




Washington State Board of Accountancy

Policy Number: 2000-3

Title: Quality Assurance Review Program*

Revised: July 27, 2007
Effective: April 28, 2000

Approved: 
Sharron J. O'Donnell, CPA, Chair

*This policy rescinds and supersedes any previous Board or Committee policy.

Purpose:

The purpose of this policy is to provide and communicate the Board's guidelines on the Quality Assurance Review (QAR) program as established by WAC 4-25-820.

I. QAR Committee Appointments

The QAR Committee is Co-Chaired by a Board Member, or a former Board Member, and an individual selected among those serving on the QAR Committee.

Volunteer QAR Committee members are recruited by the Board and must be Washington licensees with a minimum of 5 years experience in public accounting. When making QAR Committee member appointments the Board seeks to ensure representation of various firm sizes, practice styles and locations. QAR Committee members qualify for up to 32 hours each calendar year of technical CPE credit for actual time spent on QAR Committee meetings and review activities.

II. QAR Program Timelines

Immediately upon registration with the Board, a CPA firm will be automatically included in the Board's next QAR cycle for its initial attest review.

After the firm's initial QAR review, the firm is required to participate in the QAR Program every three years unless additional participation is deemed appropriate due to an "Unacceptable" grade.

A *Quality Assurance Review (QAR) Status* form is mailed to each participating firm during the first week in January with the postmark due date of April 30. The QAR Status form acts as the Board's notice to the firm that the firm is scheduled to participate in the QAR program. The QAR Status form identifies the due date for submitting the completed form, fee, and required reports and associated financial statements to the Board. A courtesy reminder post card may be mailed to firms approximately two weeks before the due date. Failure to submit a complete QAR Status form postmarked by the April 30th due date, will result in the assessment of late fees. The Board may waive late fees based on individual hardship including, but not limited to, financial hardship, critical illness, or active military deployment. Firms not responding by the due date are sent a final notice via first class and certified mail, under the Executive Director's signature, with a required 20-day response period as established by WAC 4-25-551. Firms not responding to the final notice are referred to the Executive Director for investigation

The Executive Director has the authority to modify a firm's three-year cycle, if deemed appropriate.

III. Firms Submitting Reports and Associated Financial Statements

Firms submitting reports and the information covered by those reports to the QAR Committee for review must:

- Submit, for each of its offices, one licensee report and the information covered by that report, for each of the following types of services:
 - Compilation report on historical financial statements,
 - Review report, on historical financial statements,
 - Audit report on historical financial statements,
 - Agreed-upon procedures,
 - Forecasts,
 - Internal controls,
 - Performance audits, and
 - Projections.

If reports issued by all offices of a firm are reviewed and issued in a controlled, centralized process, only one of each of the reports specified above must be submitted by the firm as a whole,

- Select these reports from all reports prepared during the twelve months preceding the date of Board's request or, if no reports were issued within that twelve month period, from all reports during the three years preceding the date of the Board's request, and
- Omit the name of the client, the client's address, and other identifying factors provided that the omission does not render the type or nature of the enterprise undeterminable. Dates must not be omitted.

Normally only **one** of the reports submitted will be selected for review and the highest-level report is selected for review. However, the Executive Director is delegated authority to use discretion to (1) determine the appropriate report for review and (2) review more than one submitted report.

Management-Use Only Compilations, meeting the standards established under SSARS 8, **are exempted** from the Board's Quality Assurance Review Program. These reports are for internal use only, are not to be used for third party distribution, and therefore do not have the public protection issues associated with attestation services.

IV. Exemption Requests - Independent Peer Review

Firms may request an exemption from the Board's QAR program if the firm has participated in a Board approved peer or quality review within the three years immediately preceding the date of Board request. The firm must submit a copy of an unmodified report, letter of comments (if applicable), response to the letter of comments (if applicable), and letter of acceptance from the reviewing organization. The Board's QAR Committee may request other documentation.

Firms that receive modified peer or quality review reports may request exemption to the Board's QAR program, but must submit copies of such reports and related correspondence, at the discretion of the Board, for consideration on an individual basis. When the QAR Committee identifies or suspects irregularities in the firm's peer review, the firm is to be forwarded to the Executive Director for action.

V. Board Approved Independent Peer Review Programs

Firms undergoing Public Company Accounting Oversight Board (PCAOB) **inspection** and/or enrolled in the American Institute of Certified Public Accountants (AICPA) Center for Public Company Audit Firms Peer Review Program (**Center PRP**) **are exempted** from participation in the Board's QAR program provided the firm submits the following to the Board along with the firm's QAR Status Form and fee:

- A. PCAOB Inspection - The firm must certify that it is registered with the PCAOB.
- B. Center PRP - The firm must submit the Center PRP Report, the letter of comment (if any), the response to the letter of comment (if any), and the final Center PRP acceptance letter.

The Board has **approved System Reviews and Engagement Reviews** of the American Institute of Certified Public Accountants (AICPA) Peer Review Program as meeting the requirements of WAC 4-25-820. This program is administered in Washington State by the Washington Society of CPA's (WSCPA).

The Board does not accept the Report Review level of the AICPA's Peer Review Program. Report Reviews do not conclude with a ranking of the firm's work, and, as a result, there is no basis for the Board to make a decision on whether they can rely on the Report Review.

Individuals participating as **volunteer reviewers** on the WSCPA Peer Review Acceptance Committee may qualify for up to 32 hours each calendar year of technical CPE credit for actual time spent reviewing peer review reports. The Executive Director may conduct an oversight review to determine if the AICPA Peer Review Program as administered by the WSCPA is operating effectively.

VI. Exemption Request - Limited Scope of Practice

Firms may request an exemption from the Board's QAR program if the firm has not issued any reports from any of its offices within the three years immediately preceding the April 30th due date for submitting the QAR Status form to the Board.

VII. Annual QAR Review Session

- A. **Volunteer Reviewers:** Qualified volunteer reviewers are recruited to serve as reviewers and team captains at the annual QAR review session. To qualify reviewers must hold a current Washington CPA license and have a minimum of five years of experience in public accounting. Reviewers qualify for up to 32 hours of technical CPE credit for actual time spent on QAR review activities.
- B. **Process:** The QAR Committee develops the review checklists to be used during the QAR reviews. Whenever possible, AICPA checklists are to be utilized. Reviewers are assigned to a review team based on their area of expertise. One member of each team will serve as the Team Captain. Team Captains will be selected based on experience with the QAR program. The other members of the team will serve as reviewers. All reports and financial statements selected for review will be assigned to an appropriate team based on the experience and independence of the team.
- C. **Report Grading:** Each selected report will be reviewed and graded three times: first by a reviewer, second by the team captain and a third and final review by a QAR Committee member. Grades may be one of the following: "Acceptable," "Acceptable With Comments," or "Unacceptable." To support grading consistency, the QAR Committee selects two or three QAR Committee members to perform the final review of all reports graded "Unacceptable" by either the Reviewer or the Team Captain. The QAR Committee member's grade is final and supersedes the other two grades.

- D. Review and Acceptance of Peer Review Submissions:** Peer reviews submitted under Section V of this policy are reviewed to determine whether the peer review meets the Board's requirements. QAR Committee members, the QAR Committee Co-Chairs, and/or board QAR staff licensed for five years or more may perform the review of the peer review submissions. Peer review submissions are deemed to meet or not meet the criteria established in Section V of this policy. If a firm's peer review submission does not meet the criteria established in Section V of this policy, the firm is required to participate in the Board's QAR program.

VIII. Communication of the Annual QAR Review Session Results

The results of the desk review are communicated to the firm as soon as possible. All QAR Committee approved reviewer comments are communicated to the firms. To ensure issues of substandard work are rapidly addressed, Board staff is to communicate the results of reports graded "Unacceptable" as rapidly as possible.

- A. If a firm's report is graded "Acceptable" by the QAR Committee member, the firm receives a closing letter advising the firm of the grade and their next QAR cycle. The firm is not required to respond to the closing letter.
- B. If a firm's report is graded "Acceptable With Comments" by the QAR Committee member, the firm receives a closing letter advising the firm of the grade, their next QAR cycle, and a list of the comments made by the review team during the desk review for the firm's consideration. The firm is not required to respond to the closing letter.
- C. If the report was graded "Unacceptable" by the QAR Committee member, the firm is sent a listing of the potential deficiencies identified during the annual QAR review session. The firm must respond in writing within 20 days to this listing. A firm may be granted a two-week extension to the 20-day response requirement; however, the firm must make the extension request in writing prior to the end of the 20-day period and submit adequate justification for the extension. The firm can either agree or disagree with each potential deficiency. If the firm disagrees with an item, an explanation must be included. If the firm agrees with the noted deficiency, the firm must provide a brief description of the corrective action to be taken. The firm's response is returned to the QAR Committee member who graded the firm's report as "Unacceptable" for review of the comments and finalization of the grade. Based on the response, the QAR Committee member will decide if the grade should be changed, or remain as "Unacceptable."
- D. If the grade remains "Unacceptable," prior to referring the firm to the Executive Director for action (See Section IX below) the QAR Committee member considers and recommends corrective action. Suggested corrective action may include recommendations such as:

- A field review to provide a more in-depth review of the practitioner's work, previously taken continuing professional education, library and other practice support tools, knowledge, abilities, and system of quality control
- An independent practitioner review the firm's reports and accompanying financial statements prior to issuance
- The firm/practitioner obtain continuing education courses in specific areas
- The firm participate in the annual QAR report review in the upcoming year
- The firm submit a specific report in the subsequent period for review

IX. Field Reviews

If a firm receives a final grade of "Unacceptable," the QAR Committee refers the firm, its recommendations for corrective action, and the accompanying files to the Executive Director for consideration.

The Executive Director will make the final determination as to whether a field review or alternative corrective action is appropriate. The Board contracts with specialists to perform field reviews. All field reviews are performed consistent with QAR Program established field review procedures and report formats.

X. Miscellaneous

Firm Name Change – Participation in the QAR Program: If a new firm is created as a result of a name change only (i.e., there has been no change in ownership) the new firm retains the same QAR cycle as the previous firm.