

# **NEBRASKA BOARD OF PUBLIC ACCOUNTANCY QUALITY ENHANCEMENT PROGRAM PROCEDURES**

## **I. History**

The Quality Enhancement Program (QEP) was adopted by the Board of Public Accountancy in 1987 as a means of reviewing reporting standards of accounting professionals. The Board promulgated rules (Chapter 4, Section 006.07A1 through 006.07A12e – Attachment 1) for the authority and conduct of the QEP program. The QEP review program is a three-year cyclical review of audit, review and compilation reports issued during the preceding calendar year. Attachment 2 shows the number of reports reviewed and also their ratings for each review year.

## **II. Purpose**

Section 006.07A1 states that the purpose of the program is to improve the quality of financial reporting and to assure that the public can rely on the fairness of presentation of financial information on which licensees issue reports. The program emphasizes education and rehabilitation rather than disciplinary action. Appropriate educational programs or procedures will ordinarily be recommended or required where reporting does not comply with appropriate professional standards. However, when a licensee is unwilling or unable to comply with such standards or a licensee's professional work is so egregious as to warrant disciplinary action, such action may be reported as the appropriate means of protecting the public interest.

## **III. Organization of the Quality Enhancement Program**

The QEP program is comprised of a Committee of at least seven members, a Board professional employee, volunteer reviewers and Team Captains.

The rules describe the make-up of the Committee as follows:

- no fewer than seven members,
- one member of the State Board of Public Accountancy,
- one accounting educator selected by the State Board from the faculty of an accredited Nebraska College or University, possessing a valid Nebraska CPA certificate,
- members must be appointed by the Board, must hold CPA certificates, must have valid Nebraska active permits to practice, and should represent a cross-section of different sized Nebraska firms.

The Committee's responsibilities include:

- developing procedures for the Committee's internal operation,
- developing criteria for the assignment of reviewers,
- developing the Board and State Society Committee in reviewer selection and training,
- developing and recommending a system of report selection and workpaper review following a substandard report review,
- evaluating reviewers' findings, reporting and making recommendations to the Board,
- compiling and reporting the program's statistics,

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- considering such other matters and performing such other duties as may be assigned to it by the Board.

The role of the Board professional employee is to:

- act as record-keeper for the Committee, with regards to meeting reports, statistical information and historical notes,
- process the paper work and necessary contact with practitioners on the Committee's behalf,
- contact and provide procedural training for volunteer reviews,
- prepare the reports for first, second (and third level, if necessary) reviews.
- perform such other duties as may be assigned by the Committee and/or Board.

Reviewers are selected from a pool of volunteers. An individual wishing to review reports must complete and submit an application to the State Board. Criteria to be a reviewer includes (see Attachments 3 and 4):

**Reviewers must meet the following criteria for First Level Review:**

- Must have five years of experience in audits, reviews or compilations.  
    **Or** Five years of Academia.
- Should participate in at least five financial statement engagements per year.
- Must sign a confidentiality statement regarding reports reviewed.

**Reviewers must meet the following criteria for Second Level Review:**

- Must have a current Nebraska active permit to practice.
- Must be competently experienced in audits, reviews or compilations,
- Should participate in at least five financial statement engagements per year.
- Must sign a confidentiality statement regarding reports reviewed.

**Responsibilities of a reviewer include:**

- respecting the confidentiality of the review process,
- conducting him/herself in a professional manner at all times during the review process,
- completing such training as may be required by the Committee and/or the Board,
- maintaining and furnishing Board personnel an accurate log of reports reviewed and work accomplished,
- reviewing reports only within his/her area of expertise,
- following directions of the team captain, QEP Committee, Board personnel liaison, and/or the members of the State Board.

Team Captains are solicited from a list of volunteer reviewers. The criteria for being a Team Captain include the minimum criteria for reviewers (above) plus two years experience as a QEP reviewer. Responsibilities of a Team Captain include the same responsibilities as a reviewer plus:

- manage the review session(s), keeping order at all times,
- remove any person(s) not qualified to perform as a reviewer,
- assist volunteers in the review process,

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- coordinate with the Board professional employee in conducting and scheduling reviews.

The State Board of Public Accountancy is, at all times, in charge of the program and its conduct.

#### **IV. Process**

##### Determining Practice Units to be Reviewed

Each practice unit seeking renewal of a permit to practice is subject to the QEP review every third year. A practice unit is defined as a sole proprietor or each and every office of a partnership, professional corporation or limited liability company. The Board office maintains a database of practice units, with approximately one-third of them scheduled for review each year. A new practice unit is put on the review schedule for review within three years after its formation. Annually a master list of units to be reviewed is generated at the beginning of the QEP cycle. The Board may also review any report referred to it by other entities.

##### Submission of Reports or Exemption Request

The first of December each practice unit scheduled for review that year is mailed a request for the submission of reports (Attachment 5 – Report Transmittal Form) and a “Request for Exemption From Filing Requirement” (Attachment 6) form. Each practice unit must submit a copy of an audit, a review and/or a compilation report or report to the Board that they have not issued any of those type of reports or request an exemption from the QEP filing requirement if they qualify (see Attachment 7 – Exemption Guidelines). Reports submitted should be masked as to the identity of the client, as long as the omission does not render the type or nature of the enterprise undeterminable. Reports submitted become the property of the State Board. Reports or requests for exemption are due by May 31.

##### Review of the Reports

Once the reports are received in the Board office, they are categorized as to type of entity and the identity of the practitioner is masked. The appropriate checklist(s) is then attached. A first review and second review are done by volunteer reviewers and are completed by August 31.

The QEP Committee then reviews all Type 3 and Type 4 rated reports as well as a random sampling of Type 1 and Type 2 reports (see Attachment 8 – Guidelines for Classifying Reports). This final review is accomplished by August 31.

Each report is reviewed for a determination as to whether it is or is not in conformity with applicable professional standards – and if not, in what respects the report is deemed substandard or seriously questionable. Recommendations for possible improvement of the report’s quality are recorded and the Committee then reports its determinations and recommendations to the State Board.

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If a report is deemed substandard or seriously deficient, the Board may direct a review of the workpapers by a qualified reviewer. The findings of such workpaper review shall be transmitted directly to the Board with the cost of the workpaper review borne by the licensee.

### Report to Practitioner

When the QEP Committee has made the final review of all reports, the Board personnel liaison then sends letters, in the month of September, to the practitioners with the results of the review. Type 1 reports are sent form letter Attachment 9. Type 2 reports are sent form letter Attachment 10. Type 3 reports are sent form letter Attachment 11. Type 4 reports are sent form letter Attachment 12. Each letter may be adapted or amended as required by the QEP Committee. A “Summary of Deficiencies and Comments” sheet (Attachment 13) is sent with all letters except Type 1 reports. Type 3 and Type 4 letters require the practitioner to respond back to the Board within thirty days.

### Committee Report to the Board

In September or October the QEP Committee will report to the Board its findings and recommendations and will also report on the contact with each licensee. If the Board determines that a report is substandard or seriously deficient, it may take any one or more of the following actions:

- a) require the practice unit to develop a set of planned control procedures for report issuance,
- b) require the individual licensee responsible for issuance of the report to successfully complete specific courses or types of continuing education,
- c) require the office to submit specified reports to a pre-issuance review in a manner and for a duration prescribed by the Board (see Attachment 14 – Guidelines for Pre-issuance Review),
- d) require the office to submit to a quality review pursuant to Board rules,
- e) if possible disciplinary action is considered warranted, it may initiate an investigation pursuant to Nebraska laws.

### Follow-Up

Each Type 3 and 4 report is followed closely by Board personnel (the Committee Liaison) for compliance with the Committee’s and the Board’s recommendations and requirements. Those practitioners that do not comply are referred to the Board immediately upon noting the non-compliance.

All results of the QEP review are noted both in the QEP automated database and in the practitioner’s or firm’s paper file. The actual reports may be thrown away after three years but the “Comments” sheet, rating, and all correspondence with the practice unit will become a permanent part of the file.

### Record-keeping for Reviewers

Each reviewer is given a payment form for each day that is spent reviewing QEP reports (Attachment 15). Payment for review is \$100 per day and eight hours of Accounting & Auditing Continuing Professional Education (CPE). A copy of the payment request form is placed in each reviewer’s file for confirmation of the CPE hours. The warrant for payment is sent to the reviewer’s firm with a thank you for the time and effort expended on the program.

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Type 4 Reports

- a. Two years in a row, require CPE
- b. Three years in a row, require CPE & Pre-Issuance
- c. After three years, show cause hearing.

When a Firm does not submit to the Quality Enhancement Program

To return a firm to licensed status that did not submit reports to the Quality Enhancement Program:

- a. Sign a Stipulation and Consent Order with a \$250 administrative fee
- b. Submit the required reports
- c. Pay a \$100 administrative fee for each report submitted for review

Deadline to submit a Request for an Exemption

The Committee established a deadline to submit a request for an exemption that would be earlier than the deadline to submit reports. The reason for the earlier deadline is that in the case of denial of request for exemption, the firm would have adequate time to submit reports by the May 15 deadline. The Request for Exemption deadline is May 1. The deadline for submission of all reports would remain May 15.