

NEW YORK STATE

QUALITY REVIEW OVERSIGHT COMMITTEE

2013-2014 ANNUAL REPORT

## Table of Contents

I.	Message from the Committee Chair	1
II.	Background	1
III.	QROC Responsibilities	2
IV.	Committee Members	3
V.	Statistics	3
VI.	QROC Recognized Peer Review Program Providers	4
VII.	Meetings and Accomplishments	5
VIII.	Recommendations	7
IX.	Conclusions	7

## I. Message from the Committee Chair

Presented here is the 2014 Annual Report of the Quality Review Oversight Committee (QROC). This is the second 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). Since the last report we have increased our monitoring of firms and streamlined certain processes and monitoring functions. Goals for the balance of 2014 and into 2015 are to continue to aggressively monitor firms through the remediation process and to formalize and document procedures.

This report comes at a time of significant change to all stakeholders in the audit process of private entities. The AICPA has issued a discussion paper Enhancing Audit Quality: Plans and Perspectives for the U.S. CPA Profession outlining various initiatives already in place as well as seeking input on some future initiatives. One of the near-term thrusts of this commitment to quality is the strengthening of the existing peer review process by employing the following:

- more extensive peer review procedures targeted to high-risk and complex areas and engagements;
- requiring low volume auditors to engage a third-party to perform pre- or post-issuance review of certain engagements;
- more timely evaluation of new engagements to a firm;
- enhancing the quality of peer reviewers through the use of a more streamlined process to remove reviewers who do not meet required performance criteria;
- developing the next generation of peer review to identify and address quality issues before an engagement is completed.

These and other initiatives will have an impact on the future monitoring performed by QROC.

## 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. 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, except when the committee was initially formed and then staggered terms were used. Mr. John Roger Donohue, CPA resigned from QROC in 2014. There is currently one vacancy on the Committee for a licensed member.

#### Member Name:

Frank S. Venezia, CPA-Chair  
David J. Moynihan, CPA-Vice Chair  
Diane Christensen, CIA, CRMA  
Mary MacKrell, CPA  
John C. Olsen, CPA

#### Member Term:

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

#### 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 2013.

	NYSSCPA Peer Review Program	AICPA Peer Review Program
System Reviews:		
Pass	15	182
Pass with deficiencies	9	31
Fail	2	14
<i>Subtotal – System</i>	<i>26</i>	<i>227</i>
Engagement Reviews:		
Pass	8	106
Pass with deficiencies	5	24
Fail	1	9
<i>Subtotal – Engagement</i>	<i>14</i>	<i>139</i>
<b>Totals</b>	<b>40</b>	<b>366</b>

## 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 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(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 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.

## VII. Meetings and Accomplishments

Following are the meetings and accomplishments in 2013 - 2014.

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 the following meetings:

January 9, 2013 – Albany, NY	April 30, 2013 – New York City, NY
July 24, 2013 – Albany, NY	September 18, 2013 – Albany, NY
November 13, 2013 – Albany, NY	January 8, 2014 – Albany, NY
May 6, 2014 – New York City, NY	July 10, 2014 – Albany, NY

b. NYSSCPA Peer Review Committee Oversight - The QROC attended the Society's Peer Review Committee Meeting on May 7, 2014 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. All 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. Each meeting oversight was documented by QROC members on an oversight checklist that was developed since the prior year.

c. 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.

d. Unprofessional Conduct and Peer Review - The QROC met with Dennis Spillane, Prosecuting Attorney of the Office of Professional Discipline, to better understand the Rules of the Board of Regents, Section 29.10, Unprofessional Conduct – Special Provisions for Profession of Public Accountancy, (29.10 Rules) in regards to Peer Review. Based on this meeting and research, the QROC provided proposed changes to the 29.10 Rules to the State Board for Public Accountancy. The QROC suggested language for the Board's consideration to change the 29.10 Rules related to the Peer Review Program and Unprofessional Conduct.

e. Employee Benefit Plan 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. In some cases the firms had their peer review report recalled and were required to have a new peer review conducted and in other cases the missing engagement was subsequently reviewed. The QROC continues to monitor firms with recalled peer reviews.

f. CPA Form 6PR - The Department created a new form entitled: Peer Review, Competency and Annual Statements form, CPA Form 6PR. The form details the Peer Review and Competency requirements, and includes the required Annual Statements for the firms and individual CPAs. Firms are required to attest to their peer review status, and if not mandated to have a peer review, state the basis for their request not to participate in the peer review program. An owner of the firm provides an affirmation that the licensees who supervise attest or compilation have met the competency requirements.

g. 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. Through July 10, 2014, the QROC has monitored 144 firms. During that time, 102 firms had their peer reviews accepted as complete, while 42 firms are still being actively monitored.

Beginning in May 2014, the QROC began monitoring firms that had issues with their peer reviews relative to the Employee Benefit Plan audits. In total, 33 firms have been involved and 33 firms continue to be monitored.



## VIII. Recommendations

The QROC continues to work in conjunction with the Board in the development of updated 29.10 Rules. The QROC recommendations are focused on the Rules of the Board of Regents, Section 29.10 – Special Provisions for the Profession of Public Accountancy. Recommendations include disciplinary action for firms with two successive substandard (pass with deficiency or fail) peer review reports and requiring an accelerated peer review in certain situations.

The QROC has expressed concern that small firms are not mandated to have a peer review. The recent Employee Benefit Plan audits have shown that some of the small firms performing these audits are not required to be enrolled in the Mandatory Quality Review Program as they do not meet the NYS requirements. The QROC was unable to obtain the data to monitor these enrolled firms when the peer review was not mandated by the MGRP despite the fact that the firm was in a peer review program. The QROC is concerned because of the potential risk to the public for the participants of these Employee Benefit Plans being audited by firms that are not enrolled in a peer review program and/or not being monitored by the QROC.

## 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.

Firms enrolled in the Mandatory Quality Review Program have become increasingly aware of QROC's oversight of their remedial actions in an effort to protect the public interest.