



State of Washington
Washington Society of CPAs

2013 Annual Report on Oversight

Date Issued – December 16, 2014

I. Administering Entity Oversight Process and Procedures

The Washington Society of CPAs (WSCPA) Peer Review Executive Committee (the Committee) monitors the performance of individual reviewers by selecting several reviews for oversight on an annual basis. The oversight program may be either a "field" oversight by visiting the reviewed firm in the field, or a "desk" oversight which would consist of a working paper review only. The purpose of the oversight program is to provide assurance that reviews are carried out consistently and in accordance with the *Standards*.

Annually the Committee will choose a cross section of reviews to be subject to oversight by the Committee within the guidelines of the AICPA Peer Review Program. The number and type of engagements chosen for oversight is subject to the discretion of the Committee; however, at least two engagement oversights will be performed by the Peer Review Committee, or its designee, from a national list of qualified reviewers on an annual basis. The two engagement oversights must include either audits of employee benefits plans under ERISA, engagements under *Governmental Auditing Standards* (GAGAS) or audits of insured depository institutions subject to the Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991.

At a minimum, 2% of all reviews performed in a 12 month period will be subject to oversight. Within that 2%, at least two of each type of peer review evaluated (i.e., system and engagement reviews) will be subject to oversight.

Oversight can take the form of a desk review of the work papers that were submitted to the Committee (System or Engagement reviews), a complete review of the entire Peer Review Engagement that would include submission of the entire files of the reviewer submitted to the Committee (System or Engagement reviews), or an on-site review during the performance of the review (System Reviews only). Generally, oversight of Engagement Reviews will include submission of the entire files of the reviewer, including the firm representation letter and copies of the financial statements provided by the firm to the reviewer.

Oversights will be conducted at the discretion of the Committee and may be selected at random or for one of the following reasons:

1. The report acceptance body questioned the appropriateness of the report issued and could not resolve its questions without an independent look at the reviewed firm.

2. There was a disagreement between the reviewed firm and the reviewer that could not be resolved without an independent look at the engagement(s) in question.
3. The report acceptance body questioned whether the reviewed firm understands the importance of the review findings or has committed to corrective actions that are practicable in the circumstances.
4. The reviewer had performed in an unsatisfactory manner on a prior review.

Other factors may contribute to a peer reviewer being selected for oversight and may include, but are not limited to, reviewers who:

- a. Frequently submit reports with a peer review rating of pass and no Finding for Further Consideration (FFC) forms.
 - b. Seldom, if ever, submit peer review reports with a rating of pass with deficiency or fail.
 - c. Appear to be submitting the exact same boilerplate FFC form(s).
 - d. Conduct their first System Review that contains high-risk industries.
 - e. Received communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of accounting, audit, or attestation engagements performed by the reviewer.
5. The reviewer's firm receives a report with a peer review rating of pass with deficiencies or fail on its current peer review.
 6. Engagements from peer reviewers new to the Committee should be selected for oversight.
 7. Engagements from reviewers that perform a substantial number of reviews.
 8. A random selection of reviews and/or reviewers.

Additional information regarding Oversight:

1. All reviewers conducting an oversight will be paid from the Committee oversight budget at the same rate as technical reviewers (\$180 per hour) for hours spent in the oversight function.
2. The AICPA Peer Review Program Oversight Checklist is utilized on all oversight engagements. Oversight reports are kept on file at the Society office for AICPA oversight visits.
3. The final report is prepared on letterhead and submitted to the Committee.
4. In those years when there is no on-site AICPA Oversight Task Force (OTF) oversight, an administrative oversight is performed on the WSCPA administration of the peer review program by a member of the WSCPA Peer Review Executive Committee or a designee approved by the Committee. Procedures performed cover the administrative requirements of administering the AICPA PRP. The administrative oversight reports are submitted to the AICPA as part of the annual Plan of Administration and are reviewed by the WSCPA Peer Review Executive Committee prior to submission.

II. Verification of Reviewer Resumes

In accordance with Oversight Enhancement No. 4, the WSCPA Peer Review Administrator will verify approximately one-third (1/3) of reviewers' resumes and CPE on an annual basis. All reviewers will be verified over a three year period. Verification will include 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. The verification procedures include providing specific information such as the number of engagements they are specifically involved with and in what capacity. The Peer Review Administrator will then compare the information provided by the reviewers to the reviewer resume on file in the AICPA system and to the reviewer firm's most recent background information to determine if the reviewer's firm actually performed those engagements during its last peer review.

III. Summary of Peer Review Programs

1. The WSCPA serves as the administering entity for the AICPA Peer Review Program in the State of Washington. The WSCPA also administers the WSCPA Peer Review Program (which operates in the same manner as the AICPA Peer Review Program) for firms not enrolled in the AICPA Peer Review Program (firms with no AICPA members). The Washington State Board of Accountancy (WBOA) requires all firms in the state which provide attestation or compilation services as part of their public accounting process to be enrolled in a practice monitoring program in order to renew their firm license. The WBOA has designated the WSCPA as an authorized report acceptance body to approve peer review reports issued for firms enrolled in peer review programs administered by WSCPA.

There are two types of Peer Reviews: System and Engagement

System Reviews are for firms that perform engagements under the Statement of Auditing Standards (SASs) or *Government Auditing Standards* issued by the U.S. Government Accountability Office; examinations of prospective financial statements or examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting under the Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); or audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB), in addition to reviews, compilations, or agreed-upon procedures.

The peer review report rating may be:

- Pass (the firm's system of quality control is adequately designed and the firm has complied with its system of quality control);
- Pass with deficiencies (the firm's system of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable standards in all material respects with the exception of deficiency[ies] described in the report); or
- Fail (the firm's system of quality control is not adequately designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects.

Engagement Reviews are for firms that perform only services under SSARS or services under SSAEs not included in System Reviews and focus on work performed and reports and financial statements issued on particular engagements (reviews, compilations or agreed-upon procedures).

The peer review report rating may be:

- Pass when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
- Pass with Deficiencies when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported in conformity with applicable professional standards in all material respects except for the deficiency(ies) that were described in the report.
- Fail when the reviewer concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of Fail is issued when deficiencies are evident on all of the engagements submitted for review. In some cases, the firm may have issued only one engagement, and thus received a fail rating.

2. Number of Enrolled Firms by Number of Professionals* as of November 25, 2014.

	WSCPA Peer Review Program	^AICPA Peer Review Program	Total Administered by WSCPA
Sole Practitioners	63	122	185
2-5	74	212	286
6-10	16	100	116
11-19	5	43	48
20-49	0	17	17
50-99	0	1	1
100+	0	0	0
Total Enrolled Firms	158	495	653

* 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.

In addition, there are 9 firms enrolled in the Washington Peer Review Program and 53 firms enrolled in the AICPA Peer Review Program that currently do not perform accounting and auditing services and, therefore, are not required to complete a peer review until such time as the practice resumes issuing such engagements.

The number of firms enrolled in the WSCPA Peer Review Program has increased greatly due to the Washington State Board of Accountancy's termination of its Quality Assurance Review Program for non-AICPA firms. The enrollment of these firms should be almost complete by December 31, 2015.

3. Results of Peer Reviews Performed During the Year 2013

a. Results by Type of Peer Review and Report issued

	WSCP Peer Review Program	^AICPA Peer Review Program	Total Administered by WSCP
System Reviews:			
Pass	2	46	48
Pass with Deficiencies	0	6	6
Fail	1	2	3
Subtotal - System	3	54	57
Engagement Reviews:			
Pass	34	102	136
Pass with Deficiencies	9	12	21
Fail	6	8	14
Subtotal - Engagement	49	122	171
Totals	52	176	228

Note: The above data reflects peer review results as of November 25, 2014. Fewer than 1% of 2013 reviews are in process, and the 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 (SQCS#7), 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 2013. A System Review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS#7. Since Pass with Deficiencies or Fail reports may have multiple reasons identified, the numbers contained in this table may exceed the number of Pass with Deficiencies or Fail System Reviews identified in 3 a).

	WSCP Peer Review Program	^AICPA Peer Review Program	Total Administered by WSCP
Acceptance & Continuance of Client Relationships and specific engagements	0	0	0
Human Resources	1	1	2
Engagement Performance	1	7	8
Monitoring	1	2	3
Other	0	0	0
Totals	3	10	13

Note: The above data reflects peer review results as of November 25, 2014. Fewer than 1% of 2013 reviews are in process, and the 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 Conformity with Professional Standards in All Material Respects

The following shows the total number of engagements reviewed and the number identified as “not performed or reported on in conformity with professional standards in all material respects” from peer reviews performed during 2013. The *Standards* state that an engagement is ordinarily considered not performed and/or reported in conformity 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.

	WSCPA Peer Review Program		^AICPA Peer Review Program		Total Administered by WSCPA	
	Number of Engagements		Number of Engagements		Number of Engagements	
	Reviewed	Not Performed in Conformity with Professional Standards	Reviewed	Not Performed in Conformity with Professional Standards	Reviewed	Not Performed in Conformity with Professional Standards
Audits-Single Audit Act (A-133)	0	0	21	6	21	6
All Others Subject to GAS	0	0	12	4	12	4
Other SAS Engagement	7	1	73	1	80	2
Reviews	18	4	135	5	153	9
Compilations with Disclosures	23	6	98	8	121	14
Compilations without Disclosures	57	11	168	21	225	32
SOC1 Reports	0	0	1	0	1	0
Agreed-Upon Procedures	2	0	21	1	23	1
Non-Carrying Broker-Dealers	0	0	1	0	1	0
Defined Contrib Plans – Ltd & Full Scope (excl 403b plans)	1	0	21	5	22	5
Defined Benefit Plans – Ltd & Full Scope	0	0	4	0	4	0
Defined Contrib Plans – Ltd & Full Scope (403b plans only)	0	0	2	0	2	0
ERISA Health & Welfare Plans	0	0	5	0	5	0
Total	108	22	562	51	670	73

Note: The above data reflects peer review results as of November 25, 2014. Fewer than 1% of 2013 reviews are in process, and the 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 corrective actions required as a condition of acceptance of the firm's peer review. During the report acceptance process, the Committee evaluates the need for follow-up actions based on the nature, significance, pattern, and pervasiveness of engagement deficiencies. The 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 corrective actions. Corrective 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 corrective actions. For 2013, the following represents the type of corrective actions required.

Type of Corrective Action	WSCP Peer Review Program	^AICPA Peer Review Program	Total Administered by WSCP
Resolution of matter under dispute	0	1	1
Agree to take certain CPE and/or provide proof of participation	14	29	43
Agree to hire consultant for pre-issuance review	0	1	1
Submit copy of inspection report	0	2	2
Does not perform any audit engagements	1	0	1
Submit to Team Captain review of subsequent engagement	1	0	1
Other	0	1	1
Totals	16	34	50

Note: The above data reflects peer review results as of November 25, 2014. Fewer than 1% of 2013 reviews are in process, and the 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.

III. Oversight Process

- a. In accordance with oversight policies and procedures, a summary of peer reviews selected for oversight in 2013 follows.

AICPA Member Firms

Type of Peer Review (Sys, Eng,)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDICA, NONE)
System (on-site)	2 (ERISA & GAGAS)
System (desk)	1
Engagement	3
Total	6

WSCPA Firms (Firms with no AICPA members)

Type of Peer Review (Sys, Eng,)	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC, NONE)
System	0
Engagement	4
Total	4

b. Verification of reviewers' resumes

Total Number of Peer Reviewers	Total Number of Resumes Verified for Year	% of Total Verified
42	16	38%

c. Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	September 3, 2014
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	October 7-8, 2013

For more information about the WSCPA Peer Review Program, please visit <http://www.wscpa.org/peer-review>

For information about the AICPA program, please visit <http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/Pages/PeerReviewHome.aspx>