

QUALITY ASSURANCE REVIEW ASSISTANCE COMMITTEE

TO: PRESIDENT, JAMES L HOLMES, LINE OFFICERS, BOARD OF DIRECTORS AND MEMBERSHIP OF NCSA

Please allow me to formulize and summarize my verbal report to the Board of Directors on Saturday, June 18, 2016.

Mr. President informed at the 6/15/16 Board of Directors meeting, I would be addressing his new Board on implementing the Quality Assurance Review as a mandatory program.

The first step to establishing a mandatory program will be determining which members will be required to submit to Quality Assurance Review. Our membership is diverse. We have Tax Professionals, Enrolled Agents, Bookkeepers, Tax Accountants and Accountants. (Some are Accredited, ABA).

With the codification of SSARS 21, our professional world has changed. Compilations are now an Attest Function. We have a new standard called "Preparation of Financial Statements". It is no accident that the AICPA has implemented these changes. They can now try to allow only CPA's to perform the attest function. They can now argue that the non-CPAs (as well as CPAs) can use the Preparation Standard and therefore will not be forced out of doing financial statements. This approach has apparently worked. In less than one year, the nation went from 6 states to 2 states (NC and Kansas) that have no restrictions. It is only time before our rights in North Carolina are attacked. If the banks are pressured to only accept attest functions our rights to practice will definitely be impacted.

SSARS 21 directly relates to the submission of financial statements.

The "Restricted for Management Use Only" reference from SSARS 19 (and SSARS 8) is gone.

The preparation standards require a legend to be attached as a footer or transmittal letter, cover page or white paper. It shall state "The accompanying financial statements of "Company" as of "Period Date" were not subjected to an audit, review or compilation by me, and accordingly, I do not express an opinion, a conclusion, nor provide any assurance on them".

And if the disclosures are omitted, a second legend shall state, "Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis. If the omitted disclosures were included in the financial statements, they might influence the user's conclusion about the company's assets, liabilities, equity, revenues and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters".

I feel we must determine the level of service our members perform and address them accordingly.

As a Tax Professional, members may feel that they should NOT be subjected to QAR if they are only preparing tax returns by directly entering the client's info into a tax program, and only submitting a completed tax return to the client.

As a Bookkeeper or a Tax Accountant, the members may feel that they should NOT be subjected to QAR if they only prepare financial statements through QuickBooks, etc, and they maintain these statements internally as their work-papers, and they do not submit the financial statements to their clients or third parties.

If you prepare or compile financial statements for your clients on a monthly, quarterly or annual basis and actually submit the financial statement to your clients, I feel this definitely qualifies you as an "Accountant" in the public practice of accountancy, and you SHOULD understand the reasons for the mandatory QAR program.

The mandatory QAR program will be phased in over a 3 year period (or longer). It will require a constitutional By-Law change.

We may need to obtain a professional outside opinion from a peer reviewer type program. There will be fees associated with the review. We may determine to maintain the program internally.

From a procedural standpoint if we decide not to maintain the program internally, I feel we need to continue the QAR Assistance Committee Program in a similar manner to the program we used when submitting financial statements to the NSA's Q.A.R. program. Hopefully, we can continue our 100% successful rate and prepare our members prior to submitting to a formal reviewer. Hopefully this program will help to reduce any fees involved with the review.

There are concerns about the effect the mandatory program will have on the retention of membership. This is a valid point. There are concerns if the members will consider this program as punitive. There are concerns as to the penalty if the member fails to submit in the 3 year period. Do we charge a fine? Is their membership in the Society at risk? What happens if the member receives an adverse opinion? These are all legitimate concerns.

I started the QAR Assistance Committee in 1995. It is still a voluntary program 21 years later. The results on the program have been dismal. I feel the members that availed themselves to the program came away with a positive attitude at the conclusion of their participation.

The leadership of this Society needs to understand and appreciate the history of our QAR program and lead us with a positive attitude and willingness to participate in the successful transition of the mandatory QAR program.

Past President Louise Pistole (2013-2014) submitted a survey to the members about the QAR Program. It is time to do a new survey to all of the membership. We need to explain the importance of establishing a mandatory program and how it will solidify our professionalism with the legislature, the Board of CPA Examiners, Bankers, the general public, and our clients; but more importantly, ourselves as professionals.

NEW CONCLUSION BY THE PRESIDENT:

President Holmes is asking you to join us in this NEW direction for the Society.

The Quality Assurance Review Committee will remain in place and will be responsible for the Compilation reviews at this time. We shall reserve the right to hire outside peer reviewers at a later time.

His administration's first task will be to make Quality Assurance Review mandatory only for Compilations and only then for members who submit and issue compilations to third parties (banks, investors, insurance companies, etc.)

Members who have submitted Compilations to the Quality Assurance Review Committee on the basis of SSARS 7 shall be grandfathered. This is an attempt to show the Society's appreciation for all who have participated in the program. We may require they submit a new SSARS 21 Compilation Report.

Compilations submitted to Clients-Only shall be the second mandated phase and shall be determined at a later date.

At this time AICPA and North Carolina Board of CPA Examiners have not mandated Peer Review for the Preparation of Financial Statements (non-attest reports). President Holmes does not feel we should make Preparations subject to mandated Quality Assurance Review at this time. The Committee will be available as we have been in the past for any assistance needed for the Preparation of Financial Statements and required Engagement Letters and for a review of financial statements.

As stated, a new Section Number under, Article I, Membership, will need to be submitted to the Constitution and By-Laws committee, and then approved at the 2017 Convention.

David L Hooker

Quality Assistance Review Committee, 2016-2017