to the Board, the licensee will be requested to obtain the 16 hours of CPE as stated in paragraph 14.9(c)(1)(B) above. Upon request of the licensee, or should the licensee not agree to obtain CPE described above, fail to complete said CPE, or fail to timely deliver satisfactory documentation thereof to the Board, the Board shall conduct a hearing to determine whether the licensee has failed to comply with the Code of Professional Conduct and the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq. and, if so, the necessary corrective action to be taken to improve the quality of the licensee's reports or to otherwise protect the public interest.

(2) Second consecutive fail report.

- a) Within 30 days the licensee shall respond in writing to the Board's notification of a second fail classification stating whether he agrees or disagrees with that classification.
- b) If he agrees with the classification, the licensee will be requested to submit reports for pre-issuance review pursuant to the Board's current Pre-Issuance Review Procedures that shall be provided to the licensee.
- c) If the licensee disagrees with the fail classification, he will be instructed to file notice including an explanation of his objection to the classification, citation to applicable professional standards, and any relevant documentation supporting his position for reconsideration by QR Consultant. The provisions set forth in subparagraph 14.9(c)(1)(D- E) for reconsideration by the QR Consultant, and appeal to the Board are also applicable to second consecutive fail reports.
- d) Upon appeal, should the Board find that the report should be classified as fail, it may require that the licensee take action deemed appropriate by the Board to assure the licensee's professional services are performed consistent with applicable professional standards or to otherwise protect the public interest.
- e) If at any state of the QR procedure in this subparagraph 14.9(c)(2) pertaining to second consecutive fail reports.

(3) Third consecutive fail report.

- a) Within 30 days the licensee shall respond in writing to the Board's notification of third fail classification stating whether he agrees or disagrees with that classification.
- b) If the licensee agrees with the classification, the Board will determine whether to conduct a hearing to consider whether the licensee's report violates the Board's Code of Professional Conduct and the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12- 101 et seq.
- c) If the licensee disagrees with the fail classification, he will be instructed to file notice including an explanation of the objection to the classification, citation to applicable professional standards and any relevant documentation supporting his position for consideration by QR Consultant.

- d) The procedure set forth in subparagraph 14.9(c)(1)(D-E) for reconsideration by the QR Consultant and appeal to the Board are also applicable to third consecutive fail reports.
- e) Upon appeal, should the Board find that the report is in violation of the Code of Professional Conduct or the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq., it may take appropriate action to protect the public interest.
- f) If at any stage of the QR procedure in this paragraph 14.9(c)(3), the licensee fails to respond to the notice of the classification of the report as fail in the original review or upon review by the QR Consultant or review by the QR Committee, the Board will determine whether to schedule a hearing to determine whether the licensee has violated the Board's Code of Professional Conduct or the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq., and the appropriate action to be taken as a result of the violations found.
- g) Consent orders. At any stage in the QR process, when a licensee will agree not to perform any further reports that have been classified as fail or to other appropriate action to protect the public interest, the Board may resolve the controversy by an appropriate Consent Order.

#### **14.10 PRE-ISSUANCE REVIEW PROCEDURES**

- a) Pre-Issuance Reviewer (Reviewer) shall be a CPA or PA currently holding an Arkansas license to practice public accountancy, who has undergone quality or peer review within the past 3 years with reports thereon determined to be acceptable pursuant to Rule 14.3(d), and approved by the Board prior to performing pre-issuance reviews for the subject Accountant (Respondent). Prior to performing any pre-issuance review services, the Reviewer shall deliver a written confirmation to the Board to provide pre-issuance review of each compilation report prepared by the subject respondent for the period of the engagement. The Respondent whose Reports are being reviewed shall be solely responsible for any expense for the pre-issuance review.
- b) Reviewer shall review, prior to release to Respondent's client, each Report as identified above to determine compliance with professional standards identified in Board Rule 8 or otherwise applicable to the particular type of Report and shall authorize the release of a Report only after making a written determination that the Report complies with said standards. In the event a submitted Report does not comply with said standards, the reviewer shall provide written comments or instructions for the Respondent to revise the Report in compliance with applicable professional standards.
- c) Reviewer shall maintain a pre-issuance review file on each Report review performed. The file shall contain each original Report submitted to the reviewer, the reviewer's written comments or instructions in any form regarding necessary revisions for the Report to comply with professional standards, any revised Report(s) and the Report(s) approved for release to the client. Reports reviewed and found acceptable with no change shall be clearly noted on the file Report, "Accepted – No Change Required."
- d) Reviewer shall maintain the pre-issuance review files for a minimum of five years after each pre-issuance review engagement is completed and shall make said records available to the Board upon request.
- e) Reviewer shall submit a report to the Arkansas State Board of Accountancy every ninety (90) days following the date of the Reviewer's confirmation to the Board. The report shall contain a summary of the number of Reports reviewed, number of Reports with no change required, and number of Reports requiring amendment. For Reports requiring change, a copy of each original Report submitted by the Licensee, Reviewer

notations, and/or comment sheet(s) and the revised and approved Report(s) must accompany the report.

- f) Reviewer may recommend in writing with accompanying supporting documentation that the Respondent be released from continuing pre-issuance review. Should the Board determine that the Respondent appears to have demonstrated an ability to issue Reports in compliance with applicable professional standards without the necessity of continuing pre-issuance review, it shall terminate the pre-issuance review, but may require the Respondent to participate in annual quality review for a specific or indefinite term.