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**Inspection of  
Creedle, Jones, & Alga, P.C.**

**Issued by the  
Public Company Accounting Oversight Board  
October 26, 2006**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT  
PORTIONS OF THE COMPLETE REPORT ARE OMITTED  
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH  
SECTIONS 104(g)(2) AND 105(b)(5)(A)  
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2006-168



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.



## INSPECTION OF CREEDLE, JONES, & ALGA, P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Creedle, Jones, & Alga, P.C. ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

<sup>2/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

## PART I

### INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from July 25, 2005 to July 27, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	3 (South Hill, Lawrenceville, and Emporia, Virginia)
Ownership structure	Professional corporation
Number of partners	3
Number of professional staff <sup>3/</sup>	11
Number of issuer audit clients <sup>4/</sup>	1

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present

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<sup>3/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

<sup>4/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.<sup>5/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.<sup>6/</sup> The deficiencies identified included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies included –

- (1) the failure to perform and document sufficient procedures to test loans receivable; and

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<sup>5/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

<sup>6/</sup> PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

(2) the failure to perform and document sufficient procedures regarding controls at and over a service organization.

**B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



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PARTS II AND III OF THIS REPORT ARE NONPUBLIC  
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

## **PART IV**

### **RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.



**Creedle  
Jones  
& Alga**

*A Professional Corporation*

*Certified Public Accountants  
Sherwood H. Creedle, CPA  
Robin B. Jones, CPA, CFP  
David V. Alga, CPA, CVA*

*Members  
American Institute of Certified Public Accountants  
Virginia Society of Certified Public Accountants*

August 31, 2006

Mr. George H. Diacont  
Director, Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006

Dear Mr. Diacont:

I have taken the time to thoroughly review the draft report sent by your office, as of April 4, 2006, regarding the review conducted by your office eight months ago on July 27-29, 2005. While we responded on August 4, 2005 with our conclusions related to the findings, including future steps proposed to meet your criticism, the extended period of time between our correspondence and your letter was not futile as we had time to initiate firm practices that helped mitigate the perceived weaknesses in our audit work and supervisory review.

The attachments to this document are to serve as our response to the draft report. We appreciate the constructive comments by the reviewers and understand that the review process is in its initial stages and, therefore, will have some unevenness in the review, timing, and presentation of results. We respectfully request that you consider that we are a small firm with a limited level of hierarchy. This results in a closely knit group that sometimes eliminates the need for the level of documentation required by a larger organization. Additionally, the confidentiality of the client is a mute point as we only have one filer.

We would appreciate any and all dialogue that you feel is necessary to ensure that we meet our goal of creating and presenting a quality audit report. Thank you for your assistance in this effort. We look forward to interacting with you in the future.

Sincerely,

David V. Alga, CPA  
Managing Partner

Attachments – Part I and II

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## **Part I – Inspection Procedures and Certain Observations**

### **A. Review of Audit Engagement**

#### *Insufficiently Supported Audit Opinion*

The PCAOB review has tentatively stated the opinion that we insufficiently supported the audit opinion. Quite understandably, we do not fully agree with this assessment and request that you consider the following discussion and proposed remedial action in making your final determination.

*A-(1). Failure to perform and document sufficient procedures to test loans receivable*

#### Discussion of the Problem

As detailed in the report, the PCAOB reviewers were concerned with the lack of follow-up procedures regarding the confirmation of loans in that a significant number of confirmation forms for the loans originally selected for the positive confirmation test were not returned by the conclusion of the fieldwork of the audit. Our initial response included a narrative explaining the problems we incurred with the confirmation process during the audit. While we understand that difficulties will arise during any audit step, the criticism comes from the opinion of the reviewers that we did not react in a manner that was sufficient to compensate for the weakness created by the generation of confirmations. As noted in our original response to the review, we agree with the PCAOB reviews that our confirmation process was somewhat compromised; however, in our judgment, we felt comfortable in the level of integrity of the financial data based on the loan confirmation population we did receive and our prior experience with the Bank's previous confirmations and its customers. Additionally, a portion of the loans were selected for complete review of documentation regarding existence, completion, accuracy, and authority.

#### Remedial Action

We feel the problem is two-fold in that we needed to take a more structured approach to resolving the timing problem with the confirmations, and we need to better document our alternative steps. As a result of the PCAOB review, we have strengthened our audit process regarding both timing and documentation. During the 2005 audit, we initiated the confirmation process in October instead of late November to help avoid a reoccurrence of the prior year's delay. More importantly, we initiated procedures requiring that all second request positive confirmations not returned (no matter what type of financial instrument) be subjected to a thorough file review much like the review conducted on the internal control side of the audit, but with particular attention to existence, authority, and accuracy. This review will be documented and filed with the confirmation results so as to demonstrate how we attempted to gain comfort in the reliability of the data presented.

*A-(2). Failure to perform and document sufficient procedures regarding controls at and over a service organization.*

#### Discussion of Problem

The PCAOB reviewers were critical of the use of a SAS 70 letter dated March 31 of the audit year regarding servicing of basic banking services. The contention is that we did not apply proper follow-up procedures to determine if the servicing agent was properly processing the work. We disagree with this contention for several reasons as noted in our original response on August 4, 2005. In that response, we stated that we did rely upon the SAS 70 letter of March 31, 2004,

but we did so after considering several pertinent factors. First, the outsourced processes performed by the service provider were highly standardized processes used extensively by many user financial institutions. This issue is addressed in the SAS 70 statement but may not have been considered by the reviewers. Secondly, the Bank's regulatory agencies, most notably the Federal Reserve Bank, are knowledgeable of the service provider. Thirdly, we interviewed the Bank's management and learned that the Bank had extended its original contract through 2004 and beyond which indicates that the same programs had been subjected to our previous years' audits. Fourthly, the Bank did not offer any new services or products during the year audited. Fifthly, in prior year audits, we had reviewed the organizations training manuals, support services, and codified policies and procedures for accuracy and appropriateness and found them to be sufficient. Finally, we performed several reconciliation tests of deposits and loan applications and the related test of income and expense as part of our normal audit process, used a confirmation strategy, and reviewed the results of the outsourced internal audit performed in December of 2004.

#### Remedial Action

While we did have documentation of tests of loan and deposit reconciliation, interest calculations, and other tests involving existence, we did not document our additional work including the interviews and assumptions used in evaluating the effectiveness of the outsourced service. We feel, that if we had detailed the procedures applied, the PCAOB review team may not have listed the use of the March 31, 2004 SAS 70 letter as an exception. For this reason, we placed additional emphasis on documentation. More importantly, when we began the fieldwork for the 2005 audit, we added a test of documents which employed the concept of auditing "through the computer" to include tests of transactions from their point of initiation to final resolution. Our test included samples of new accounts (loans and deposits) being opened and tracing transactions from initial input into the system to its posting on the account statement. We continued to review interest calculations as part of our ongoing financial audit work, and feel that, with the combination of both global and individual account techniques, we will be able to determine the effectiveness and adequacy of the services provided by the outsource agent in regards to how the services impact the integrity and accuracy of the financial data reported as a whole in the audited statements.

Redacted

Comments on Non-public Aspects of Report

Redacted

Comments on Non-public Aspects of Report

**Summary**

While we disagree with a portion of the findings and feel that the preliminary conclusions appear to be harsh in nature, we believe that the review process has been beneficial to the enhancement of our audit process. We have detailed the additional steps that we took in the 2005 audit, as well as additional steps that we are taking in 2006 to improve the quality of our audit engagements. We do believe that, by the nature of our size, we have both advantages and disadvantages in the conducting of an audit. We hereby request that you consider our strengths and weaknesses as well as our differences from a larger firm in reaching a conclusion that will be mutually beneficial for your organization as well as ours. Thank you for your input. We look forward to hearing from your office in the near future regarding the final report and what further action we can take to improve our quality of work.

*Creedle, Jones & Alga, P.C.*

Creedle, Jones & Alga, P.C.  
Certified Public Accountants