

**New York State Society of CPAs**  
**Annual Report on Oversight for 2010**  
**Date Issued – December 9, 2011**

**I. Administering Entity Oversight Process and Procedures**

1. Conduct of Oversight:
  - 1.1 Objectives
  - 1.2. Policies and procedures to ensure peer reviews are reported and conducted in accordance with (AICPA) peer review standards.
2. Oversight reviews are evaluated by the Committee on a consistent and fair basis. Each month a task force (three-member minimum) is assembled to carry out the acceptance process. The composition of the oversight subcommittee varies each year, and known potential conflicts due to knowledge of a firm, etc., are taken into consideration. If members cannot agree whether to accept/defer, then a review is reported to the full committee for deliberation.

Oversights will be conducted on no less than 2 percent of all reviews (with at least two system reviews), ready for committee acceptance during the year. On an annual basis, two system oversights must include either audits of employee benefits plans under ERISA, engagements under the Government Auditing Standards, or FDICIA engagements. Oversight procedures:

- 2.1. Monthly Oversight Status Report: Customized spreadsheet developed by State Society posted for each oversight upon notification from Committee of a new oversight. PRISM also utilized for oversight status. Data regarding firm being over sighted, peer review and reasons selected from AICPA oversight handbook listings.
  - 2.1.1. Documentation of reason(s) for selecting firm for oversight based on detailed criteria discussed in chapter 2 of Oversight Handbook regarding firm, reviewer, and review characteristics.
  - 2.1.2. Background check on peer reviewers
    - 2.1.2.1. Resumes, feedback forms (maintained in separate file in

team captain alpha sequence), number of reviews, and timeliness of submission of peer review documents, etc. information obtained from State Society files and/or reports from the AICPA database.

2.1.2.2 At least 33 percent of peer reviewer resumes will be verified each year.

2.1.2.3 Documents, checklists, and letters are those set forth in Chapter 2 of the Oversight Handbook, Exhibits 2–3 through 2–9.

2.1.3. Selection of overseer

2.1.4. Team captain (reviewer) and reviewed firm notified by NYSSCPA peer review staff on behalf of committee chair or subcommittee chair and schedule agreed to.

2.1.4.1. Formal notification letter and work paper request (see AICPA

samples) sent to peer reviewer and overseer.

2.1.4.2. Type of oversight: indicated on spreadsheet.

2.1.4.2.1. Contemporaneous with peer review field work (“on site or on location”)

2.1.4.2.2. Post completion of peer review report and before RAB

acceptance (“off site or off location”)

2.1.4.3. Documentation returned to peer reviewer after oversight is accepted by committee.

2.1.4.4. Documentation (Checklist and memorandum of findings and recommendations) submitted to oversight subcommittee:

2.1.4.4.1. Overseer presents case to the subcommittee: conclusion and recommended remediation, if any, based on majority opinion adopted by subcommittee.

2.1.4.4.2. Oversights resulting in changes to reports or letter of comments in draft or already issued and oversights resulting in no changes to reports noted on Oversight Status spreadsheet.

2.1.4.5. Committee acceptance/deferral reflected in letters utilizing AICPA sample letters with modifications as appropriate under the circumstances. Acceptance letters retained until another oversight is performed or three years, whichever occurs earlier.

2.1.4.5.1.

Unconditional

2.1.4.5.2. Conditional with remediation recommendations

3. Monitoring Results of Oversights

3.1. Unconditional

3.2. Number and reasons for extensions documented on Oversight status report in “Comments” column.

3.3. Corrective or monitoring action for a reviewer recommended as part of the oversight process follows the guidance in the RAB Handbook regarding reviewer performance.

3.2.2. Number of overdue oversights are developed from status report and reported to the committee at each committee meeting.

4. Policy regarding fees and out-of-pocket expenses:

4.1. Initial oversight is without charge to the reviewer or the firm. If a follow up oversight, mentor, etc., is required, then firm charged a fee determined by reference to prevailing market conditions.

5. AICPA recommended checklists, letters and memoranda utilized in the oversight process

5.1. AICPA Peer Review Program Oversight Handbook, Seventh Edition (June

2008), Exhibits 2–12 through 2–31.

6. Administration of AICPA Oversight Program:

6.1. Compliance with administrative procedures established by the AICPA Peer Review Board. Effective June 30, 2003, annually a committee member will make an on-site visit to check oversight files for completeness, documentation, and conclusions. Committee member also checks that technical reviewers have participated in at least one on-site review.

6.2. Information is entered into the computer system correctly.

6.3. Maintenance of website information with accurate and timely guidance.

Periodically review website and update for new developments.

6.4. Conform to AICPA suggested selection criteria for oversight of peer reviewers; see procedures regarding oversights discussion on preceding pages.

7. Administrative Procedures

7.1. Working paper retention policies. All work papers retained for 90 days from date of final acceptance letter. For peer reviews commencing on or after January 1, 2009, retention period will be 120 days. Thereafter, only report, LOC, and LOR and acceptance letter retained until next cycle. Annually, committee member tests retention and disposition of files procedures to determine compliance with AICPA provisions.

7.2. Appropriate acceptance and “provided that” letters are issued.

**Peer Review Committee  
Minimum Oversight Documentation**

1. **Committee** recommends TCs for review (on site or off site)
2. **NYSSCPA** sends notification letter to team captain and Committee overseer (if off-site letter requests working papers and other relevant documentation in addition to notification language).

3. Oversight Control spreadsheet updated by **NYSSCPA** staff and updates in PRISM as necessary.
4. **Overseer** completes Standard oversight Checklist and delivers to Chair of Subcommittee on Oversight and NYSSCPA staff
5. **Overseer** completes Memorandum of Conclusions in letter format addressed to Chair of Peer Review Committee in draft.
6. **Overseer** meets with two designated committee members to discuss findings. Consensus reached. Minutes of discussion are optional

Acceptance Letter addressed to Team Captain (either unconditional or provisional) prepared by NYSSCPA for **Committee Chair's** signature.

### **Annual Verification of Reviewers' Resumes**

The NYSSCPA administering entity verifies information within a sample of reviewers' resumes on an annual basis. The technical reviewer with the advice and consent of the Peer Review Committee ("Committee") performs the verification procedures:

- All reviewer resumes are verified over a three-year period.

Verification includes the reviewers' qualifications and experience related to engagements performed under GAGAS, audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to the FDIC Improvement Act of 1991, and include on a test basis, but are not limited to: (1) writing peer reviewers and requesting them to provide specific information, such as the number of engagements they are specifically involved with and in what capacity; (2) determining from the PRISM computer system whether the peer reviewer's firm actually performed those engagements during its last peer review; (3) verification of license to practice; and (4) verification of CPE attendance and credits.

### *Steps in the Verification of Reviewers' Resumes*

1. The verification includes all active reviewers (team captains, team members, and committee members) with a home office located in the New York State. An active reviewer is defined as a reviewer who has updated his/her resume and/or has performed peer reviews within the last three years.
2. At a minimum, one third of reviewers' resume information is verified in year 1; a total of two-thirds has been verified by year 2, and 100 percent have been verified by year 3.
3. A verification package consisting of a transmittal letter (exhibit 2-5), copy of the reviewer's resume, and verification of reviewer qualifications form (exhibit 2-6) is sent to the reviewer for completion.
4. A control document should be maintained to keep track of the date the requests were mailed and received. The sample "Reviewer Resume Verification Control Document" found in the AICPA over sight Handbook is used for this purpose.

The following procedures are followed:

- a. Reviewer reminder letter 1 is sent 30 days following the initial request. (Exhibit 2-7.)
  - b. Fourteen days after the date of the first letter, if the reviewer does not respond or submit the required documents, letter 2 is sent by certified mail—return receipt requested.
  - c. Within 14 days of sending the second letter, if the reviewer does not respond or the required documents are not received, the reviewer is contacted to determine the reason for the failure. The results of this call or electronic request are documented.
  - d. If the committee decides to suspend the reviewer's ability to schedule peer reviews, a suspension letter with copies of the first and second letters is sent to the board and a copy is provided to the reviewer. (Exhibit 2-9.)
5. When the resume verification package is returned, the verification procedures recommended at Exhibit 2-4, "Reviewer Resume Verification Procedures and Results," are performed and documented.

Administering entities challenge reviewers who may not appear to have the requisite experience to review engagements performed under GAGAS, audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to the FDIC Improvement Act of 1991.

As part of the verification process, we determine that the reviewer's CPE satisfies Interpretation No. 31d-1 of paragraph .31 in PRP section 1000, *Standards for Performing and Reporting on Peer Reviews* (AICPA, *Peer Review Program Manual*, PRP sec. 1000).

If a reviewer fails to cooperate in revising his/her resume (peer review staff administering the resume verification procedures will confirm that reviewers who are required to update their resumes as a result of the verification procedures have, in fact, done so by accessing the resume at the AICPA web site) or responding to questions during the resume verification process in a timely professional manner, the Committee meets to determine whether the reviewer should be suspended from performing peer reviews.

## II. Summary of Peer Review Programs

1. The New York State Society of CPAs (NYSSCPA) serves as the administering entity for the AICPA Peer Review Program in the State of New York, and also administers the New York State Society of CPAs Peer Review Program (which operates exactly the same as the AICPA Peer Review Program) for firms enrolled in the Mandatory Quality Review Program as required by New York State law.
2. Number of Enrolled Firms by Number of Professionals\* as of December 31, 2010.

	<b>NYSSCPA Peer Review Program</b>	<b>AICPA Peer Review Program<sup>^</sup></b>
Sole Practitioners	15	561
2 to 5	22	651
6 - 10	5	250
11 - 19	0	113
20 - 49	1	60
50 - 99	0	12
100+	0	4
<b>Total Enrolled Firms</b>	<b>43</b>	<b>1651</b>
**There are 289 No A&A Firms		

\* Professionals are considered all personnel who perform professional services, for which the firm is responsible, whether or not they are CPAs. The number of enrolled firms is as of 12/31/2010.

<sup>^</sup>At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program.

3. Results of Peer Reviews Performed During the Year 2010

a. Results by Type of Peer Review and Report Issued

	<b>NYSSCPA Peer Review Program</b>	<b>^AICPA Peer Review Program</b>
<b>System Reviews:</b>		
Pass/Unmodified without LOC	13	201
Pass with deficiency(ies)/Modified	0	39
Fail/Adverse	0	7
Subtotal – System	13	247
<b>Engagement Reviews:</b>		
Pass/Unmodified without LOC	3	157
Pass with deficiency(ies)/Modified	2	16
Fail/Adverse	0	4
Subtotal - Engagement	5	177
<b>Totals</b>	18	424

Note: The above data reflects peer review results as of December 31, 2010. Approximately 0.90% of 2010 reviews are in process and their results are not included in the totals above.

^At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

b) Number and Reasons for Report Modifications

The following lists the reasons, summarized by elements of quality control as defined by Statement on Quality Control Standards, for report modifications (when a pass with deficiencies/modified or fail/adverse report is issued.)

<b>Reasons for Report Modifications</b>	<b>NYSSCPA Peer Review Program</b>	<b>^AICPA Peer Review Program</b>
Leadership responsibilities for quality within the firm ("the tone at the top")	0	3
Relevant Ethical Requirements	0	0
Acceptance & Continuance of Client Relationships and specific engagements	0	1
Human Resources	0	19
Monitoring	0	39
Engagement Performance	0	32
<b>Totals</b>	0	94

Note: The above data reflects peer review results as of December 31, 2010. Approximately 0.90% of 2010 reviews are in process and their results are not included in the totals above.

^At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

c) Number of Engagements Not Performed or Reported on in Accordance with Professional Standards in All Material Respects.

The following shows the total number of engagements reviewed and the number identified as “substandard” from peer reviews performed during 2010. The Standards state that an engagement is ordinarily considered substandard when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards.

Engagement Type	NYSSCPA Peer Review Program		^AICPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Reviewed	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	0	0	75	7
Audits – Governmental – All Other	2	0	70	7
Audits – ERISA	2	0	94	10
Audits – FDICIA	0	0	0	0
Audits – Other	16	0	321	27
Reviews	21	3	328	19
Compilations with Disclosures	7	0	158	5
Compilations without Disclosures	8	0	345	6
Financial Forecast & Projections	0	0	6	0
Other SSAEs	2	0	20	1
Non-Clearing Broker Dealers	0	0	3	1
<b>Totals</b>	<b>58</b>	<b>3</b>	<b>1420</b>	<b>83</b>

Note: The above data reflects peer review results as of December 31, 2010. Approximately 0.90% of 2010 reviews are in process and their results are not included in the totals above.

^At least one partner of the firm must be a member of the AICPA to enroll in the AICPA Peer Review Program

#### d) Summary of Required Follow-up Actions

The Peer Review Committee is authorized by the Standards to decide on the need for and nature of any additional follow-up actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the Peer Review Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The Peer Review Committee also considers the comments noted by the reviewer and the firm's response thereto. If the firm's response contains remedial actions which are comprehensive, genuine, and feasible, then the committee may decide to not recommend further follow-up actions. Follow-up actions are remedial and educational in nature and are imposed in an attempt to strengthen the performance of the firm. A review can have multiple follow-up actions.

For 2010, the table on the following page represents the type of follow-up actions required.

	NYSSCPA Peer Review Program	^AICPA Peer Review Program
Type of Follow-up Action		
Agree to take certain Continuing Prof. Education (CPE)	0	20
Agree to comprehensive inspection	0	0
Agree to hire consultant for inspection	0	0
Agree to hire consultant for preissuance reviews	0	12
Agree to strengthen staff	0	0
Submit proof of CPE taken	0	8
Submit copy of inspection report	0	1
Submit inspection completion letter	0	1
Submit report on consultant	0	0
Submit quarterly progress reports	0	0
Submit to team captain (TC) revisit – general	2	13
Submit to TC review of sub engagements with workpapers	0	2
Submit to committee member visit	0	0
Agree to have accelerated review	0	2
Oversight of Inspection – Review	0	0
Oversight of Inspection – Visitation	0	0
Submit Inspection Report to Team Captain	0	6
Team captain to review Quality Control Document	0	2
Review of formal CPE plan by outsider	0	0
Submit a CPE plan to the committee	0	1
Outside Party to Review Inspection	0	1
Outside Party to Visit During Inspection	0	1
Submit to TC review of sub engagement without workpapers	0	1
Submit inspection report to outside party	0	0
Team captain review correction of substandard engagement	0	2
Outside party review substandard correction	0	0
Does not perform any auditing engagements	0	0
Submit additional information regarding repeat findings	0	2
Submit monitoring report to Committee	0	0
Submit monitoring report to Team Captain	1	20
Oversight of monitoring by Team Captain	0	0
Submit proof of purchase of manuals	0	1
Submit evidence of proper firm licensure	0	0
Agree to hire consultant – preissuance reviews	0	0
Submit to TC review of sub engagement with workpapers	0	3
Receiving revised report		
Totals	3	99

Note: The above data reflects peer review results as of December 31, 2010. Approximately 0.90% of 2010 reviews are in process and their results are not included in the totals above.

### III. Oversight Process

#### Oversight Results

##### a) Peer reviews

##### AICPA Member Firms

Type of Peer Review (Sys, Eng, Rpt)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC, NONE)
System	8 (some of which include ERISA and Yellow Book)
Engagement	2

What is not reflected is that the committee exceeded the 2% requirement in 2009, which could have been carried over to 2010.

##### AICPA Non-Member Firms

Type of Peer Review (Sys, Eng, Rpt)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC, NONE)
System	0
Engagement	0

##### b) Verification of reviewer's resumes

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
100	33	33%

##### c) Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	October 19-20, 2011
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	September 28-29, 2010