

2018-2019

NEW YORK STATE

PEER REVIEW OVERSIGHT COMMITTEE

ANNUAL REPORT

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I. Message from the Committee

The timing of this year's report includes three additional months through December 2019 and covers the time period Oct 1, 2018 to Dec 31, 2019. The Peer Review Oversight Committee (PROC) members felt it necessary to change the timing of its annual report to coincide with the November submission of the Plan of Administration by the administering entity, Pennsylvania Institute of CPA's (PICPA), to the American Institute of Certified Public Accountants (AICPA).

In 2018 - 2019 there were significant changes to the Mandatory Peer Review Program (MPRP) at the national and state level. The changes to Chapter 3 of the AICPA Peer Review Standards that were introduced in May 2018 greatly impacted the function of the PROC throughout 2018 and continued into 2019. As of the writing of this report in early October, the changes to Chapter 3 have not been finalized. As reported last year, there are significant concerns with the proposed changes and their impact on PROC members and especially the administrative staff of the PROC and State Board for Public Accountancy (Board). Further, the ability to obtain information from the administering entity has been severely reduced since the original proposed changes to Chapter 3 were released and has precluded the administering entity from providing the PROC with essential information to carry out our function.

Additionally, on a national level, in 2019 there was an exposure draft on the Uniform Accountancy Act, Article 7 – Permits to Practice - Firms. There were significant changes to make the Model Rules more closely reflect current practice. Some of the changes included: basic definitions, recognition of approved sponsoring organizations, requirement that non-AICPA members be allowed to participate in the AICPA's program, clarification on dates for completing tasks, guidance on Peer Review Oversight Committee members, and required submission of documents to the State Board. These and many other changes have impacted the Peer Review Program on a national level.

On the state level, as reported last year, the change made to the legislation to remove the two or fewer accounting professional's exemption from peer review was signed into law in October 2017 with an immediate effective date. Therefore, during the year, the firms that were immediately subject to peer review at the time the law as signed, were required to have a peer review completed. To enhance compliance with these changes, forms for firm registration and peer review compliance were updated to properly capture a firm's status as it relates to peer review. The PROC continues to seek its recommended changes to the Commissioner's Regulations and the Board of Regents Rules that were submitted to the Department by the Board in the fall of 2016 as they have not yet been implemented. The PROC remains committed to these critically important changes to the MPRP.

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 have continued since 2017 and continue to the present. The result is that information regarding the reviews processed by the PICPA or National Peer Review Committee may not be fully reliable for this report.

During 2018 - 2019 we continued to monitor the Sponsoring Organization (PICPA) 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 a 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 – March 31, 2021 (Second term)
Grace Singer, CPA	Feb 1, 2019 – Jan 31, 2024 (First term)
Frank S. Venezia, CPA Chair	Apr 1, 2015 – March 31, 2020 (Second term)

Staff of the PROC – The PROC has three staff members, the Executive Secretary and Auditor 1 and 2 who support its efforts in effectively carrying out its duties and responsibilities. The auditors had a title change from Associate Auditor to Auditor 2 and Senior Auditor to Auditor 1. The Executive Secretary is the lead staff liaison for the members. The Auditor 2 position that was filled in August 2018 was vacated in January 2019 and was backfilled with Thomas Cordell in August 2019. The Auditor 1, Philip Jesmonth, graciously filled in during the periods of 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 2018.

VI. Statistics: The following statistics were obtained from the PRIMA system*

<p>For the past several years, the PROC has presented statistics for the period Oct 1st to Sep 30th. As noted in this report, the timing of this year's report will encompass the period Oct 1st, 2018 through Dec 31st, 2019. Accordingly, the statistics will not be presented in a format comparable to prior years.</p> <p>*As reported in the previous year, 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.</p>	Oct 1, 2018 – Dec 31, 2019					
			PICPA		NPRC	
	System Reviews:					
	Pass	260	79%	57	85%	
	Pass with deficiencies	33	10%	7	10%	
	Fail	37	11%	3	5%	
	Subtotal – System		330		67	
	Engagement Reviews:					
	Pass	196	85%			
	Pass with deficiencies	23	10%			
	Fail	11	5%			
	Subtotal – Engagement		230			
Total All System & Engagement		627				

VII. Meetings, Accomplishments and Advocacy Efforts

Following are the meetings, accomplishments and advocacy efforts in 2018 - 2019. As noted above, this year's report includes additional months through the end of 2019.

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:

- December 12, 2018
- May 15, 2019
- August 14, 2019
- October 2, 2019

On October 24, 2018, the Chair of the PROC attended the State Board for Public Accountancy's Board meeting to present its 2017 - 2018 Annual Report.

b. Administering Entity (AE) Status - During 2018 - 2019, the PROC on several occasions, corresponded with the PICPA staff to discuss the administration of peer review, including changes to Chapter 3 of the Peer Review Standards.

c. Approval of the Sponsoring Organization - The PROC previously entered into an agreement with the Pennsylvania Institute of Certified Public Accountants' Peer Review Committee in 2018 for two years. In April 2019, PICPA submitted its Plan of Administration (POA) to the AICPA. The PROC obtained a copy of the accepted POA and agreed to accept it at its August 14, 2019 meeting.

d. Oversight of the Peer Review Committee (PRC) and Report Acceptance Body (RAB) - On January 10, 2019, the Chair and Vice Chair of the PROC attended the PICPA PRC and RAB meeting to continue the Committee's monitoring of the sponsoring organization. The Chair of the PROC also attended the May 23, 2019 PRC meeting. Ms. Singer attended a RAB meeting on July 25, 2019 and a PRC meeting on November 19, 2019. The Vice Chair attended a RAB meeting on December 10, 2019.

The PROC members who attended these meetings unanimously agreed the program is run by dedicated professionals in accordance with the AICPA standards. Based on the report from the members who attended the meetings, the PROC agreed that the PRC is well informed and engaged in the process and the RAB meetings are organized and well run.

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

e. Form Update - The PROC members, in conjunction with the staff, revised CPA Form 6 PR – Peer Review, Competency, and Annual Statements due to the change in using the electronic filing system. The PROC members assisted in the incorporation of the peer review information on the forms for registering a firm and the triennial renewal forms. The forms were modified to increase compliance and accuracy of the information received.

f. 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; the number of 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.

g. 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.

h. 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. As reported last year, at the August 2, 2018 PRB meeting, the PRB adopted amendments to Chapter 3 of the Peer Review Standards regarding staff of the PROC. There was another revision to Chapter 3 in January 2019. As of the writing of this report, the AICPA has not adopted final revisions to Chapter 3. Due to these changes, the **staff** of the PROC was not able to communicate with the administering entity or attend the AICPA's PRC meetings.

i. AICPA Administering Entity Oversight Report – During the fall of 2018, the AICPA had performed an oversight of PICPA as an administering entity. The Chair and Executive Secretary had a meeting with the AICPA Oversight Task Force (OTF) and the Director of PICPA’s Peer Review Program to discuss the role of the administrative staff of the PROC. The OTF had deliberations as to its perceived issue of conflict of interest based on the 2018 changes to Chapter 3 of the Peer Review Standards, as it pertains to the administrative staff who attended PICPA’s Peer Review Committee meeting in 2017. After explaining the nature, roles, and responsibilities of the Executive Secretary, the OTF decided that there was not a conflict of interest and issued PICPA an unmodified oversight report.

j. Uniform Accountancy Act, Article 7 - Permits to Practice - Firms. There were significant changes to this Article to make the Model Rules more closely reflect current practice. Some of the changes included: basic definitions, recognition of approved sponsoring organizations, requirement that non-AICPA members be allowed to participate in the AICPA’s program, clarification on dates for completing tasks, guidance on Peer Review Oversight Committee members, and required submission of documents to the State Board. The Chair of the Board and PROC provided a joint comment letter to the National Association of State Boards of Accountancy.

k. Compliance Assurance Committee – Due to the ongoing issues with the AICPA’s revisions to Chapter 3 of the Peer Review Standards, the National Association State Board of Accountancy’s Compliance Assurance Committee invited staff of the State Board and PROCs to its call on November 8, 2018. The Executive Secretary attended the call and provided feedback to the CAC on New York’s comments on Chapter 3.

l. 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 of these 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.

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, the AICPA's changes to the Chapter 3 of the AICPA Peer Review Standards, continue to impede our oversight efforts by making it difficult to obtain timely information about the status of a firm's peer review. Based on the PROC's 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.