

A Carnival of Information



27th
annual
ACCOUNTING SHOW

September 19-21, 2012

Broward County Convention Center / Ft. Lauderdale



27th Annual Accounting Show September 20, 2012 Ft. Lauderdale

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2011 - 2012 Accounting Shows Committee

Gary Fracassi - Chair		
Paulette Holder - Vice Chair		

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Compilation Review

Christian R. Stormer, CPA

Christian R. Stormer, CPA
Shareholder
Bauknight, Pietras & Stormer, P.A.

Chris' practice is comprised of three niches – telecommunications, insurance, and entrepreneurial services.

Chris has provided accounting and business advisory services to telecommunications carriers throughout the United States for the past 15 years. His first telecommunications clients included some of the nation's largest wireless carriers early in the development of the wireless industry. His practice has grown to include local exchange, interexchange, and wireless carriers, broadband, cable television, LMDS, MMDS, Wi-Max, Wi-Fi, advance intelligent network and internet service providers nationwide – from a wireless cable television company in Alaska to Disney's local telephone company in Florida.

Chris has a broad background providing audit services to alternative risk clientele, first with Ernst & Young and then with Bauknight Pietras & Stormer, PA. His first alternative risk clients were primarily workers compensation and health care related self-insurance funds. Today, Chris leads our services to risk retention groups, association captives, and pure captive insurance companies insuring a wide range of risks from medical malpractice to home builders warranty to loan guarantees.

Chris also provides accounting and business advisory services to the Carolinas' entrepreneurial business community where he serves clients in the medical, distribution, technology, and real estate industries.

In addition to providing traditional audit services, he provides a wide range of electronic commerce assurance services to clients as well as assisting clients in the development of cost accounting systems, obtaining financing, strategic management, inventory and cash management programs, and merger/acquisition/divestiture strategies.

From 1997 through 2004, as a member of the American Institute of Certified Public Accountants' ("AICPA") Electronic Commerce Assurance Services Task Force, Chris helped develop and "rollout" the AICPA's SysTrust line of assurance services. This includes a comprehensive series of standards against which business processes and systems may be measured for compliance with best practices in the areas of security, on-line privacy, availability, processing integrity, and confidentiality.

Chris is a co-author of four Practitioners Publishing Company resource manuals for CPAs, including:

- Guide to Business Start-Ups.
- Guide to Obtaining Business Financing.
- Guide to Data Extraction Software.
- Guide to Non-Traditional Engagements.

Prior to joining Bauknight Pietras & Stormer, P.A. in 1992, Chris spent his entire career with Ernst & Young, serving as their Office Director of Entrepreneurial Services in the Columbia, South Carolina office. Additionally, he served two years in Ernst & Young's National office in Washington, DC as an accounting and audit education resident where he was responsible for the development of specialized accounting and audit education programs tailored to serving the start-up and early stage growth clientele of the firm.

Education

Graduated from Clemson University in 1982 with Bachelor of Science degree in accounting.

Boards and Organizations

- Past Member of the Board of Directors of RapidLink, Inc. RapidLink is a now defunct Atlanta-based provider of international voice over internet protocol (VoIP) communications services provider and named one of Atlanta's 50 fastest growing technology companies in 2000.
- Member of the South Carolina Association of Certified Public Accountants (Past Chairman of the Information Technology Committee)
- Member of the American Institute of Certified Public Accountants (past member of the Electronic Commerce Task Force)
- Member of the Board of Directors of EdVenture (Finance Committee Member)
- Member of the Board of Directors of Heathwood Hall Episcopal School
- Member of the Board of Trustees of EngenuitySC
- Graduate of Leadership

Compilation and Review Update

Christian R. Stormer
Bauknight Pietras & Stormer, P.A.
Columbia, South Carolina

The News

- This year's news
- Next year's news
- Last year's news (time permitting)

This Year's News

- Interpretation No. 11 – Required Supplementary Information That Accompanies Reviewed Financial Statements
- Interpretation No. 17 – Required Supplementary Information That Accompanies Compiled Financial Statements
- Technical Practice Aid TIS 9150.29 – VIEs
- Technical Practice Aid TIS 9150.30 – Independence When Only One Year Impaired

Interpretation Nos. 11 and 17

- Both:
 - CPA not required to apply any procedures to supplementary information (even if supplementary information is required)
 - CPA should indicate degree of responsibility, if any, they are taking on the supplementary information
 - CPA may modify report to include a separate paragraph on supplementary information – or include in scope paragraph with no separate paragraph

Tech Practice Aid TIS 9150.29

- Management Instructs CPA Not To Assess VIEs
 - Departure from GAAP ^{TDP2}
 - Modify the report to disclose the departure in a separate paragraph
 - If modification is not adequate to indicate the deficiencies, the CPA should withdraw from the engagement

Tech Practice Aid 9150.30

- Disclosure of Independence Impairment When Only One Period is Impaired
 - Revise the report, as follows:
 - “As of and for the year ended December 31, 20XX, I was not independent with respect to Company X.”
 - “As of and for the year ended December 31, 20XX, I was not independent with respect to Company X. I am currently independent with respect to Company X.”
 - CPA is NOT precluded from disclosing a description of the reasons that CPA was impaired

Next Year's News

- Proposed Clarified SSARS – Association with Unaudited Financial Statements
- Clarified SSARS – Compilation of Financial Statements Exposure Draft
- Proposed Clarified SSARS – Review of Financial Statements

Association With Unaudited Financial Statements

- Exposure draft issued November 2010
- Comment letters considered May 2011 meeting
- Withdrew November 2010 ED
- New Exposure Draft issued June 2012
- Comment period ended August 31, 2012
- Vote is in late September 2012
- Effective for statements associated after December 2014

Association With Unaudited Financial Statements

- Addresses CPA's responsibility when CPA is associated with FS that have not been compiled, reviewed, or audited
- CPA is "associated" when:
 - CPA permits use of CPA's name in a report, document, or written communication containing unaudited FS not prepared in whole/part by CPA
 - CPA prepare in whole/part unaudited FS, even though the CPA does not append his/her name to the unaudited FS

Association With Unaudited Financial Statements

- When CPA is associated with unaudited FS the CPA did not prepare, CPA should:
 - Read the unaudited statements
 - Consider whether free from material inconsistencies with other knowledge or information of which CPA may be aware
 - CPA should request that the entity clearly indicate the FS were not compiled, reviewed, or audited

Association With Unaudited Financial Statements

- When CPA is associated with unaudited FS the CPA prepared, CPA should:
 - CPA should request that the entity clearly indicate the FS were not compiled, reviewed, or audited

Clarified SSARS, Compilation

- Exposure draft issued June 2012
- Comments by September 28, 2012
- Effective for compilations of statements of periods ending on or after December 15, 2014
- Early adoption required if CPA early implements proposed revised Interpretation No. 101-3, "Non-attest Services"

Clarified SSARS, Compilation

- Significant changes include:
 - “Engagement driven” versus “Submission driven”
 - Changing term “illegal acts” to “noncompliance with laws or regulations”
 - Changing OCBOA to “special purpose framework” to be consistent with audit standards
 - Engagement letter must be signed by CPA firm and management

Clarified SSARS, Compilation

- Significant changes (continued) include:
 - Emphasis of a matter paragraph when:
 - FS prepared in accordance with a special purpose framework (an OCBOA)
 - Management revised FS for subsequently discovered fact (after release date)
 - CPA considers it necessary to alert user to an important matter presented in FS

Clarified SSARS, Compilation

- Significant changes (continued) include:
 - All compilation reports use sections with headings
 - City and state of issuing office should be named

Clarified SSARS, Review

- Exposure draft expected in 2013
- Expected to be effective for reviews of FS for periods ending on or after December 15, 2014

Last Year's News

- SSARS No. 19 – Conforming Changes
- SSARS No. 20 – Revised Applicability of SSARS

SSARS No. 19 Comp and Review Engagements

- Separates compilation guidance from review guidance
- Clarification of review performance procedures
- Documenting understanding with management
- Enhanced requirements for compilation documentation
- Review documentation changes
- New compilation and review reports

SSARS No. 19 Comp and Review Engagements

- Clarification of Review Performance Procedures:
 - Cannot use a “canned” list of analytical and inquiry procedures. Must tailor to take into consideration areas of increased risk
 - Requires accumulation of review evidence with reasonable basis for obtaining limited assurance
 - Does not preclude the use of an audit procedure(s) if deemed necessary

SSARS No. 19 Comp and Review Engagements

- Documenting understanding with management
 - Requires the understanding to be in writing
 - Can encompass multiple year scope, however recommend engagement letter to be updated at least annually

SSARS No. 19 Comp and Review Engagements

- Enhanced requirements for compilation documentation
 - Requires signed engagement letter and any findings or issues that CPA considers significant
 - Document communications to appropriate level of management re: fraud/illegal acts
 - Any CPA questions related to FS balances and how resolved should be documented
 - Allows CPA to disclose reason(s) for lack of independence

SSARS No. 19 Comp and Review Engagements

- Review documentation changes
 - Requires signed engagement letter
 - Expanded guidance with respect to analytical procedures
 - Requirement to document management's responses to inquiries:
 - Analytical procedures
 - Significant matters

SSARS No. 19 Comp and Review Engagements

- New compilation and review reports
 - Report now requires title and addressee
 - Three clear paragraphs (compilation)
 - Introductory (scope) paragraph
 - Management's responsibility paragraph
 - Accountant's responsibility paragraph

SSARS No. 19 Comp and Review Engagements

- New compilation and review reports (continued)
 - Report requires a title
 - Ex. "Independent Accountants' Review Report"
 - Four clear paragraphs (review)
 - Introductory paragraph (scope)
 - Management's responsibility paragraph
 - Accountants' responsibility paragraph
 - Conclusion paragraph

SSARS No. 20 Revised Applicability of SSARS

- If SAS nos. 100, 116, and 121 apply to interim financial statements, then SSARS do not apply

OCBOA and Agreed Upon Procedures

Richard G. Edsall, CFE, CPA, MBA

Richard G. Edsall, CPA, CFE, MBA

Richard G. Edsall is a CPA with over twenty-five years of professional experience in Florida. He is currently a member and past chairman of the FICPA's Committee on Accounting Principles and Auditing Standards.

His public accounting experience includes supervisory positions in three offices of a "Big Four" firm and managing the audit practice of a Florida affiliate of another national firm. In addition to audit, he has an extensive consulting background and has been designated as a certified fraud examiner (CFE) by the Association of Certified Fraud Examiners (ACFE).

Richard also has substantial private industry experience, including management positions with Bank of America and BFGoodrich. He assisted both entities with mergers and the implementation of new accounting systems.

Richard received a BS in Accounting from Lehigh University and an MBA (concentrating in finance and information systems) from Lehigh. While pursuing his MBA, he instructed undergraduate courses in financial accounting, managerial accounting and information systems.

Richard has prepared and instructed continuing professional education courses for numerous CPA firms.

OCBOA & AGREED-UPON PROCEDURES

Richard G. Edsall, CPA, CFE, MBA

OCBOA

- Stands for “other comprehensive basis of accounting.”
- Alternative to GAAP basis (generally accepted accounting principles.)
- F/S normally assumed to be GAAP unless otherwise indicated.
- OCBOA statements fit “special needs” of financial statement users/preparers.

USERS OF OCBOA F/S

- Used by privately held and nonprofit entities only.
- Publicly held companies must include GAAP basis F/S in SEC filings and in reports to shareholders.
- However, OCBOA financial statements can be audited (as per SAS 62, or AU 623) in addition to being reviewed or compiled (as per SSARS15.)
- These two pronouncements describe four types of OCBOA's, which are addressed in following slides.

INCOME TAX BASIS OF ACCOUNTING

- A company may wish to prepare its F/S on the same basis as which its income tax returns are prepared.
- Reduces the number of “book to tax” adjustments.
- Primarily for internal management use, but it could satisfy some financial institutions, based on the relationship and the nature of the book to tax differences.

MODIFIED CASH BASIS OF ACCOUNTING

- A company may wish to prepare its financial statements on the cash basis (rarely used) or modified cash basis.
- Avoids having to make a lot of “accrual” adjustments.
- Good for small entities, especially if they are also cash basis taxpayers.

TWO OTHER “OCBOA’s

- An entity may be required to report on the basis of accounting prescribed by a regulatory or other governmental agency.
- Examples could be financial statement formats required by government grants, state insurance commissions or banking regulators.
- A fourth model – quoted in AU 623 – “a definite set of criteria having substantial support that is applied to all material items appearing in the financial statements, such as the price level basis of accounting.” – Not often used.

TITLING AND CAPTIONING OF OCBOA FINANCIAL STATEMENTS

- Depending on the basis of accounting, alternative F/S titles and captions are generally used.
- Done so as to highlight that this is an OCBOA and not GAAP.
- Balance sheet and statement of income (or operations) are GAAP financial statement titles.
- Net income is also a GAAP term/caption.

INCOME TAX BASIS F/S TITLES AND CAPTIONS

- Statement of assets, liabilities and equity – income tax basis.
- Statement of revenues and expenses – income tax basis.
- Net income generally reported as “excess (deficiency) of revenues over expenses”.

MODIFIED CASH BASIS OF ACCOUNTING F/S TITLES & CAPTIONS

- Statement of assets, liabilities and equity – modified cash basis.
- Statement of revenues and expenses – modified cash basis.
- As with income tax basis, net income is generally reported as “excess (deficiency) of revenues over expenses”.
- Pure cash basis – not that popular – will be discussed later.

BASES USED FOR REGULATORY REPORTING & OTHER CRITERIA

- Used titles and captions prescribed by the regulatory agency.
- Must not be misleading.
- Most of these agencies have CPAs on staff to review F/S and keep the prescribed formats from being misleading.
- For F/S prepared on another OCBOA “having substantial support” – use titles and captions as appropriate.

DIFFERENCES FROM GAAP – INCOME TAX BASIS

- Temporary differences – reported the same for financial reporting and income tax return purposes.
- Example is depreciation – for income tax basis it is reported on MACRS or other method used for tax return (as opposed to straight-line usually used in GAAP).
- Another example is accrual basis adjustments (accounts receivable, inventories, accounts payable, accrued expenses and prepaid expenses) for cash basis taxpayers.

ADDITIONAL DIFFERENCES FROM GAAP – INCOME TAX BASIS

- Permanent differences apply here, but they can be reported in any of several ways.
- They can be a separate line on the statement of revenues and expenses.
- Alternatively, the statement can be subtotaled at taxable income, then present nontaxable/deductible permanent difference items.
- If full disclosure F/S prepared (for a review or audit), this can be a note disclosure.

DIFFERENCES FROM GAAP – MODIFIED CASH BASIS

- Typically does not recognize “accrual basis” accounts.
- Generally no A/R, A/P, inventories, accrued expenses or prepaid expenses.
- Normally puts operations on substantially a pure cash basis.
- Differences from pure “cash” basis presented on the next slide.

ADDITIONAL FEATURES OF MODIFIED CASH BASIS

- Typically will recognize long-term accounts.
- These would affect “investing” and “financing” activities on a GAAP statement of cash flows.
- Property & equipment generally capitalized and depreciated (usually MACRS – not GAAP statements).
- Long-term debt & borrowings under line of credit recorded.
- Loans to and from stockholders/owners recorded.

DIFFERENCES FROM GAAP – CASH BASIS

- Only cash receipts and disbursements are recorded. P/L = Statement of cash received and expenses paid.
- Even long-term accounts, such as property and equipment, are expensed.
- Accordingly, pure cash basis is not used that often.
- Primary uses are certain small nonprofits and government grants (which fall under a regulatory basis discussed on the next slide.)

DIFFERENCES FROM GAAP – REGULATORY AND OTHER BASES

- Regulatory basis – differences will be as prescribed by statute or by regulators.
- Should not be misleading.
- Other basis – accounting as appropriate.

DISCLOSURES

- Statement of cash flows is generally not applicable.
- Purpose of that statement is to reconcile GAAP to cash (OCBOA is not GAAP.)
- Most OCBOA's are more cash oriented, so statement would probably be duplicative.
- Basis of accounting required (for a full disclosure statement) – includes brief description and major differences from GAAP.

NOTE DISCLOSURES GENERALLY FOLLOW THOSE OF GAAP PRESENTATION

- Accounting policies.
- Inventory components, if applicable.
- Property and equipment components, accumulated depreciation and related expense.
- Terms and future maturities of long-term debt and lines of credit.
- Estimates, risks and uncertainties.
- Contingencies (based on judgment, and especially if there is a going concern issue).

REPORTING ON OCBOA STATEMENTS

- Can provide all of the same levels of service as those applied to GAAP basis financial statements.
- Compilation (either with or without disclosures.)
- Review.
- Audit.
- Agreed-upon procedures (will be discussed later.)

COMPILATION OMITTING ALL DISCLOSURES

- Report must indicate exact titles of financial statements.
- Instead of GAAP, refer to the basis of accounting used.
- Do not need to mention omission of statement of cash flows.
- Mention omission of income tax provision (if applicable) or that it is a non-taxpaying entity.
- Report on other departures from the basis of accounting used (this should rarely occur.)
- Final paragraph – “Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the _____ basis of accounting.”

COMPILATION PROCEDURES APPLIED TO OCBOA FINANCIAL STATEMENTS

- Perform and document compilation procedures in a manner similar to that for GAAP financial statements.
- Engagement letter.
- Understanding of entity and industry.
- Read financial statements to ascertain that they are free of material errors.
- Review process in accordance with firm standards.

REPORTING ON OCBOA REVIEW ENGAGEMENTS

- As with a compilation, report exact financial statement titles and substitute GAAP with basis of accounting used.
- Other components of a review report still apply.
- Last sentence of report – substitute GAAP with “the _____ basis of accounting, as described in Note ____.”
- Can report on supplementary information.
- Manual signature, dating – similar to GAAP basis report.

REVIEW PROCEDURES APPLIED TO OCBOA F/S

- Generally the same as those required for GAAP basis financial statements.
- Engagement letter.
- Inquiry and analytical procedures.
- Representation letter.
- Quality control review procedures.

REPORTING ON AUDITED OCBOA F/S

- As with compilations and reviews, audit report is similar to that for GAAP basis financial statements.
- Specifics follow an outlined framework described in AU 623.
- Mention exact F/S titles and basis of accounting used (with reference to note as is done with reviews).
- Can report on supplementary information.
- Manual signature, dating – similar to GAAP basis report.

AGREED-UPON PROCEDURES

HOW AGREED-UPON PROCEDURES ARE USED

- Alternative to a full-scope audit engagement.
- Tailor procedures to meet special needs of user.
- Can be combined with a review, but applying audit procedures to certain significant accounts.
- Result is a letter-style report describing procedures and results.
- Can provide “more bang for the buck” – concentrate on user’s needs while minimizing cost.

Agreed-upon procedures can serve many purposes and can be used as an alternative to a full-scope audit in numerous situations:

- Applying procedures to particular accounts without conducting a full-scope audit (which may satisfy lenders' requirements at lower cost,)
- Business purchase investigations,
- Internal control studies,
- Forensic accounting engagements, and
- Other situations where the client and accountant agree on the specific procedures and understand their purpose.

WHAT IS AN AGREED-UPON PROCEDURES ENGAGEMENT?

- Special engagement covered under "Attestation Standards" issued by the AICPA.
- Conduct of engagement is governed by Statements on Standards for Attestation Engagements (SSAE) No. 10 and 11. These two SSAE's are combined in the AICPA's "Current Text" section AT201.
- Engagement defined as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."

CONDITIONS FOR ENGAGEMENT PERFORMANCE

- Independent practitioner.
- Responsible party.
- Agreement regarding procedures to be performed.
- Specified parties take responsibility for sufficiency of procedures.
- Procedures applied to items that can be reasonably measured.
- Criteria used in determination of findings are also agreed upon.
- Procedures expected to result in reasonably consistent findings.
- Evidential matter exists and is expected to produce reasonably consistent findings.
- Parties agree on materiality limits, where applicable.
- Restricted use of report.
- Prospective financial info includes summary of significant assumptions.

AGREED-UPON PROCEDURES MAY INCLUDE:

- Execution of a sampling application after agreeing on relevant parameters.
- Inspection of documents evidencing attributes of transactions.
- Confirmation with third parties.
- Comparison of documents or analyses with certain specified attributes.
- Reperformance of work performed by others (e.g. internal auditors.)
- Performance of mathematical computations.

AGREED-UPON PROCEDURES MAY NOT INCLUDE:

- Reading work of others to describe their findings.
- Evaluating the competency or objectivity of another party
- Obtaining an understanding of a particular subject.
- Interpreting documents outside the scope of the practitioner's expertise.

IMPORTANT POINTS NEEDED TO CONDUCT AN AGREED-UPON PROCEDURES ENGAGEMENT

- Start with client meeting to discuss objectives and procedures.
- Engagement letter required.
- Open communication with the client while performing procedures (in case they need to change based on preliminary results.)
- May wish to utilize a management representation letter (but this is not required.)
- Reporting.

INITIAL CLIENT MEETING (KICKOFF)

- Confirm with client the business purpose for the proposed transaction (use of report.)
- Discuss deadline for issuing report and timing of procedures, including availability of workspace and staff assistance.
- Discuss overview of suggested procedures, obtain client input and come to an agreement regarding procedures.
- May discuss scope for certain items.

ENGAGEMENT LETTER

- Engagement is conducted in accordance with attestation standards established by the AICPA.
- Procedures agreed to by client.
- Purpose of report – “. . .solely to assist ABC Company with . . .” (fill in the blank.)
- Describe procedures, being specific in scope and actual work to be done.
- Engagement is not an audit of the entity’s financial statements or the subject matter to which the procedures are being applied.

PERFORMANCE / DOCUMENTATION OF PROCEDURES

- Follow the enumerated procedures in the engagement letter – this serves as the “audit program.”
- (Working paper) documentation should follow the Firm’s audit documentation standards, except for issues relevant only to this type of engagement (such as not expressing conclusions on areas or addressing materiality at the financial statement level.)
- Do not pass on any “errors” or exceptions unless they fall within limits agreed to by the accountant and client.
- Keep an open line of communication with the client who, depending on the type of engagement, may be working alongside of you.

REPORTING

- Standard report format, containing many of the same elements as the engagement letter.
- Dated as of the completion of the procedures.
- Specifically note procedures and findings, with no “passing” on items due to immateriality (except as agreed to by the parties.)
- No “negative assurance” is allowed (such as “nothing came to our attention that caused us to believe” or “approximated”)
- Do not draw “conclusions” in the report.
- Contains language restricting use of the report to owners, governing body (board of directors) and management of client, along with affected third party, if applicable.

REPORT FORMAT

Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Board of Directors and Management of RGE Distributors, Inc.:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and management of RGE Distributors, Inc., solely to assist you in connection in renewing your line of credit with ABC Bank. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other reason.

The procedures and the associated findings are as follows:

Insert procedures and findings here.

REPORT FORMAT (Continued)

We were not engaged to and did not conduct an audit, the objective of which would be the expression on an opinion on the financial statements of RGE Distributors, Inc. (*or identify specific balances if procedures were limited to specific accounts*). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management of RGE Distributors, Inc. and ABC Bank and is not intended to be and should not be used by anyone other than these specified parties.

Bean Counters, LLC

Fort Lauderdale, Florida

August 1, 2012

USE OF AGREED-UPON PROCEDURES - SATISFYING LENDERS' REQUIREMENTS

- Generally will restrict procedures to those areas of high risk (will go into more detail on next slide.)
- Sometimes done in conjunction with review of the entity's financial statements.
- Significant amount of detailed testing, including alternate procedures on receivables (if confirmation will not produce timely results.)
- While analytical review techniques will usually help in the planning stages of engagements and in determining the nature and scope of procedures, they are generally not included in the agreed-upon procedures performed.

EXAMPLE ENGAGEMENT – MANUFACTURER OR DISTRIBUTOR – SUPPLEMENT TO REVIEWED FINANCIAL STATEMENTS

- Engagement would typically (but not always) be limited to accounts receivable, inventories and accounts payable.
- Receivables – either confirmation (disclose statistics) or subsequent collections (disclose amount).
- Inventories – Observation – quantify test counts, how selected, and errors.
- Inventories – Price testing raw materials or purchased finished goods – quantify selection, test procedure, error amounts.
- Inventories – Work in process and finished goods calculations – quantify selection, calculation procedures and error amounts.
- Payables – Describe procedure (such as confirmation or examination of subsequent disbursements, scope and errors.)

PROCEDURES AND FINDINGS

Accounts Receivable

1. We compared the accounts receivable general ledger balance with the total per the accounts receivable aged trial balance (“ATB”) as of December 31, 2011 and found them to be in agreement (or “found that the general ledger balance exceeded the total per the ATB by \$XX,XXX”.)
2. We selected from the DTB all customer balances of \$50,000 or greater and 30 customer balances under that amount (starting with the third customer balance under \$50,000 and selecting every tenth such balance thereafter). This resulted in a selection of 42 customer balances comprising 45% of the recorded accounts receivable balance of \$12,000,000. We performed the following procedures on each selected balance:
 - a. Recalculated the aging based on the invoice date per the ATB to the aging category(ies) noted on the ATB and noted no exceptions.

PROCEDURES AND FINDINGS (Continued)

Accounts Receivable (Continued)

- b. Mailed a positive confirmation request directly to the customer, which was followed up by a second request two weeks later. We reconciled the differences noted in the confirmation requests without any adjustments required, except for those differences less than \$200 which, as agreed, are considered minor. For nonresponding accounts, we examined evidence of subsequent receipts (for amounts subsequently collected), including customer remittance advices, check copies and validated deposit slips or (for amounts not subsequently collected) sales invoices, packing slips and customer purchase orders for all with no exceptions noted. A summary of the confirmation and related procedures is as follows:

Confirmed without exception	\$2,390,000
Confirmed with exception and cleared	610,000
Examined evidence of subsequent receipts	1,910,000
Examined sales documentation	<u>490,000</u>
Total accounts receivable selected and tested	<u>\$5,400,000</u>

PROCEDURES AND FINDINGS (Continued)

Inventory

1. We compared the inventory general ledger balance with the total per the detailed inventory valuation report ("IVR") as of December 31, 2008 and found them to be in agreement.
2. We selected from the IVR all inventory items with extended costs of \$10,000 or more plus 20 items with extended costs less than \$10,000. The 41 items selected comprised 20% of the total recorded inventory balance of \$5,000,000. We toured the inventory location and test counted each selected item, which included opening the boxes, physically examining the contents and agreeing quantities and units of measure to the IVR. No exceptions were noted.

PROCEDURES AND FINDINGS (Continued)

Inventory (Continued):

- We selected from the IVR all inventory items with extended costs of \$15,000 and 20 items with extended costs less than \$15,000. The 32 items selected comprised 15% of the total recorded inventory balance. For each selected item, we compared the unit cost to the most recent purchase order(s) and vendor's invoice(s) (sufficient to cover the recorded inventory) and noted no exceptions, except as follows:
 - a. Item number AC908 had a recorded unit cost of \$80.00 for 100 units; however, the unit cost per the most recent purchase order and vendor invoice for 130 units was \$85.00. We discussed this with management and were informed that a recent vendor price update was not input to the computerized inventory system.
 - b. Item number XX789 had a recorded unit cost of \$30.00 for 250 units. No purchase orders or vendor invoices could be located. We discussed this with management and were informed that this item had not been purchased since 2008.

BUSINESS PURCHASE INVESTIGATIONS

- Read acquisition contract and trial balance.
- Identify critical risk areas of the entity to be acquired.
- Usually extensive detailed testing.
- Often (usually) do not have time to wait for confirmation replies.
- Preferable to work alongside of client personnel at the third party's office.

BUSINESS PURCHASE INVESTIGATIONS – OTHER CONSIDERATIONS

- Procedures will typically include those in the previous example for receivables, inventories and payables.
- Scope could be affected by terms of contract, especially purchase price determination (such as fixed dollar amount, multiple of earnings, function of book value of equity, etc.)
- Significant amounts of cash could also be tested.
- Property and equipment may comprise a significant portion of total assets and be included in the engagement.
- Client may also utilize an appraiser for items such as inventories and fixed assets, especially if they are very peculiar or industry specific items.
- May also incorporate elements of internal control testing, especially if present accounting staff of the acquiree may be retained.

INTERNAL CONTROL STUDIES

- Agreed-upon procedures work well here due to quantification of results.
- Areas to test based on relative risk.
- Can start small in scope and expand as any exceptions are found.
- Most useful for an entity that does not have its financial statements audited.
- Beneficial to an entity that anticipates “going public” (for Sarbanes-Oxley.)
- It is essential to understand the entity’s internal control.
- Procedures limited to attribute testing (for quantification of results.)
- Sample sizes based on mutual understanding (w/ PPC/Sarbanes guidance).

FORENSIC ACCOUNTING ENGAGEMENTS

- Almost always a suspicion of fraud (including defalcation of assets.)
- Timing is critical in that any potential fraud could be ongoing.
- As with internal control engagements, these may be done in industries and entities not always “audited.”
- Accountant may be working closely with alleged perpetrator.
- Fraud could be a totally separate topic.
- Cash and receivables (with related revenue) often the focal point.
- Generally, there is no materiality whatsoever in these engagements.
- Sometimes, the alleged perpetrator will confess prior to completion of the engagement.

OTHER TYPES OF AGREED-UPON PROCEDURES ENGAGEMENTS

- There is a wide variety of client situations that would be amenable to agreed-upon procedures. Paragraph 26 of AT201 has six examples:
 - Shipping cutoff – based on exam of shipping documents.
 - Contractor performance – based on calculation of number of street blocks paved.
 - Investment/project performance – based on calculation of internal rate of return.
 - Validity of quality inspection documentation/reporting – based on comparison of quality classification codes to published lists.
 - Accuracy of bank reconciliation – based on comparison of outstanding checks to subsequent bank statement and/or related canceled checks.
 - Proper aging of accounts receivable – based on comparison of aging per detailed reports to dates of underlying sales invoices.
- Internal rate of return (based on analysis of cash flows) very relevant.

QUESTIONS?

THANK YOU!

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FASB Update

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Ed Grossman is a partner on the Assurance Professional Practice operations team of Crowe Horwath LLP, based in the Lakeland, Florida office. He graduated Summa Cum Laude from Florida Southern College with a Bachelor of Science in Accounting.

Ed's practice responsibilities include overseeing the development and timely distribution of technical guidance related to professional standards activity. His experience includes providing accounting and assurance services for a variety of public and private sector organizations. He has been in public accounting for 26 years.

Ed is an active member of the American Institute of Certified Public Accountants (AICPA) and the Florida Institute of Certified Public Accountants (FICPA), assuming many leadership roles. Ed recently completed service as Chairman of the FICPA's Committee on Peer Review Acceptance. He previously served on the PCPS Technical Issues Committee of the AICPA and was a member of the Auditing Standards Board Technology Issues Task Force. Ed is a member of the Association of Certified Fraud Examiners, having achieved his Certified Fraud Examiner (CFE) designation in 1994. He received his Certified Management Accountant (CMA) designation in 1988.

He is a frequent speaker on accounting and auditing topics for the FICPA and other organizations and has been recognized as an outstanding discussion leader by the FICPA for 2005, 2006, 2007 and 2008.

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