

# Virginia Society of CPAs

## Annual Report on Peer Review Program Oversight

Date Issued – April 6, 2011

### I. Administering Entity Oversight Process and Procedures

#### Objective of Oversight Process:

To (a) determine whether peer reviewers are performing reviews in accordance with standards and are reaching appropriate conclusions, (b) serve as an educational tool for the peer reviewer, (c) promote consistency and proficiency, (d) provide objective internal systems review to avoid allegations of conflict of interest and (e) provide assurance to regulatory authorities as to the effectiveness of the peer review process.

The chair of the Virginia Society of CPAs (VSCPA) Peer Review Committee will appoint an Oversight Subcommittee to be composed of no fewer than three members.

#### Factors Considered During Selection Process:

- High-volume peer reviewers — Those performing more than five peer reviews per year.
- Problem peer reviewers — Those identified by the Committee and/or a technical reviewer for performance issues.
- Conflicts of interest — Any peer reviewer serving on the Committee or acting as a technical reviewer will periodically be selected for oversight.
- High-risk firms — Those firms who perform Yellow Book and /or ERISA engagements.

#### Procedures: System Reviews

Problem reviewers will be selected for oversight as necessary by the Peer Review Committee. Problem reviewers may be required to pay for the cost of oversight as a requirement for continuing to perform peer reviews.

The Oversight Subcommittee will select at least 2 percent of system reviews (at least two reviews) per year for on-site oversight. Selection will be as follows:

- Determine all of the problem and high-risk peer reviewers.
- Identify peer reviewers having a conflict of interest.
- Identify high-risk firms.
- Try to select peer reviews meeting the high-risk category for the reviewers selected.
- As the oversight program continues from year to year, ensure that a broad variety of reviewers and high-risk firms are selected.

In addition, specific engagement oversights will be conducted as follows:

- At least two engagement oversights must be performed on an annual basis, if qualified engagements are available for review.
- The engagement oversights must be performed by a member of the Committee, or an appropriate designee.
- The two engagement oversights must include either audits of employee benefits plans under ERISA, engagements under the Governmental Auditing Standards or FDIC engagements.
- The two oversights selected should not be of the same type of audit.
- The engagement oversights can be performed off-site or on-site.
- The engagement oversight should include a review of all peer reviewer materials, the reviewed firm's financial statements and working papers on the engagement.

- The team captain should not be notified of the oversight until after submission of his or her materials to the Committee unless conducted in conjunction with an on-site system review oversight.
- The Committee Chair has the discretion to determine whether any engagement oversight will be conducted concurrently with the review or after the review has been completed.
- The individual conducting the engagement oversight must have recent experience in such engagements. The definition of "recent experience" means having experience within the last two years in the industry for which engagements are reviewed.

### **Procedures: Engagement Reviews**

Each of the VSCPA's three technical reviewers are required to perform oversight on at least two engagement reviews annually, which will include a review of the financial statements submitted for review by the firm. A total of no less than 2 percent of all engagement reviews must be selected for oversight.

Reviews will ordinarily be selected for oversight prior to the commencement of the technical review. The technical reviewer may recommend specific reviewers for oversight based on performance concerns. Technical reviewers may also, at their discretion, request a full set of working papers during the technical review process.

### **Administrative Oversight Procedures:**

The Committee chair will perform an administrative oversight of the Peer Review Program and staff during the years between American Institute of CPAs' (AICPA) on-site oversights. Exhibits 2-1 and 2-2 of the AICPA Oversight Handbook are used for this purpose. The oversight will also include evaluations of the technical reviewers in a manner deemed appropriate by the Committee. A formal report of this oversight will be presented to the Committee for approval at the next meeting following completion of the oversight.

## II. Summary of Peer Review Programs

1. The VSCPA serves as the administering entity for the AICPA Peer Review Program in the State of Virginia and the District of Columbia. It also administers the VSCPA Peer Review Program (which operates exactly the same as the AICPA Peer Review Program) for firms not enrolled in the AICPA Peer Review Program. The Virginia Board of Accountancy (VBOA) requires all licensed firms in the Commonwealth to be enrolled in a practice monitoring (i.e. peer review) program. The VBOA has designated VSCPA as an authorized report acceptance body to approve peer review reports issued for firms enrolled in peer review programs administered by VSCPA.
2. Number of Enrolled Firms by Number of Professionals\* as of August 30, 2010.<sup>1</sup>

	AICPA	Non - AICPA
Sole Practitioners	288	68
2 to 5	277	20
6 to 10	107	1
11 to 19	31	
20 to 49	24	
50 to 99	11	
100 +	3	
No A & A	155	21
Totals	896	110
Total enrolled firms:		1006

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<sup>1</sup> \* Professionals are considered all personnel who perform professional services, for which the firm is responsible, whether or not they are CPAs.

^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 Calendar Year 2009

a. Results by Type of Peer Review and Report Issued

	AICPA	Non-AICPA
System Reviews:		
Pass	105	4
Pass with Deficiency(ies)	3	0
Fail	6	0
Subtotal	114	4
Engagement Reviews:		
Pass	106	21
Pass with Deficiency(ies)	6	1
Fail	1	0
Subtotal	113	22

b. Number and Reasons for Report Modifications

Reasons for Report Modifications	VSCPA Peer Review Program	^AICPA Peer Review Program
Leadership responsibilities for quality with the firm (“the tone at the top”)	-	1
Relevant Ethical Requirements	-	1
Acceptance and Continuance of Client Relationships and specific engagements	-	2
Human Resources	-	1
Engagement Performance	-	7
Monitoring	-	1
Totals	0	13

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<sup>2</sup> The illustration above 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 or fail report is issued) and shows the number of firms that received modified reports from system reviews performed for 2009.

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

Engagement Type	VSCPA Peer Review Program		^AICPA Peer Review Program	
	Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Accordance with Professional Standards	Substandard	Not Performed in Accordance with Professional Standards
Audits – Single Audit Act (A-133)	0	0	34	2
Audits – Governmental – All Other	0	0	26	4
Audits – ERISA	0	0	2	0
Audits – FDICIA	0	0	0	0
Audits – Other	0	0	46	25
Reviews	8	0	155	2
Compilations with Disclosures	10	0	128	1
Compilations without Disclosures	23	0	247	9
Financial Forecast & Projections	1	0	7	1
Other SSAEs			10	0
Totals	42	0	655	44

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<sup>3</sup> The preceding shows the total number of engagements reviewed and the number identified as “not performed or reported on in accordance with professional standards in all material respects” from peer reviews performed during 2009. The Standards state that an engagement is ordinarily considered not performed and/or reported in accordance with applicable professional standards 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.

d. Summary of Required Follow-up Actions

Type of Follow-up Action	VSCPA Peer Review Program	^AICPA Peer Review Program
Agree to take certain Continuing Prof. Education (CPE)	1	28
Agree to hire consultant for inspection		1
Agree to hire consultant for preissuance reviews		4
Submit proof of CPE taken		1
Team Captain to review QCD		0
Submit to team captain (TC) revisit – general		0
Submit to TC review of sub engagement without workpapers		1
Submit monitoring report to Committee		0
Oversight of Monitoring by Team Captain		
Submit proof of purchase of manuals		0
Receiving revised report		0
Totals	1	35

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<sup>4</sup> 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 2009, the information above represents the type of follow-up actions required.

### III. Oversight Results

1. Peer reviews

a. AICPA Member Firms

Type of Peer Review (Sys, Eng, Rpt)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDICA, NONE)
System	4(ERISA, GAGAS and FDICIA)
Engagement	6

b. 2009 Verification of reviewer's resumes

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
46	19	41%

c. Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	December 30, 2010
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	October 5-6, 2009