

NEW YORK STATE

QUALITY REVIEW OVERSIGHT COMMITTEE

2014-2015 ANNUAL REPORT

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I. Message from the Committee Chair

One of our goals for 2015 was to continue our aggressive monitoring of firms through the peer review remediation process and to formalize and document procedures. We have been successful in our efforts to make firms aware of the ramifications of either poor engagement performance or failure to comply with the remediation requirements of the peer review program. As a result firms have either stopped performing attest services or have been terminated from the peer review program and referred to the American Institute of Certified Public Accountants (AICPA) or other appropriate oversight entities.

Change in the profession and the peer review environment continues at a rapid pace. In May 2015 the AICPA released, *Enhancing Audit Quality, A 6-Point Plan to Improve Audits, The U.S. CPA profession's answer to quality financial statement audits of private companies, employee benefit plans and governmental audits.* In addition, in December 2014 the AICPA released, *Evolving the CPA Profession's Peer Review Program for the Future, A provocative vision of what practice monitoring could become* for comment and feedback on a more comprehensive Peer Review Program. Lastly, in May 2015 the U.S. Department of Labor (DOL) issued a study of 400 Employee Benefit Plan audits that found that 39 percent of these audits contained major deficiencies. The DOL found that the smaller the Employee Benefit practice the greater the incidence of audit deficiencies.

In addition to the turmoil these publications create, the Peer Review Program is promulgating the changes to the program set forth in 2014 designed to improve the quality of peer review in the short term. In late 2015 and into 2016 and beyond, these and other initiatives will begin to have a significant impact on the AICPA Peer Review Program, team and review captains and the firms they peer review and the future monitoring performed by QROC. QROC is well positioned to continue to aggressively monitor the AICPA Peer Review Program administered by the New York State Society of CPAs.

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 Mandatory Quality Review Program (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. 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 attest engagements. Engagement reviews are for firms that do not perform audits but perform other engagements such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, 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 assigns the system review report acceptance function to Report Acceptance Bodies (RABs); pass engagement review report acceptance is delegated to the Technical Reviewers with the Peer Review Committee oversight.
- 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/or inspected by the Public Company Accounting Oversight Board (PCAOB) or performs audits of non-Securities and Exchange Commission (SEC) issuers pursuant to the standards of the PCAOB. During 2014 audits of broker-dealers expanded the number of peer reviews administered by the NPRC.
- 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 of CPAs in that state.

V. Committee Members

The QROC consists 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 and may serve up to two terms. Mr. David J. Moynihan, CPA resigned from QROC in September 2014. There is currently one vacancy on the Committee for a licensed member.

<u>Member Name:</u>	<u>Member Term:</u>
Frank S. Venezia, CPA-Chair	Apr 1, 2015 – May 31, 2020
Diane Christensen, CIA, CRMA	Feb 1, 2013 – Jan 31, 2018
Mary MacKrell, CPA	Mar 1, 2013 – Feb 28, 2018
James Rockwitz, CPA	Sep 1, 2014 – Aug 31, 2019
John C. Olsen, CPA	Apr 1, 2011 – May 31, 2016

VI. Statistics: The following statistics were obtained from the NYSSCPA's annual report to the QROC on the administration of the Peer Review Program (PRP) for the calendar years 2012-2014. The NYSSCPA PRP program is administered by the NYSSCPA for firms that are not members of the AICPA or the NYSSCPA. The AICPA PRP is the program administered by the NYSSCPA for firms that have at least one partner that is a member of the AICPA.

	2012				2013				2014			
	NYSSCPA PRP		AICPA PRP		NYSSCPA PRP		AICPA PRP		NYSSCPA PRP		AICPA PRP	
System Reviews:												
Pass	16	(67%)	274	(87%)	15	(58%)	182	(80%)	21	(70%)	211	(73%)
Pass with deficiencies	7	(29%)	36	(11%)	9	(35%)	31	(14%)	3	(10%)	52	(18%)
Fail	1	(4%)	4	(1%)	2	(7%)	14	(6%)	6	(20%)	25	(9%)
Subtotal – System	24		314		26		227		30		288	
Engagement Reviews:												
Pass	8	(73%)	136	(77%)	8	(57%)	106	(76%)	6	(86%)	124	(93%)
Pass with deficiencies	1	(9%)	29	(16%)	5	(36%)	24	(17%)	0	(0%)	8	(6%)
Fail	2	(18%)	12	(7%)	1	(7%)	9	(6%)	1	(14%)	1	(.75%)
Subtotal – Engagement	11		177		14		139		7		133	
Total System & Engagement	35		491		40		366		37		421	

*Percentages are of the subtotal

VII. Meetings and Accomplishments

Following are the meetings and accomplishments in 2014 - 2015.

a. Committee Meetings - The QROC holds meetings 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.

Since the last annual report was issued, the QROC has held the following meetings:

December 8, 2014 – Albany, NY	January 28, 2015 – Albany, NY
May 5, 2015 – New York City, NY	July 15, 2015 – Albany, NY

b. NYSSCPA Peer Review Committee Oversight - The QROC attended the Society's Peer Review Committee Meeting on May 6, 2015 at the Society's Main Office in New York City. QROC members in attendance unanimously agreed the program is run by dedicated professionals in accordance with the AICPA standards. The QROC members agreed that the PRC was well informed and engaged in the process. Throughout the year, QROC members and board office staff have attended other Peer Review Committee meetings via telephone conference. The conclusion regarding the PRC oversight by QROC was that the peer review program was administered in accordance with the AICPA standards.

c. NYSSCPA's Oversight Reports – The AICPA performed an oversight of the NYSSCPA and issued a report on the NYSSCPA's Administration of the Peer Review Program. The QROC reviewed the report, the Society's response to the report and their corrective action plans, where required. The report indicates that the peer review program was in compliance with the peer review standards.

d. AICPA Peer Review Board Open Meetings – The QROC monitors the AICPA's PRB's public sessions throughout the year. QROC members and board office staff attend these meetings in person or via teleconference. The sessions are informative and allow for an exchange of ideas and practices across state lines.

e. Peer Review Standards: The QROC continues to monitor the AICPA's Peer Review Exposure Drafts and their effects on future peer reviews and on peer reviewers. The QROC reviewed the following: AICPA's Exposure Drafts for Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: (1) Preparation of Financial Statements Performed under SSARS and the Impact on Enrollment in and the Scope of Peer Review and (2) Peer Reviewer Performance, Disagreements and Qualifications. The proposed changes have been implemented or are scheduled for implementation. The QROC continues to monitor the evolution of the peer review program and suggest any regulatory changes, as required.

f. AICPA's Proposed Changes to Peer Review: In December 2014, the AICPA issued 'Evolving the CPA Profession's Peer Review Program for the Future.' The Concept paper envisions a stronger peer review oversight process with the help of emerging technologies. The plan envisions real-time continuous monitoring of the audits of financial statements. The Committee will continue to monitor the program as it develops.

g. Approval of the Sponsoring Organization - At the July 10, 2014 QROC meeting, the QROC unanimously agreed to continue the Sponsoring Organization Agreement with the NYSSCPA through December 31, 2015.

h. Regulatory Updates - The QROC continued to work on the Rules of the Board of Regents, Section 29.10, Unprofessional Conduct – Special Provisions for Profession of Public Accountancy as it relates to misconduct regarding the MQRP. The QROC has proposed language and continues to work with the State Board for Public Accountancy to further enhance the rules. The QROC has proposed changes to the Regulations of the Commissioner – Section 70.10 to update and reflect changes since the MQRP's inception in 2012.

i. Employee Benefit Plan (EBP) Audits - In May 2013, at the AICPA's Peer Review Open Board Meeting, it was reported that the U.S. Department of Labor (DOL) had referred firms to the AICPA for remedial peer review action. Based on the work DOL performed, it appears that firms failed to disclose their Employee Benefit Plan audits to their peer reviewer, as required by the standards. The QROC was notified and monitored 33 public accounting firms that had issues with their peer review relative to the EBP audits. To date, 27 of those firms have had a new peer review issued. The remaining 6 firms continue to be monitored by the QROC.

j. Monitoring of Firms in Peer Review - The QROC monitors firms throughout the remediation phase of their peer review, where applicable. Firms are informed by letter that the QROC is monitoring their remediation progress and are required to acknowledge receipt of the letter. Remediation is considered complete when the peer review is accepted as complete by the Society's Peer Review Committee. The QROC also monitors the firms that have dropped out of the program and those that are terminated by the program.

System and Engagement Reviews that have a rating of fail or pass with deficiencies are monitored by the QROC. Since the last annual report, the QROC has monitored 146 firms and includes firms that have been carried over from the prior year monitoring period. During this time, 96 firms had their peer reviews accepted as complete, while 50 firms are still being actively monitored.

VIII. Recommendations

The QROC continues to oversight the NYSSCPA's administration of the AICPA's Peer Review Program, and the further development of the AICPA's Peer Review Program. The Committee supports the changes that are being implemented currently, but has some reservations regarding the next generation real time peer review. We will continue to work with our partners at the state and national level. The QROC recommends that the Board support the initiatives already in place and participate in the discussion on future initiatives.

The QROC has made recommendations, in conjunction with the Board, to update the Rules of the Board of Regents and the Commissioner's Regulations as related to the peer review program. These recommendations include clarifying the small firm exemption and when disciplinary action is appropriate for firms failing to meet the peer review standards. The QROC recommends these changes be enacted.

The US Dept. of Labor's report on Employee Benefit Plan audit firms has given new insight into the needs of the Peer Review Program. In conjunction with other stakeholders we need to respond to that report with timely, meaningful solutions. One such solution is to change the exemption from the peer review for small firms. The QROC continues to express concerns that firms with two or fewer accounting professionals are not required to participate in the Mandatory Quality Review Program. Other states and nationally recognized standards do not have an exemption from their peer review program. The QROC is concerned with the overall public protection and recommends that firms with two or fewer accounting professionals be required to participate in the MQRP. The Committee recommends that the change to the law and regulations include the firms with two or fewer accounting professionals.

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 MQRP's Sponsoring Organization. Furthermore, the QROC recommends that the Department continue to support the NYSSCPA as the MQRP's Sponsoring Organization. The QROC also believes that the continued oversight of firms enrolled in the peer review program contributes to improving the protection of the public.