



Think Your Firm Is Exempt from Mandatory Quality Review?

Take a Closer Look

January 1, 2012, marks the start of a new era for peer review in New York State. For the first time in the state's history, most firms that provide attest services will be required by law to undergo a peer review (referred to as "mandatory quality review" [MQR] by New York State law) every three years. Without proof of such a review, firms that offer attest services will not be allowed to register or reregister with the state, which is also required by law.

According to the State Education Department (SED), attest services include audits, reviews, and examinations conducted under the following standards: Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Attestation Engagements, Government Auditing Standards, and audits of non-SEC issuers performed in accordance with Public Company Accounting Oversight Board (PCAOB) standards.

Certain firms are exempt from the quality review requirement: unincorporated sole proprietorships and firms with two or fewer CPAs. However, every firm in New York State that provides attest services for a government agency, board, division, municipality, or public corporation—virtually any entity that performs a governmental or proprietary function—must undergo a quality review. Firms that perform any type of attest service that is required by state law—even if it is for a nongovernment agency that hired the firm for this service and even if that firm is a sole proprietorship or has two or fewer CPAs—are also required to undergo an MQR. No exceptions.

Qualifying governmental attest services include audits and reviews required to be *submitted* to the New York State Charities Bureau, Attorney General's Office, SED, Health Department, or any state agency, according to the SED. Qualifying municipal services include attest services required by any New York State municipality, including New York City. Audits are required by law

for schools, fire districts, rental properties, nonprofits, and other providers.

Implications of the Law

What does this mean? It means that peer review is no longer voluntary for most New York firms. Firms that are AICPA members are currently required to undergo a peer review, so many New York firms already comply with the law. The process for them will remain largely the same, because the state will recognize peer reviews conducted in compliance with AICPA peer review standards. But membership in the AICPA is voluntary, so it has been the case that any firm that did not want to undergo a peer review of its attest services could essentially avoid one. That is about to change. Starting January 1, 2012, the state will have access to the results of firms' quality review reports and be ready to take disciplinary action against those that fail to comply with applicable professional standards. While a firm's quality review results will continue to remain confidential, in that they will not be considered public documents, if a review is admitted into evidence in an SED hearing, the review then becomes a public record subject to the state's disclosure rules.

With New York taking on the role of regulator when it comes to MQR, the SED has established the Quality Review Oversight Committee (QROC), a five-member panel appointed by the state Board of Regents. The QROC's responsibilities include approving and monitoring sponsoring organizations that will administer quality reviews (the NYSSCPA has applied to be such an organization); informing the SED of any problems related to the MQR program that may require the department's intervention; making an annual recommendation as to the qualifications of the sponsoring organizations; assessing the quality review program overall; analyzing review reports to ensure that firms are complying with professional standards; and ensuring that documents received from a review-

er or firm are confidential and do not constitute a public record.

If the results of the QROC's review indicate that a firm is complying with applicable professional standards and has received a quality review report issued by a reviewer approved by the SED without deficiencies, the QROC will recommend that the SED accept the firm's quality review report. However, if the QROC's review reveals that a firm's quality review report includes deficiencies, or indicates that the firm was not in compliance with applicable professional standards, and if the QROC finds that the report warrants disciplinary action, the QROC may refer the firm to the Office of Professional Discipline.

There are currently 3,323 registered firms in New York, according to the SED. While not all of them will be required to undergo an MQR, for the first time, the state will have access to all quality review reports so that, if necessary, corrective action will not only be recommended, but also required. If those recommendations are ignored, there will be consequences. This gives the public the assurance that quality CPA firms will continue to provide quality services and those that don't will be sanctioned appropriately.

January 1, 2012, is fast approaching. New York firms that provide attest services and meet any of the above criteria must be registered with the SED, and the attest services they provide must undergo an MQR. The NYSSCPA has provided a resource page on its website at www.nysscpa.org for more information.

If you believe that your firm does not need to be registered under the new MQR rules, it might benefit your firm and your clients to verify that assumption. Remember, due diligence is the hallmark of the CPA profession. □

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