



**SOUTH DAKOTA
BOARD OF ACCOUNTANCY**
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 Sioux Falls, SD 57104
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Agenda
 South Dakota Board of Accountancy Meeting
 Department of Legislative Audit - Conference Room
 8:30 a.m. (CDT)
 October 27, 2014

A=Action

D=Discussion

I=Information

	Page
A-Approval of Minutes of Meeting September 17, 2014.....	2-3
A-Approval of Certificates and Firm Permits.....	4-5
A-Financial Statements through September 2014	6-14
A-Report to Board on Grades.....	15-16
9:00 Public Rules Hearing.....	17-42
10:00 Hearing for Keith Germann.....	43-48
D-Executive Director’s Report.....	49
 AICPA	
D-AICPA Discussion Paper on the Audit Process of Private Entities.....	50-70
 EXECUTIVE SESSION	
Equivalent Reviews, South Dakota Reviews, and follow ups for Board Approval.....	Spt. Pkt.
 FUTURE MEETING DATES (all times CT)	
TBD	



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South Dakota Board of Accountancy
Minutes of Meeting-Conference Call
September 17, 2014 - 9:00 a.m.

The Board of Accountancy held a meeting by conference call on Wednesday, September 17, 2014. Chair John Mitchell called the meeting to order at 9:02 a.m.

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

Also present were Nicole Kasin, Executive Director; Brenda Page, Secretary; Aaron Arnold, Legal Counsel and Department of Labor & Regulation.

Chair John Mitchell asked if there were any additions to the agenda. The following were added:
Additions to Certificates
Addition to Peer Review

A motion was made by Holly Brunick and seconded by David Pummel to approve the August 11, 2014, meeting minutes. A roll call vote was taken. The motion unanimously carried.

A motion was made by Marty Guindon and seconded by John Linn, Jr. to approve the issuance of individual certificates and firm permits through September 16, 2014. A roll call vote was taken. The motion unanimously carried.

A motion was made by John Peterson and seconded by Marty Guindon to approve the financial statements through August 2014. A roll call vote was taken. The motion unanimously carried.

Executive Director Kasin discussed the AICPA workshop on attest & CPA firm mobility in Chicago, IL, the new NASBA/Prometric testing center in Rapid City, electronic data storage management, renewal statistic follow-ups and rules review for the upcoming rules hearing in October.

The board discussed AICPA's paper on the audit process of private entities. The board tabled the discussion until the October meeting.

A motion was made by David Pummel and seconded by Holly Brunick to enter into executive session for the deliberative process for peer reviews, South Dakota reviews and follow ups. A roll call vote was taken. The motion unanimously carried.

John Peterson left the meeting at 9:53am.

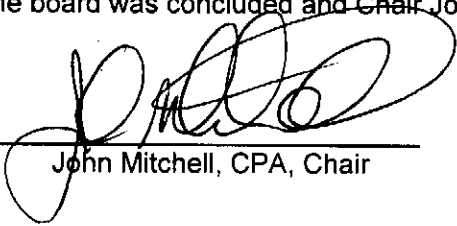
The Board came out of executive session.

A motion was made by David Pummel and seconded Mary Guindon to accept the peer reviews, South Dakota reviews and follow ups as discussed in executive session. A roll call vote was taken. The motion carried 5 aye; 1 excused (Peterson).

FUTURE MEETING DATES (all times CT)
October 27 – 8:30 – Pierre, SD - (location TBD)

A motion was made by David Pummel and seconded by John Linn, Jr. to adjourn the meeting. A roll call vote was taken. The motion carried 5 aye; 1 excused (Peterson).


All business having come before the board was concluded and Chair John Mitchell adjourned the meeting at 10:19 a.m.



Handwritten signature of John Mitchell in black ink, consisting of several loops and a long horizontal stroke.

John Mitchell, CPA, Chair

Attest: 
Nicole Kasin, Executive Director



Handwritten signature of David Pummel in black ink, featuring a large loop and a horizontal stroke.

David Pummel, Sec/Treasurer

**CERTIFIED PUBLIC ACCOUNTANT CERTIFICATES
BOARD COPY**

Issued Through October 20, 2014

Number	Name	Date Issued	Location
3166	Eric Robert Lind	9/17/14	Rapid City, SD
3167	Leah Christine Heidler	9/17/14	Rapid City, SD
3168	Amanda Ruth Runia	9/17/14	Brookings, SD
3169	Janel Ashley Wright	9/18/14	Rapid City, SD
3170	Andrew Hess	9/30/14	Luverne, MN
3171	Amanda May Schwarz	10/06/14	Pierre, SD
3172	Rebecca Kay Peterson	10/07/14	Brandon, SD
3173	Michael Hugh Baedke	10/14/14	Sioux Falls, SD
3174	Andria Jean Hinz	10/16/14	Sioux Falls, SD

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

**Issued Through
October 20, 2014**

Number	Name	Date Issued	Basis/Comments
1632	Grant and Williams, Inc. Sioux Falls, SD	09/17/14	New Firm

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

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	428,998.90	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			428,998.90	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			428,998.90	DR **	
BUDGET UNIT TOTAL 1031			428,998.90	DR ***	

STATE OF SOUTH DAKOTA
MONTHLY EXPENDITURE REPORT
FOR PERIOD ENDING: 09/30/2014

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

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
COMPANY NO 6503										
COMPANY NAME PROFESSIONAL & LICENSING BOARDS										
6503	1031000061802	51010100	CGEX140911	09/17/2014					2,046.00	DR
OBJSUB: 5101010 F-T EMP SAL & WAGES										
6503	1031000061802	51010200	CGEX140911	09/17/2014					2,046.00	DR *
OBJSUB: 5101020 P-T/TEMP EMP SAL & WAGES										
OBJECT: 5101 EMPLOYER SALARIES										
6503	1031000061802	51020100	CGEX140911	09/17/2014					1,333.91	DR *
OBJSUB: 5102010 OAS-EMPLOYER'S SHARE										
6503	1031000061802	51020200	CGEX140911	09/17/2014					243.94	DR **
OBJSUB: 5102020 RETIREMENT-ER SHARE										
6503	1031000061802	51020600	CGEX140911	09/17/2014					202.80	DR *
OBJSUB: 5102060 HEALTH/LIFE INS.-ER SHARE										
6503	1031000061802	51020800	CGEX140911	09/17/2014					1,077.75	DR *
OBJSUB: 5102080 WORKER'S COMPENSATION										
6503	1031000061802	51020900	CGEX140911	09/17/2014					2.03	DR *
OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION										
OBJECT: 5102 EMPLOYEE BENEFITS										
GROUP: 51 PERSONAL SERVICES										
6503	1031000061802	52040100	01796776	10/03/2014	00136857	GASB	12012678		114.00	DR ***
OBJSUB: 5204010 SUBSCRIPTIONS										
6503	1031000061802	52041800	DE508101	10/01/2014					114.00	DR *
OBJSUB: 5204180 COMPUTER SERVICES-STATE										
6503	1031000061802	52042000	PL508060	09/17/2014					310.20	DR *
OBJSUB: 5204200 CENTRAL SERVICES										
6503	1031000061802	52042200	INV2156755	10/01/2014	02091599	MARCOINC	12201534		250.45	DR *
OBJSUB: 5204220 EQUIPMENT SERV & MAINT										
6503	1031000061802	52042300	ISSC100002 SEP14	10/01/2014	00135913	SUNSEROFFI	12043890		2.30	DR *
OBJSUB: 5204230 JANITORIAL & MAINT SERV										
6503	1031000061802	52044600	H4861322	09/12/2014	02089381	MALLETNANC	12219369		597.00	DR *
6503	1031000061802	52044600	INV2156755	10/01/2014	02091599	MARCOINC	12201534		57.00	DR *
OBJSUB: 5204460 EQUIPMENT RENTAL										
6503	1031000061802	52044900	ACCOUNTRENT2014	10/01/2014	02091226	MCGINNISRO	12074040		1,269.45	DR *
OBJSUB: 5204490 RENTS-PRIVATE OWNED PROP.										

STATE OF SOUTH DAKOTA
MONTHLY EXPENDITURE REPORT
FOR PERIOD ENDING: 09/30/2014

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

COMP CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/ CR
6503	103100061802	52045100	63840	09/17/2014	00127950	HOLIDAYINN	12346914	230.80	DR
		RENTS-OTHER							
6503	103100061802	52045300	TY508155	09/17/2014	00125129	MIDCONTINE	12023782	230.80	DR
6503	103100061802	52045300	111109001 AUG14	09/10/2014	00136913	MIDCONTINE	12023782	113.95	DR
6503	103100061802	52045300	111109001 SEP14	10/03/2014	00136913	MIDCONTINE	12023782	95.00	DR
6503	103100061802	52045300	2872359210870814	09/03/2014	00124090	ATTMOBILIT	12279233	100.00	DR
6503	103100061802	5204530	TELECOMMUNICATIONS SRVCS					66.93	DR
6503	103100061802	52045400	5159417006 0814	09/10/2014	02088909	XCELENERGY	12023853	375.88	DR
		ELECTRICITY						46.94	DR
6503	103100061802	52047400	CI105A-022	09/05/2014	214053			46.94	DR
6503	103100061802	52049600	BANK FEES AND CHARGES					381.28	DR
		OTHER CONTRACTUAL SERVICE						11,681.76	DR
6503	103100061802	52053200	38758	09/10/2014	00125028	BUSINESSPR	12003048	11,681.76	DR
		PRINTING-COMMERCIAL						15,439.92	DR
		SUPPLIES & MATERIALS						33.00	DR
		T105-017						33.00	DR
6503	103100061802	5228000		09/10/2014				565.87	DR
		OPER TRANS OUT -NON BUDGT						565.87	DR
		NONOP EXP/NONBGTD OP TR						565.87	DR
		OPERATING EXPENSES						16,038.79	DR
		GROUP: 52						20,946.74	DR
		COMP: 6503						20,946.74	DR
		CNTR: 103100061802						20,946.74	DR
		B. UNIT: 1031						20,946.74	DR

South Dakota Board of Accountancy
Balance Sheet
As of September 30, 2014

	Sep 30, 14
ASSETS	
Current Assets	
Checking/Savings	
1130000 · Local Checking - US Bank	2,419.20
1140000 · Pool Cash State of SD	428,998.90
Total Checking/Savings	431,418.10
Other Current Assets	
1131000 · Interest Income Receivable	4,710.31
1213000 · Investment Income Receivable	1,058.55
Total Other Current Assets	5,768.86
Total Current Assets	437,186.96
Fixed Assets	
1670000 · Computer Software	
Original Cost	140,063.23
1770000 · Depreciation	-132,016.35
Total 1670000 · Computer Software	8,046.88
Total Fixed Assets	8,046.88
TOTAL ASSETS	445,233.84
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2110000 · Accounts Payable	4,651.17
Total Accounts Payable	4,651.17
Other Current Liabilities	
2430000 · Accrued Wages Payable	7,478.29
2810000 · Amounts Held for Others	21,406.92
Total Other Current Liabilities	28,885.21
Total Current Liabilities	33,536.38
Long Term Liabilities	
2960000 · Compensated Absences Payable	16,686.44
Total Long Term Liabilities	16,686.44
Total Liabilities	50,222.82
Equity	
3220000 · Unrestricted Net Assets	247,701.85
3300100 · Invested In Capital Assets	8,046.96
3900 · Retained Earnings	4,512.55
Net Income	134,749.66
Total Equity	395,011.02
TOTAL LIABILITIES & EQUITY	445,233.84

South Dakota Board of Accountancy

Profit & Loss Budget vs. Actual

July through September 2014

	Jul - Sep 14	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
4293550 · Initial Individual Certificate	850.00	2,200.00	-1,350.00	38.6%
4293551 · Certificate Renewals-Active				
5208002 · Refunds	-10.00			
4293551 · Certificate Renewals-Active - Other	57,460.00	55,000.00	2,460.00	104.5%
Total 4293551 · Certificate Renewals-Active	57,450.00	55,000.00	2,450.00	104.5%
4293552 · Certificate Renewals-Inactive	19,900.00	19,000.00	900.00	104.7%
4293553 · Certificate Renewals-Retired				
5208005 · REFUNDS	-40.00			
4293553 · Certificate Renewals-Retired - Other	1,010.00	750.00	260.00	134.7%
Total 4293553 · Certificate Renewals-Retired	970.00	750.00	220.00	129.3%
4293554 · Initial Firm Permits	350.00	900.00	-550.00	38.9%
4293555 · Firm Permit Renewals				
5208004 · REFUNDS	-150.00			
4293555 · Firm Permit Renewals - Other	14,110.00	15,000.00	-890.00	94.1%
Total 4293555 · Firm Permit Renewals	13,960.00	15,000.00	-1,040.00	93.1%
4293557 · Initial Audit	180.00	900.00	-720.00	20.0%
4293558 · Re-Exam Audit	570.00	2,460.00	-1,890.00	23.2%
4293561 · Late Fees-Certificate Renewals	2,450.00	3,700.00	-1,250.00	66.2%
4293563 · Late Fees-Firm Permit Renewals	250.00	800.00	-550.00	31.3%
4293564 · Late Fees-Peer Review	250.00	1,300.00	-1,050.00	19.2%
4293566 · Firm Permit Owners	89,150.00	78,000.00	11,150.00	114.3%
4293567 · Peer Review Admin Fee	450.00	5,650.00	-5,200.00	8.0%
4293568 · Firm Permit Name Change	75.00	100.00	-25.00	75.0%
4293569 · Initial FAR	330.00	1,140.00	-810.00	28.9%
4293570 · Initial REG	180.00	660.00	-480.00	27.3%
4293571 · Inital BEC	240.00	930.00	-690.00	25.8%
4293572 · Re-Exam FAR	330.00	1,860.00	-1,530.00	17.7%
4293573 · Re-Exam REG	510.00	2,310.00	-1,800.00	22.1%
4293574 · Re-Exam BEC	510.00	2,310.00	-1,800.00	22.1%
4491000 · Interest and Dividend Revenue	3,578.78	8,500.00	-4,921.22	42.1%
4896021 · Legal Recovery Cost	100.00	1,000.00	-900.00	10.0%
Total Income	192,633.78	204,470.00	-11,836.22	94.2%
Gross Profit	192,633.78	204,470.00	-11,836.22	94.2%
Expense				
5101010 · F-T Emp Sal & Wages	12,276.01	72,759.00	-60,482.99	16.9%
5101020 · P-T/Temp Emp Sal & Wages	7,880.76	18,779.00	-10,898.24	42.0%
5101030 · Board & Comm Mbrs Fees	840.00	4,372.00	-3,532.00	19.2%
5102010 · OASI-Employer's Share	1,518.50	7,362.00	-5,843.50	20.6%
5102020 · Retirement-ER Share	1,209.42	5,492.00	-4,282.58	22.0%
5102060 · Health /Life Ins.-ER Share	6,466.50	22,007.00	-15,540.50	29.4%
5102080 · Worker's Compensation	12.11	254.00	-241.89	4.8%
5102090 · Unemployment Insurance	9.09	91.00	-81.91	10.0%
5203010 · Auto--State Owned	0.00	1,000.00	-1,000.00	0.0%
5203020 · Auto-Private-Owne Low Mileage	180.80	400.00	-219.20	45.2%
5203030 · In State-Auto- Priv. High Miles	694.86	1,500.00	-805.14	46.3%
5203100 · In State-Lodging	340.50	1,000.00	-659.50	34.1%
5203120 · In State-Incidentals to Travel	10.00	100.00	-90.00	10.0%
5203140 · InState-Tax Meals Not OverNigt	0.00	100.00	-100.00	0.0%
5203150 · InState-Non-Tax Meals OverNight	198.00	400.00	-202.00	49.5%
5203220 · OS-Auto Private Low Mileage	0.00	100.00	-100.00	0.0%
5203260 · OS-Air Commercial Carrier	609.70	6,000.00	-5,390.30	10.2%
5203280 · OS-Other Public Carrier	13.85	500.00	-486.15	2.8%
5203300 · OS-Lodging	173.44	7,800.00	-7,626.56	2.2%
5203320 · OS-Incidentals to Travel	16.00	450.00	-434.00	3.6%
5203350 · OS-Non-Taxable Meals Overnight	34.00	1,300.00	-1,266.00	2.6%
5204010 · Subscriptions	313.00	1,000.00	-687.00	31.3%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	300.00	-300.00	0.0%

South Dakota Board of Accountancy
Profit & Loss Budget vs. Actual
July through September 2014

	Jul - Sep 14	Budget	\$ Over Budget	% of Budget
5204040 · Consultant Fees-Accounting	0.00	7,100.00	-7,100.00	0.0%
5204160 · Workshop Registration Fees	2,085.00	6,000.00	-3,915.00	34.8%
5204180 · Computer Services-State	156.00	600.00	-444.00	26.0%
5204181 · Computer Development Serv-State	645.00	10,400.00	-9,755.00	6.2%
5204200 · Central Services	2,432.74	7,000.00	-4,567.26	34.8%
5204220 · Equipment Service & Maintenance	14.22	300.00	-285.78	4.7%
5204230 · Janitorial/Maintenance Services	368.58	1,560.00	-1,191.42	23.6%
5204340 · Computer Software Maintenance	122.50	1,500.00	-1,377.50	8.2%
5204360 · Advertising-Newspapers	0.00	1,000.00	-1,000.00	0.0%
5204440 · Newsletter Publishing	444.00	1,100.00	-656.00	40.4%
5204460 · Equipment Rental	768.00	4,000.00	-3,232.00	19.2%
5204480 · Microfilm and Photography	0.00	700.00	-700.00	0.0%
5204490 · Rents Privately Owned Property	3,808.35	15,234.00	-11,425.65	25.0%
5204510 · Rent-Other	230.80	250.00	-19.20	92.3%
5204530 · Telecommunications Services	727.00	2,800.00	-2,073.00	26.0%
5204540 · Electricity	140.68	865.00	-724.32	16.3%
5204560 · Water	22.35	240.00	-217.65	9.3%
5204590 · Insurance Premiums/Surety Bonds	0.00	1,710.00	-1,710.00	0.0%
5204740 · Bank Fees and Charges	3,515.62	5,500.00	-1,984.38	63.9%
5205020 · Office Supplies	87.35	2,000.00	-1,912.65	4.4%
5205310 · Printing State	0.00	500.00	-500.00	0.0%
5205320 · Printing/Duplicating/Binding Co	63.00	1,000.00	-937.00	6.3%
5205330 · Supplemental Publications	0.00	700.00	-700.00	0.0%
5205340 · Microfilm Supplies/Materials	0.00	300.00	-300.00	0.0%
5205350 · Postage	1,906.50	2,000.00	-93.50	95.3%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207900 · Computer Hardware	175.00	4,800.00	-4,625.00	3.6%
5207950 · System Development	0.00	500.00	-500.00	0.0%
5207955 · Computer Hardware Other	0.00	500.00	-500.00	0.0%
5207960 · Computer Software Expense	0.00	500.00	-500.00	0.0%
5228000 · Operating Transfers Out-NonBudg	1,157.23	7,400.00	-6,242.77	15.6%
5228030 · Depreciation Expense	3,017.66	12,070.40	-9,052.74	25.0%
Total Expense	57,884.12	257,195.40	-199,311.28	22.5%
Net Ordinary Income	134,749.66	-52,725.40	187,475.06	-255.6%
Net Income	134,749.66	-52,725.40	187,475.06	-255.6%

South Dakota Board of Accountancy
PREVIOUS YEAR MONTHLY COMPARISON
September 2014

	<u>Sep 14</u>	<u>Sep 13</u>	<u>\$ Change</u>	<u>% Change</u>
Ordinary Income/Expense				
Income				
4293550 · Initial Individual Certificate	525.00	175.00	350.00	200.0%
4293551 · Certificate Renewals-Active	100.00	100.00	0.00	0.0%
4293552 · Certificate Renewals-Inactive	100.00	300.00	-200.00	-66.7%
4293553 · Certificate Renewals-Retired	0.00	20.00	-20.00	-100.0%
4293554 · Initial Firm Permits	50.00	50.00	0.00	0.0%
4293557 · Initial Audit	90.00	0.00	90.00	100.0%
4293558 · Re-Exam Audit	240.00	150.00	90.00	60.0%
4293561 · Late Fees-Certificate Renewals	200.00	350.00	-150.00	-42.9%
4293566 · Firm Permit Owners	65.00	1,500.00	-1,435.00	-95.7%
4293567 · Peer Review Admin Fee	75.00	0.00	75.00	100.0%
4293569 · Initial FAR	60.00	90.00	-30.00	-33.3%
4293570 · Initial REG	120.00	0.00	120.00	100.0%
4293571 · Initial BEC	120.00	30.00	90.00	300.0%
4293572 · Re-Exam FAR	150.00	90.00	60.00	66.7%
4293573 · Re-Exam REG	90.00	180.00	-90.00	-50.0%
4293574 · Re-Exam BEC	180.00	150.00	30.00	20.0%
4491000 · Interest and Dividend Revenue	3,578.78	5,207.41	-1,628.63	-31.3%
4896021 · Legal Recovery Cost	100.00	0.00	100.00	100.0%
Total Income	<u>5,843.78</u>	<u>8,392.41</u>	<u>-2,548.63</u>	<u>-30.4%</u>
Gross Profit	5,843.78	8,392.41	-2,548.63	-30.4%
Expense				
5101010 · F-T Emp Sal & Wages	2,046.00	1,805.60	240.40	13.3%
5101020 · P-T/Temp Emp Sal & Wages	1,333.91	734.21	599.70	81.7%
5102010 · OASI-Employer's Share	243.94	187.58	56.36	30.1%
5102020 · Retirement-ER Share	202.80	152.39	50.41	33.1%
5102060 · Health /Life Ins.-ER Share	1,077.75	605.76	471.99	77.9%
5102080 · Worker's Compensation	2.03	3.30	-1.27	-38.5%
5102090 · Unemployment Insurance	1.52	0.81	0.71	87.7%
5203010 · Auto--State Owned	0.00	149.12	-149.12	-100.0%
5203260 · OS-Air Commercial Carrier	609.70	0.00	609.70	100.0%
5203280 · OS-Other Public Carrier	13.85	0.00	13.85	100.0%
5203300 · OS-Lodging	173.44	0.00	173.44	100.0%
5203320 · OS-Incidentals to Travel	16.00	0.00	16.00	100.0%
5203350 · OS-Non-Taxable Meals Overnight	34.00	0.00	34.00	100.0%
5204010 · Subscriptions	313.00	0.00	313.00	100.0%
5204160 · Workshop Registration Fees	2,085.00	0.00	2,085.00	100.0%
5204180 · Computer Services-State	78.00	72.00	6.00	8.3%
5204181 · Computer Development Serv-State	232.20	0.00	232.20	100.0%
5204200 · Central Services	250.45	235.68	14.77	6.3%
5204220 · Equipment Service & Maintenance	2.30	8.38	-6.08	-72.6%
5204230 · Janitorial/Maintenance Services	122.86	122.86	0.00	0.0%
5204460 · Equipment Rental	57.00	57.00	0.00	0.0%
5204490 · Rents Privately Owned Property	1,269.45	1,269.45	0.00	0.0%
5204530 · Telecommunications Services	166.93	166.42	0.51	0.3%
5204540 · Electricity	46.65	49.67	-3.02	-6.1%
5204740 · Bank Fees and Charges	397.28	486.68	-89.40	-18.4%
5205020 · Office Supplies	59.34	0.00	59.34	100.0%
5205320 · Printing/Duplicating/Binding Co	30.00	21.00	9.00	42.9%
5205350 · Postage	1,000.00	0.00	1,000.00	100.0%
5207900 · Computer Hardware	0.00	-238.63	238.63	100.0%
5228000 · Operating Transfers Out-NonBudg	565.87	506.81	59.06	11.7%
5228030 · Depreciation Expense	1,005.86	1,005.86	0.00	0.0%
Total Expense	<u>13,437.13</u>	<u>7,401.95</u>	<u>6,035.18</u>	<u>81.5%</u>
Net Ordinary Income	<u>-7,593.35</u>	<u>990.46</u>	<u>-8,583.81</u>	<u>-866.7%</u>
Net Income	<u><u>-7,593.35</u></u>	<u><u>990.46</u></u>	<u><u>-8,583.81</u></u>	<u><u>-866.7%</u></u>

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

	<u>Jul - Sep 14</u>	<u>Jul - Sep 13</u>	<u>\$ Change</u>	<u>% Change</u>
Ordinary Income/Expense				
Income				
4293550 · Initial Individual Certificate	850.00	750.00	100.00	13.3%
4293551 · Certificate Renewals-Active	57,450.00	56,350.00	1,100.00	2.0%
4293552 · Certificate Renewals-Inactive	19,900.00	19,600.00	300.00	1.5%
4293553 · Certificate Renewals-Retired	970.00	820.00	150.00	18.3%
4293554 · Initial Firm Permits	350.00	150.00	200.00	133.3%
4293555 · Firm Permit Renewals	13,960.00	13,700.00	260.00	1.9%
4293557 · Initial Audit	180.00	180.00	0.00	0.0%
4293558 · Re-Exam Audit	570.00	690.00	-120.00	-17.4%
4293560 · Late Fees-Initial Certificate	0.00	100.00	-100.00	-100.0%
4293561 · Late Fees-Certificate Renewals	2,450.00	1,950.00	500.00	25.6%
4293563 · Late Fees-Firm Permit Renewals	250.00	700.00	-450.00	-64.3%
4293564 · Late Fees-Peer Review	250.00	500.00	-250.00	-50.0%
4293566 · Firm Permit Owners	89,150.00	87,170.00	1,980.00	2.3%
4293567 · Peer Review Admin Fee	450.00	675.00	-225.00	-33.3%
4293568 · Firm Permit Name Change	75.00	75.00	0.00	0.0%
4293569 · Initial FAR	330.00	270.00	60.00	22.2%
4293570 · Initial REG	180.00	60.00	120.00	200.0%
4293571 · Initial BEC	240.00	150.00	90.00	60.0%
4293572 · Re-Exam FAR	330.00	450.00	-120.00	-26.7%
4293573 · Re-Exam REG	510.00	570.00	-60.00	-10.5%
4293574 · Re-Exam BEC	510.00	450.00	60.00	13.3%
4491000 · Interest and Dividend Revenue	3,578.78	5,207.41	-1,628.63	-31.3%
4896021 · Legal Recovery Cost	100.00	0.00	100.00	100.0%
Total Income	192,633.78	190,567.41	2,066.37	1.1%
Gross Profit	192,633.78	190,567.41	2,066.37	1.1%
Expense				
5101010 · F-T Emp Sal & Wages	12,276.01	12,130.84	145.17	1.2%
5101020 · P-T/Temp Emp Sal & Wages	7,880.76	5,361.33	2,519.43	47.0%
5101030 · Board & Comm Mbrs Fees	840.00	960.00	-120.00	-12.5%
5102010 · OASI-Employer's Share	1,518.50	1,371.34	147.16	10.7%
5102020 · Retirement-ER Share	1,209.42	1,049.52	159.90	15.2%
5102060 · Health /Life Ins.-ER Share	6,466.50	4,240.32	2,226.18	52.5%
5102080 · Worker's Compensation	12.11	22.73	-10.62	-46.7%
5102090 · Unemployment Insurance	9.09	5.62	3.47	61.7%
5203010 · Auto--State Owned	0.00	296.96	-296.96	-100.0%
5203020 · Auto-Private-Ownes Low Mllege	180.80	180.80	0.00	0.0%
5203030 · In State-Auto- Priv. High Miles	694.86	694.86	0.00	0.0%
5203100 · In State-Lodging	340.50	350.00	-9.50	-2.7%
5203120 · In State-Incidentals to Travel	10.00	0.00	10.00	100.0%
5203150 · InState-Non-Tax Meals OverNight	198.00	215.00	-17.00	-7.9%
5203260 · OS-Air Commercial Carrier	609.70	0.00	609.70	100.0%
5203280 · OS-Other Public Carrier	13.85	0.00	13.85	100.0%
5203300 · OS-Lodging	173.44	0.00	173.44	100.0%
5203320 · OS-Incidentals to Travel	16.00	0.00	16.00	100.0%
5203350 · OS-Non-Taxable Meals Overnight	34.00	0.00	34.00	100.0%
5204010 · Subscriptions	313.00	0.00	313.00	100.0%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204160 · Workshop Registration Fees	2,085.00	1,090.00	995.00	91.3%
5204180 · Computer Services-State	156.00	297.00	-141.00	-47.5%
5204181 · Computer Development Serv-State	645.00	4,902.30	-4,257.30	-86.8%
5204200 · Central Services	2,432.74	1,645.37	787.37	47.9%
5204220 · Equipment Service & Maintenance	14.22	25.87	-11.65	-45.0%
5204230 · Janitorial/Maintenance Services	368.58	368.58	0.00	0.0%
5204340 · Computer Software Maintenance	122.50	0.00	122.50	100.0%
5204440 · Newsletter Publishing	444.00	0.00	444.00	100.0%
5204460 · Equipment Rental	768.00	768.00	0.00	0.0%
5204490 · Rents Privately Owned Property	3,808.35	3,808.35	0.00	0.0%
5204510 · Rent-Other	230.80	200.00	30.80	15.4%
5204530 · Telecommunications Services	727.00	738.16	-11.16	-1.5%
5204540 · Electricity	140.68	150.45	-9.77	-6.5%
5204560 · Water	22.35	0.00	22.35	100.0%
5204740 · Bank Fees and Charges	3,515.62	3,249.26	266.36	8.2%

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

	<u>Jul - Sep 14</u>	<u>Jul - Sep 13</u>	<u>\$ Change</u>	<u>% Change</u>
5205020 · Office Supplies	87.35	78.88	8.47	10.7%
5205320 · Printing/Duplicating/Binding Co	63.00	45.15	17.85	39.5%
5205350 · Postage	1,906.50	0.00	1,906.50	100.0%
5207900 · Computer Hardware	175.00	-238.63	413.63	173.3%
5228000 · Operating Transfers Out-NonBudg	1,157.23	1,085.45	71.78	6.6%
5228030 · Depreciation Expense	3,017.66	3,017.58	0.08	0.0%
Total Expense	<u>57,884.12</u>	<u>51,311.09</u>	<u>6,573.03</u>	<u>12.8%</u>
Net Ordinary Income	<u>134,749.66</u>	<u>139,256.32</u>	<u>-4,506.66</u>	<u>-3.2%</u>
Net Income	<u><u>134,749.66</u></u>	<u><u>139,256.32</u></u>	<u><u>-4,506.66</u></u>	<u><u>-3.2%</u></u>

REPORT TO BOARD ON GRADES

Nicole Kasin

The grades were posted for review for the 42nd window. These grades are through September 2014. I have included the average scores per school since CBT started along with the number of students that have sat for their school respectively. The last chart shows the averages for the past 8 windows.

Overall Average Window 1-42

Window	(All)
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Average of Score	Section				Grand Total
School	AUD	BEC	FAR	REG	
Augie	75	72	73	74	73
BHSU	71	70	70	72	71
COTech	66	70	71	75	70
DSU	70	70	63	68	68
DWU	70	67	63	75	69
Mt. Marty	66	69	72	68	68
NAU	67	62	63	68	65
NSU	72	70	73	70	71
OS	74	72	70	73	72
SDSU	73	74	75	77	75
USD	77	75	75	75	75
USF	73	74	73	77	74
Grand Total	73	72	72	73	73

Students per section per school since CBT Began (3 or more parts)

Window	(All)
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Count of Score	Section				Grand Total
School	AUD	BEC	FAR	REG	
Augie	68	76	66	81	291
BHSU	92	94	72	74	332
COTech	22	18	12	13	65
DSU	15	15	15	12	57
DWU	13	12	10	10	45
Mt. Marty	20	23	14	18	75
NAU	8	14	15	18	55
NSU	83	98	62	78	321
OS	205	211	202	195	813
SDSU	29	31	21	25	106
USD	206	216	209	199	830
USF	63	62	68	46	239
Grand Total	824	870	766	769	3229

Average for past 8 windows (3 or more parts)

Window	(Multiple Items)
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Average of Score	Section				Grand Total
School	AUD	BEC	FAR	REG	
Augie	77	73	74	76	75
BHSU	76	74	71	75	74
COTech	71	70	76	76	72
DSU	61			62	62
DWU	75	71	59	77	71
Mt. Marty	62	75	71	69	69
NAU	78	71	71	73	72
NSU	75	73	76	72	74
OS	78	76	71	72	74
SDSU	70	82	73	83	76
USD	76	76	77	74	76
USF	69	75	71	76	72
Grand Total	74	75	73	74	74

The Board needs to Approve the 2014-3 (42nd Window) grades.

20:75:02:07. Definition of disability -- Learning disability. A disability is a physical or mental impairment that substantially limits one or more of the major life activities of an individual; having a record of such an impairment; or being regarded as having such an impairment. Mental impairment includes any mental or psychological disorder, such as organic brain syndrome, emotional or mental illness, and specific learning disabilities.

A learning disability is individual evidence of significant learning difficulties which substantially affect or limit one or more major life activities and which are not primarily due to cultural, emotional, or motivational factors. The term does not include learning problems which are primarily the result of visual, hearing, or motor disabilities, ~~mental retardation~~ intellectual disability, emotional disturbance, or environmental, cultural, or economic disadvantage. The individual must show evidence of significant impairment in one or more of the following areas of intellectual functioning and information processing:

- (1) Attention and concentration;
- (2) Efficiency and speed of information processing;
- (3) Reception (perception and verbal comprehension);
- (4) Memory (ability for new learning);
- (5) Cognition (thinking); and
- (6) Expression.

Significant impairment is determined by a discrepancy of 1.5 standard deviations, or more, between the individual's intellectual functioning, as measured by one of the general cognitive ability tests listed in the List of Most Commonly Used Reliable Standardized Psychometric Tests in Appendix A at the end of this chapter and actual performance on reliable standardized measures of attention and concentration, memory, language reception and

expression, cognition, and in the academic areas of reading, spelling, writing, and mathematics. If a measurement instrument is used which is not on this list, it may be considered if it is listed in the **Mental Measurements Yearbook** issued by Buros Institute of Mental Measurement, University of Nebraska, and is being used for the purpose for which it was developed.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 35 SDR 165, effective December 22, 2008; 39 SDR 33, effective September 5, 2012.

General Authority: SDCL 36-20B-12(16).

Law Implemented: SDCL 36-20B-12(16).

Reference: **Mental Measurements Yearbook** ~~18~~ 19, January ~~2010~~ 2014 edition, Buros Mental Measurement Institute, University of Nebraska. Copies of the yearbook may be ordered from the University of Nebraska Press, PO Box 880484, Lincoln, NE 68588. The cost of the yearbook is \$210. The South Dakota State Library has the yearbook in its reference collection.

20:75:04:00. Definitions. Terms used in this chapter mean:

(1) "Advanced," learning activity level that describes programs 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;

(2) "Basic," learning activity level that describes the program level most beneficial to a CPA or PA new to a skill or 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;

(3) "Continuing professional education" or "CPE," an integral part of the lifelong learning required of a CPA or PA to provide competent service to the public. The set of activities that enables a CPA or PA to maintain and improve their professional competence;

(4) "CPE credit," fifty minutes of participation in a learning activity. A one-half CPE credit increment, equal to 25 minutes, is permitted after the first credit has been earned in a given learning activity;

(5) "CPE program sponsor," an individual or organization responsible for setting a learning objective, facilitating the delivery of a program of study that meets the requirements of this chapter and that achieves the stated learning objective, and maintains the documentation required by board standards as outlined in chapter 20:75:04. The term, CPE program sponsor, may include associations of accounting professionals, as well as employers who offer in-house programs;

(6) "CPE program developer," an individual or organization responsible for the development of a course of study designed to meet a proscribed learning objective;

(7) "Evaluative feedback," specific response to incorrect answers to questions in self-study programs explaining why that specific answer is wrong. Unique feedback must be provided for each incorrect response, as each one is likely to be wrong for different reasons;

(8) "Group 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 setting, conference setting, or by using the internet;

(9) "Independent study," educational process designed to permit a participant to learn a given subject under a learning contract with a CPE program sponsor;

(10) "Informal continuing professional education," continuing professional education offered by an organization not in the business of providing continuing professional education, which contributes to, increases, or maintains competency levels of CPAs and PAs;

(11) "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, independent study programs, or other innovative programs;

(12) "Intermediate," learning activity level that builds on a basic program most appropriate for a CPA or PA with detailed knowledge in an area. Such individuals are often at the mid-level within the organization, with operational and/or supervisory responsibilities;

(13) "Internet-based programs," a learning activity through a group program or self-study program that is designed to permit a participant to learn the given subject matter via the internet;

(14) "Learning activity," an educational endeavor that maintains or increases professional competence;

(15) "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, that specifies the nature of the independent program and the time frame over which it is to be completed, specifies that the output must be in the form of a written report to be reviewed by the CPE program sponsor or qualified person selected by the CPE program sponsor and outlines the maximum CPE credit to be awarded for the independent study program, limiting credit to actual time spent;

(16) "Learning objectives," specifications on what participants should accomplish in a learning activity. Learning objectives must be useful to program developers in deciding appropriate instructional methods and allocating time to various subjects;

(17) "Learning plans," structured processes that assist a CPA or PA in guiding their professional development. They are dynamic instruments used to evaluate and document learning and professional competence development. This may be reviewed regularly and modified as a CPA's and PA's professional competence needs change. Plans include:

(a) A self-assessment of the gap between current and needed knowledge, skills, and abilities;

(b) A set of learning objectives arising from this assessment; and

(c) Learning activities to be undertaken to fulfill the learning plan;

(18) "Non-group," programs include self-study programs, independent study programs, service as an instructor, lecturer, or discussion leader, or publishing of articles, books, or continuing professional education programs;

(19) "Overview," learning activity level that provides a general review of subject area from a broad perspective. These programs may be appropriate for professionals at all organizational levels;

(20) "Personal development," a field of study that covers such skills as communication, managing the group process, dealing effectively with others, interviewing, counseling, and career planning;

(21) "Pilot test," sampling of at least three independent individuals representative of the intended participants to measure the representative completion time to determine the recommended CPE credit for self-study programs;

(22) "Principal place of business," as defined in SDCL 36-20B-1;

(23) "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;

(24) "Program of learning," a collection of learning activities that are designed and intended as continuing professional education that comply with the standards;

(25) "Reinforcement feedback," specific responses to correct answers to questions in self-study programs. Such feedback restates why the answer selected was correct;

(26) "Self-study program," an educational process designed to permit a participant to learn a given subject without major involvement of an instructor. Self-study programs use a pilot test to measure the average completion time from which the recommended continuing professional education credit is determined or word count formula;

(27) "University or college," shall mean an accredited institution;

(28) "Update," a 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. ;

(29) "Word count formula," a method used to determine the recommended continuing professional education 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.

Source: 31 SDR 97, adopted December 17, 2004, effective July 1, 2005; 35 SDR 305, effective July 1, 2009; 39 SDR 33, effective September 5, 2012.

General Authority: SDCL 36-20B-12(3).

Law Implemented: SDCL 36-20B-27.

20:75:04:01. Standards for continuing professional education program measurement. The following standards are used to measure the hours of continuing professional education credit:

(1) Fifty minutes of participation in a group program, independent study, or self-study program equals one hour of continuing professional education credit. For learning activities in which individual segments are less than 50 minutes, the sum of the segments should be considered one total program;

(2) A one-half continuing professional education credit increment, equal to 25 minutes, is permitted after the first credit has been earned in a given learning activity;

(3) Informal CPE credit is limited to those portions of committee or staff meetings that are designed as programs of learning and comply with these standards to qualify for CPE credit. The amount of credit awarded shall be the time actually spent meeting and measuring a specific learning objective;

(4) Accredited university or college courses count as 15 hours for each semester hour and 10 hours for each quarter hour;

(5) Non-credit university or college courses shall be awarded credit only for the actual classroom time spent in the non-credit course. Credit is not granted to participants for preparation time;

(6) Instructors or discussion leaders of learning activities may receive credit for both preparation and presentation time provided the activities maintain or increase their professional competence and qualify as credit for participants. Instructors may receive up to two times the number of CPE credits to which participants would be entitled, in addition to the time for presentation. For repeat presentations, CPE credit may be claimed only if it can be demonstrated that the learning activity was substantially changed and such change required significant additional study or research;

(7) The board may grant credit for the writing of published articles, books, or CPE programs to include credit for research and writing time provided the board determines the activity maintains or improves professional competence. The article, book, or CPE program must be formally reviewed by an independent party. CPE credits should be claimed only upon publication. Not more than half the three-year continuing professional education credit required may be gained through publications;

(8) Self-study CPE credits must be based on a pilot test of the representative completion time. A sample of intended professional participants should be selected to test program materials in an environment and manner similar to that in which the program is to be presented. CPE credits should be recommended based on the representative completion time for the sample. To provide satisfactory completion of the course, a self-study program must require participants to successfully complete a final examination with a minimum passing grade of 70 percent before issuing CPE credit for the course;

(9) Self-study 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 the 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. Review questions, exercises and final examination questions are considered separately in the calculation and should not be in the word count. 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 CPE for the self study program.

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

(9) (10) Independent study CPE credits recommended by a CPE program sponsor or developer may not exceed the time the participant devoted to complete the learning activities specified in the learning contract.

Source: 29 SDR 16, effective August 14, 2002; 31 SDR 97, adopted December 17, 2004, effective July 1, 2005; 35 SDR 305, effective July 1, 2009; 39 SDR 33, effective September 5, 2012.

General Authority: SDCL 36-20B-12(3).

Law Implemented: SDCL 36-20B-27.

20:75:04:05. Non-group continuing professional education program criteria. The non-group programs which qualify as acceptable continuing professional education programs if they meet the requirements of § 20:75:04:02 include the following:

(1) **Independent-study programs** should be designed to permit a participant to learn a given subject, one-on-one, under the guidance of a CPE program sponsor. Participants in an independent study program must:

(a) Enter into a written learning contract with a CPE program sponsor who must comply with the rules governing CPE sponsors in this chapter;

(b) 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;

(c) Meet the documentation requirements of § 20:75:04:13;

(d) Meet the sponsorship standards of § 20:75:04:17 and §§ 20:75:04:19 to 20:75:04:21, inclusive;

(2) **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. ~~To provide satisfactory completion of the course, a self-study program must require participants to successfully complete a final examination with a minimum passing grade of 70 percent before issuing CPE credit for the course. Credit for self-study programs are predetermined by a pilot test.~~ Credit will not be granted in excess of the amount determined to be given for each course through the program pilot testing or word count formula. Participants in self-study programs must:

(a) Meet the documentation requirements of § 20:75:04:14; and

(b) Meet the sponsorship standards of §§ 20:75:04:18 to 20:75:04:21, inclusive;

(3) **Service as an instructor, lecturer, or discussion leader.** Credit is not given for repeated presentations of the same program;

(4) **Published articles, books, or continuing professional education programs.** A CPA or PA may be given credit for research and writing time upon determination by the board that the CPA's and PA's competency has been maintained or increased as a result of the activity.

Source: 29 SDR 16, effective August 14, 2002; 31 SDR 97, adopted December 17, 2004, effective July 1, 2005.

General Authority: SDCL 36-20B-12(3).

Law Implemented: SDCL 36-20B-27.

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 using a pilot test, a certificate supplied by the CPE program sponsor after satisfactory completion of an examination;

(3) For self-study programs using the word count formula, a certificate of completion from the National Association of State Boards of Accountancy National Registry Quality Assurance Service self study provider after satisfactory completion of the course;

~~(3)~~ (4) For instruction credit, a certificate, program outline, or other verification supplied by the CPE program sponsor;

(4) (5) For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received;

(5) (6) For university or college noncredit courses, a certificate of attendance issued by a representative of the university or college;

(6) (7) For published articles, books, or CPE programs:

(a) A copy of the publication, or in the case of a CPE program, course development documentation, that names the writer as author or contributor;

(b) A statement from the writer supporting the number of CPE hours claimed;
and

(c) The name and contact information of the independent reviewer or publisher.

Source: 31 SDR 97, adopted December 17, 2004, effective July 1, 2005.

General Authority: SDCL 36-20B-12(3).

Law Implemented: SDCL 36-20B-27.

20:75:04:18. Standards for continuing professional education program sponsors of self-study programs. Self-study program sponsors 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. To guide participants through a learning process, CPE program sponsors of self-study programs must elicit participant responses to test for understanding of the materials, offer evaluative feedback to incorrect responses, and provide reinforcement feedback to correct responses.

For pilot testing 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. If objective type questions are used, at least five questions per CPE credit must be included on the final examination. For example, the final examination for a five-credit course must include at least 25 questions.

For word count formula to provide evidence of satisfactory completion of the course, National Association of State Boards of Accountancy National Registry Quality Assurance Service self study providers must use the word count formula which 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 the 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. Review questions, exercises and final examination questions are considered separately in the calculation and should not be in the word count. 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 CPE for the self study program.

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

CPE program sponsors of self-study must provide any CPA or PA participating in self-study courses with the following information in advance of the program:

- (1) Learning objectives;
- (2) Prerequisites, if any;
- (3) Program level;
- (4) Program content;
- (5) Advance preparation, if any;
- (6) Instructional delivery methods;
- (7) Recommended credit hours; and
- (8) Course registration requirements.

Program sponsors may disclose the significant features of the program in advance through the use of brochures, internet notices, invitations, direct mail, or announcements. The program sponsor's registration policies and procedures should be formalized, published, and made available to participants.

Source: 31 SDR 97, adopted December 17, 2004, effective July 1, 2005.

General Authority: SDCL 36-20B-12(3).

Law Implemented: SDCL 36-20B-27.

Cross-Reference: Definitions, § 20:75:04:00.

20:75:05:01. Independence. A licensee shall comply with Section ET ~~404~~ 1.200 of the American Institute of Certified Public Accountants (AICPA), and additionally comply with the independence rules of the United States Securities and Exchange Commission (SEC), United

States Department of Labor (DOL), Public Company Accounting Oversight Board (PCAOB) and United States Government Accountability Office (GAO) applicable to the licensees' engagement.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(4).

Law Implemented: SDCL 36-20B-12(4).

References: AICPA Professional Standards, Volume 2, ET Section ~~101~~ 1.200, as of ~~December 2012~~ December 15, 2014, American Institute of Certified Public Accountants. Copies may be viewed at the board's office or obtained from the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10036. Cost: Annual Online Subscription, Member \$135/Non-Member \$168.75. The ET Section is available at no cost on their website at

<http://www.aicpa.org/Research/Standards/CodeofConduct/DownloadableDocuments/2014December15ContentAsof2014Sept24CodeofConduct.pdf>

Government Auditing Standards, by the United States Government Accountability Office (GAO) December 2011 Revision. Copies may be viewed at the board's office or obtained from the United States Government Accountability Office, Washington, D.C. 20548; or from their website at www.gao.gov/yellowbook. Cost: first document free, each additional copy \$2.

United States Department of Labor (DOL): <http://law.justia.com/us/cfr/title29/29-9.1.3.1.1.0.16.7.html>.

Public Company Accounting Oversight Board (PCAOB):

http://pcaobus.org/Rules/PCAOBRules/Pages/Section_3.aspx.

United States Securities and Exchange Commission (SEC):

<http://www.sec.gov/rules/final/33-8183.htm>.

20:75:05:05. Auditing, accounting, and review standards. A licensee may not permit the licensee's name to be associated with a report on financial statements as defined by SDCL 36-20B-3 unless the licensee complied with generally accepted auditing standards or accounting and review standards as applicable. Generally accepted auditing standards and accounting and review standards are the standards set forth in the **AICPA Professional Standards, Volume 1**, AU Sections 100 through 901, as of ~~December 2012~~ September 2014; **AICPA Professional Standards, Volume 2**, AR Sections ~~100 20~~ through 9600, as of ~~December 2012~~ September 2014; **AICPA Professional Standards, Volume 1**, AT Sections ~~2500 through 2970~~ 400 20 through 801, as of ~~December 2012~~ September 2014; and **AICPA Professional Standards, Volume 2**, ET Sections ~~50 through 500~~ 0.300 through 3.400 , as of ~~December 2012~~ December 15, 2014; by the American Institute of Certified Public Accountants. **Government Auditing Standards by the United States Government Accountability Office**, December 2011 Revision. Licensees must justify departures from these standards.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(4).

Law Implemented: SDCL 36-20B-40, 36-20B-41.

References: **AICPA Professional Standards, Volume 1**, AU Sections 100 through 901, as of ~~December 2012~~ September 2014; **AICPA Professional Standards, Volume 2**, AR Sections ~~400 20~~ through 9600, as of ~~December 2012~~ September 2014; **AICPA Professional Standards, Volume 1**, AT Sections ~~2500 through 2970~~ 400 20 through 801, as of ~~December 2012~~ September 2014; and **AICPA Professional Standards, Volume 2**, ET Sections ~~50 through 500~~ 0.300 through 3.400, as of ~~December 2012~~ December 15, 2014, by the American Institute of Certified Public Accountants. Copies may be viewed at the board's office or obtained from the American Institute of Certified Public Accountants, ~~1211 Avenue of the Americas, New York, NY 10036~~ 220 Leigh Farm Road, Durham, NC 27707. Cost: **AICPA Professional Standards**, Annual Online Subscription. Member \$135/Non-Member \$168.75. The ET Section is available at no cost on their website at
<http://www.aicpa.org/Research/Standards/CodeofConduct/DownloadableDocuments/2014December15ContentAsOf2014Sept24CodeofConduct.pdf>

Government Auditing Standards by the United States Government Accountability Office, December 2011 Revision. Copies may be viewed at the board's office or obtained from the United States Government Accountability Office, Washington, D.C. 20548; or from their website at www.gao.gov/yellowbook. Cost: **Government Auditing Standards**, first document free, each additional copy \$2.

20:75:05:06. Accounting principles. If financial statements or other financial data contain any departure from an accounting principle promulgated by the Financial Accounting

Standards Board and its predecessors, the Governmental Accounting Standards Board, or by other entities having similar authority as recognized by the board, a licensee may not:

(1) Express an opinion or state affirmatively that the statements or other data of any entity are presented in conformity with generally accepted accounting principles; or

(2) State that the licensee is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles.

If, however, the statements or data contain such a departure and the licensee can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the licensee may comply with this section by describing the departure, its approximate effects, if practicable, and the reason why compliance with the principle would result in a misleading statement.

Generally accepted accounting principles for nongovernmental entities are those pronouncements issued by the Financial Accounting Standards Board and its predecessor entities published by the **Financial Accounting Standards Board (FASB)**, in **Accounting Standards, Current Text, General Standards**, as of ~~October 2012~~ August 2014, and **Financial Accounting Standards Board (FASB), Accounting Standards, Current Text, Industry Standards**, as of ~~October 2012~~ August 2014. Generally accepted accounting principles for governmental entities are those pronouncements of the Governmental Accounting Standards Board published in **Codification of Governmental Accounting and Financial Reporting Standards**, as of ~~June 30, 2012~~ June 30, 2014.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(4).

Law Implemented: SDCL 36-20B-40, 36-20B-41.

Reference: **Financial Accounting Standards Board (FASB), Accounting Standards**
www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Codification of Governmental Accounting and Financial Reporting Standards, as of ~~June 30, 2012~~ June 30, 2014. Copies may be viewed at the board's office or obtained from Governmental Accounting Standards Board Order Department, P.O. Box 30784, Hartford, CT 06150. Cost: \$105.

20:75:05:07. Professional standards and conduct. A licensee shall comply with professional ethical standards and conduct. Professional standards and conduct are those established and set forth in the **AICPA Professional Standards, Volume 2, ET Section** as of ~~December 2012~~ December 15, 2014, by the American Institute of Certified Public Accountants.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(4).

Law Implemented: SDCL 36-20B-40, 36-20B-41.

Reference: AICPA Professional Standards, Volume 2, as of ~~December 2012~~

December 15, 2014, American Institute of Certified Public Accountants. Copies may be viewed at the board's office or obtained from the American Institute of Certified Public Accountants, ~~1211 Avenue of the Americas, New York, NY 10036-~~ 220 Leigh Farm Road, Durham, NC 27707. Cost: Members \$135/Non-Members \$168.75. The ET Section is available at no cost on their website at

<http://www.aicpa.org/Research/Standards/CodeofConduct/DownloadableDocuments/2014December15ContentAsof2014Sept24CodeofConduct.pdf>

20:75:05:08. Interpretations. In the interpretation and application of this chapter, the board shall consider interpretations of similar rules issued by the American Institute of Certified Public Accountants.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(4).

Law Implemented: SDCL 36-20B-40, 36-20B-41.

Reference: AICPA Professional Standards, Volume 2, as of ~~December 2012~~

December 15, 2014, American Institute of Certified Public Accountants, ~~1211 Avenue of the~~

~~Americas, New York, NY 10036. 220 Leigh Farm Road, Durham, NC 27707.~~ Cost: Members \$135/Non-Members \$168.75.

20:75:05:17. Records retention. A licensee shall comply with the record retention rules of the American Institute of Certified Public Accountants (AICPA), United States Government Accountability Office (GAO), United States Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB), and United States Department of Labor (DOL) as applicable to the engagement.

Source: 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(4).

Law Implemented: SDCL 36-20B-12(4).

References: **AICPA Professional Standards, Volume 2, ET Section ~~101~~ 1.200**, as of ~~December 2012~~ December 15, 2014, by the American Institute of Certified Public Accountants. Copies may be viewed at the board's office or obtained from the American Institute of Certified Public Accountants, ~~1211 Avenue of the Americas, New York, NY 10036. 220 Leigh Farm Road, Durham, NC 27707.~~ Cost: Annual Online Subscription, Member \$135/Non-Member \$168.75. The ET Section is available at no cost on their website at <http://www.aicpa.org/Research/Standards/CodeofConduct/DownloadableDocuments/2014December15ContentAsof2014Sept24CodeofConduct.pdf>

Government Auditing Standards, by the United States Government Accountability Office, December 2011 Revision. Copies may be viewed at the board's office or obtained from the United States Government Accountability Office, Washington, D.C. 20548; or from their web site at www.gao.gov/yellowbook. Cost: **Government Auditing Standards**, first document free, each additional copy \$2.

United States Securities and Exchange Commission (SEC):

<http://www.sec.gov/rules/final/33-8180.htm>.

Public Company Accounting Oversight Board (PCAOB):

http://pcaobus.org/Standards/Auditing/Pages/Auditing_Standard_3_Appendix_A.aspx.

United States Department of Labor (DOL): <http://law.justia.com/us/cfr/title29/29-9.1.5.13.1.html>.

20:75:07:01. Definitions. Terms used in this chapter mean:

(1) "Accounting and auditing practice," all engagements covered by "Statements on Auditing Standards" (SAS), "Statements on Standards for Accounting and Review Services" (SSARS), "Statements on Standards for Attestation Engagements" (SSAE) for Financial Forecasts and Projections (AICPA, Professional Standards, vol. 1, AT sec. ~~200~~ 301 and 801), attest services on financial information when the firm audits, reviews, or compiles the historical financial statements of the client, and standards for financial and compliance audits contained in **Government Auditing Standards** ("Yellow Book") December 2011 Revision, issued by the U. S. General Accounting Office;

(2) "Engagement review," a review required of a firm that only performs services under "Statements for Accounting and Review Services" or "Statements on Standards for Attestation Engagements" not included in system reviews;

(3) "Equivalent review," a peer review conducted by the American Institute of Certified Public Accountants, a state licensing board, or an accounting association or society in accordance with the review standards in §§ 20:75:07:09 to 20:75:07:15, inclusive;

(4) "Pass report," a report issued as the result of a peer review that describes no significant deficiencies in the professional standards in §§ 20:75:05:05 and 20:75:05:06;

(5) "Pass with deficiency or fail report," a pass with deficiency or fail report issued as the result of a peer review that describes significant deficiencies in the professional standards in §§ 20:75:05:05 and 20:75:05:06;

(6) "Professional standards," professional standards in §§ 20:75:05:05 and 20:75:05:06;

(7) "Quality control system," the five elements of quality control described in "Statement on Quality Control Standards (SQCS)," No. 2, vol. 2, QC Section ~~20~~ 10, and "Statements on Quality Control Standards," published in **AICPA Professional Standards, Volume 2**, as of ~~December 2012~~ December 15, 2014;

(8) "Report review," a review required of a firm that only performs compilation engagements under "Statements for Accounting and Review Services" where the firm has compiled financial statements that omit substantially all disclosures;

(9) "South Dakota review," a peer review conducted under the South Dakota Board of Accountancy program in accordance with this chapter;

(10) "System review," a review required of a firm that performs engagements under the "Statements on Auditing Standards" (SAS), "Statements on Standards for Accounting and

Review Services" (SSARS), "Statements on Standards for Attestation Engagements" (SSAE), or "Government Auditing Standards" (GAS), or performs examinations of prospective financial statements under "Statements on Standards for Attestation Engagements";

(11) "Year of review," the calendar year during which a peer review is to be conducted; in the case of an equivalent review, the fiscal or calendar year during which a peer review is to be conducted;

(12) "Year under review," the calendar year prior to the year of review; in the case of an equivalent review, the fiscal or calendar year prior to the year of review.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(9).

Law Implemented: SDCL 36-20B-36.

References: **Government Auditing Standards**, December 2011 Revision. United States Government Accountability Office. Copies may be viewed at the board's office or obtained from the United States Government Accountability Office, Washington, DC 20548, or their website at www.gao.gov/yellowbook. Cost: **Government Auditing Standards**, December 2011 Revision, first copy free, each additional copy \$2;

AICPA Professional Standards, Volume 2, as of ~~December 2012~~ December 15, 2014, American Institute of Certified Public Accountants. Copies may be viewed at the board's office or obtained from American Institute of Certified Public Accountants, ~~1211 Avenue of Americas,~~

~~New York, NY 10036~~; 220 Leigh Farm Road, Durham, NC 27707. Cost: Member \$135/Non-Member \$168.75.

Cross-Reference: Conduct of review -- Requirements, § 20:75:07:09.

20:75:07:08. Conduct of review -- Location. The peer review must be conducted at the office location of the firm under review unless the board gives prior approval for the review to be conducted at another location. A firm that does not perform audits and had a pass report on its preceding review may have a review conducted at a location other than its office. However, the firm must have a review conducted at its office location once every third three-year cycle. A firm that performs audits of historical financial statements, agreed-upon procedures under the **Statements on Standards for Attestation Engagements**, or examinations of prospective financial statements must have a review conducted at its office location because of the public interest in the quality of such engagements and the importance to the accounting profession of maintaining the quality of those services. Prior approval may be granted for a review to be conducted at a location other than the firm's office for firms conducting audits. In granting approval for a review to be conducted at another location, the board shall consider firm size and makeup, the number and types of engagements, distances involved, and prior review.

Source: 29 SDR 16, effective August 14, 2002; 30 SDR 119, effective February 9, 2004; 33 SDR 107, effective December 26, 2006; 35 SDR 165, effective December 22, 2008; 35 SDR 305, effective July 1, 2009; 36 SDR 216, effective July 6, 2010; 39 SDR 33, effective September 5, 2012; 39 SDR 219, effective June 24, 2013.

General Authority: SDCL 36-20B-12(9).

Law Implemented: SDCL 36-20B-36.

Reference: AICPA Professional Standards, Volume 1, AT Section ~~December 2012~~
December 15, 2014, American Institute of Certified Public Accountants. Copies may be viewed
at the board's office or obtained from the American Institute of Certified Public Accountants,
~~1211 Avenue of the Americas, New York, NY 10036.~~ 220 Leigh Farm Road, Durham, NC
27707. Cost: Member \$135/Non-Member \$168.75.

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

IN THE MATTER OF

NOTICE OF HEARING

**Keith Germann,
Keith C. Germann, CPA
Permit No. 1457**

Respondent

TO: Keith Germann
Keith C. Germann, CPA
525 Cayuga St.
Storm Lake, IA 50588

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 27, at 10:00 a.m. CDT**, or as soon thereafter as the matter can be heard, at the Department of Legislative Audit, located at 427 S. Chapelle, Pierre, South Dakota, in the Conference Room. **All parties and witnesses must be personally present for the above mentioned hearing unless otherwise authorized by the Department.**

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 Keith Germann, Keith C. Germann, CPA, Permit No. 1457, is in violation of state statutes or administrative rules, thus resulting in the Board taking disciplinary action against Mr. Germann.

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 Permit No. 1457. 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-32.1. Firm permits--Firms required to hold permit.

For the purposes of this chapter, the following firms are required to hold a permit:

1. Any firm with an office in this state performing attest services as defined in § 36-20B-2;
2. Any firm with an office in this state that uses the title CPAs, CPA firm, PAs, or PA firm;
or
3. Any firm that does not have an office in this state but performs attest services described in subdivisions 36-20B-2(1), (3) or (4) for a client who resides in this state or whose home office is located in this state.

36-20B-36. Firm permits--Peer review as condition of renewal--Confidentiality.

The board may, by rule promulgated pursuant to chapter 1-26, require, on either a uniform or a random basis, as a condition of renewal of firm permits pursuant to this chapter, that an applicant undergo peer review conducted in such manner and producing such satisfactory result as the board may specify. However, any such requirement shall include reasonable provision for compliance by means of an applicant furnishing evidence of a satisfactory peer review performed for other purposes. Such review shall include a verification that individuals in the firm who are responsible for supervising attest and compilation services and who sign or authorize someone to sign the accountant's report on the financial statements on behalf of the firm, meet the competency requirements set out in the professional standards for such services. Any rule promulgated pursuant to this section shall:

Notice of Hearing
Keith Germann

1. Include reasonable provision for compliance by an applicant showing that it has, within the preceding three years, undergone a peer review that is a satisfactory equivalent to peer review generally required pursuant to this section;
2. Require, with respect to a peer review contemplated by subdivision (1), that it be subject to oversight by an oversight body established or sanctioned by board rule, promulgated pursuant to chapter 1-26, which body shall periodically report to the board on the effectiveness of the review program under its charge, and provide to the board a listing of firms that have participated in a peer review program that is satisfactory to the board; and
3. Require, with respect to peer review contemplated by subdivision (1), that any peer review process be operated and any documents maintained in a manner designed to preserve confidentiality, and that neither the board nor any third party, other than the oversight body, may have access to documents furnished or generated in the course of the review.

Pursuant to the peer review process, the board shall treat the reports of the reviewer and any records submitted to the reviewer by the firm subject to review as confidential information. The board may not disclose such information to any persons other than staff members, legal counsel, and other persons retained by the board to assist it in fulfilling its responsibilities under this chapter and the rules, promulgated by the board pursuant to chapter 1-26.

36-20B-66. CPA licensed in state with substantially equivalent requirements--Privileges.

An individual whose principal place of business is not in this state who holds a valid certificate or license as a certified public accountant from any state which the board has verified to be in substantial equivalence with the CPA licensure requirements of this chapter is presumed to have qualifications substantially equivalent to requirements of this state and shall have all the privileges of certificate holders and licensees of this chapter without the need to obtain a certificate or permit under this chapter.

Notwithstanding any other provision of law, an individual who offers or renders professional services under this section, whether in person, or by mail, telephone, or electronic means, shall be granted practice privileges in this state, and no notice, fee, or other submission is required of the individual. However, the individual shall be subject to the requirements of § 36-20B-68.

36-20B-68. Licensee of another state who exercises practice privilege and employer consent to board's jurisdiction--Agent for service of process.

Any licensee of another state who exercises the practice privilege provided in § 36-20B-66 or 36-20B-67 and the firm, if any, which employs that licensee hereby simultaneously consents, as a condition of the grant of this privilege, to the personal and subject matter jurisdiction and disciplinary authority of the board, and agrees to comply with this chapter and the board's rules. If the license from the state of the individual's principal place of business is no longer

valid, the individual shall cease offering or rendering professional services in this state, both individually and on behalf of a firm. Any licensee who exercises the privilege provided in § 36-20B-66 or 36-20B-67 consents to the appointment of the state board which issued their license as their agent upon whom process may be served in any action or proceeding by this board against the licensee.

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.
10. Any conduct reflecting adversely upon the licensee's fitness to perform services while a licensee or individual granted practice privileges under the provisions of § 36-20B-66 or 36-20B-67;
11. Making any false or misleading statement or verification, in support of an application for a certificate, registration, or permit filed by another; and

Facts supporting the alleged violations:

1. Mr. Keith Germann was a licensed Certified Public Accountant in the state of Iowa. His license number was O03006, initially issued on January 29, 1979 and lapsed on June 30, 2013.
2. Mr. Germann did have a firm license, Keith C. Germann, CPA, in the state of Iowa. His firm license number was 2012-557, initially issued on July 9, 2012, and lapsed on June 30, 2013.
3. Mr. Germann was issued a firm license, Keith C. Germann, CPA, in the state of South Dakota. His firm permit number was 1457, initially issued on August 31, 2009, expiring July 31, 2010. Subsequent renewals were received and processed for years ending July 31, 2011, July 31, 2012, and July 31, 2013.

4. On April 15, 2013, a letter was sent to Keith Germann in regards to his firm being required to undergo peer review in 2013. A signed Request for Acceptance of Equivalent Review Form (RAERF) was due to the Board's office by June 1, 2014.
5. On June 10, 2013, the Board's staff sent a letter to Mr. Germann informing him that his firm failed to submit a signed RAERF to the Board's office by the June 1, 2013, deadline.
6. On July 19, 2013, Ms. Nicole Kasin, Executive Director of the Board, sent an email to Mr. Germann indicating that the signed RAERF, which was due June 1, 2103, had not yet been received. Mr. Germann responded via email on July 22, 2013, indicating he was trying to make arrangements with his peer reviewer and wanted to have that established before he responded to the Board.
7. On August 5, 2013, Mr. Germann applied for a renewal of his firm permit for the period of August 1, 2013, through July 31, 2014. The application indicated his license in Iowa was active.
8. On August 15, 2013, Executive Director Kasin left a phone message for Mr. Germann confirming that the firm submitted a renewal application, but that the peer review file was not up to date.
9. On August 21, 2013, Executive Director Kasin followed up the phone message by sending an email to Mr. Germann stating that the signed RAERF must be submitted to the board immediately. In addition, the emails stated that if the reviewer had not been selected, then a portion of the RAERF could be completed and sent in. Once the reviewer was selected, the firm could submit the completed RAERF within 30 days after the selection.
10. On August 29, 2013, the Board received a partially completed RAERF.
11. Based on the information completed on the firm renewal application, the board processed his firm permit renewal application.
12. On October 10, 2013, Executive Director Kasin sent an email stating that the Board had not received a completed RAERF, and that the Board needed to know: when the review was scheduled, who would be performing the review and the signature of the reviewer. On that same day Mr. Germann responded via email stating that he had not heard back from his peer reviewer and he would contact him.
13. On November 8, 2013, Executive Director Kasin sent an email stating that the Board still had not received a completed RAERF and that it must be submitted immediately.
14. On January 23, 2014, Executive Director Kasin sent a follow-up email to Mr. Germann requesting the completed RAERF or indicate if the peer review had already been completed, and if so when was it done and who completed the peer review.
15. On February 11, 2014, Board staff performed a search on the Iowa Accountancy Examining Board's website to review the licensure status for Mr. Germann and his firm Keith C. Germann, CPA. The results of the staff's search showed that both Mr. Germann's and his firm's permits had lapsed June 30, 2013.
16. On February 24, 2014, Executive Director Kasin sent a certified letter to Mr. Germann indicating he and his firm could no longer offer to practice accounting in South Dakota due to the lapse of his Iowa license, pursuant to SDCL 36-20B-68. The letter was signed for on February, 26, 2014.
17. On June 3, 2014, a list of firms performing Employee Benefit Plan audits through the United States Department of Labor was provided to the Board. The firm of Keith C.

- Germann, CPA was on the list providing an audit for Consumer Supply Distributing Group Co 401(k), of North Sioux City, SD with an October 18, 2013 date.
18. On July 9, 2014, Executive Director Kasin sent a letter to Mr. Germann in regards to his firm performing an audit for the Consumer Supply Distributing Group Co 401(k) when he and his firm were prohibited from providing said services in South Dakota due to the lapse of his Iowa license. Mr. Germann was given an opportunity to respond.
 19. Mr. Germann's response was received on August 4, 2014, dated July 29, 2014. In his response, Mr. Germann stated that not renewing his license in Iowa was an oversight.
 20. On August 7, 2014, an official complaint was filed by the board against Mr. Germann. The complaint provided him the opportunity to respond. No response was received.
 21. Mr. Germann failed to renew his license and permit in Iowa to engage in the practice of public accountancy.
 22. Mr. Germann made a false or misleading statement to verify his license and firm permit in Iowa to support his renewal application to South Dakota for a firm permit for period ending July 31, 2014.
 23. Mr. Germann failed to maintain compliance with the requirements for renewal of his firm permit.
 24. Mr. Germann failed to comply with the requirement of peer review and the submission of the documentation to the board.
 25. Mr. Germann provided attest services to clients in South Dakota, by completing an audit for Consumer Supply Distributing Co. 401(k), with a lapsed Iowa license and lapsed Iowa firm permit, and a firm permit from South Dakota that was obtained by making a false or misleading statement to support the application for a firm permit.
 26. Mr. Germann performed attest services in or for South Dakota clients, without a valid firm permit.

EXECUTIVE DIRECTOR'S REPORT

Nicole Kasin

Electronic Data Management Storage

All office staff had training on the file director program. The files are scanned to our local server. We utilize a program through our secured sign in, onto the state servers. We use the Xen Desktop application; we can access our local server and transfer the scanned files over to the state servers. This process takes less than a minute to transfer the files to the state server. The office is now in process of scanning files.

CPE Audits

The list of licensees has been selected for CPE audits and letters were sent out to those selected on September 25. The documentation is due in our office no later than October 31, 2014. The following chart shows the status of the audits as of October 20, 2014.

	Selected	Complied	Not Complied	Granted Extension	Approved CPE Audit	Failed CPE Audit
CPA (Active)	54	32	0	0	13	0
CPA (Active in Firm)	58	36	0	0	11	0

Audit – two year ending June 30, 2014

On October 17, all documents were provided to East, Vander Woude, Grant & Co., P.C., to perform our two-year ending audit. The audit request was approved by the Department of Legislative Audit and the final audit report must be issued no later than December 31, 2014.

Board Appointment and Re-appointment of members

Holly Brunick has been reappointed to the Board for her third, three year term.

Jeff Smith will be the new lay member for the board. His appointment will begin on October 31, 2014. Currently serving as lay member is John Peterson, his term expires October 30, 2014. John Peterson has served the board as the lay member since March 17, 2004.

Board Discussion

- Any New Business/topics?

CPA

Plans and Perspectives for the U.S. CPA Profession

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



CODE OF PROFESSIONAL CONDUCT
STANDARDS
EXCELLENCE COMPETENCE
LEARNING
GOVERNANCE ETHICS ENHANCEMENT
IMPROVEMENT
QUALITY CONTROL PERFORMANCE
PRIVATE ENTITIES

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

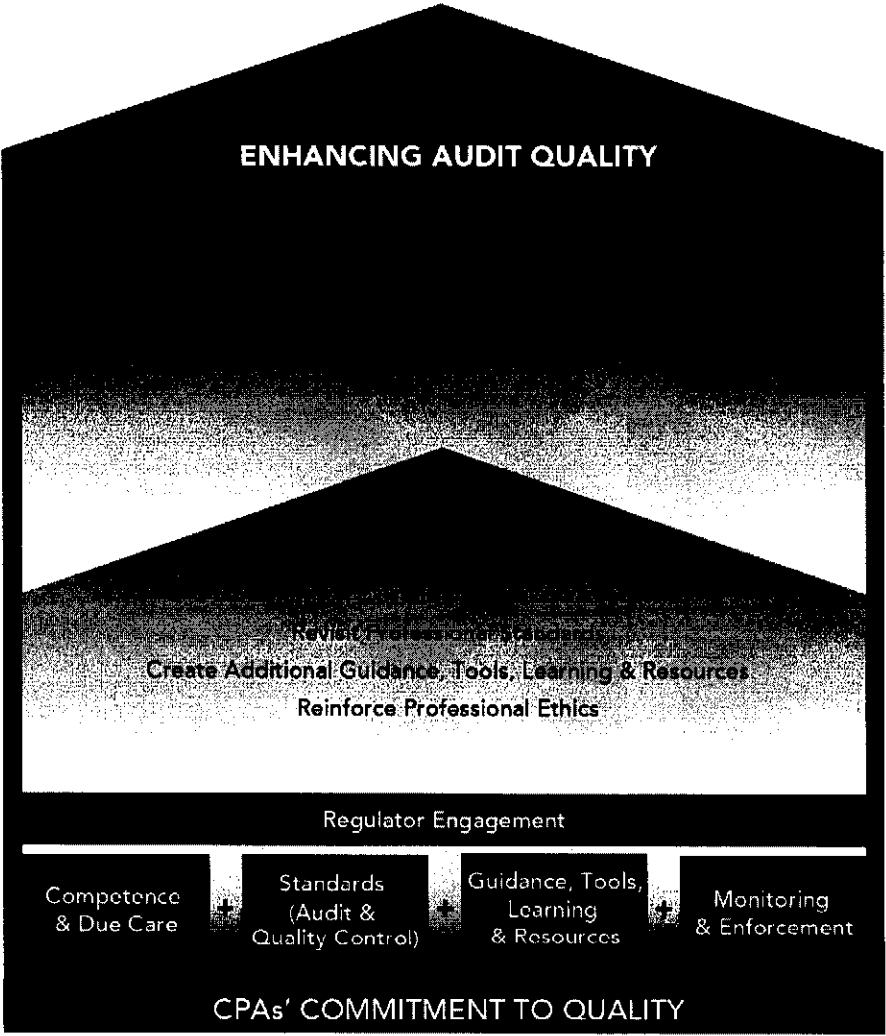


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Executive Summary

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

In the current business environment, the rapid pace of change is driving complexity and that trend is not likely to abate. Increased complexity presents challenges to practitioners in public accounting as they strive to continually perform high-quality financial statement audits of private entities¹. To preserve their prominent and respected role in the business community, CPAs must, and will, meet and overcome these challenges.

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

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

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

Competence and Due Care

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

Auditing and Quality Control Standards

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

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

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

Guidance, Tools, Learning and Resources

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

Practice Monitoring (Peer Review)

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

Ethics Enforcement

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

Dialogue and Feedback

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

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

ENHANCING AUDIT QUALITY

Introduction

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

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

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

Commitment to Quality

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

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

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

An Initiative to Further Boost Audit Quality

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

EAQ consists of a two-phased approach:

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

Elements of Quality

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

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



Competence and Due Care

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

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

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

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

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

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

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

Questions:

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

[See all questions in this paper.]

Auditing and Quality Control Standards

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

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

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

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

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

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

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

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

Questions:

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

[See all questions in this paper.]

Guidance, Tools, Learning and Resources

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

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

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

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

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

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

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

Question:

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

[See all questions in this paper.]

Practice Monitoring

In 2012, the AICPA began a comprehensive and visionary exploration of the next generation of its practice monitoring efforts. The AICPA Peer Review Program monitors the quality of firms' accounting and auditing engagements and evaluates the systems under which those engagements are performed. Participation in the peer review program is mandatory for AICPA membership². In addition, peer review is now required for licensure in nearly all states.

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

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

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

Practice Monitoring of the Future

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

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

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

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

The Concept as currently envisioned has five facets:

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

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

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

Near-Term Enhancements to Peer Review

Enhance Quality of Peer Reviewers

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

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

The PRB is proposing that all reviewers of “must-select” engagements³ subject to the Employment Retirement Income Security Act or Government Auditing Standards should come from firms that are members of the applicable AICPA Audit Quality Center. Membership in an Audit Quality Center provides individual CPAs with resources that enhance their ability to perform specified engagements. Importantly, peer review results show that members of an Audit Quality Center are more likely to receive a “Pass” peer review report than non-members.

Further, the PRB is proposing that reviewers of must-select engagements³ attend annual industry-specific training, which would incorporate a competency exam. Peer review team captains, the CPAs who have ultimate responsibility for the peer review, would be required to attend annual peer review, audit and attest training targeted at areas that the PRB has determined warrant particular attention. This training would also include a competency exam.

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

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

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

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

Questions:

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

[See all questions in this paper.]

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

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

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

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

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

Evaluate "New" Industry Engagements Promptly

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

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

Questions:

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

[See all questions in this paper.]

Deepen Review of High-Risk Industries and Areas of Concern

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

Initial focus areas include:

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

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

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

Questions:

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

[See all questions in this paper.]

Improve Engagement and Firm Tracking

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

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

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

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

Questions:

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

Team Captain Checklist
Review Captain Summary

[See all questions in this paper.]

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

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

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

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

Questions:

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

[See all questions in this paper.]

Make Peer Review Results More Informative

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

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

Questions:

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

Peer Review Q&A

Peer Review Standards

[See all questions in this paper.]

Maintaining Excellence

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

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

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

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

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