

STATE OF MARYLAND
BOARD OF PUBLIC ACCOUNTANCY
January 10, 2017

LOCATION: 500 North Calvert Street
Baltimore, Maryland 21202
Third Floor Conference Room

MEMBERS

IN ATTENDANCE: Arthur E. Flach
Clifton B. Jeter
Phillip J. Korb
Leslie Mostow
Naomi Powell
Ross Ehudin
Raymond Vicks, Jr.

MEMBERS ABSENT: NONE

DLLR OFFICIALS/STAFF: Dennis L. Gring, Executive Director
Matthew Lawrence, Counsel
Norbert Fenwick, CE Consultant
Tiffany Black, Office Secretary

OTHERS PRESENT: Mary Beth Halpern, MACPA
T. S. Bray, MSATP
Robert Greenfess, Santos, Postal, & Company

The January 10, 2017, meeting of the Maryland Board of Public Accountancy was called to order at 9:05 AM by Chairman of the Board, Arthur E. Flach.

Upon a motion (I) by Ms. Powell, and seconded by Mr. Korb, the minutes of the November 18, 2016 meeting were approved without corrections.

Chairman's Report

Mr. Flach welcomed, Mr. Leslie Mostow, as a member of the Board. Mr. Mostow is a former member and chairman of the Board. Mr. Mostow takes the seat held by Ms. Elizabeth Gantnier. Mr. Mostow has also served on NASBA's Board of Examiners for the CPA Examination. On behalf of the Board, Mr. Flach expressed his appreciation for Ms. Gantnier's services as Chair from January 2014 – October, 2015 and as a member of the Board. Her work on behalf of the Board was exemplary. Mr. Flach reminded the Board that the Financial Disclosure reports are due to the State Ethics Commission by the end of April. All new Board members must complete training before completing their report.

Upon a motion (II) by Mr. Mostow, and seconded by Mr. Jeter, the Board unanimously approved the Chairman's Report.

Executive Director's Report

Mr. Gring reported that Administrative Officer, Mrs. Linda Rhew, is recuperating nicely and is expected to return to work on or about January 30, 2017.

Mr. Gring advised the Board that proposed regulations governing the changes in the fees charged for sections in the Uniform CPA Examination were published in the January 6, 2017, Maryland Register. The Board will be able to take final action on the regulations at its March 7, 2017, meeting. The regulations are expected to become effective on or about April 1, 2017.

Mr. Gring also reported that NASBA advised registrations for the Business Environment and Concepts (BEC) and Regulation (REG) sections will not be processed until after March 10, 2017, due to the launch of the new Uniform CPA Examination format on April 1, 2017. Notices to Schedule will be issued and examination appointments can be scheduled beginning March 10, 2017.

Mr. Gring distributed information regarding Board member responsibilities to file financial disclosure statements via the website of the State Ethics Commission. The financial disclosure reports must be filed by April 30, 2017.

Mr. Gring also advised that the Office of the Secretary will be issuing a legislative policy memorandum shortly that pertains to Board member testimony and lobbying during the 2017 General Assembly. In summary, the memorandum will prohibit members from representation as a Board member before the General Assembly unless designated by the Secretary to do so. Members may testify as private citizens on any matter, but may not identify themselves as a member of the Board or indicate that they are affiliated with the Department.

Mr. Gring presented the newly redesigned Board website, which was launched on January 3, 2017. The Board's features are more easily navigated and visually attractive. Mr. Gring expressed his thanks to Ms. Janet Morgan, the Division's Web Content and Outreach Coordinator, for her many hours of assistance in rewriting and revising the information that is presented on the new site.

Finally, Mr. Gring indicated that the number of licensees and permit holders continues to remain stable, as it has for the past several years. He provided the following license and permit count as of January 10, 2017:

15,080	ACTIVE C.P.A.
5,022	INACTIVE C.P.A.
556	CPA CORPORATION
26	CPA PARTNERSHIP
349	CPA LIMITED LIABILITY COMPANY
<u>98</u>	CPA LIMITED LIABILITY PARTNERSHIPS
21,131	

Upon a motion **(III)** by Mr. Ehudin, and seconded by Mr. Vicks, the Board unanimously approved the Executive Director's Report.

Exam Appeals

The staff did not report any examination appeals for this meeting.

Education Report

Mr. Korb presented the Education Report.

Since November 18, 2016 the Board approved 107 applications for the Uniform CPA Examination. Thirty-seven applicants qualified for examination only. Sixty-four applicants were approved for examination and licensing. Six applications were denied for insufficient course work.

For calendar year 2016, the Board processed 1,018 examination applications. Two hundred eighty-nine (289) applicants were approved for the examination only. Five hundred eighty (580) applicants were approved for examination and licensure. One hundred forty-nine (149) applications were denied for insufficient course work.

There were four (4) Transfer of Grades applications approved. There were two (2) Transfer of Grades denials. One (1) Transfer of Grades application was closed due to being incomplete.

Upon a motion **(IV)** by Ms. Powell, and seconded by Mr. Jeter, the Board unanimously approved the Education Report.

Experience Report

Ms. Powell presented the Experience Report. There were twenty (24) reciprocal applications approved, zero reciprocal application denials and fourteen (14) applications were closed due to being incomplete; and seventy-two (72) Maryland candidate license application approvals. There was one (1) Maryland candidate application denial.

Upon a motion **(V)** by Mr. Korb and seconded by Mr. EHUDIN, the Board unanimously approved the Experience Report.

Firm Permit Report

Mr. Vicks presented the Firm Permit Report. There were six (6) firm permit applications approved, zero firm application denials and one (1) firm application was closed as a withdrawal.

Upon a motion **(VI)** by, Ms. Powell, and seconded by Mr. Jeter, the Board unanimously approved the Firm Permit Report.

Peer Review Oversight Committee Report

Mr. Flach presented information discussing Peer Review.

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

The proposed criteria would decrease the number of AEs to approximately eight to ten in total, each of which would have the capacity to effectively administer at least 1,000 peer reviews per year. Consolidating AEs will provide greater consistency in the Program's administration. Each AE would be required to have a Director-level professional with primary responsibility for peer review and at least one full-time staff in each of the following roles:

- ☐ Administrator
- ☐ Technical Reviewer
- ☐ Manager

Feedback on the proposed criteria and structure was requested by August 1, 2016. The Maryland State Board of Public Accountancy provided the following feedback:

"The MSBA fully supports improving the peer review administrative process including improving the consistency and quality of the program. In today's environment of increased scrutiny from regulatory agencies such as the Department of Labor, we feel it essential to satisfy these regulatory bodies as to the effectiveness of and their reliance on the Peer Review Process.

First and foremost, we would like to convey our complete satisfaction with our administering entity for the State of Maryland, the Maryland Association of Certified Public Accountants (MACPA). Our interaction with our administering entity has been seamless as has been our interaction with our Peer Review Oversight Committee (PROC). The purpose of the PROC, as constituted in the state of Maryland, is to provide the Maryland State Board of Public Accountancy an independent means to evaluate and monitor the Peer Review Program administered by the MACPA for the purpose of relying on the administering entity's systems and in accordance with the operating Agreement Between the Maryland State Board of Public Accountancy for State Oversight of the Peer Review Program. We take this oversight role very seriously and would not want to embark on a process that diminishes this oversight.

The MACPA annually conducts approximately 235 peer reviews predominantly for Maryland licensed firms. Over a 3 year period, the MACPA conducts approximately 700 peer reviews. The MACPA has been the subject of a number of AICPA Peer Review Board oversight visits and each visit has resulted in a highly successful review.

With this background information in mind, we would like to convey the following comments as well as to pose some questions:

- We fully support increased training and enhancing the capability of members of the Peer Review Program.
- We are unclear as to how the number of 1,000 peer reviews per year was determined in order to maintain consistency and quality within an Administering Entity. We believe a more effective barometer of the quality and consistency of a particular program is through the AICPA Peer Review Board oversight visits and the results of those visits.
- We are very concerned about the impact of this change in peer review administration on our constituents in the state of Maryland as well as on the workings of the MSBA in governing the profession in the state of Maryland. We do not believe that the proposed changes to peer review administration effectively address the current issues surrounding peer review. We believe the consolidation of the number administering entities will result in a less efficient process of interaction between a State Board and the geographically separate administering entity. For instance:
 - Do you envision a particular state relying on "another PROC" to provide oversight of the administering entity that would satisfy the oversight of the State Board? Or do

- you envision each State Board appointing a person to the PROC of the geographically separate administering entities?
- Do you envision the geographically separate administering entity making in person presentations to the State Board? Who would bear the cost of travel and hotel for these presentations?
 - Are you aware of the legislative changes within a particular state that may be required in order to accommodate a geographically separate administering entity?
 - Have you considered the impact on state resident CPA firms being subject to a peer review from a geographically separate administering entity? This impact could take the form of the following:
 - Cost of the program.
 - Interaction between the peer reviewer and the CPA firm. Will the interaction become protracted due to the geographic separation?
 - Will the peer review process become elongated because you are now dealing with a larger administering entity located in a separate geography with the concomitant increased bureaucracy and perhaps inefficiencies?
 - Today's profession relies on State Boards of Accountancy to address audit quality issues. Addressing these quality issues requires cooperation and communication between the administering entity and the State Board. Communication and cooperation must not suffer under this proposed evolution of the peer review program."

In January of 2017, the AICPA Peer Review Program issued a revised Proposed Evolution of Peer Review Administration. The revision has redefined the benchmarks associated with the Peer Review Program. The most common suggestion for the evolution of peer review administration was to allow existing, effective Administering Entities (AE) that operate in full accordance with Program Standards and guidance, to continue administering the Program, without consideration given to the number of peer reviews administered, and to discontinue administration by poor performing AEs. Many respondents indicated they believed their AE was operating effectively because they were unaware of any evidence to the contrary. **Accordingly, the model proposed in this paper requires AEs to meet specific benchmarks, diligently monitored by the AICPA, and increases transparency of AE performance.**

Under this model, AEs that choose to continue administering peer reviews must meet specific benchmarks, which include qualitative, objective and measurable criteria. AEs will be evaluated based upon whether they consistently meet these benchmarks. AE performance will be made transparent through new reporting requirements to various stakeholders, such as society CEOs and boards, as appropriate. If this approach is undertaken, the specific benchmarks illustrated in this paper are subject to changes and approval by the PRB, and may be modified over time due to advances in technology and other factors.

A full copy of the Revised Proposed Evolution of Peer Review Administration was disseminated to board members. Feedback is required by June 30, 2017.

Clarification on Applicability of Peer Review Program to SSARS 21 preparation engagements

A question arose as to the applicability of the Peer Review Program to SSARS 21 preparation engagements. The Administering Entity (MACPA) has taken the position that if a Maryland firm **only** performs preparation engagements, peer review is not required.

The AICPA's guidance on this issue is as follows:

Firms that only perform preparation engagements under AR-C Section 70, Preparation of Financial Statements (AICPA, Professional Standards), issued as part of Statement on Standards for Accounting and Review Services (SSARS) No. 21, Statement on Standards for Accounting and Review Services: Clarification and Recodification (AICPA, Professional Standards), are not required to enroll in the AICPA peer review program.

However, a firm's preparation engagements will be included in the scope of a peer review if the firm either elects to enroll in the program (for example, to comply with licensing or other requirements) or is already enrolled due to other engagements it performs.

It is requested that the Board concurs with this interpretation.

If the Board wants to respond, a response due by June 2017; the Chairman has asked that "review peer review response" be added to the May Board meeting.

Upon a motion **(VII)** by Ms. Powell and seconded by Mr. Vicks, the Board unanimously approved the Peer review report.

New Business

The staff did not have any correspondence for this meeting.

Old Business

The staff did not have any correspondence for this meeting.

Correspondence

The staff did not have any correspondence for this meeting.

Executive Session

Upon a motion **(VIII)**, by Ms. Powell, and seconded by Mr. Jeter, the Board went into Executive Session in the 3rd Floor Conference Room, 500 N. Calvert Street, Baltimore, Maryland 21202 at 10:33 AM. The purpose of this session was to consult with counsel. This session is permitted to be closed pursuant to Section 3-305(b) (7) of the General Provisions Article, Maryland Annotated Code. It returned to the regular business meeting at 10:56 AM upon a motion **(X)**, by Ms. Powell, and seconded by Mr. Ehdin.

Complaint Committee Report

Mr. Jeter presented the Complaint Committee Report. Mr. Jeter reported that the Board received four (4) new complaints; and one (1) complaint closed.

The Complaint Committee reported that it will present a comprehensive report on the nature and outcome of complaints at the February meeting.

Upon a motion (IX), by Mr. Mostow, and seconded by Mr. Ehudin the Board approved the Complaint Committee Report.

In EX A-0117, upon a motion (X) by Mr. Korb, and seconded by Mr. Vicks, the Board approved accommodations under the Americans with Disabilities Act for an examination candidate.

In EX B-0117, upon a motion (XI), by Mr. Vicks, and seconded by Mr. Korb, the Board approved accommodations under the Americans with Disabilities Act for an examination candidate.

In EX C-0117, upon a motion (XII), by Mr. Korb, and seconded by Mr. Jeter, the Board approved an extension of conditional credit for passed examination sections.

Upon a motion (XIII), by Ms. Powell, and seconded by Mr. Ehudin, the Board adjourned at 11:03 AM.

NEXT MEETING

February 7, 2017, 500 North Calvert Street, Third Floor, 9:00 AM

___ With corrections Without corrections

SIGNATURE ON
ORIGINAL DOCUMENT

Chairman

2/7/17

Date