

RULE-MAKING HEARING AGENDA
NORTH CAROLINA STATE BOARD OF CPA EXAMINERS
OCTOBER 22, 2015
10:00 A.M.
1101 OBERLIN ROAD
RALEIGH, NC

- I. Administrative Items**
 - A. Call to Order
 - B. Rules Published for Rule-Making

- II. Hearing Testimony**

- III. Written Testimony**
 - A. NC Association of CPAs (NCACPA)

- IV. Adjournment**

CHAPTER 08 – BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS

Notice is hereby given in accordance with G.S. 150B-21.2 and G.S. 150B-21.3A(c)(2)g. that the North Carolina State Board of Certified Public Accountant Examiners intends to adopt the rules cited as 21 NCAC 08N .0301 and .0410, readopt with substantive changes the rules cited as 21A NCAC 08A .0301; 08F .0103; 08M .0106; 08N .0208, .0209, .0211, .0214, .0215, .0302, .0304, .0307, .0308, .0401, .0403-.0406, .0409, and readopt without substantive changes the rules cited as 21 NCAC 08A .0307-.0309; 08B .0508; 08F .0105, .0111, .0302, .0401, .0410, .0502; 08G .0401 .0403 .0404, .0406, .0410; 08I .0104; 08J .0101, .0105, .0107, .0111; 08M .0105; 08N .0101-.0103, .0201-.0207, .0212, .0213, .0301, .0303, .0305, .0306, .0402, and .0408.

Pursuant to G.S. 150B-21.2(c)(1), the text of the rules proposed for readoption without substantive changes are not required to be published. The text of the rules are available on the OAH website: <http://reports.oah.nc.us/ncac.asp>.

Link to agency website pursuant to G.S. 150B-19.1(c): www.nccpaboard.gov

Proposed Effective Date: February 1, 2016

Public Hearing:

Date: October 22, 2015

Time: 10:00 a.m.

Location: NC State Board of CPA Examiners, 1101 Oberlin Road, Suite 104, Raleigh, NC 27605

Reason for Proposed Action:

Adoption – the purpose of these proposed rules is to adopt the national industry standards and international standards respectively for Personal Financial Planning Services and International Standards on Auditing.

Readoption with substantive changes – the main purpose of these proposed rules is the readoption of these rules pursuant to the existing rules review process as outlined in NCGS 150B-21.3A. The changes in these rules include new and updated definitions, correcting word usage, conforming with the Uniform Accountancy Act, statute changes, and formatting issues.

Readoption without substantive changes – the main purpose of these proposed rules is the readoption of these rules pursuant to the existing rules review process as outlined in NCGS 150B-21.3A. The changes in these rules include correcting word usage, formatting issues, and no changes at all to eight of the rules in this group.

Comments may be submitted to: Robert N. Brooks, NC State Board of CPA Examiners, 1101 Oberlin Road, Suite 104, Raleigh, NC 27605, phone (919) 733-1425, fax (919) 733-4209, email rbrooks@nccpaboard.gov

Comment period ends: November 30, 2015

Procedure for Subjecting a Proposed Rule to Legislative Review: If an objection is not resolved prior to the adoption of the rule, a person may also submit written objections to the Rules Review Commission after the adoption of the Rule. If the Rules Review Commission receives written and signed objections after the adoption of the Rule in accordance with G.S. 150B-21.3(b2) from 10 or more persons clearly requesting review by the legislature and the Rules Review Commission approves the rule, the rule will become effective as provided in G.S. 150B-21.3(b1). The Commission will receive written objections until 5:00 p.m. on the day following the day the Commission approves the rule. The Commission will receive those objections by mail, delivery service, hand delivery, or facsimile transmission. If you have any further questions concerning the submission of objections to the Commission, please call a Commission staff attorney at 919-431-3000.

Fiscal impact (check all that apply).

- State funds affected
- Environmental permitting of DOT affected
- Analysis submitted to Board of Transportation
- Local funds affected
- Substantial economic impact (\geq \$1,000,000)
- Approved by OSBM
- No fiscal note required by G.S. 150B-21.4
- No fiscal note required by G.S. 150B-21.3A(d)(2)

SUBCHAPTER 08A – DEPARTMENTAL RULES

SECTION .0300 - DEFINITIONS

21 NCAC 08A .0301 DEFINITIONS

(a) The definitions set out in G.S. 93-1(a) apply when those defined terms are used in this Chapter.

- (20) "Inactive," when used to refer to the status of a person, describes a person who has requested inactive status and has been approved by the Board and who does not use the title "certified public accountant", nor does he or she allow anyone to refer to him or her as a "certified public accountant," and neither he nor she nor anyone else refers to him or her in any representation as described in Rule .0308(b) of this Section;
- (21) "IRS" means the Internal Revenue Service;
- (22) "Jurisdiction" means any state or territory of the United States or the District of Columbia;
- (23) "License year" means the 12 months beginning July 1 and ending June 30;
- (24) "Member of a CPA firm" means any CPA who has an equity ownership interest in a CPA firm;
- (25) "NASBA" means the National Association of State Boards of Accountancy;
- (26) "NCACPA" means the North Carolina Association of Certified Public Accountants;
- (27) "North Carolina office" means any office physically located in North Carolina;
- (28) "Person" means any natural person, corporation, partnership, professional limited liability company, registered limited liability partnership, unincorporated association, or other entity;
- (29) "Professional" means arising out of or related to the particular knowledge or skills associated with CPAs;
- (30) ~~"Projection" means prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position or cash flows that are based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken given such hypothetical assumptions;~~
- (31)(30) "Referral fee" means compensation for recommending or referring any service of a CPA to any person;
- (32)(31) "Revenue Department" means the North Carolina Department of Revenue;
- (33)(32) "Review" means a professional service whereby a CPA is engaged to perform procedures, limited to analytical procedures and inquiries, to obtain a reasonable basis for expressing limited assurance on whether any material modifications should be made to the financial statements for them to be in conformity with generally accepted accounting principles or other comprehensive basis of accounting;
- (34)(33) "Reviewer" means a member of a review team including the review team captain;
- (35)(34) "Suspension" means a revocation of a certificate for a specified period of time. A CPA may be reinstated after a specific period of time if the CPA has met all conditions imposed by the Board at the time of suspension;
- (36)(35) "Trade name" means a name used to designate a business enterprise;
- (37)(36) "Work papers" mean the CPA's records of the procedures applied, the tests performed, the information obtained, and the conclusions reached in attest services, tax services, consulting services, special report services, or other engagements. Work papers include programs used to perform professional services, analyses, memoranda, letters of confirmation and representation, checklists, copies or abstracts of company documents, and schedules of commentaries prepared or obtained by the CPA. The forms include handwritten, typed, printed, word processed, photocopied, photographed, and computerized data, or in any other form of letters, words, pictures, sounds or symbols; and
- (38)(37) "Work product" means the end result of the engagement for the client which may include a tax return, attest or assurance report, consulting report, and financial plan. The forms include handwritten, typed, printed, word processed, photocopied, photographed, and computerized data, or in any other form of letters, words, pictures, sounds, or symbols.

(c) Any requirement to comply by a specific date to the Board that falls on a weekend or federal holiday shall be received as in compliance if postmarked by U.S. Postal Service cancellation by that date, if received by a private delivery service by that date, or received in the Board office on the next business day.

Authority G.S. 93-1; 93-12; 93-12(3).

21 NCAC 08A .0307 - READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08A .0308 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08A .0309 – READOPT WITHOUT SUBSTANTIVE CHANGES

SUBCHAPTER 08B - RULE-MAKING PROCEDURES

SECTION .0500 - DECLARATORY RULINGS

21 NCAC 08B .0508 – READOPT WITHOUT SUBSTANTIVE CHANGES

SUBCHAPTER 08F - REQUIREMENTS FOR CERTIFIED PUBLIC ACCOUNTANT EXAMINATION AND CERTIFICATE APPLICANTS

SECTION .0100 – GENERAL PROVISIONS

21 NCAC 08F .0103 FILING OF EXAMINATION APPLICATIONS AND FEES

21 NCAC 08G .0403 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08G .0404 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08G .0406 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08G .0410 – READOPT WITHOUT SUBSTANTIVE CHANGES

SUBCHAPTER 08I - REVOCATION OF CERTIFICATES AND OTHER DISCIPLINARY ACTION

21 NCAC 08I .0104 – READOPT WITHOUT SUBSTANTIVE CHANGES

SUBCHAPTER 08J - RENEWALS AND REGISTRATIONS

21 NCAC 08J .0101 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08J .0105 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08J .0107 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08J .0111 – READOPT WITHOUT SUBSTANTIVE CHANGES

SUBCHAPTER 08M – STATE QUALITY REVIEW PROGRAM

SECTION .0100 – GENERAL SQR REQUIREMENTS

21 NCAC 08M .0105 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08M .0106 COMPLIANCE

(a) A CPA firm registered for peer review shall provide to the Board the following:

- (1) Peer review due date;
- (2) Year end date;
- (3) Final Letter of Acceptance from peer review program within 60 days of the date of the letter; and
- (4) A package to include the Peer Review Report, Letter of Response, and Final Letter of Acceptance for all failed and second passed with deficiencies reports issued by a peer review program within 60 days of the date of the Final Letter of Acceptance.

(b) A peer review is not complete until the Final Letter of Acceptance is issued by the peer review program with the new due date.

(c) If a CPA firm fails to comply with ~~21 NCAC 08M .0105(c), (d), or (g)~~, Rule .0105(c), (d), or (g) of this Section, and continues to offer or render services, the Board may take disciplinary action against the CPA firm's members ~~which that may include: include a suspension of each members' CPA certificate for a period of not less than 30 days and a civil penalty up to one thousand dollars (\$1,000).~~

- ~~(1) — one hundred dollar (\$100.00) civil penalty for non-compliance of less than 60 days;~~
- ~~(2) — two hundred fifty dollar (\$250.00) civil penalty for non-compliance in excess of 60 days but not more than 120 days; and~~
- ~~(3) — a suspension of each member's CPA certificate for a period of not less than 30 days and a civil penalty of five hundred dollars (\$500.00) for non-compliance in excess of 120 days.~~

Authority G.S. 93-12(7b); 93-12(8c).

SUBCHAPTER 08N – PROFESSIONAL ETHICS AND CONDUCT

SECTION .0100 - SCOPE AND APPLICABILITY

21 NCAC 08N .0101 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0102 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0103 – READOPT WITHOUT SUBSTANTIVE CHANGES

SECTION .0200 – RULES APPLICABLE TO ALL CPAS

21 NCAC 08N .0201 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0202 – READOPT WITHOUT SUBSTANTIVE CHANGES

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0212 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0213 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0214 OUTSOURCING TO THIRD-PARTY PROVIDERS

(a) A CPA shall provide a written disclosure in advance of the outsourcing to the client that he or she is using a third-party provider to assist the CPA in providing any professional services to the client.

~~(b) A CPA shall provide annual disclosure in a written statement of the services to be rendered by the third-party provider as well as the third-party provider's name, address, and phone number. The written statement shall be dated, signed by both the CPA and client in advance of the outsourcing, and a copy provided to the client.~~

~~(c)~~(b) A CPA outsourcing professional services to a third-party provider is responsible for ensuring a third-party provider is in compliance with all rules of Professional of Conduct and Ethics in ~~21 NCAC 08N~~, this Subchapter.

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0215 INTERNATIONAL FINANCIAL ACCOUNTING STANDARDS

(a) International Financial Accounting Standards. A CPA shall not express an opinion that financial statements are presented in accordance with international financial accounting standards if such statements contain any departure from an accounting standard which that has a material effect on the statements, taken as a whole, unless the CPA can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases, the CPA's report shall describe the departure, the approximate effect thereof if practicable, and the reason(s) why compliance with the standard would result in a misleading statement.

(b) International Financial Accounting Standards consist of the following:

- (1) International Financial Reporting Standards (IFRS) issued after 2001;
- (2) International Accounting Standards (IAS) issued before 2001;
- (3) Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) issued after 2001; and
- (4) Standing Interpretations Committee (SIC) issued before 2001.

~~(c) Departures. The CPA's report must describe the departure, the approximate effect thereof if practicable and the reasons why compliance with the standard would result in a misleading statement.~~

~~(d)~~(c) Copies of Standards. Copies of International Financial Accounting Standards may be inspected in the office of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the International Accounting Standards Board, IASC Foundation Publications Department, 30 Cannon Street, London, EC4M6XH, United Kingdom. They are available at cost, which is approximately ~~thirty-four dollars (\$34.00) one hundred two dollars (\$102.00)~~ in paperback form or ~~three hundred eighty-three dollars (\$383.00) four hundred thirty-two dollars (\$432.00)~~ in loose-leaf subscription form.

Authority G.S. 55-12; 57C-2-01; 93-12(9).

SECTION .0300 – RULES APPLICABLE TO ALL CPAS WHO USE THE CPA TITLE IN OFFERING OR RENDERING PRODUCTS OR SERVICES TO CLIENTS

21 NCAC 08N .0301 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0302 FORMS OF PRACTICE

(a) Authorized Forms of Practice. A CPA who uses CPA in or with the name of the business or offers or renders ~~attest or assurance services audits, reviews, compilations, agreed-upon procedure or engagement services performed in accordance with the standards in~~ 21 NCAC 08A .0301(b)(5) in the public practice of accountancy to clients shall do so only through a registered sole proprietorship, partnership, Professional Corporation, Professional Limited Liability Company, or Registered Limited Liability Partnership.

(b) Authorized Ownership. A CPA firm may have an ownership of up to 49 percent by non-CPAs. A CPA firm shall have ownership of at least 51 percent and be controlled in law and fact by holders of valid CPA certificates who have the unrestricted privilege to use the CPA title and to practice public accountancy in a jurisdiction and at least one of whom shall be licensed by this Board.

(c) CPA Firm Registration Required. A CPA shall not offer or render professional services through a CPA firm which is in violation of the registration requirements of 21 NCAC 08J .0108, 08J .0110, or 08M .0105.

(d) Supervision of CPA Firms. Every North Carolina office of a CPA firm registered in North Carolina shall be actively and locally supervised by a designated actively licensed North Carolina CPA whose primary responsibility and a corresponding amount of time shall be work performed in that office.

(e) CPA Firm Requirements for CPA Ownership. A CPA firm and its designated supervising CPA ~~is shall be~~ shall be accountable for the following in regard to a CPA owner:

- (1) A CPA owner shall be a natural person or a general partnership or a limited liability partnership directly owned by natural persons.
- (2) A CPA owner shall actively participate in the business of the CPA firm.

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0308 VALUATION SERVICES STANDARDS

(a) Standards for Valuation Services. A CPA shall not render valuation services of a business, a business ownership interest, security, or intangible asset unless the CPA has complied with the standards for valuation services.

(b) Statements on Standards for Valuation Services. The Statements on Standards for Valuation Services (including the definition of such services) issued by the AICPA, including amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for valuation services for the purposes of Paragraph (a) of this Rule. Departures from the standards listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

~~(c) Departures. Departures from the standards listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.~~

~~(d)~~(c) Copies of Statements. Copies of the statements on standards for valuation services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are available at cost, which is ~~one hundred sixty-nine dollars (\$169.00)~~ one hundred ninety-four dollars (\$194.00) in paperback form or ~~four hundred eighty-six dollars (\$486.00)~~ one hundred sixty-nine dollars (\$169.00) in looseleaf on-line subscription form as of the effective date of the last amendment to this Rule.

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0309 PERSONAL FINANCIAL PLANNING SERVICES

(a) Statement on Standards on Personal Financial Planning Services. A CPA shall not render personal financial planning services unless the CPA has complied with the applicable standards for personal financial planning services.

(b) Statement on Standards on Personal Financial Planning Services. The Statement on Standards on Personal Financial Planning Services (including the definition of such services) issued by the AICPA, including subsequent amendments and editions, is hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for personal financial planning services for the purpose of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the Statement on Standards on Personal Financial Planning Services may be inspected in the office of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are available at cost, which is one hundred sixty-nine dollars (\$169.00) in paperback form or four hundred eighty-six dollars (\$486.00) in online subscription form as of the effective date of the last amendment of this Rule.

Authority G.S. 55-12; 57C-2-01; 93-12(9).

SECTION .0400 - RULES APPLICABLE TO CPAS PERFORMING ATTEST SERVICES

21 NCAC 08N .0401 PUBLIC RELIANCE

The rules in this Section apply to any CPA who engages in ~~the attest or assurance services~~ as defined in 21 NCAC 08A .0301(b). ~~CPAs who engage in such services are also subject to the Peer Review requirements of Subchapter 08M.~~

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0402 – READOPT WITHOUT SUBSTANTIVE CHANGES

21 NCAC 08N .0403 AUDITING STANDARDS

(a) Standards for Auditing Services. A CPA shall not render auditing services unless the CPA has complied with the applicable generally accepted auditing standards.

(b) Statements on Auditing Standards. The Statements on Auditing Standards issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered generally accepted auditing standards for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

~~(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.~~

~~(d)~~(c) Copies of Statements. Copies of the Statements on Auditing Standards may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are available at cost, which is ~~one hundred sixty-nine dollars (\$169.00)~~ one hundred ninety-four dollars (\$194.00) in paperback form or ~~four hundred eighty-six dollars (\$486.00)~~ one hundred sixty-nine dollars (\$169.00) in looseleaf on-line subscription form as of the effective date of the last amendment to this Rule.

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0404 ACCOUNTING AND REVIEW SERVICES STANDARDS

~~(d)~~(c) Copies of the Standards. Copies of the Government Auditing Standards may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the Government Printing Office, Washington, D.C. 20402-0001. They are available at a cost, which is approximately ~~twelve dollars and fifty cents (\$12.50)~~ sixteen dollars (\$16.00) in paperback form ~~as of the effective date of the last amendment to this Rule.~~

Authority G.S. 55B-12; 57C-2-01; 93-12(9).

21 NCAC 08N .0410 INTERNATIONAL STANDARDS ON AUDITING

(a) International Standards on Auditing. A CPA shall not render auditing services unless the CPA has complied with the applicable international standards on auditing.

(b) Statement on International Standards on Auditing. The Statement on International Standards on Auditing issued by the International Auditing and Assurance Board, including subsequent amendments and additions, are hereby incorporated by reference, as provided by G.S. 150B-21.6, and shall be considered International Standards on Auditing for the purpose of Paragraph (a) of this Rule. Departures from the standards listed in this Paragraph must be justified by those who do not follow them as set out in the standards.

(c) Copies of the Standards. Copies of the International Standards on Auditing may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the International Auditing and Assurance Board at 529 5th Avenue, 6th Floor, New York, NY 10017. They are available at a cost, which is approximately one hundred sixty dollars (\$160.00) in paperback form.

Authority G.S. 55-12; 57C-2-01; 93-12(9).



Item III- A

October 8, 2015

Michael H. Womble, CPA
President
NC State Board of CPA Examiners
1101 Oberlin Road, Suite 104
Raleigh, NC 27605-1169

Dear Michael:

I am writing on behalf of the NC Association of Certified Public Accountants in support of the proposed changes to Chapter 21 of the NC Administrative Code published for a public rulemaking hearing on October 22, 2015. Our board of directors met on October 1 and 2, 2015, and the proposed administrative rule changes were included in our agenda items. I am pleased to report our board of directors is supportive of the changes as published.

We appreciate the opportunity to once again work with your board by forming a joint task force which met earlier this year to discuss possible changes to the administrative regulations. We believe this task force work is the most productive means of achieving meaningful change. The joint task force method we have successfully employed over the past five years may be unique to our state, and it demonstrates the level of trust and the spirit of cooperation that exists between our two organizations.

This letter is being submitted to you in order to be included in the agenda package to be published for your members and interested general public. We do not intend to speak during the public rulemaking hearing, unless you feel the need for us to do so. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Daniel L. Purvine".

Daniel L. Purvine, CPA
2015-16 Chair
NCACPA Board of Directors

cc: Bob Brooks, Executive Director, NC State Board of CPA Examiners
David Nance, CPA, Deputy Executive Director, NC State Board of CPA Examiners
NCACPA Board of Directors
NCACPA Management Team