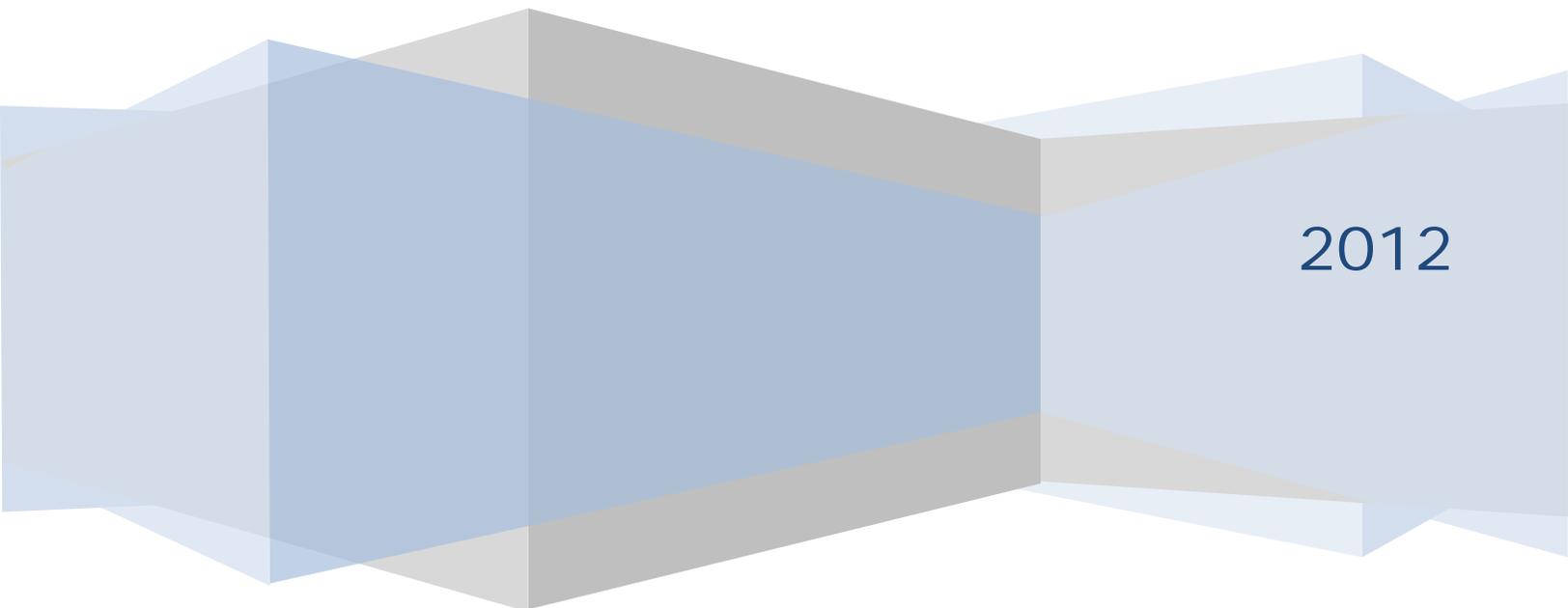


Virginia Board of Accountancy

Providing Volunteer Services as a Virginia CPA



2012

Table of Contents

Section	Paragraph
Introduction	1-3
Determining Whether Services are Subject to Peer Review	4
Definitions	5-10
Summary of Applicable Accounting Statutes	11-12
Considerations in Determining:	
• Whether Services Are the Practice of Public Accounting and Therefore Can Be Provided to a Not-for-Profit Entity Only by a Firm	13-16
• Whether Services That Are <u>Not</u> the Practice of Public Accounting Are Nevertheless Attest Services	17-21
• Whether a Licensee is Providing Compilation Services	22-23
○ Presentations of <u>Historical</u> Financial Information	24-30
○ Presentations of <u>Prospective</u> Financial Information	31-40
• Whether Services Provided to a Not-for-Profit Entity by a Licensee Impair Independence	41-43
Attachments:	
1 Roadmap: Determining Whether Services Provided to a Not-for-Profit Entity are Subject to Peer Review	
2 Chart: Examples of Providing Services to a Not-for-Profit Entity as a Virginia CPA	

Introduction

The Virginia Board of Accountancy (VBOA) receives many inquiries regarding services that a CPA may and may not provide as a volunteer to a not-for-profit entity. Consistent with the VBOA's mission of protecting the public, we believe that CPAs can bring valuable knowledge, experience and insights as volunteers to these types of organizations and support their involvement. The information contained herein is intended to provide guidance to CPAs who are serving in volunteer roles and may be asked to provide services which may fall under the Virginia accountancy statutes and regulations.

As you deliberate the implications of providing services in this area, it is important to consider two questions. (1) Exactly what types of services are to be provided and (2) in what role or capacity are you performing them? This is important because in Virginia the law provides an exception to CPAs if they are performing the services in their role as an officer, employee, or member of the governing body of the entity or entities about whom the financial information is presented. We have provided two tools (see Attachments #1 and #2) to assist in these considerations. We encourage you to contact the VBOA with questions or suggestions.

1. Another important distinction we wish to emphasize is when does the need for a peer review arise. The Virginia accountancy statute, subsection A of § 54.1-4412.1¹, states, "Only a *firm* [emphasis added] can provide attest services or compilation services to persons or entities located in Virginia." § 54.1-4400 defines *firm* as "an entity formed by one or more licensees as a sole proprietorship, a partnership, a corporation, a limited liability company, or any other type of entity permitted by law." If the firm providing attest services or compilation services is required to obtain a Virginia firm license,² subdivision D6 of § 54.1-4412.1 requires it to:

be enrolled in the applicable monitoring program [i.e., peer review] of the American Institute of Certified Public Accountants or its successor, or in another monitoring program for attest services and compilation services that is approved by the Board.

§ 54.1-4400 defines *peer review* as a review of a firm's attest services and compilation services conducted in accordance with the monitoring program.

¹ References to § 54.1 are to the accountancy statutes, which are in Chapter 44 (§ 54.1-4400 et seq.) of Title 54.1 of the Code of Virginia. The accountancy statutes may be found on the Board of Accountancy website (www.boa.virginia.gov).

² Subsection B of § 54.1-4412.1 states, "A firm that provides attest services or compilation services to persons or entities located in Virginia shall obtain a Virginia license if the principal place of business in which it provides those services is in Virginia."

2. Accordingly, an individual licensee who provides attest services or compilation services to a not-for-profit entity will be considered to be providing those services as a firm organized as a sole proprietorship, and the services will be subject to peer review. In addition, the licensee will be required to obtain a firm license. **However, *determining whether services a licensee provides to a not-for-profit entity are attest services or compilation services and therefore subject to peer review often requires judgment based on the facts and circumstances.***
3. **The provision of services *other than attest services or compilation services* to a not-for-profit entity *does not require the licensee to obtain a firm license, and those services are not subject to peer review. As a practical matter, licensees can provide a wide variety of services that are helpful to not-for-profit entities and are not subject to peer review.***

Determining Whether Services Are Subject to Peer Review

4. See Attachment #1 for a roadmap for determining whether services a licensee provides to a not-for-profit entity are attest services or compilation services and therefore subject to peer review.

Definitions

5. **Not-for-Profit Entity.** FASB ASC Master Glossary provides the following definition of *not-for-profit entity*:

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return.
- b. Operating purposes other than to provide goods or services at a profit.
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities.
 - b. Entities that provide dividends, lower costs or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.
6. **Attest Services.** § 54.1-4400 defines *attest services* as “audit, review, or other attest services for which standards have been established [emphasis added] by the Public Company Accounting Oversight Board, by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, or by any successor standard-setting authorities.”
 7. **Compilation Services.** § 54.1-4400 defines *compilation services* as “compiling financial statements in accordance with standards established by the American Institute of Certified Public Accountants or by any successor standard-setting authorities.”
 8. **Financial Statement.** § 54.1-4400 defines *financial statement* as “a presentation of *historical or prospective* [emphasis added] financial information about one or more persons or entities.”
 9. **Practice of Public Accounting.** Two definitions are relevant—practice of public accounting and assurance:
 - a. § 54.1-4400 defines *practice of public accounting* as:

the giving of an *assurance other than* [emphasis added] (i) by the person or persons about whom the financial information is presented or (ii) by one or more owners, officers, employees, or members of the governing body of the entity or entities about whom the financial information is presented.
 - b. § 54.1-4400 defines *assurance* as:

any form of expressed or implied opinion or conclusion about the conformity of *a financial statement* [emphasis added] with any recognition, measurement, presentation, or disclosure principles for financial statements.
 10. **Licensee.** § 54.1-4400 defines *licensee* as “a person or firm holding a Virginia license or the license of another state.” However, for purposes of this document, *licensee* only refers to a person holding a Virginia license or the license of another state.

Summary of Applicable Accounting Statutes

11. The accountancy statutes address services in two broad categories:
 - a. Services that are the practice of public accounting, as defined in paragraph 9.
 - b. Other services.
12. Two observations follow:
 - a. *All services provided by licensees* are subject to the relevant parts of the standards of conduct and practice in § 54.1-4413.3.
 - b. Application of the accountancy statutes and regulations³ *is not affected by whether compensation is received* for the service.

Considerations in Determining Whether Services are the Practice of Public Accounting and Therefore Can Be Provided to a Not-for-Profit Entity Only by a Firm

13. Services that result in giving assurance about the financial statements of a not-for-profit entity are the practice of public accounting and can only be provided by a firm, *unless* the assurance is given by an officer, employee, or member of the governing body of the entity about whom the financial information is presented. Two observations follow:
 - a. A statement by a licensee who is the treasurer of a not-for-profit entity that the entity's financial statements present its financial results determined using accounting principles generally accepted in the United States of America would not be the practice of public accounting and would not subject him to peer review. (Paragraph 43 discusses requirements that apply to making such an assertion.)

³ The accountancy regulations are in Chapter 22 of Agency 5, Title 18 of the Virginia Administrative Code (18VAC5-22). The accountancy regulations may be found on the Board of Accountancy website (www.boa.virginia.gov).

- b. Following the guidance in AU⁴ 380.03, the governing body consists of the persons “with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.” For small and midsize not-for-profit entities, the governing body is typically the board of directors or trustees. However, depending on the facts and circumstances, it may also include the audit committee or finance committee.
14. As discussed in paragraph 8, the definition of *financial statements* includes both presentations of historical financial information and presentations of prospective financial information. Therefore, the practice of public accounting consists of three services, each of which can only be performed by a firm:
- a. Assurance about a presentation of historical financial information can only be given as the result of (1) an audit or (2) a review.
 - b. Assurance about a presentation of prospective financial information can only be given as the result of (3) an examination.
15. The performance of an audit or a review of a presentation of historical financial information or an examination of a presentation of prospective financial information requires that the licensee be *engaged* to perform the service. The performance of one of these services *is not implied solely by the performance of certain procedures*.
16. As an example, a licensee who is a member of a social club may be asked to audit the club’s statement of cash receipts and disbursements. That would require the person to also have a firm license, and the audit would be subject to peer review. Two of the auditing procedures the licensee would likely perform are to inspect and test the club’s reconciliation of cash balances with the deposit balances reported by financial institutions. However, those procedures are auditing procedures only if they are performed as part of an audit. The performance of just those procedures would not imply that the licensee performed an audit and would not be subject to peer review.

⁴ References to AU are to the AU Section, *U. S. Auditing Standards*, of the AICPA Professional Standards.

Considerations in Determining Whether Services That Are Not the Practice of Public Accounting Are Nevertheless Attest Services

17. As discussed in paragraph 6, attest services are “audit, review, or *other attest services for which standards have been established* [emphasis added] by the Public Company Accounting Oversight Board, by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, or by any successor standard-setting authorities.” The standards established by the Auditing Standards Board for “other attest services” are in the AT Section of the AICPA Professional Standards.
 - a. Those standards are referred to as *attestation standards*.
 - b. The introduction to AT Section 0 states that the attestation standards are designed only for licensees.
 - c. Under subdivision 5 of § 54.1-4414, persons or entities who do not hold a license are prohibited from complying with the attestation standards.
18. Services covered by the attestation standards are engagement-driven rather than procedures-driven. A licensee must be engaged to perform those services; services are not implied based on the licensee performing certain procedures.
19. A not-for-profit entity could appoint a committee or task force consisting entirely of persons who do not hold a license to perform services similar to attest services that are not the practice of public accounting. A common example is performing agreed-upon procedures. The governing body of a church may specify procedures to be performed on the financial statements of the church and communicated to the governing body and ultimately the congregation.
20. Similarly, the regional body that oversees a church may specify procedures to be performed on the financial statements and communicated to the regional body. Communicating the results of the procedures does not constitute giving an assurance, and the service is not the practice of public accounting.

21. A church may ask a member who is a licensee to serve as a member of the group. That does not make the service an attest service. AT 201.03 states, "An agreed-upon procedures engagement is one in which a [licensee] is engaged by a client to issue a report of findings based on specific procedures performed on subject matter." The church did not engage the licensee to perform the service. Instead, it appointed the group to provide the service. Even though the licensee is a member of the group, subdivision 5 of § 54.1-4414 prohibits the group from following the requirements of AT 201.

Considerations in Determining Whether a Licensee is Providing Compilation Services

22. As discussed in paragraph 7, compilation services are "compiling *financial statements* [emphasis added] in accordance with standards established by the American Institute of Certified Public Accountants, or by any successor standard-setting authorities." As discussed in paragraph 8, the definition of financial statements includes presentations of *historical* financial information *and* presentations of *prospective* financial information.
23. The standards established by the American Institute of Certified Public Accountants for compilation services are in two places:
 - a. The AR Section, *Accounting and Review Services*, of the AICPA Professional Standards for presentations of historical financial information.
 - b. AT 301 for presentations of prospective financial information.

Presentations of Historical Financial Information

24. AR 80.01 requires the licensee "to comply with the provisions of [AR 80] whenever he or she is engaged to report on compiled financial statements *or submits* [emphasis added] financial statements to a client or to third parties." AR 60.04 defines *submission of financial statements* as, "Presenting to management financial statements that *an accountant [i.e., a licensee] has prepared.*"
25. Performing accounting services does not constitute submission of financial statements, is not a compilation service, and is therefore not subject to peer review. Examples of accounting services are payroll, bank reconciliation, and other bookkeeping services; preparing a working trial balance; proposing adjusting journal entries; and consulting on accounting matters.

26. Not-for-profit entities often ask a licensee to read financial statements prepared by staff. The licensee may be asked to perform this service as an individual, but more commonly the not-for-profit entity asks the licensee to perform this service as a member of a finance or similar committee.
27. Reading financial statements as an individual or as a member of a finance or similar committee does not constitute the submission of the financial statements and therefore does not require compliance with AR 80. Rather, that is an accounting service and is not subject to peer review.
28. Interpretation 8 of AR 80 (AR 9080.23) notes that preparation of financial statements by a licensee who is a "stockholder, partner, director, officer, or employee of the entity"⁵ is not a compilation service. For example, preparation of the financial statements of a not-for-profit entity by a licensee who is an officer is not a compilation service and does not subject the engagement to peer review.
29. Positions that qualify as officers depend on the entity. For example, depending on the facts and circumstances, a church may have both a treasurer and an assistant treasurer and consider both to be officers.
30. Similarly, whether a licensee is an employee depends on the entity. A licensee may be a full-time or part-time employee, and serving as a part-time employee may require a relatively small time commitment. However, the substance of the arrangement, not the form, should govern whether the licensee is in fact serving as an employee.

Presentations of Prospective Financial Information

31. The guidance in AT 301 for presentations of prospective financial information is considerably more complex than the guidance in the AR Section for presentations of historical financial information.
32. The guidance in AT 301 looks at two types of uses of presentations of prospective financial information: general use and limited use. AT 301.09 and .10 define the two types of uses generally in terms of the relationship between the user and the entity. Generally, limited use is by the entity itself or by third parties who can ask questions of the entity and negotiate terms directly with it, and general use is by third parties who do not have that ability.

⁵ This description is substantially the same as the related description in the definition of *practice of public accounting* in the accountancy statutes, as discussed in paragraph 9. Accordingly, the roadmap found in Attachment #1 uses the description in the accountancy statutes, modified slightly to apply to a not-for-profit entity.

33. As a practical matter, presentations of prospective financial information about small and midsize not-for-profit entities ordinarily are for limited use. For example, a budget for the next year is ordinarily for use by the entity itself, and a presentation for use by a grantor or lending institution ordinarily assumes there will be interaction between the entity and the third party.
34. AT 301 also distinguishes between two types of presentations of prospective financial information: complete presentations and partial presentations. General use requires a complete presentation, but either a complete presentation or a partial presentation may be for limited use.
35. Appendix A of AT 301 prescribes the elements of a presentation that make it a complete presentation. Format is not important. For example, if the prescribed elements are in a narrative, that narrative would be considered a complete presentation. (Nevertheless, AT 301 refers to a complete presentation as *prospective financial statements*.) A partial presentation is simply a presentation that lacks one or more of the elements required for a complete presentation.
36. For a not-for-profit entity, the elements required for a complete presentation are generally the key elements of a statement of activities and significant changes in financial position. Appendix A of AT 301 notes that this requirement should be applied considering the comprehensive basis of accounting used.
37. For example, one of the required elements is revenues. If the pure cash basis of accounting is used, the counterpart to revenues is cash receipts. Similarly, under the pure cash basis of accounting, cash is the only asset recognized, no liabilities are recognized, and the changes in cash are the only changes in financial position. A statement of cash receipts and disbursements is therefore a complete presentation: it shows the key elements of a statement of activities prepared on the pure cash basis of accounting and the significant changes in financial position under the pure cash basis of accounting.
38. AT 301 discusses three types of engagements: an examination, a compilation, and an agreed-upon procedures engagement. For complete presentations, AT 301.02 states:

Whenever a [licensee] (a) *submits* [emphasis added], to his or her client or others, [a complete presentation] that he or she has assembled,⁶ or assisted in assembling, that are or reasonably might be expected to be used by another (third) party or (b) reports on [a complete presentation] that [is], or reasonably might be expected to be used by another (third) party, the [licensee] should perform [an examination, a compilation, or an agreed-upon procedures engagement].

39. Two observations follow.

- a. If the complete presentation is not reasonably expected to be used by a third party, an examination, a compilation, or an agreed-upon procedures engagement is not required. AT 301 would therefore not apply to a licensee preparing a complete presentation that is not reasonably expected to be used by a third party. Such services are typically referred to as *plain paper services* and are not subject to peer review.
- b. Following the guidance in AT 301.06, if the licensee prepares, or assists in preparing, the complete presentation as a member of management,⁷ an examination, a compilation, or an agreed-upon procedures engagement would not be permitted. For example, if the licensee is the treasurer of the entity and prepares a complete presentation for use in negotiating a grant, he would be prohibited from performing one of the prescribed services. This plain paper service would not be subject to peer review.

40. For partial presentations, AT 301.03 states:

[AT 301] also provides standards for a [licensee] *who is engaged* [emphasis added] to examine, compile, or apply agreed-upon procedures to partial presentations.

Accordingly, a licensee could prepare a partial presentation for a not-for-profit entity and submit it without complying, at a minimum, with compilation standards. Such a plain paper service is not an attest service or a compilation service and is therefore not subject to peer review.

⁶ AT 301.08 defines *assembly* as, "The manual or computer processing of mathematical or other clerical functions related to the presentation of the prospective [information]."

⁷ AT 301 states that presentations of prospective financial information are "based on the responsible party's assumptions." AT 301.08 defines *responsible party* as those "who are responsible for the assumptions underlying the prospective financial statements" and states that the responsible party "usually is management." This position is similar to the position taken in AR 60.31 and .32 for presentations of historical information.

Considerations in Determining Whether Services Provided to a Not-for-Profit Entity by a Licensee Impair Independence

41. Attest services require independence. Whether independence is impaired depends on the facts and circumstances.
 - a. The Interpretations of Rule 101 in ET⁸ 101 provide guidance for specific sets of facts and circumstances. For example, Interpretation 101-3 (ET 101.05) provides specific guidance on determining whether the performance of nonattest services impairs independence.
 - b. For facts and circumstances not addressed by Interpretations of Rule 101, ET 100.01 through .26 provides the *Conceptual Framework for AICPA Independence Standards*, which ET 100.01 describes as a “risk-based approach to analyzing independence matters.”
 - c. ET 191 provides a number of rulings on whether independence is impaired.
42. Examples of considerations in determining whether independence would be impaired by services a licensee provides to a not-for-profit entity follow:
 - a. Serving as an officer or member of the governing body of a not-for-profit entity would impair a licensee’s independence with respect to the entity.
 - b. Serving as a member of a committee that has no direct involvement with the entity’s finances, such as the program committee, would ordinarily not impair the independence of a licensee.
43. A licensee, who is not independent with respect to a not-for-profit entity, typically because he serves as treasurer, is precluded from performing an attest service. However, as discussed in paragraph 13, he can make positive assertions about the entity’s financial statements. For example, he could say that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. A licensee making such assertions must comply with the requirements of:

⁸ References to ET are to the ET Section, *Code of Professional Conduct*, of the AICPA Professional Standards.

a. ET 55.02 to “protect the integrity of [his] work, maintain objectivity, and avoid any subordination of [his] judgment.”

b. ET 191.131, which states:

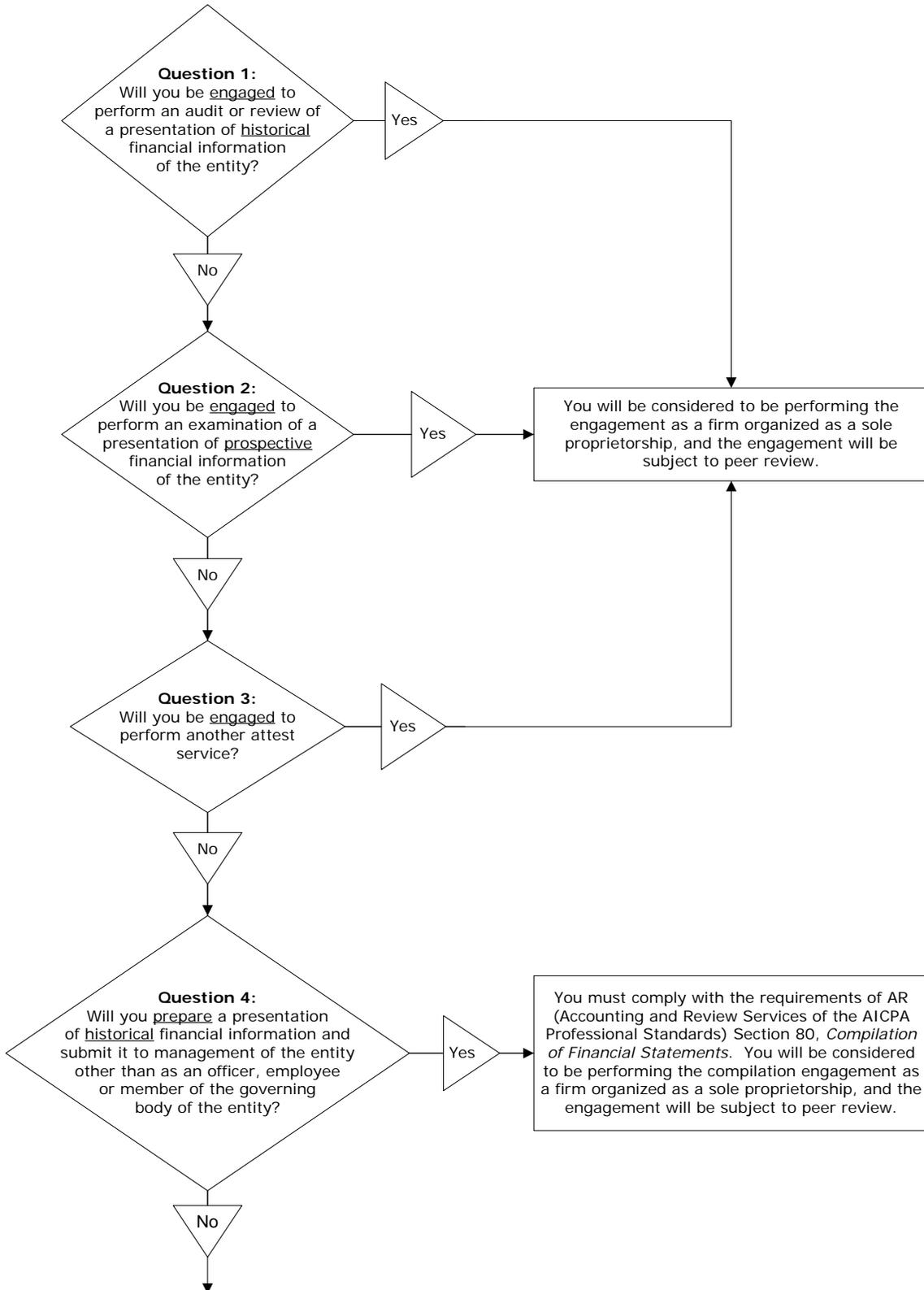
Therefore, it is advisable that in any transmittal within which the [licensee] uses [the CPA title], he...clearly indicate [his] title. In addition, if the [licensee] states affirmatively in any transmittal that a financial statement is presented in conformity with generally accepted accounting principles, the [licensee] is subject to Rule 203.

c. ET 203.05 to ensure that the statements do not “contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles that has a material effect on the statements...taken as a whole.”

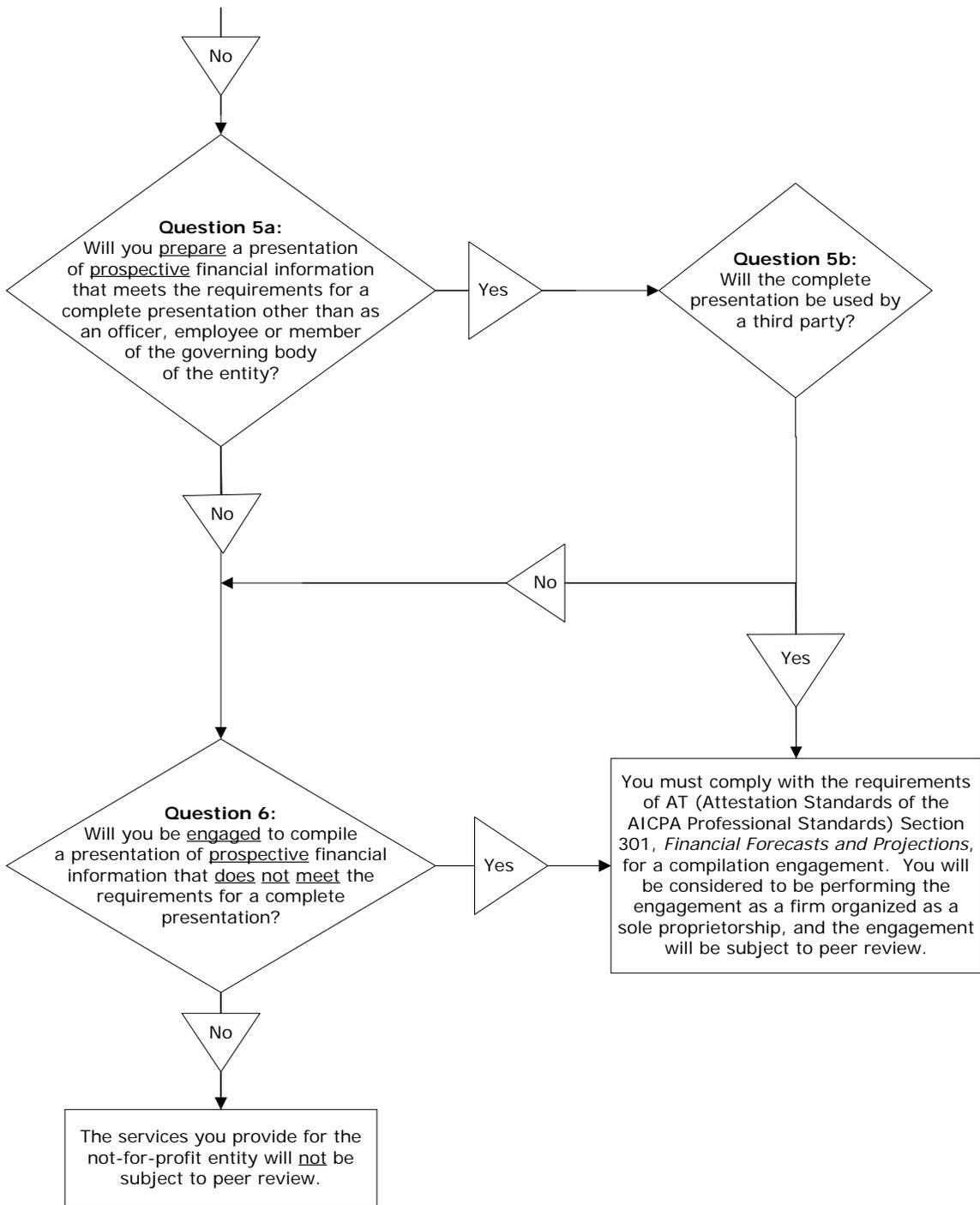
Attachments

- 1 Roadmap: Determining Whether Services Provided to a Not-for-Profit Entity are Subject to Peer Review**
- 2 Chart: Examples of Providing Services to a Not-for-Profit Entity as a Virginia CPA**

Attachment #1 - Roadmap: Determining Whether Services Provided to a Not-for-Profit Entity are Subject to Peer Review



Attachment #1 - Roadmap, continued



Attachment #2 - Chart: Examples of Providing Services to a Not-for-Profit Entity as a Virginia CPA

Type of Service	CPA Licensee Status		
	Independent	Not Independent Owners, Officers, Employees and Members of Governing Body	Not Independent Conflicts of Interest (other than Owners, Officers, Employees and Members of Governing Body)
Audit	Must comply with technical standards.	Not Independent – You cannot provide services.	
Review	Must comply with technical standards.	Not Independent – You cannot provide services.	
Attestation (including agreed-upon procedures)	Must comply with technical standards.	Not Independent – You cannot provide services.	
Compilation	Must comply with technical standards.	You do not have to comply with technical standards.	Must comply with technical standards.
Consulting Services: <ul style="list-style-type: none"> • Accounting Consultation • Budget Preparation Assistance • Fraud Loss Quantification • Management Consulting • Other Consulting Engagements 	These are consulting services, not audit, review, or other attestation or compilation services. You do not have to comply with technical standards other than Consulting Services Standards (CS).		
Other Services: <ul style="list-style-type: none"> • Bookkeeping • General Ledger Maintenance • Working Trial Balance Preparation • Bank Reconciliation Preparation • Payroll Processing • Tax Returns Preparation 	These are not audit, review, or other attestation or compilation services. You do not have to comply with technical standards other than Tax Services Standards (TS).		
Procedures that would be performed in connection with an attest service but licensee has not been <u>engaged</u> to perform an attest service: <ul style="list-style-type: none"> • Bank Reconciliation Review • Internal Control Review • Agreed-upon Procedures of Audit Committee • Inventory Counts • Other Attest Procedures 	These are not audit, review, or other attestation or compilation services. You do not have to comply with technical standards.		

Note: The references to technical standards in this chart are to those Technical Standards encompassed in ET Appendix A of Rule 202 of the AICPA's Code of Professional Conduct.