

ARSC EXPOSURE DRAFT

2009

presented by

Ray Stephens, CPA

Regulatory Response Committee

2009 NASBA Annual Meeting – Phoenix, AZ

Positive NASBA COMMENTS

- New organization of standards
- Disclosure of why not independent in a review
 - But, isn't already covered with a different report under Interpretation 21?
 - But, is lack of independence a unitary concept?
- Concept of review evidence

Negative NASBA COMMENTS

- Moderate assurance replacing limited assurance (ARSC agreed at its September meeting)
- Having non-independent reviews where lack of independence is for performance of internal control services
- Concept of review risk (removed by ARSC at its September meeting)

Implied Underpinnings

- Moderate assurance was based on international convergence
- Review evidence was based on international convergence
- Recommendations of Reliability Task Force for non-independent review – but this is not international convergence

Recurring Peer Review Deficiencies for Reviews (AICPA Report)

- Issuance of a peer review report when not independent
- Failure to perform analytical or inquiry procedures for a review
- Failure to obtain a management representation letter in a review

Independence Issues

- Management's financial statements?
- Performance of non-attest services prior to analytical procedures and inquiry
 - Requirements of ET 101-3 to maintain independence
- Performance of procedures as a result of analytical procedures and inquiry

NASBA Response on ET 101-3

- Education of clients
- An accountant separate from the review accountant for clients

Research Basis for Reliability

- Article published in 2003 on reliability in audits (this was an article which provided no empirical results)
- Research sponsored by AICPA Private Companies Practice Section on bankers (empirical research presented)

Criticism of AICPA PCPS Research

- Research company had effective internal controls, competent management and directors and stable financial health and growth
- \$1.5 million loan secured by A/R and inventory
- Performance of non-attest services differed
- Never mentioned was whether non-attest services were performed in an independent versus non-independent manner

Summary

- Separation of compilation standards from review standards and a new framework standard is positive outcome
- Non-independent review is not in public interest nor interest of CPAs
- Removal of client requirement to sign engagement letters (September) does not seem to converge internationally and personally is not good for the public interest