

Taking a Look at the State Board's Peer Review Program

Effective September 7, 2010, the New Jersey State Board of Accountancy established a peer review program to monitor licensee compliance with applicable accounting and auditing standards adopted by generally recognized standard-setting bodies. This program is intended to improve the quality of financial reporting, promote presentation fairness and ensure the dependability of information on which the public relies. This program replaces the former quality enhancement (QE) program.



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That Was Then

The QE program had required firms to submit financial statements to the state board. The state board, in turn, solicited licensed accountants to volunteer as reviewers to review the financial statements and report the findings to the program administrator. The administrator would then send a written report back to the enrolled firms. The QE program did not require firms to submit workpaper documentation to support the level of work performed – audit, review, compilation – for each engagement. The financial statement was the only document reviewed.

Due to staff attrition and a state hiring freeze, the QE program essentially became dormant in 2006. Unfortunately,

the accounting firms enrolled in this program were neither notified of the situation nor were they advised about what to do concerning their peer review. As such, some of these firms have not had a peer review since 2004 even though licensure in New Jersey requires firms to undergo a review every three years.

Approximately 400 firms were enrolled in the QE program. All other firms registered in the state of New Jersey had peer reviews as required by membership in various associations, such as the New Jersey Society of CPAs and the American Institute of CPAs.

These 400 or so firms in the QE program will now have to enroll in a sponsoring organization peer review program and, for the first time, may have a peer review where the reviewer will not only be looking at the financial statements, but at quality control systems, including workpaper documentation, a firm's library of professional standards, CPE records, licenses and so on.

This Is Now

The state board adopted the 2009 "Standards for Performing and Reporting on Peer Reviews" promulgated by the AICPA as its minimum standards for review of a firm's non-Securities and Exchange Commission (SEC) issuer practice. Under the new Peer Review program, a "firm" is defined as a sole

proprietorship, professional corporation, partnership, limited liability company, limited liability partnership or any other lawful form of business organization. For firms that perform public company audits, the state board adopted the firm inspection standards of the Public Company Accounting Oversight Board's (PCAOB) inspection process for reviewing SEC issuer practices, which are not included in the scope of peer review programs. A firm subject to the PCAOB's inspection process is also subject to a peer review of its non-SEC issuer practice.

Who's Included

Each firm that performs any attest service or any accounting and/or auditing engagements (audits, reviews, compilations, forecasts, projections or special reports performed under professional standards) must enroll in a peer review program of an approved sponsoring organization. The state board designated sponsoring organizations qualified to administer the peer review program as the Center for Public Company Audit Firms, the AICPA Peer Review Board or other AICPA-approved organization, the NJSCPA, the National Conference of CPA Practitioners, the PCAOB and such other entities that utilize substantially similar standards and that are approved by the state board.

A firm only performing compilations where no report is required under Statements for Accounting and Review Services (AR Section 80.22) is exempt from peer review. A firm that does not perform any engagements requiring enrollment in the peer review program is required annually to submit a request for exemption in writing to the state board with an explanation of the services performed by the firm.

A firm with an exemption that begins to perform services which would require a peer review must (1) notify the state board within 30 days of providing that service; (2) enroll in an approved sponsoring organization's program within 12 months; and (3) have a peer review within 18 months of the date the services are performed.



The Reporting Process


While the Peer Review program emphasizes "education and rehabilitation, rather than disciplinary action," firms that are performing poorly will be closely monitored. The state board has determined that firms receiving two consecutive review ratings of "pass with deficiencies" or "fail" shall have an accelerated review within 18 months of the firm's previous review.

If the accelerated review results in a review rating of pass with deficiencies or fail, the state board shall conduct a review to determine whether the firm may complete attest engagements, which field work had commenced or if the firm shall not perform any other attest services including accounting and/or auditing engagements, forecasts, projections or other special reports for a period of three years or until given permission by the state board.

A firm is required to submit within 30 days of receipt a copy of its peer review report and the final report as a result of any inspection by the PCAOB, together

with documentation of any significant findings and the firm's response.

The firm will also be required to complete the state board's Peer Review Compliance Reporting Form. This form is required to be filed with the state board within 30 days of receipt of the final acceptance of the peer review by the sponsoring organization.

While this is a lot to digest, the new peer review requirements should increase the proficiency of all firms while adequately protecting the public's interest. A copy of the new requirements is available at www.njscpa.org/docs/peerreviewrequirements.pdf. 

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