

2020

NEW YORK STATE

PEER REVIEW OVERSIGHT COMMITTEE

ANNUAL REPORT

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I. Message from the Committee

In 2020 the Mandatory Peer Review Program was significantly impacted by the COVID-19 pandemic. Blanket extensions and delays slowed the pace of peer review completions as both firms and their peer reviewers grappled to learn how to provide services remotely. As a result, the number of firms monitored were at the highest level since the Committee's inception in 2012. The Pennsylvania Institute of CPA's (PICPA), the administering entity (AE) that administers the peer reviews of the majority of New York firms, also moved to remote operations.

The timing of this year's report covers the time period January 1, 2020 to December 31, 2020. Last year's annual report included three additional months as 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, PICPA, to the American Institute of Certified Public Accountants (AICPA).

The changes to Chapter 3 of the AICPA Peer Review Standards that were approved in 2018 continued to impact the PROC's ability to assemble information to monitor firms. As reported last year, the ability to obtain information from the AE has been negatively impacted since the original proposed changes to Chapter 3 were released and has precluded PICPA from providing the PROC with timely information to carry out our function. However, the staff of the PROC have explored and found new and different ways to obtain information to continue monitoring firms.

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.

During 2020, the PROC continued to pursue the 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 Mandatory Peer Review Program (MPRP). The changes, when approved, will provide the PROC with additional tools to improve firm compliance with the MPRP.

To further our monitoring of AEs, the PROC expanded its request for the Plan of Administration (POA) from several other AEs that administer the peer reviews of New York firms. A POA was obtained from the New England Peer Review (NEPR) and was requested from New Jersey Peer Review (NJPR). We were unable to obtain a POA from NJPR and were referred to the NJ PROC by the AICPA. Our contact with the NJ

PROC provided minimal information. Currently, in 2021, the PROC is reviewing the AICPA oversight reports for the three AEs to provide oversight.

As reported previously, the Peer Review Integrated Management Application (PRIMA) launched in May 2017 to replace the previous application to schedule and administer reviews for firms, reviewers, and administering entities. Data and utilization issues have continued since 2017 and continue. The result is that information regarding the reviews processed by the various AEs or the National Peer Review Committee is not timely and in some cases inaccurate. The PROC staff continue to submit “tickets” to the AICPA and PICPA to correct information on PRIMA.

During 2020, despite the issues related to COVID-19 pandemic, the PROC continued to monitor the administering entity (PICPA), other AEs, 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 (sponsoring organization) that is acceptable to the PROC. The PROC accepts all AICPA approved organizations (administering entities) that are 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) – As of March 15, 2018, PICPA administers the AICPA Peer Review Program for the majority of New York firms. Prior to this date, the New York State Society of CPAs (NYSSCPA) administered the peer review program for most 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 and Organizations - New York registered accountancy firms are allowed to have their peer review administered by an AICPA approved administering entity in another state. The AICPA maintains the listing of the administering entities assigned to each state.

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 or a licensed CPA. 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. At the end of 2020, the sixth seat was vacant due to the resignation of a member.

<u>Member Name:</u>	<u>Member Term:</u>
David Iles, CPA	Oct 1, 2020 – Sep 30, 2025 (Second term)
Mary MacKrell, CPA Vice Chair	Mar 1, 2018 – Feb 28, 2023 (Second term)
David Pitcher, CPA	Dec 1, 2019 – Nov 30, 2024 (First term)
Grace Singer, CPA	Feb 1, 2019 – Jan 31, 2024 (First term)
Frank S. Venezia, CPA Chair	Apr 1, 2020 – Mar 31, 2025 (Second term*)

*Frank Venezia served an initial 3-year term at the inception of the program. This is his second, 5-year 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 Executive Secretary, Jennifer Winters, is the lead staff liaison for the members. The Auditor 2 position was filled with Thomas Cordell in August 2019. The Auditor 1, Philip Jesmonth, has been in the position since November 2015. The volunteer members of the PROC rely on the support of the staff to conduct its meetings and handle routine firm matters related to peer review. The staff review the firms' annual statement on peer review compliance, compiles the information on the firms that are monitored, and communicate outstanding matters with the firms on behalf of the volunteer PROC members.

VI. Statistics: This year’s report includes the calendar year, note the timing of the reported data for prior years*. The following statistics were obtained from the PRIMA system**.

	Oct 1, 2016 to Sep 30, 2017				Oct 1, 2017 to Sep 30, 2018				Oct 1, 2018 to Dec 31, 2019				Jan 1, 2020 to Dec 31, 2020			
	NYSSCPA		NPRC		NYSSCPA/ PICPA		NPRC		PICPA		NPRC		PICPA		NPRC	
System Reviews																
Pass	155	79%	21	70%	162	72%	40	85%	260	79%	57	85%	202	65%	25	86%
Pass with deficiencies	21	11%	5	17%	33	15%	2	4%	33	10%	7	10%	55	18%	1	4%
Fail	20	10%	4	13%	29	13%	5	11%	37	11%	3	5%	53	17%	3	10%
Subtotal – System	196		30		224		47		330		67		310		29	
Engagement Reviews																
Pass	84	85%			114	81%			196	85%			86	78%		
Pass with deficiencies	9	9%			13	9%			23	10%			16	14%		
Fail	6	6%			13	9%			11	5%			9	8%		
Subtotal – Engagement	99				140				230				111			
Total System & Engagement	325				411				627				450			

*The timing of the statistics has changed. In the past the PROC had presented statistics for the period Oct 1st to Sep 30th and as noted last year's report, the timing changed to move to the calendar year period that included an additional three months for the period Oct 1, 2018 through Dec 31, 2019. This year the statistics are presented on the calendar year.

**As reported in previous years, 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 2020.

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, despite COVID-19, has held the following meetings:

- January 29, 2020
- May 20, 2020
- August 12, 2020
- October 28, 2020

On January 22, 2020, the Chair of the PROC attended the State Board for Public Accountancy's Board meeting to present its 2018 - 2019 Annual Report.

b. Administering Entity (AE) Status – PICPA submitted its Plan of Administration (POA) to the AICPA in April 2020. The Chair of the PROC contacted PICPA to obtain a copy of its POA. The PICPA sought the approval from the AICPA to release to the POA to the PROC. The Chair of the PROC held several conversations with the AICPA peer review staff before PICPA released the POA to the PROC. The PROC obtained a copy of the accepted POA and agreed to accept it at its October meeting. However, the PROC was concerned with several items listed in the POA pertaining to the PROC and the Commissioner's Regulations and asked for the Chair and Executive Secretary of the PROC to contact PICPA to discuss. The Chair and Executive Secretary of the PROC held a virtual meeting with the Director of the Peer Review Program at PICPA.

The Chair of the PROC attempted to obtain the POAs from New England Peer Review and NJCPAs as there are numerous NY firms that have its peer review administered by those administering entities. The two Administering Entities were hesitant to release the Plan of Administration without approval by the AICPA. Further,

the AICPA instructed the NJCPAs to have the NY PROC contact the NJ PROC as the NJCPAs is not the primary AE for NY firms. The POA was not provided. The NEPR released the POA without any attachments.

c. Oversight of the Peer Review Committee (PRC) and Report Acceptance Body (RAB) of PICPA - To continue the Committee's monitoring of the sponsoring organization, on July 16, 2020, Mr. Iles attended a RAB meeting and Ms. Singer attended a PRC meeting on July 28, 2020.

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.

d. Rules and Regulations - In January 2020, the Chair of the PROC and the State Board for Public Accountancy contacted the Deputy Commissioner regarding the status of the regulations that had been submitted in the prior years. The Deputy Commissioner retired shortly after the letter was sent to him. In the Spring, the new Deputy Commissioner was contacted as a follow up to their letter. It was decided that a renewed effort for the rules and regulations begin to address the needs of the mandatory peer review program. A revised set of rules and regulations was approved by the PROC and submitted to the Department in the summer of 2020. As of the end of the 2020, the rules and regulations had not been forwarded to the Board of Regents for adoption. This item will carryover to 2021.

e. AICPA's Enhancing Audit Quality - The AICPA's initiative continues to have an impact on firms and Peer Review. Peer reviewer training and oversight have increased the detection of non-conforming engagements to 70% or more. The AICPA also reported that 97% percent of firms that were required to undergo remedial actions improved their report rating on their next peer review. In addition, 53% of firms made the business decision to stop performing engagements in the area where non-conformity was detected. Due to COVID-19 pandemic, the Peer Review Program granted an automatic six-month extension for peer reviews and corrective actions with due dates through September 30, 2020 and waived the requirement for approval for remote reviews. The initiative continues with current areas of focus in risk assessment, engagement acceptance and continuance and certain SOC engagements. We continue to monitor these changes and the effect on peer review.

f. 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.

g. 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 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. The following PRB meetings were attended:

- January 30, 2020
- April 20, 2020
- May 7, 2020
- May 20, 2020
- August 20, 2020
- September 2, 2020
- November 6, 2020

h. Review of NY Peer Reviewers – The staff of the PROC obtained the listing of peer reviewers with a NY address from the AICPA's website. The staff reviewed the list and compared the data to the licensees and firms in its records. The results found that all peer reviewers were properly licensed except for an individual who was based in Florida. The staff of the PROC contacted the Florida licensee, the Florida licensee contacted the AICPA to correct the peer review listing as there was a discrepancy due to a firm merger. The staff noted that the firm registration of several peer reviewers had lapsed their firm registration. The staff contacted the firm owners to take action to remedy their firm registration status. At the end of 2020, one firm remained unregistered. This will be followed up in 2021.

i. Peer Review Compliance Committee – In 2020, the National Association of State Boards of Accountancy changed the name of the Compliance Assurance Committee to the Peer Review Compliance Committee. During 2020 there were no meetings held by the PRCC and the state Peer Review Oversight Committees.

j. 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. The determination to monitor, continue to monitor, or remove from monitoring is done at the PROC meetings in executive session.

System and Engagement Reviews that have a rating of fail or pass with deficiencies are monitored by the PROC. During 2020, the PROC has monitored 214 firms, including firms that have been carried over from the prior year. During this time, 91 of these firms had their peer reviews accepted as complete, while 123 firms are still being actively monitored. During 2020, due to COVID-19 all firms that had open corrective actions received an authorized extension by the AICPA.

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 are necessary, and we would like to see these changes implemented by the Department and the Board of Regents soon. As of the writing of the report, the Department has worked on the updates and is scheduled to be presented to the Board of Regents at their June 2021 meeting.

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 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.