

**THE VIRGINIA BOARD OF ACCOUNTANCY (VBOA)
PEER REVIEW OVERSIGHT COMMITTEE**

The Peer Review Oversight Committee (PROC) met on Tuesday, May 19, 2015 in Training Room #2 of the Perimeter Center, 9960 Mayland Drive, Henrico, Virginia 23233.

MEMBERS PRESENT: Nadia Rogers, CPA, PROC Chair
Douglas L. Bowles, CPA
Delores King, CPA
Reza Mahbod, CPA
Steve Walls, CPA

BOARD MEMBERS PRESENT: Marc B. Moyers, CPA, VBOA Liaison

STAFF PRESENT: Wade A. Jewell, Executive Director
Mary Charity, Director of Operations
Mark Bong, Enforcement Director
Patti Hambright, CPE/Peer Review Coordinator/Administrative Assistant

LEGAL COUNSEL: Anna Birkenheier, Assistant Attorney General

OTHERS PRESENT: Darshae Dabney, Regulatory and Legislative Affairs Manager, Virginia Society of Certified Public Accountants

CALL TO ORDER

Ms. Rogers called the meeting to order at 10:08 a.m.

SECURITY BRIEFING

Ms. Hambright provided the emergency evacuation procedures.

APPROVAL OF AGENDA

Upon a motion by Mr. Mahbod, and duly seconded, the members voted unanimously to approve the agenda as amended. The members voting “**AYE**” were Ms. Rogers, Mr. Bowles, Ms. King, Mr. Mahbod and Mr. Walls.

APPROVAL OF MINUTES

Ms. Rogers requested PROC members to review the draft minutes from the December 2, 2014 PROC meeting and called for an approval vote. Upon a motion by Mr. Walls, and duly seconded, the members voted unanimously to approve the December 2, 2014 PROC minutes. The members voting “**AYE**” were Ms. Rogers, Mr. Bowles, Ms. King, Mr. Mahbod and Mr. Walls.

PUBLIC COMMENT PERIOD

There was no public comment.

INTRODUCTIONS

Ms. Rogers welcomed all present. She requested everyone to introduce themselves. Following introductions, Mr. Jewell introduced Mr. Bong as the Board's new Enforcement Director, welcomed Ms. Birkenheier, and congratulated Ms. Dabney on her promotion with the VSCPA to Regulatory and Legislative Affairs Manager.

2015 COMMITTEE PROGRESS

Ms. Rogers asked the new PROC members if they had any questions or comments regarding the first VSCPA Peer Review Committee (PRC) meeting they observed. Mr. Walls raised concern over the number of peer reviewers that are also on the PRC and Report Acceptance Body (RAB), particularly from an independence and objectivity viewpoint. It was noted by Ms. Dabney that when a peer review was presented in which a reviewer had participated or had any known conflicts, the reviewer would recuse him/her from the discussion. Due to the small number of peer reviewers in the state (less than 100), and with the requirements for appointment to the PRC (13 members), this situation was very difficult to avoid. Ms. King noted the number of experienced peer reviewers was declining. She noted she had been performing peer reviews since 2008 and had seen a steady decline. Ms. Rogers added the education and qualifications required for peer reviewers was changing. She indicated these changes would raise the quality of the peer reviews, but unfortunately would more than likely add to the declining number of qualified peer reviewers. Mr. Mahbod noted the profession needs to be marketed in a more attractive manner. It was also noted that firms generally tend to use past reviewers, limiting the pool for potential reviewers to gain experience. Ms. King noted, in her experience, many firms would shop for the lowest price. However, the lowest price does not always guarantee the highest quality of peer reviews performed. Ms. Dabney interjected in her experience the vast majority of firms would continue to use the same peer reviewer as in previous years. She also noted, that even with a low volume of qualified peer reviewers, oversight processes and scrutiny on many different levels were in place. Mr. Bowles added he had sat on the PRC for 15 years and PRC members had no issues with criticizing the work of colleagues when necessary. He also noted with higher education requirements and more restrictions the results would be fewer reviewers. Mr. Bowles noted in his experience most small firms would start with tax work and gradually move towards audits. He felt the move from tax work to audits was difficult. Mr. Mahbod reiterated the need for positive marketing surrounding peer review. Ms. Dabney reiterated that Virginia has less than 100 reviewers, with the majority of Virginia firms seeking Virginia reviewers. However, Virginia firms are not limited to the use of Virginia reviewers. Mr. Walls also expressed his observation that the punishment for violators seemed to be weak. As an example, he felt having to obtain an additional 8 CPE as punishment when an average of 40 annually is required for licensure may not be enough. Ms. Rogers noted the PRC's purpose (and peer review program in general) was remedial and not punitive. Ms. Dabney added that the Peer Review Committee is limited to imposing corrective action requirements as outlined in the AICPA's Peer Review Report Acceptance Body Handbook. Mr. Bowles added that he believed the low number of peer reviewers was largely due to economics. Mr. Moyers noted with the rise in qualifications and education resulting in fewer reviewers, perhaps the cost would also rise. Mr. Jewell noted Virginia had approximately 1,200 licensed firms.

UPDATES

AICPA Peer Review Board and NASBA Compliance Assurance Committee Updates

Ms. Rogers led the discussion regarding the AICPA's Peer Review Board (PRB) meeting held on May 5, 2015 and NASBA's Compliance Assurance Committee (CAC) meeting held on May 13, 2015. She noted a consistent theme relative to education and communication. Specific topics of the PRB included potential changes to the training requirements for team/review captains and peer reviewers, peer review quality, improvement of engagement tracking, review focus on risky industries and areas of concern (i.e., single audits and crowdfunding), practice monitoring of the future (concept paper), oversight task force report, standards task force report, and the education & communication task force report. Ms. Rogers noted the Concept Paper included a six point plan to improve audits. Specific topics of the CAC included an update on the National Peer Review Committee (NPRC) which highlighted many of the issues discussed by the PRB, report on the recently issued Failed Report Guidance document, and the upcoming 2015 Peer Review Oversight Summit on July 10, 2015 in Nashville, TN. Ms. Rogers noted the firm McGladrey was working to develop real-time monitoring software to aid the AICPA. In addition, Mr. Bowles noted, once developed, the software may even have the capability of monitoring time-keeping for firms. Mr. Jewell noted he had attended a VSCPA's Board meeting last week where Susan S. Coffey, Senior Vice President, Public Practice & Global Alliances at the American Institute of CPAs (AICPA) commented there was a need for such software due to a significant amount of poor audits (referencing the Department of Labor). She emphasized the audits were of poor quality but not "failed." Mr. Jewell also noted the NASBA Compliance Assurance Committee was looking at a communication plan to recruit reviewers.

NASBA's Failed Reports Guidance Document

Mr. Moyers led the discussion regarding NASBA's Failed Reports Guidance Document. He noted currently more formal action is not taken against a firm by the administering entity until after the third failed peer review (or pass with deficiency depending upon facts and circumstances). The AICPA may remove a firm with three consecutive failed and/or pass with deficiency peer reviews. This lengthy process can take up to nine years or more. The Virginia Board of Accountancy (VBOA) believes this is too much time before a closer look is taken at the firm. NASBA and the AICPA agree. NASBA has developed the Failed Reports Guidance document offering consistent guidelines for state boards to adopt. The guidelines cover recommendations including pass with deficiencies and failed peer review reports. However, the guidelines introduced by NASBA may be more stringent than thought necessary. Adopting the guidelines would bring a great deal more activity to enforcement. Also, if an enforcement case is opened after the first violation, the question was asked whether this information becomes subject to the Freedom of Information Act (FOIA), resulting in potential issues with the peer review program. Mr. Moyers noted the NASBA PROC Summit would be held on July 10, 2015 and more information would be available at that time. Mr. Jewell has asked Ms. Birkenheier for further guidance on the issue of the confidentiality of the peer review program, versus requirements of FOIA. Mr. Bowles added he was in favor of accelerating the corrective process but did not feel failed peer reviews were prolific. Mr. Jewell noted not all firms enrolled in peer review were subject to peer review due to their actual work performed and asked Ms. Dabney if firms were proactively requested to update this information. Ms. Dabney noted that requests are sent annually in May requiring firms that are presently categorized as "No A&A (enrolled, but not actively performing services that are within the scope of peer review)" to reaffirm or disclose new work responsibilities. Ms. Dabney also noted this system only works if firms are forthcoming in disclosing any engagements that are undertaken that would trigger a peer review. Questions were asked about the recent information shared with state boards of accountancy from NASBA and the Department of Labor (DOL). Ms. Charity reported, once condensed, the DOL listing contained 394 firms. Of those 394 firms, 155 firms were licensed in Virginia and 142 were enrolled in peer review, leaving 13 firms apparently performing audits without peer review. The remaining 239 firms are not licensed in Virginia; however, additional research is necessary to determine if these firms are licensed in other states. Mr. Jewell noted the DOL listing was not current, but from 2011.

BREAK 11:40 a.m.

RECONVENE 11:50 a.m.

NASBA PROC Summit

Ms. Rogers noted the NASBA PROC Summit would be held on July 10, 2015 in Nashville, TN. The summit is held every other year. This year's attendees would include Ms. Rogers, Mr. Walls and Mr. Jewell.

Schedule Attendance for Published VSCPA (PROC) Meetings

Ms. Rogers led the discussion regarding the published VSCPA PROC meetings, noting she would be attending the June 8, 2015 meeting. Ms. King would also attend the June 8th meeting. Mr. Walls and Mr. Mahbod will attend the August 31, 2015 meeting. Additional meetings are November 13, 2015, December 21, 2015 and February 22, 2016.

Board Policy #7 (PROC) Discussion

Ms. Rogers led the discussion regarding Board Policy #7 (PROC) proposed revisions. Mr. Rogers' first recommendation was page 1 (III). She noted "Effective July 1, 2010" should be removed and the first sentence should read, "The PROC shall consist of one or more members, approved by the VBOA, who are active licensed Virginia CPAs." She felt the effective date was unnecessary as the policy has now been in effect for almost five years. PROC members were in agreement. Ms. Rogers noted the importance of a PROC member participating in the AICPA Peer Review Board open sessions and NASBA Compliance Assurance Committee meetings. After a thorough discussion the PROC agreed on revising page 2, (V). (A). The PROC members agreed to add at the end of the first paragraph, "*A member of the PROC shall participate in the AICPA Peer Review Board open sessions and the NASBA Compliance Assurance Committee meetings.*" After a comprehensive discussion by the PROC it was also recommended to update the first sentence on page 2, (V) (B) (1) to read, "A member of the PROC shall attend selected meetings of the PRC, *including the meeting where the AICPA Peer Review Board Oversight Task Force presents its results.*" PROC members also noted page 3, (VI) (B) (6) would be revised to read, "The VSCPA has a *biennial* oversight visit and subsequent report issued by the AICPA Peer Review Board Oversight Task Force."

Upon a motion by Mr. Bowles, and duly seconded, the members voted to accept Board Policy #7 as amended, and submit to the VBOA for approval.

CALL FOR VOTE:

Nadia Rogers, CPA – Aye
Douglas L. Bowles – Aye
Delores King, CPA – Aye
Reza Mahbod, CPA – Aye
Steve Walls, CPA – Not present

VOTE

AYES: Four (4)
Not Present: (1)
NAYS: None.

OPEN DISCUSSION

Mr. Moyers noted the Board would be interested in the statistics surrounding the total number of Virginia firms which fail their peer reviews, the number which pass with deficiencies and additional figures. Ms. Dabney noted these statistics would be available at the end of December. Ms. Rogers recommended presenting the findings to the Board; however, she felt it unnecessary to add the results to the PROC's annual report to the Board. Ms. Dabney also noted there was no mandate requiring Virginia firms to obtain Virginia reviewers. A reviewer's location is insignificant if the reviewer is qualified.

ADJOURNMENT

Ms. Rogers thanked the PROC members for their participation and valuable input. There being no further business, upon a motion by Mr. Mahbod, and duly seconded, the members voted unanimously to adjourn. The members voting "AYE" were Ms. Rogers, Mr. Bowles, Ms. King, Mr. Mahbod, and Mr. Walls.

The VBOA PROC meeting was adjourned at 1:45 p.m.

APPROVED:

Nadia Rogers, CPA, PROC Chairman

COPY TESTE:

Wade A. Jewell, Executive Director