

2017-2018

NEW YORK STATE

PEER REVIEW OVERSIGHT COMMITTEE

ANNUAL REPORT

Table of Contents

I.	Message from the Committee	2
II.	Background	3
III.	PROC Responsibilities	4
IV.	PROC Recognized Peer Review Program Providers	5
V.	Committee Members and Staff	6
VI.	Statistics	7
VII.	Meetings, Accomplishments and Advocacy Efforts	8
VIII.	Recommendations	11
IX.	Conclusions	11

I. Message from the Committee

In 2017 - 2018 there were significant changes to the Mandatory Peer Review Program (MPRP) at the national level and state level. Nationally, we saw changes to Chapter 3 of the American Institute of Certified Public Accountants' (AICPA) Peer Review Standards that greatly impacted the function of the Peer Review Oversight Committee (PROC) and the ability to obtain information from the administering entity. These changes, released in August, specify certain qualifications for PROC **members** and appear to extend to administrative staff that support the State Board for Public Accountancy. As a result, our administering entity is precluded from providing the PROC with essential information to carry out our function. Additional changes to the peer review program include the following: improvements to the process for remediating and removing poor reviewers; more stringent guidance regarding the evaluation of non-compliance with the risk assessment and documentation standards; and clearer guidelines to identify non-conforming engagements. These and many other changes have impacted the Peer Review Program on a national level.

On the state level, legislation to remove the two or fewer accounting professional's exemption from peer review was signed into law in October 2017. As a result of the law change, the Committee consulted with the Board for Public Accountancy and made recommended changes to the Commissioner's Regulations and the Board of Regents Rules. Other substantial revisions to regulations that were submitted to the Department by the Board for Public Accountancy in the fall of 2016 have not been implemented. The PROC remains committed to these critically important changes to the MPRP. In addition, we have a new administering entity, the Pennsylvania Institute of Certified Public Accountants (PICPA), took over the administration of New York State firms peer reviews, effective March 15, 2018.

As reported last year, 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. Data and utilization issues continued into 2017 and throughout 2018. The result is that information regarding the reviews processed by the PICPA or NPRC may not be fully reliable for this report.

During 2017 - 2018 we continued to monitor the Sponsoring Organization (the administering entity) 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. 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 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. The 2009 law required firms with three or more CPAs, providing attest services, to participate in the MQRP.

In the fall of 2017, the NYS Legislature revised the MQRP law. The new legislation repealed the small firm exemption and, therefore, all firms that provide attest services are required to participate in the peer review program. The changes to the law also included a name change of the program from the Mandatory Quality Review Program to “Mandatory Peer Review Program” (MPRP) and the committee from the Quality Review Oversight Committee to the Peer Review Oversight Committee (PROC).

III. PROC Responsibilities

The PROC derives its regulatory authority from Section 70.10 of the Regulations of the Commissioner. The purpose of the PROC 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 PROC 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 peer review standards;
- inform the Department of any issues and/or problems relating to the peer 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 peer review program;
- annually report to the Department on any recommended modifications to the peer review program;
- review each peer 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 PROC 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. PROC Recognized Peer Review Program Providers

The American Institute of Certified Public Accountants (AICPA) is currently the only Peer Review Program Provider that is acceptable to the PROC. The PROC 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 practice. The review is performed by a peer reviewer who is unaffiliated with the firm being reviewed. The goal of the program is to monitor and enhance quality, and conformity with 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 currently acceptable to administer the peer review program in New York State are:

- Pennsylvania Institute of CPAs (PICPA) - PICPA administers the AICPA Peer Review Program for New York firms as of March 15, 2018. Prior to this date, the New York State Society of CPAs (NYSSCPA) administered the peer review program for NY firms. As the administering entity, PICPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's Standards. The PICPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews.
- 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 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 are allowed to have their peer review administered by AICPA's administering entity in another state. The AICPA maintains the listing of the remaining administering entities.

V. Committee Members and Staff

The PROC consists of six members who are appointed by the NYS Board of Regents for five-year terms and may serve up to two terms. At least five members must be licensed CPAs and the sixth member may be a public member. Additionally, PROC members cannot be members of the State Board for Public Accountancy or one of its committees.

Licensed members must be licensed certified public accountants in New York State, and hold current registrations with the Department. If a public member is appointed to the PROC, he or she must have received or used the services provided by CPAs. The sixth seat is currently vacant due to the recent resignation of the public member.

<u>Member Name:</u>	<u>Member Term:</u>
David Iles, CPA	Oct 1, 2015 – Sep 30, 2020 (First term)
Mary MacKrell, CPA Vice Chair	Mar 1, 2018 – Feb 28, 2023 (Second 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)

Staff of the PROC – The PROC has three staff members, the Executive Secretary, Associate and Senior Auditor who support its efforts in effectively carrying out its duties and responsibilities. The Executive Secretary is the lead staff liaison for the members. In November 2017, the Associate Auditor, Glen Tesch, retired. His replacement, Daniel Churchill, onboarded in August 2018. The Senior Auditor, Philip Jesmonth, filled in during this vacancy. The volunteer members of the PROC rely on the support of the staff to conduct its meetings. The staff compiles the information on the firms that are monitored, and they coordinate with the sponsoring organization. This process was disrupted due to the changes in the AICPA's Peer Review Standards in August 2018.

VI. Statistics: The following statistics were obtained from the PRIMA system* on an Oct 1 – Sep 30th year.

	Oct 1, 2015 – Sep 30, 2016				Oct 1, 2016 – Sep 30, 2017				Oct 1, 2017 – Sep 30, 2018			
	NYSSCPA		NPRC		NYSSCPA		NPRC		NYSSCPA/ PICPA		NPRC	
System Reviews:												
Pass	203	73%	24	80%	155	79%	21	70%	162	72%	40	85%
Pass with deficiencies	41	15%	4	13%	21	11%	5	17%	33	15%	2	4%
Fail	34	12%	2	7%	20	10%	4	13%	29	13%	5	11%
Subtotal – System	278		30		196		30		224		47	
Engagement Reviews:												
Pass	131	89%			84	85%			114	81%		
Pass with deficiencies	12	8%			9	9%			13	9%		
Fail	5	3%			6	6%			13	9%		
Subtotal – Engagement	148				99				140			
Total All System & Engagement	456				325				411			

*Due to complications resulting from the AICPA's transfer of the Peer Review Program's monitoring software from PRISM to PRIMA, this data may not be fully reliable as there have been noted discrepancies.

VII. Meetings, Accomplishments and Advocacy Efforts

Following are the meetings, accomplishments and advocacy efforts in 2017 - 2018.

a. Committee Meetings - The PROC holds meetings to conduct business and report to the Department regarding the effectiveness of mandatory peer review program. Minutes from each public meeting are available upon request.

Since the last annual report was issued, the PROC has held the following meetings in Albany, NY:

- February 1, 2018
- May 17, 2018
- August 8, 2018

On October 25, 2017, members of the PROC attended the State Board for Public Accountancy's Board meeting to present its 2016 - 2017 Annual Report.

b. Administering Entity (AE) Status - Effective March 15, 2018 the NYSSCPA transitioned all administration of peer reviews to the PICPA. During 2017 - 2018, the PROC continued to work with the NYSSCPA to assist in the transition. On several occasions, the PROC members and staff met and corresponded with the PICPA staff to discuss the transition.

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 is utilizing the NYSSCPA's former Report Acceptance Body (RAB) members to effectively carry out the peer review program. The PROC will maintain a relationship with the NYSSCPA's Peer Review Committee.

c. Approval of the Sponsoring Organization - The PROC entered into an agreement with the Pennsylvania Institute of Certified Public Accountants' Peer Review Committee in 2018.

d. Legislative Update - Legislation (A07895A/S6026A) was signed into law by the Governor on October 23, 2017, two days prior to last year's annual report to the board. The law requires all public accountancy firms that provide attest services to participate in the Mandatory Peer Review Program. The PROC 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.

e. Regulation Update - In last year's annual report the PROC reported on a regulatory change in the Regulations of the Commissioner Section 70.10 to the requirement that the sponsoring organization be located in New York State. That change was permanently adopted by the Board of Regents on January 23, 2018.

As a result of the law change noted above, the Regulations of the Commissioner Sections 70.7, 70.8 and 70.10 and the Board of Regents Rules – Part 29.10 – Unprofessional Conduct - Special Provisions for the Profession of Public Accountancy were changed with permanent adoption by the Board of Regents on March 12, 2018. Additionally, some of the minor changes that were submitted in November 2016 by the State Board for Public Accountancy to the Department were reflected in these changes. The remaining major changes submitted in November 2016 remain pending.

f. Peer Review Committee (PRC) Oversight - On January 11, 2018, the Executive Secretary and Chair of the PROC attended the PICPA Peer Review Committee to continue its due diligence in the transition as the new sponsoring organization.

On May 17, 2018, members and staff of the PROC performed an oversight of the PICPA Peer Review Committee via teleconference after its meeting.

On September 13, 2018, members of the PROC attended an in-person oversight of the PICPA Peer Review Committee in Philadelphia, PA at PICPA main office. The staff of the PROC were barred from attending in person or via telephone due to the AICPA's changes to Chapter 3 of the Peer Review Standards as discussed below.

PROC members in attendance unanimously agreed the program is run by dedicated professionals in accordance with the AICPA standards. The PROC members agreed that the PRC was well informed and engaged in the process.

The conclusion regarding the PRC oversight by the PROC members was that the peer review program was administered in accordance with the AICPA standards.

g. Form Update - The PROC members, in conjunction with the staff, revised CPA Form 6 PR – Peer Review, Competency, and Annual Statements due to the legislation that was signed into law. The form reflected the removal of the exemption from the Mandatory Peer Review Program for firms with two or fewer professionals.

h. AICPA's Enhancing Audit Quality - The AICPA's initiative has had an impact during 2017 – 2018. Some indications of the impact follow: the rate of non-conformity with professional standards engagements detected on must select engagements has more than tripled since 2015; poor performing peer reviewers subject to remediation has quadrupled since 2014; and referrals to the State Boards of Accountancy since January 2014 through May 2017 were: 300 individual referrals and 346 firm referrals. In addition, 86% of firms improved on their next peer review when the Peer Review Program required a third-party review of engagements or their Quality Control Documents. The initiative continues with current areas of focus being risk assessment, documentation and single audit engagements. We are monitoring these changes and the effect on peer reviews.

i. PCAOB - Interim Inspection Program Related to Audits of Broker and Dealers. The PROC 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 these engagements.

j. AICPA Peer Review Board (PRB) Open Meetings - The PROC monitors the AICPA's PRB's public sessions throughout the year. PROC members and staff attend these meetings in person or via teleconference and report back to the full PROC. The sessions are informative and allow for an exchange of ideas and practices across state lines. At the August 2, 2018 PRB meeting, the PRB adopted amendments to Chapter 3 of the Peer Review Standards regarding staff of the PROC. Due to these changes, the staff of the PROC was not able to communicate with the administering entity or attend the PICPA's PRC meeting in September. The AICPA passed these changes without the involvement of the state boards, Peer Review Oversight Committees, or the National Association of State Boards of Accountancy's Compliance Assurance Committee (CAC).

k. Monitoring of Firms in Peer Review - The PROC monitors firms throughout the remediation phase of their peer review, where applicable. Firms are informed by letter that the PROC 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 respective Peer Review Committee. The PROC 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 PROC. Since the last annual report, the PROC has monitored 101 firms, including firms that have been carried over from the prior year. During this time, 55 firms had their peer reviews accepted as complete, while 46 firms are still being actively monitored.

VIII. Recommendations

The PROC recommends that the Department continue its Sponsoring Organization Agreement with the PICPA. Furthermore, the PROC recommends that it be allowed to comment on peer review initiatives that affect the national peer review program. The PROC has a responsibility to inform the Department regarding problems related to peer review and recommend modifications to fulfill those responsibilities we need to participate in national discussion on the AICPA's peer review initiatives.

The recommendations that the PROC has made to update the Rules of the Board of Regents and the Commissioner's Regulations as related to the peer review program in November 2016 are necessary, and we would like to see these changes implemented by the Department and the Board of Regents soon.

IX. Conclusions

Based on its oversight activities, the PROC concluded that the Pennsylvania Institute of Certified Public Accountants has been an effective administrator as the Mandatory Peer Review Program's (MPRP) Sponsoring Organization. The PROC has established an oversight role utilizing the PICPA; however, due to the AICPA's changes to the Chapter 3 of the AICPA Peer Review Standards, our oversight efforts are being impeded. Based on the PROCs interaction with the PICPA, the PROC is confident that the MPRP will continue to be an effective program monitoring firms in New York State once the issues are resolved with the AICPA's Peer Review Standards.