

NEW YORK STATE

QUALITY REVIEW OVERSIGHT COMMITTEE

2012 ANNUAL REPORT

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I. Message from the Committee Chair

Presented here is the 2012 Annual Report of the Quality Review Oversight Committee (QROC). This is the first report issued by the QROC to the Executive Secretary to the Board for Public Accountancy on behalf of the New York State Education Department (Department). The QROC has made significant progress during our formation phase and initial year of operation. The goal of the QROC is to effectively oversee the Sponsoring Organization, monitor firms within the peer review program, and make recommendations to the Department to ensure the effectiveness of the peer review program.

The QROC first met in June 2011, prior to the Mandatory Quality Review Programs' (MQRP) effective date of January 1, 2012. The QROC members familiarized themselves with the laws and regulations, and began the process of establishing an agreement with a Sponsoring Organization as required under the MQRP regulations. With the assistance of the Department's legal counsel, the QROC created an application by which an organization could apply to be a Sponsoring Organization. On February 8, 2012 the QROC unanimously approved the application from the New York State Society of Certified Public Accountants (NYSSCPA) Peer Review Committee (PRC) to be the Sponsoring Organization of the MQRP.

During the initial year, the QROC members further developed their knowledge of the administration of the peer review program by reviewing the standards, attending peer review training courses, taking part in the AICPA's biannual oversight of the Society, and attending PRC and Report Acceptance Body (RAB) meetings.

More recently, the QROC has sent letters to firms with less than a 'pass' on their peer review, informing the firm that the QROC is monitoring its participation in the peer review program and that complying with the peer review program is required under the regulations.

In summary, the QROC has selected and approved the Sponsoring Organization, has performed oversight of the PRC and RAB meetings, and has begun to monitor firms through the peer review process. The committee members and staff have done an excellent job of establishing a strong foundation for the Committee to continue its work.

In closing, I want to thank the Department and the Board members for their continued support of the QROC. I also want to thank the QROC members and staff for their continuing contributions to our Committee.

Frank S. Venezia, CPA
Committee Chair

II. Background

In 2009, the NYS Legislature passed significant changes to laws that regulate Public Accounting in New York. In addition to many other changes, the legislature required the implementation of the MQRP. The program became effective for firms registering on or after January 1, 2012. Firms with three or more CPAs, providing attest services, are required to participate in the MQRP. In addition, any firm performing attest services under Education Law, Section 7410.4 is also required to participate. Firms in the MQRP are required to undergo a peer review once every three years as a condition of their firm registration renewal. The purpose of the MQRP is to promote quality in the attest services provided by CPAs.

III. QROC Responsibilities

The QROC derives its regulatory authority from Section 70.10 of the Regulations of the Commissioner. The purpose of the QROC includes approving and monitoring the Sponsoring Organization, informing and reporting matters concerning peer review to the Department, assessing and reporting on the effectiveness of the program, and reviewing individual peer reports for compliance.

The committee has the responsibility to:

- receive and approve administration plans from entities applying to be sponsoring organizations;
- monitor sponsoring organizations to provide reasonable assurance that the sponsoring organization is conducting the peer review program in accordance with the quality review standards;
- inform the Department of any issues and/or problems relating to the quality review program which may require the Department's intervention;
- annually report to the Department as to whether each sponsoring organization meets the standards necessary to continue as an approved sponsoring organization;
- annually assess the effectiveness of the quality review program;
- annually report to the Department on any recommended modifications to the quality review program;
- review each quality review report submitted by a firm, as part of its registration or renewal of its registration, to determine whether the firm is complying with applicable professional standards.
- where applicable, the QROC may refer firms that are not in compliance with applicable standards to the Office of Professional Discipline pursuant to Education Law section 6510; and
- ensure that any documents received from a firm or reviewer remain confidential and not constitute a public record, unless such document is admitted into evidence in a hearing held by the department.

IV. Committee Members

The QROC is comprised of six members: five licensed members and one public member who are appointed by the NYS Board of Regents. Licensed members must be licensed certified public accountants in New York State, hold current registrations with the department, and may not be members of the state board for public accountancy or one of its committees. The public member must have received or used the services provided by CPAs. Members are appointed to five-year terms, except when the committee was initially formed and then staggered terms were used.

Members:

Diane Christensen, CIA, CRMA
John Roger Donohue, CPA
Mary MacKrell, CPA
David J. Moynihan, CPA
John C. Olsen, CPA
Frank S. Venezia, CPA

Membership Term:

Feb 1, 2013 – Jan 31, 2018
Apr 1, 2011 – May 31, 2014
Mar 1, 2013 – Feb 28, 2018
Apr 1, 2011 – May 31, 2015
Apr 1, 2011 – May 31, 2016
Apr 1, 2011 – May 31, 2015

V. Statistics

The following statistics were obtained from the NYSSCPA's annual report to the QROC on the administration of the Peer Review program for 2012.

	NYSSCPA Peer Review Program	AICPA Peer Review Program
System Reviews:		
Pass	16	274
Pass with deficiencies	7	36
Fail	1	4
<i>Subtotal – System</i>	<i>24</i>	<i>314</i>
Engagement Reviews:		
Pass	8	136
Pass with deficiencies	1	29
Fail	2	12
<i>Subtotal – Engagement</i>	<i>11</i>	<i>177</i>
Totals	35	491

VI. QROC Recognized Peer Review Program Providers

The American Institute of Certified Public Accountants is currently the only Peer Review Program Provider that is acceptable to the Committee. The Committee accepts all AICPA-approved organizations authorized to administer the AICPA Peer Review Program. The AICPA's Peer Review Board (PRB) is responsible for maintaining, furthering and governing the activities of the AICPA's Peer Review Program, including the issuance of peer review standards, and peer review guidance. The Peer Review Program provides for a triennial review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards.

There are two types of peer reviews. System reviews are designed for firms that perform audits or other similar engagements. Engagement reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency(ies), or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

Entities that are acceptable to administer the peer review program in New York State are:

- New York State Society of CPAs (NYSSCPA) -NYSSCPA administers the AICPA Peer Review Program in New York. As the administering entity, NYSSCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's Standards. The NYSSCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews. The PRC delegates a portion of the report acceptance function to Report Acceptance Bodies (RABs).
- National Peer Review Committee (NPRC) -The AICPA also administers a peer review program through the National Peer Review Committee for firms required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB) or perform audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB.
- Other State Societies - New York registered accountancy firms with their main office located in another state are allowed to have their peer review administered by AICPA's administering entity for that state. In most cases, the administering entity is the state society in that state.

VII. Meetings and Accomplishments

Following are the meetings and accomplishments since its inception.

a. Committee Meetings - The QROC holds meetings as necessary in order to conduct business and report to the Department regarding the effectiveness of mandatory quality review program. Minutes from each public meeting are available upon request.

The QROC held nine meetings as follows:

June 7, 2011 – Albany, NY	September 20, 2011 – New York City, NY
November 1, 2011 – Albany, NY	February 8, 2012 – Albany, NY
July 18, 2012 – Albany, NY	October 12, 2012 – Albany, NY
January 9, 2013 – Albany, NY	April 30, 2013 – New York City, NY
July 24, 2013 – Albany, NY	

b. Appointment of Chair and Vice Chair - At the November 1, 2011 meeting, the committee unanimously agreed to appointment Frank Venezia as Chair and David Moynihan as Vice Chair of the QROC. The appointments help the committee function and the appointees serve as the primary contacts for the Board.

c. Approval of the Sponsoring Organization - At the November 1, 2011 meeting, the committee unanimously agreed to approve the NYSSCPA's Sponsoring Organization Application as the MQRP's Sponsoring Organization.

d. Administrative Oversight

In September 2012, Mr. Venezia observed the AICPA's biannual oversight visit of the NYSSCPA's peer review program. The oversight process was monitored through completion. In May 2013, the QROC and staff attended the NYSSCPA's Peer Review Committee meeting in which the AICPA oversight report was discussed. Based on the results of the procedures performed, the AICPA concluded that the New York State Society of CPAs had complied with the administrative procedures and related standards in all material respects as established.

Throughout the year, QROC members and staff have attended Peer Review Committee and Report Acceptance Body meetings as observers. The members or staff that attended the meetings reported back to the QROC that the meetings were effective and informative.

VIII. Recommendations

Based on QROC members' attendance at the various peer review committee and report acceptance body meetings, the AICPA's oversight visit and the monitoring of peer review reports, the QROC has found that the NYSSCPA as a Sponsoring Organization adheres to the standards and their process is efficient and well structured. The NYSSCPA's peer review committee members and staff were diligent in meeting the peer review standards and ensuring that the process was conducted in professional manner. The members of the PRC appear devoted to maintaining the quality of peer review program.

The QROC recommends that it establish written procedures for the QROC monitoring processes and develop a checklist to record the oversight of the PRC and RAB meetings.

IX. Conclusions

Based on its oversight activities, the QROC concluded that the New York State Society of Certified Public Accountants has been an effective administrator as the MGRP's Sponsoring Organization. Furthermore, the QROC recommends that the Department continue to support the NYSSCPA as the MGRP's Sponsoring Organization.