

State of Washington  
Washington Society of CPAs

Annual Report on Oversight  
Period covered January 1, 2016 – December 31, 2016

Date Issued – May 22, 2018

## I. Administering Entity Oversight Process and Procedures

The Washington Society of CPAs (WSCPAs) 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 an "on-site" 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 (on-site oversight) 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, Single Audit Act (A-133) engagements, 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 (i.e., system and engagement reviews) will be subject to oversight.

Both firms and peer reviewers are subject to oversight that may include visiting the firm as part of the peer review process (on-site oversight) or reviewing specific engagement(s) (engagement oversight) generally performed after a system review, or reviewing all engagements during or following an engagement review. Generally, oversight of Engagement Reviews will include submission of the entire file 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 program oversight budget at the same rate as technical reviewers (\$200 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 and WSCPA Administrative oversight.
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. Annual Verification of Reviewer Resumes

To qualify as a reviewer, an individual must be an AICPA member and have at least five years of recent experience in the practice of public accounting in the accounting or auditing functions. The firm that the member is associated with should have received a pass report on either its last system or engagement review. The reviewer should obtain at least 48 hours of continuing education in subjects related to accounting and auditing every three years, with a minimum of 8 in any one year. All review captains must meet the ongoing training requirements including must-select update training. All reviewers with governmental or employee benefit plan industries included on their resume must also be a member of the requisite audit quality center.

A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The WSCPA Peer Review Executive Committee has the authority to decide where or not a reviewer's or review team's experience is sufficient to perform a particular review.

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific review. In accordance with the AICPA Oversight Handbook, Chapter 2, the Committee must verify information within a sample of reviewers' resumes on an annual basis. To satisfy this requirement, the Committee verifies approximately 1/3 of all active Washington reviewers' resumes each year.

## III. Summary of Peer Review Programs

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 (WSBOA) 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 WSBOA 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.

*Currently, not all data is available from PRIMA to prepare the statistical analysis of peer reviews typically included in this report. An abbreviated version is presented.*

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.

1. Number of Enrolled Firms by Number of Professionals\* as of February 22, 2018.

	WSCPA Peer Review Program	AICPA Peer Review Program	Total Administered by WSCPA
<b>Total Enrolled Firms</b>	134	468	602

In addition, there are 10 firms enrolled in the Washington Peer Review Program and 31 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.

2. Results of Peer Reviews Performed During the Year 2016

a. Results by Type of Peer Review and Report issued

	WSCPA Peer Review Program	^AICPA Peer Review Program	Total Administered by WSCPA
<b>System Reviews:</b>			
Pass	2	39	41
Pass with Deficiencies	0	6	6
Fail	2	5	7
Subtotal - System	4	50	54
<b>Engagement Reviews:</b>			
Pass	33	109	142
Pass with Deficiencies	3	10	13
Fail	4	11	15
Subtotal - Engagement	40	130	170
<b>Totals</b>	<b>44</b>	<b>180</b>	<b>224</b>

Note: The above data reflects peer review results as of February 22, 2018. Fewer than 2% of 2016 reviews are in process, and the results are not included in the totals above.

^During 2016, at least one partner of the firm must have been 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 2016 follows.

#### AICPA Member Firms

Type of Peer Review	Oversight Included Must Select Engagement (ERISA, GAGAS, FDICA, NONE)
System (on-site)	2 (1 ERISA & 1 GAGAS )
System (desk)	3
Engagement	4
Total	9

#### WSCPAs Firms (Firms with no AICPA members)

Type of Peer Review	Oversight Included Must Select Engagement (ERISA, GAGAS, FDIC, NONE)
System (on-site)	0
System (desk)	1
Engagement	1
Total	2

b. Verification of reviewers' resumes

Total Number of Peer Reviewers	Total Number of Resumes Verified for Year	% of Total Verified
36	12	33.3%

c. Administrative oversights

Date of Last Administrative Oversight Performed by the Administering Entity	September 1, 2016
Date of Last On-site Oversight Performed by the AICPA Oversight Task Force (covers only the AICPA Peer Review Program)	November 28-29, 2017

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 <https://www.aicpa.org/interestareas/peerreview.html>