

Remember: Quality Review Becomes Mandatory on Jan. 1, 2012

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New York State Education Law Section 7410 requires, with certain exceptions, that CPA firms undergo a mandatory quality review of their attest services every three years. The mandatory quality review requirement is effective for firm registration periods beginning on or after Jan. 1, 2012.

Under the regulations, a firm that is subject to the mandatory quality review requirement must submit a copy of the quality review report to the New York State Education Department's (SED) Office of the Professions each time the firm reregisters with the department.

It is important that CPAs know the following:

- The requirement applies to firms with more than two CPAs. Sole practitioners and firms of two or fewer CPAs are generally exempt (the "small firm exemption"). The small firm exemption is not available to those small firms that perform attest services specifically required pursuant to New York state law, or that perform attest services for any New York state or municipal governmental entity.

- Failure to schedule and submit a quality review in a timely fashion generally means a firm's registration for attest services will not be renewed.

- Not to be overlooked are the competency regulations that went into effect on Jan. 1, 2011, that have new minimum experience and continuing professional education (CPE) requirements for those who perform attest services.

Details of the Mandatory Quality Review Program

The regulations that implement the quality control review provisions of the 2009 accounting reform law include definitions, as well as operating, procedural and administrative rules applicable to quality reviews.

"Firm" means a domestic or foreign entity organized as a sole proprietorship, a professional service corporation, partnership, limited liability company, limited liability partnership or any other form of organization, according to Title 8 of New York Codes, Rules and Regulations (NYCRR) Section 7401-a.

"Attest services" are defined as audits, reviews and examinations under the Standards for Attestation Engagements, according to Title 8 of NYCRR Section 7401-a.

"Quality review standards" are defined as standards for performing and reporting on quality reviews promulgated by a recognized national accountancy organization, including but not limited to, those of the AICPA for Performing and Reporting on Peer Reviews, according to Title 8 of NYCRR Section 70.10-i.

Firms that do not perform attest services as defined above are not subject to the quality review mandate. Attest services do not include full disclosure compilations, compilations that substantially omit all disclosures or compilations issued with engagement letters but without an accountant's report.

A firm that is headquartered outside New York state but performs attest services within the state is subject to the mandatory quality review provisions. However, such a firm may

satisfy its requirements if it is currently enrolled in the AICPA Peer Review Program or a similar program promulgated by a recognized national accountancy organization and submits a peer review report with a rating of "pass" or "pass with deficiencies."

Quality Review and the SED Competency Regulations

Experience and Minimum Accounting and Auditing CPE Requirements

CPA firm owners—and certain other authorized employees—licensed prior to July 26, 2009, who sign or authorize someone to sign an accountant's report on financial statements of a client for attest services, and firm owners who supervise attest services, are subject to new competency standards required by SED regulations as of Jan. 1, 2011. Also, such CPA firm owners and authorized employees who were licensed on or after July 26, 2009 became subject to the competency regulations, as of the regulation's Jan. 7, 2010 effective date.

The competency standards require that these CPAs and other authorized employees obtain at least 1,000 hours of experience providing attest services or reporting on financial statements within the previous five years. The experience may be gained through employment in government, industry, an educational institution or a public accounting firm. They must also complete 40 hours of CPE in accounting, auditing or attest subject matter during the prior three calendar years, or in the calendar year in which the attest service is performed. This is in addition to meeting all professional standards relating to the attest services performed.

Peer Review in lieu of Satisfying the 1,000-hour Experience Requirement

The 1,000-hour experience requirement will be waived for CPAs who sign or authorize someone to sign an accountant's report on a financial statement of a client for attest services if they work for a firm registered with the SED that was peer reviewed and has received a grade of "pass" or "pass with deficiencies."

For those CPAs (partners or partner-equivalent) providing attest and review services and who do not work in peer-reviewed firms, the 1,000-hour experience requirement must be completed within the previous five-year period.

Exception for CPAs Performing Only Compilation Services

The 1,000-hour experience requirement does not apply to CPAs (partner or partner equivalent) who supervise a compilation engagement, or sign or authorize someone to sign an accountant's report on financial statements of a client for a compilation service; or any other licensed employees of the firm who are authorized by a firm owner to sign an accountant's report on financial statements of a client for a compilation service.

However, those CPAs described above are still required to complete the 40 hours of CPE in accounting, auditing or attest within the past three calendar years or in the calendar year in which the service is performed, and meet professional

standards relating to compilation services.

For more information:

- visit the NYSSCPA's website at www.nysscpa.org and click on the "Gov't Affairs" tab and then click on the "NY Reform Law" link;

- visit the NYSSCPA's website and click on the "Professional Resources" tab and then on the "Peer Review" link and go to "Section II: Mandatory Quality Review in NYS";

- call the NYSSCPA at 212-719-8300 and request assistance with questions regarding the new accountancy reform law; or

- visit the website of the SED Office of the Professions page at <http://www.op.nysed.gov/>

prof/cpa/cpaqualityreview.htm.

For more information on the existing AICPA Peer Review program, visit the same Peer Review pages on the NYSSCPA's website, or call 212-719-8300 and ask for peer review assistance. Those with questions may also visit www.aicpa.org/InterestAreas/Peer-Review or call the AICPA at 919-402-4500.

This is the first in a series of articles about the New York state mandatory quality review and competency regulations.

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