

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

Agency

Secretary of the State/State Board of Accountancy

Subject

Require That Permit Holders, as a Condition for the Renewal of a Permit to Practice, Undergo a Quality Review

Inclusive Sections

§§ 20-281-1—20-281-12

CONTENTS

Sec. 20-281-1.	Definitions
Sec. 20-281-2.	Requirement for quality review—areas to be reviewed
Sec. 20-281-3.	Scheduling of quality review
Sec. 20-281-4.	Rescheduling year of review
Sec. 20-281-5.	New permit holders
Sec. 20-281-6.	Selection of quality reviewer
Sec. 20-281-7.	Qualifications of quality reviewer
Sec. 20-281-8.	Conduct of review
Sec. 20-281-9.	Results of review
Sec. 20-281-10.	Procedure in case of a modified report
Sec. 20-281-11.	Review of multi-jurisdictional permit holder
Sec. 20-281-12.	Waiver

Require That Permit Holders, as a Condition for the Renewal of a Permit to Practice, Undergo a Quality Review

Sec. 20-281-1. Definitions

Terms, as used in these regulations, mean:

(1) “Multi-Jurisdictional Permit Holder,” means a firm holding a permit to practice public accountancy in Connecticut and holding a similar permit or authority to practice in one or more other jurisdiction;

(2) “Permit Holder,” means a sole proprietorship, partnership or corporation holding or required to hold a permit to practice pursuant to Conn. Gen. Stat. § 20-281;

(3) “New Permit Holder,” means a holder of a permit to practice which has not been previously registered in this state, including a permit holder required to obtain a permit to practice as a result of participation in a merger, consolidation, acquisition or other form of combination; but does not include a permit holder which has been previously registered and changes its name due to the addition, death, withdrawal, or retirement of a partner or shareholder, or changes its name due to a change in the legal form of its practice;

(4) “Year of Review,” means the calendar year during which a quality review is to be conducted;

(5) “Year Under Review,” means the calendar year prior to the year of review.

(Effective May 16, 1990)

Sec. 20-281-2. Requirement for quality review—areas to be reviewed

(a) Every permit holder, as a condition of renewal of its permit pursuant to C.G.S. § 20-281, must undergo a quality review in accordance with these Regulations to determine and report on the degree of compliance by permit holders with generally-accepted accounting principles, generally-accepted auditing standards, and other similarly recognized authoritative technical standards. The quality review will include the financial reporting areas of practice, including audit engagements, review engagements, and compilation engagements of both historical and prospective financial information.

(b) It is the obligation of the permit holder to take all steps necessary to undergo quality review when scheduled and to submit the report thereon to the Board as required by these Regulations. Failure of the permit holder to receive any notice required or permitted by these Regulations shall not excuse a permit holder from its obligation to undergo quality review, and to file the report thereon to the Board as required under these Regulations.

(Effective May 16, 1990)

Sec. 20-281-3. Scheduling of quality review

The first year of review begins on January 1, 1991. By December 1, 1990, the Board shall divide all permit holders into three groups and schedule one group to undergo quality review during 1991, another group to undergo quality review during 1992, and the other group to undergo quality review during 1993. Each permit holder shall undergo quality

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

§20-281-4

Secretary of the State/State Board of Accountancy

review during the year scheduled and every third calendar year thereafter. The Board shall mail to the permit holders, at their addresses as last shown on the records of the Board, notice of the year during which they must undergo quality review.

(Effective May 16, 1990)

Sec. 20-281-4. Rescheduling year of review

By February 1st of its year of review, or at such later time as the Board, in its discretion, for good cause shown may allow, a permit holder may submit to the Board a request to reschedule its year of review. The Board may, in its discretion, grant a request to reschedule a permit holder's year of review if it finds that said permit holder has undergone within two (2) calendar years before, or has entered into a binding commit to undergo within two (2) calendar years after the presently-scheduled year of review, a review equivalent to the one required by these Regulations. If such a rescheduling is granted, the permit holder will undergo subsequent quality reviews every three (3) years after that rescheduled year of review. The application shall be in writing and under oath and shall set forth the name and permit number of the permit holder, the presently-scheduled year of review, the proposed rescheduled year of review, the date of the last quality or equivalent review, a copy of the final opinion letter issued by the reviewer as a result of that review, a statement of basis upon which rescheduling is sought, and, if the request is based upon the fact that the permit holder will undergo a review in the future, the date when that review will be held and documentation that demonstrates to the satisfaction of the Board that the permit holder has made a binding commitment to undergo such a review when stated. The Board may require the permit holder to supply such additional information and documentation as it deems necessary or desirable in evaluating such a request.

(Effective May 16, 1990)

Sec. 20-281-5. New permit holders

A new permit holder, as a condition of renewal of its permit, must undergo a quality review during the first calendar year after it has been engaged in the practice of public accountancy for one full calendar year. After the initial quality review, the new permit holder shall undergo a quality review every three years thereafter.

(Effective May 16, 1990)

Sec. 20-281-6. Selection of quality reviewer

A permit holder scheduled for quality review shall engage, subject to approval of the Board, a reviewer to conduct the quality review. A permit holder subject to review shall submit to the Board, in writing, by March 1 of the year of review the name of the reviewer or reviewers who will conduct the quality review and evidence establishing that all reviewers meet the qualifications set forth in section 20-281-7 and will conduct the quality review in accordance with section 20-281-8 and section 20-281-9. If a permit holder scheduled for quality review fails to notify the Board of its selection by March 1, the Board

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

Secretary of the State/State Board of Accountancy

§20-281-8

shall select a reviewer to conduct the quality review and notify the permit holder of the selection by April 1st; provided, however, that failure of the Board to select a reviewer as provided in this sentence shall not excuse a permit holder from its obligation to undergo quality review, and file the report thereon with the Board as required under these Regulations. The permit holder subject to quality review, whether it selects the reviewer or not, must engage the reviewer chosen or approved by the Board and file a copy of the letter or contract of engagement with the Board by May 15 of the year of review.

(Effective May 16, 1990)

Sec. 20-281-7. Qualifications of quality reviewer

Quality reviewers must have the following minimum qualifications:

- (1) knowledge of and experience with the type of engagements to be reviewed, including experience in supervision of the preparation of reports and financial statements in connection with such engagements;
- (2) independence of the permit holder under quality review;
- (3) no conflict of interest;
- (4) familiarity with all specialized services in the area of auditing and accounting provided by the permit holder subject to review; and
- (5) familiarity with the procedures for conducting a quality review in accordance with the standards set forth in section 20-281-8 and section 20-281-9, and competence in performing such quality reviews.

(Effective May 16, 1990)

Sec. 20-281-8. Conduct of review

Quality review shall be conducted as follows:

- (1) In the case of a permit holder which performed one or more audits during the year under review, quality review shall include a study and evaluation of audit, review and compilation reports, the financial statements upon which those reports were based and the associated working papers, and shall include procedures sufficient to provide the quality reviewer with a reasonable basis upon which to issue a report as required by subsection (a) of section 20-281-9 of these Regulations;
- (2) In the case of a permit holder which performed no audit engagements, but did perform one or more review engagements or one or more compilation engagements during the year under review, quality review may be limited to a study and evaluation of review and compilation reports and the financial statements upon which those reports were based, and need not include a study of the associated working papers, but shall include procedures sufficient to provide the quality reviewer with a reasonable basis upon which to issue a report as required by subsection (b) of section 20-281-9;
- (3) The reviewer shall select the engagements to be reviewed.
- (4) The quality review shall be limited to reports with a year end date within the year under review.

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

§20-281-9

Secretary of the State/State Board of Accountancy

(5) Quality review shall be performed in accordance with a comprehensive set of standards for such reviews generally recognized in the profession as authoritative.

(Effective May 16, 1990)

Sec. 20-281-9. Results of review

(a) In the case of a permit holder which performed one or more audit engagements during the year under review, upon completion of the review, the reviewer shall issue a report which, at a minimum, shall consist of an opinion letter setting forth the scope of the quality review, including any limitations thereon; identifying the comprehensive set of standards under which the quality review was performed; stating an opinion on whether, during the year under review, the system of quality control for the accounting and auditing practice of the permit holder under quality review met the objectives of quality control standards generally recognized in the profession as authoritative, and whether that system of quality control was being complied with so as to provide the permit holder with reasonable assurance of conforming with professional standards. That opinion letter shall also describe the reason(s) for any modification, qualification or limitation of the opinion set forth in subsection (c) of this section.

(b) In the case of a permit holder which performed no audit engagements, but did perform one or more compilation engagements or one or more review engagements during the year under review, upon completion of the quality review, the quality reviewer shall issue a report which, at minimum, consists of an opinion letter describing the limited scope of the quality review and disclaiming an opinion or any form of assurance about the permit holder's quality control policies and procedures for its accounting practice; identifying the comprehensive set of standards under which the quality review was conducted; stating whether anything came to the quality reviewer's attention that caused the quality reviewer to believe that the review or compilation reports submitted for quality review did not conform with the requirement of professional standards in all material respects; and, if applicable, that opinion letter shall describe the general nature of significant departures from professional standards disclosed by the quality review; and also, if the departures from professional standards disclosed by the quality review are sufficiently numerous or serious, the opinion letter shall set forth the quality reviewer's conclusion that the permit holder did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review.

(c) In the case of a permit holder which performed one or more audits during the year under review, an "unqualified" report shall be any report in which the quality reviewer expresses the opinion that the system of quality control for the accounting and auditing practice of the permit holder met the objectives of quality control standards generally recognized in the profession and was being complied with during the year reviewed so as to provide the permit holder with reasonable assurance of conforming with professional standards.

(d) In the case of a permit holder which performed one or more audits during the year under review, any report which sets forth an opinion other than the opinion described in

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

Secretary of the State/State Board of Accountancy

§20-281-11

subsection (c) of this section or which qualifies, limits or changes that opinion shall be a “modified report.”

(e) In the case of a permit holder which performed no audit engagements, but did perform one or more review engagement or one or more compilation engagement during the year under review, an “unqualified” report shall be a report which states that nothing came to the quality reviewer’s attention that caused the quality reviewer to believe that the review or compilation reports submitted for review did not conform with the requirements of professional standards in all material respects.

(f) In the case of a permit holder which performed no audit engagements, but did perform one or more review engagements or one or more compilation engagements during the year under review, any report which sets forth a statement other than the one described in subsection (e) of this section or which limits, qualifies or changes that statement shall be a “modified” report.

(g) The quality reviewer may also issue to the permit holder under review, if appropriate, a letter of comments suggesting any areas where improvement can be made. Said letter of comments shall not be filed with the Board.

(h) The permit holder shall file the final opinion letter issued by the quality reviewer with the Board within thirty (30) days after the receipt of that report.

(Effective May 16, 1990)

Sec. 20-281-10. Procedure in case of a modified report

(a) If the report issued as a result of a quality review is “unqualified,” the Board shall take no further action, provided that the quality review was conducted in accordance with these Regulations. If such report is “modified,” the Board may require the permit holder subject to quality review to submit an affidavit indicating that the remedial action suggested by the quality reviewer has been completed.

(b) If the Board finds that a quality review was not performed in accordance with these Regulations or if the Board finds that the departures from professional standards disclosed by a report are serious or numerous, in addition to any other action permitted by law, the Board may, in its discretion, require the permit holder to undergo additional quality reviews at such times and on such terms as the Board may determine; and, in the case of a permit holder which had undergone a quality review as required by subsection (a) (2) of section 20-281-8, the Board may require such permit holder to undergo a quality review as required by subsection (a) (1) of section 20-281-8.

(Effective May 16, 1990)

Sec. 20-281-11. Review of multi-jurisdictional permit holder

(a) With respect to a multi-jurisdictional permit holder, the Board may accept a quality review based solely upon work conducted outside of this state as satisfying the requirement to undergo quality review under these Regulations, if:

(1) the quality review is conducted during the year scheduled under Sec. 20-281-3 or

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

§20-281-12

Secretary of the State/State Board of Accountancy

Sec. 20-281-5, or rescheduled under Sec. 20-281-4; and

(2) the quality review is performed in accordance with requirements equivalent to those of this state under the general supervision of a State Board of Accountancy or other agency of government having the power to license accountants;

(3) the quality review studies, evaluates and reports on the financial reporting practice of the firm as a whole; and

(4) At the conclusion of the quality review, the quality reviewer issues a report equivalent to that required by section 20-281-9 of these Regulations.

(b) A multi-jurisdictional permit holder not granted approval under subsection (a) of this section, shall undergo quality review pursuant to these Regulations which shall study, evaluate and report on the financial reporting practice of said multi-jurisdictional permit holder within this state.

(c) A multi-jurisdictional permit holder seeking approval under subsection (a) hereof shall submit an application to the Board by February 1st of the year of review establishing that the quality review it proposes to undergo meets all of the requirements of said subsection (a).

(d) All multi-jurisdictional permit holders shall submit quality review reports to the Board as required by subsection (h) of section 20-281-9.

(Effective May 16, 1990)

Sec. 20-281-12. Waiver

(a) The Board, in its discretion, may grant a permit holder a waiver of the requirement of undergoing a quality review for any one of the following reasons:

(1) (A) The permit holder does not engage in financial reporting areas of practice, including audits, compilations and reviews; and

(B) The permit holder does not intend to engage in any of said financial reporting areas of practice during the next year; and

(C) The permit holder agrees to notify the Board that it has begun to engage in financial report practice immediately upon its acceptance of a single audit engagement, or review engagement, or compilation engagement;

(2) Health;

(3) Military service;

(4) The conduct of a quality review will create individual hardship;

(5) There exists other good cause, as the Board may determine.

(b) Requests for waivers shall be in writing and under oath, and shall be upon forms which the Board shall provide for that purpose.

(c) Requests for waivers shall be submitted with a permit holder's application for renewal of its permit to practice or as soon as practicable after the circumstances arise which are the basis for the request.

(d) Any permit holder which has been granted a waiver pursuant to subsection (a) (1) of this section shall immediately notify the Board upon accepting a financial reporting

Regulations of Connecticut State Agencies

TITLE 20. Professional & Occupational Licensing, Certification

Secretary of the State/State Board of Accountancy

§20-281-12

engagement, including an audit engagement, a compilation engagement, or a review engagement. Such permit holder shall undergo quality review during the first calendar year after accepting the first such financial reporting engagement.

(e) Any permit holder which has been granted a waiver pursuant to subsections (a) (2) through (a) (5), inclusive, shall immediately notify the Board when the basis upon which such waiver was granted has ceased to exist. When the circumstances upon which such a waiver was granted cease to exist, the Board may require the permit holder to undergo a quality review at such time as the Board deems appropriate.

(f) A waiver shall only be effective for the calendar year for which it has been granted.

(g) If the Board finds that a waiver was improperly obtained or that the circumstances upon which the waiver was granted no longer exist, it may revoke the waiver and order the permit holder to undergo a quality review at such time as the Board deems appropriate.

(h) A permit holder granted a waiver shall undergo a quality review during the next calendar year, unless a new waiver or rescheduling is granted pursuant to these Regulations.

(Effective May 16, 1990)