

Virginia Society of CPAs

Annual Report on Peer Review Program Oversight

Date Issued – July 31, 2017

Period covered January 2, 2015 – December 31, 2015

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:

- Identify 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 or designee 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 December 31, 2015.¹

State	AICPA		Non-AICPA	
	DC	VA	DC	VA
Sole Practitioners W/O Audits	2	125	0	25
Sole Practitioners WITH Audits	10	66	1	20
2 – 5 W/O	3	155	0	17
2 – 5 WITH	8	99	1	10
6 – 10 W/O	1	51	0	3
6 – 10 WITH	5	63	1	0
11 – 19 W/O	2	12	0	1
11 – 19 WITH	3	32	0	0
20 – 49 W/O	0	0	0	1
20 – 49 WITH	0	21	0	0
50 – 99 W/O	0	0	0	0
50 – 99 WITH	2	4	0	0
100 – 199 W/O	0	0	0	0
100 – 199 WITH	1	1	0	0
Over 200 W/O	0	0	0	0
Over 200 WITH	0	1	0	0
No A& A	5	199	2	66
TOTAL	42	830	5	143

¹ * 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 2014

a. Results by Type of Peer Review and Report Issued

Review Type	Report Type	AICPA	Non-AICPA	Total
Engagement	Pass	108	14	122
	Pass w/ Deficiency	5	1	6
	Fail	8	0	8
System	Pass	98	7	105
	Pass w/ Deficiency	11	3	14
	Fail	5	3	8

b. Number and Reasons for Report Modifications

Reasons for Report Modifications	AICPA	Non-AICPA
Leadership Responsibilities for Quality	1	1
Relevant Ethical Requirements	1	1
Engagement Performance	13	4
Human Resources	4	1
Acceptance & Continuance of Client Relationship	2	0
Monitoring	6	1

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

Engagement Type	AICPA		Non-AICPA	
	Total Engagements Reviewed	Number not Performed in Conformance with Professional Standards	Total Engagements Reviewed	Number not Performed in Conformance with Professional Standards
Single Audit Act (A-133) Engagements	32	3	0	0
All others subject to GAS	30	2	4	4
Other SAS Engagements	131	10	16	2
Reviews	145	4	10	1
Compilations with Disclosures	114	4	8	4
Compilations omit Disclosures	235	17	29	1
Financial Forecast and Projection - examination	1	0	0	0
Financial Forecast and Projection - other	3	0	0	0
Other SSAE	2	1	0	0
SOC 1 Reports	1	0	1	1
SOC 2 Reports	1	0	0	0
Examinations of Written Assertions	3	0	0	0
Agreed-Upon Procedures	45	0	4	2
Other	4	0	0	0
Defined Contribution Plans Limited and Full Scope (excluding 403(b) plans)	37	8	1	0
Defined Benefit Plans Limited and Full Scope	4	0	0	0
ERISA Health and Welfare Plans	2	0	0	0
ESOP Plans	5	0	0	0
Defined Contribution Plans Limited and Full Scope (403(b) plans only)	6	0	0	0
Other Audits Under PCAOB Standards Not Covered by PCAOB Permanent Inspection Program	8	0	0	0
Attest Engagements Under PCAOB Standards not Covered by PCAOB Inspection	1	0	0	0
Compiled Financial Forecast and Projection	3	0	1	0
Preparation Engagements omit Disclosures	1	1	1	0
Grand Total	814	50	75	15

d. Summary of Required Follow-up Actions

Type of Follow-up Action	[^] AICPA Peer Review Program	VSCPA Peer Review Program
Agree to hire consultant for inspection	1	
Agree to hire consultant-preissuance reviews	16	3
Agree to take certain CPE	19	4
Clarification of one or more issues	1	
Receipt of additional information	1	
Receiving Revised Report	1	1
Receiving revised SRM	2	
Submit copy of inspection report	1	
Submit Monitoring Report to Committee	2	1
Submit proof of CPE taken	1	
Submit proof of purchase of Manuals	2	
Submit quarterly progress reports	4	1
Submit report on consultant	6	1
Submit to t/c review of subsequent engagement without w/p	5	
Submit to TC review of subsequent engs w/ w/p	2	
TC review correction of substandard engagement	1	
TC revision of working papers	3	1
Resolution of open questions	1	
Grand Total	69	12

III. Oversight Results

1. Peer reviews

a. AICPA Member Firms

Type of Peer Review (Sys/Eng)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDICA, NONE)
System	2(ERISA, GAGAS and FDICIA)
Engagement	6

b. 2014 Verification of reviewer's resumes

Total Number of Peer Reviewers	Total Number of Resume's Verified for Year	% of Total Verified
41	22	54%

c. Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	December 19, 2014
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	November 13, 2015