

2016-2017

NEW YORK STATE

QUALITY REVIEW OVERSIGHT COMMITTEE

ANNUAL REPORT

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I. Message from the Committee

In 2016 we saw sweeping changes to the Peer Review Program effective for reviews beginning after January 1, 2017. Additional annual training for reviewers is required for must-select engagements and review team composition is more heavily scrutinized. More in-depth review checklist questions have been added to higher risk engagements whereby a “no” answer may indicate an engagement was not materially performed in conformity with professional standards. These and many other changes have impacted the Peer Review Program.

In addition, in March 2017 the New York State Society of CPAs (NYSSCPA) announced that it would not continue as an Administering Entity. In September 2017, NYSSCPA communicated to the firms and reviewers that effective March 15, 2018 it would not continue as an administering entity. QROC was made aware of their intention in early 2017 and participated in the process of engaging the Pennsylvania Institute of CPAs as the administering entity for New York firms.

Legislation to remove the two or fewer accounting professionals exemption from peer review passed both houses and is waiting for the governor’s signature to become law.

The Peer Review Integrated Management Application (PRIMA) was launched in May 2017 as an update to the former system (PRISM) as a platform to schedule and administer reviews for firms, reviewers and administering entities. Early results were that there are several data and utilization issues and the result is that information regarding the reviews processed by the NYSSCPA is not available for this report.

Revisions to regulations were submitted to the Department by the Board in the fall of 2016 and have not been implemented. As a result of the NYSSCPA’s decision to not continue with the program a minor change to the regulations was required. The revision removes the requirement for the sponsoring organization to be located in New York State.

During 2016 -17 we continued to monitor the sponsoring organization and firms to help to improve the quality of assurance services in New York State.

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 review 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.
- Other State Societies - New York registered accountancy firms are allowed to have their peer review administered by AICPA's administering entity in another state. In most cases, the administering entity is the state society of CPAs in that state.

Given that the NYSSCPA will no longer be an administering entity the Committee will work with the Pennsylvania Institute of Certified Public Accountants (PICPA) over the next few months to enter into a sponsoring organization agreement for 2018.

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 all QROC members cannot 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. On October 12, 2016, the Committee voted unanimously to appoint Ms. MacKrell as Vice Chair.

Member Name:

Member Term:

Diane Christensen, CIA, CRMA

Feb 1, 2013 – Jan 31, 2018
(First term)

David Iles, CPA

Oct 1, 2015 – Sep 30, 2020
(First term)

Mary MacKrell, CPA
Vice Chair

Mar 1, 2013 – Feb 28, 2018
(First term)

John C. Olsen, CPA

Apr 1, 2016 – May 31, 2021
(Second term)

James Rockwitz, CPA

Sep 1, 2014 – Aug 31, 2019
(First term)

Frank S. Venezia, CPA
Chair

Apr 1, 2015 – May 31, 2020
(Second term)

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 2014-2016. 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.

	2014				2015				2016*	
	NYSSCPA PRP		AICPA PRP		NYSSCPA PRP		AICPA PRP		NYSSCPA PRP	AICPA PRP
System Reviews:										
Pass	21	70%	211	73%	20	67%	208	77%		
Pass with deficiencies	3	10%	52	18%	4	13%	34	13%		
Fail	6	20%	25	9%	6	20%	24	10%		
Subtotal – System	30		288		30		269		Not available	Not available
Engagement Reviews:										
Pass	6	86%	124	93%	11	92%	133	89%		
Pass with deficiencies	0	0%	8	6%	1	8%	10	7%		
Fail	1	14%	1	1%	0	0%	6	4%		
Subtotal – Engagement	7		133		12		149		Not available	Not available
Total System & Engagement	37		421		42		418		Not available	Not available

*Due to complications resulting from the AICPA's transfer of the Peer Review Program's monitoring software from PRISM to PRIMA, 2016 information will not be available until March 2018.

VII. Meetings, Accomplishments and Advocacy Efforts

Following are the meetings, accomplishments and advocacy efforts in 2016 - 2017.

a. Committee Meetings - The QROC holds meetings 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:

February 2, 2017 – Albany, NY

May 2, 2017 – New York, NY

July 19, 2017 – Albany, NY

October 12, 2017 – Albany, NY

On October 26, 2016, members of the QROC attended the State Board for Public Accountancy's Board meeting to present its 2015-2016 Annual Report.

On May 3 and July 12, 2017 members of the QROC performed an oversight visit of NYSSCPA Peer Review Committee.

b. NYSSCPA's Administrative Entity (AE) Status: On March 30, 2017, the NYSSCPA issued a letter to the AICPA stating their intention to end their status as an AE. The NYSSCPA will transition all administration of peer reviews to the Pennsylvania Institute of Certified Public Accountants (PICPA) effective March 15, 2018. The QROC has worked with the NYSSCPA to assist in the transition. The QROC has met with the PICPA staff and continues to work towards establishing PICPA as a Sponsoring Organization. The QROC will continue to work with both AEs as the transition is implemented through 2018.

The NYSSCPA will maintain a Peer Review Committee to stay current on peer review standards and assist their members in meeting the peer review requirements. Additionally, the PICPA plans to utilize the NYSSCPA's Report Acceptance Body (RAB) members to effectively carry out the peer review program. The QROC intends to maintain a relationship with the NYSSCPA's Peer Review Committee.

c. Approval of the Sponsoring Organization – The QROC is working with the NYSSCPAs to extend their agreement as the Sponsoring Organization from December 31, 2017 through March 15, 2018. Additionally, as mentioned above, the QROC is working with the Pennsylvania Institute of Certified Public Accountants' Peer Review Committee to enter into an agreement to begin as a sponsoring organization for New York public accounting firms in 2018.

d. Legislative Update – Legislation (A07895A/S6026A) has passed both houses of the legislature and it requires all public accountancy firms that provide attest services to participate in the Mandatory Quality Review Program. The QROC has long advocated for a legislative change to remove the exemption for firms with two or fewer accounting professionals and require that they participate in the peer review program. This will also close a loophole for those firms that generally have the least amount of resources to ensure quality assurance services were performed. The legislation is pending delivery to the Governor’s office and for his action. If signed into law, the bill will enhance the public protection by mandating the essential requirement of peer review.

e. Peer Review Committee (PRC) Oversight - The QROC attended the NYSSCPA’s Peer Review Committee meetings on May 3 and July 12, 2017 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 attended other PRC meetings via telephone conference. The conclusion regarding the PRC oversight by the QROC members was that the peer review program was administered in accordance with the AICPA standards.

Additionally, the Executive Secretary of the Quality Review Oversight Committee attended the PICPA Peer Review Committee on September 14, 2017 to address concerns with the transition from the NYSSCPA to PICPA.

f. Form Update - The QROC, in conjunction with the Board office, revised CPA Form 6 PR – Peer Review, Competency, and Annual Statements. The revisions on the form further clarifies the requirements for CPA firms to comply with the Mandatory Quality Review Program. If, as mentioned above, the pending legislation is signed into law, the form will require additional updates to reflect the removal of the firms with two or fewer professionals exemption from the Mandatory Quality Review Program.

g. AICPA’s Proposed Evolution of the Peer Review Administration – A discussion paper seeking input from the state CPA societies and state boards of accountancy - Revised January 2017. The QROC drafted a joint comment letter with the Board, providing comments, concerns and recommendations related to the proposal. Unfortunately, no action was taken when the joint letter was submitted for approval by the Department. Therefore, the joint comment letter was not submitted to the AICPA. Comment letters were due by June 30, 2017.

h. Regulatory Updates - The QROC continues to request the Department implement changes submitted in the fall of 2016. These proposed changes are to 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, and to the Regulations of the Commissioner – Section 70.10, to update and reflect changes since the MQRP’s inception in 2012. Only one regulatory change has moved forward, the requirement the sponsoring organization be located in New York State.

A consideration that will require additional changes to the Regulations of the Commissioner – Section 70.10 is the pending legislation as mentioned above. As such, the QROC will make recommendations to the Board for its consideration to implement the statutory changes.

i. PCAOB - Interim Inspection Program Related to Audits of Broker and Dealers. The QROC continues to monitor the various reports related to the inspections of public accounting firms providing audits and the related attestation engagements for Brokers and Dealers. The reports continue to find issues with firms that perform a limited number of engagements.

j. AICPA Peer Review Board (PRB) 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 and report back to the QROC. The sessions are informative and allow for an exchange of ideas and practices across state lines.

k. 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 NYSSCPA’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 128 firms, including firms that have been carried over from the prior year. During this time, 92 firms had their peer reviews accepted as complete, while 36 firms are still being actively monitored.

VIII. Recommendations

The QROC recommends that the Department extend its Sponsoring Organization Agreement with the NYSSCPA to March 15, 2018, while continuing to establish a Sponsoring Organization Agreement with the PICPA. The QROC is committed to having an oversight role during the transition period and having an oversight of the New York firms being administered by the PICPA. The QROC will continue to work with both state societies to ensure the statutory Mandatory Quality Review Program is carried out. Furthermore, the QROC recommends that it be allowed to comment on peer review initiatives that affect the national peer review program. The QROC has a commitment and desire to participate in the national discussion on the AICPA's peer review initiatives.

The recommendations that the QROC has made to update the Rules of the Board of Regents and the Commissioner's Regulations as related to the peer review program, are timely and necessary and we would like to see these changes implemented by the Department and the Board of Regents soon.

Additionally, given the pending legislation for the removal of the exemption for firms with two or fewer accounting professionals from the MQRP, additional updates to the regulations and forms will have to be made. The QROC is recommending that additional changes to the regulations be implemented timely.

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 Mandatory Quality Review Program's (MQRP) Sponsoring Organization. With the transition to Pennsylvania Institute of Certified Public Accountants (PICPA), the QROC will work to establish a Sponsoring Organization Agreement with PICPA as the Sponsoring Organization. Once in place, the QROC will establish an oversight role of the PICPA. Based on the QROC's interaction with the PICPA, the QROC is confident that the MQRP will continue to be an effective program monitoring firms in New York State.