

**NORTH CAROLINA SOCIETY OF ACCOUNTANTS INC.**

**QUALITY ASSURANCE REVIEW ASSISTANCE**

**DAVID L. HOOKER - CHAIRMAN**



**"YOU MAY NOT LEARN ANYTHING AT AN ACCOUNTING SEMINAR THAT WILL MAKE YOU MONEY, BUT YOU WILL LEARN THINGS THAT WILL SAVE YOU MONEY"**

Bill Leonard, Gear Up Instructor - NCSA Spring PAS, May 2005.

## NCSA QAR Purpose Statement

The purpose of the Quality Assurance Review program is to assist in ensuring that financial statements prepared by our members are done in accordance with professional accounting standards and/or standards established by the accounting profession.

There are NCSA members who have not submitted their statements for review. Is there some reason that you do not want your work to be evaluated? Are you too busy? Have you forgotten the request the QAR Committee made last year regarding this, or do you just not want to participate in this program?

The Committee requests that you submit a sample set of a compilation or reviewed financial statements from one of your clients. These statements should contain the same reports you would send to your client at their year-end.

The Chairman of the Committee, to ensure the privacy of the information, will review your Financial Statements. You will need to black out your name, address, phone number, the client's name or any other pertinent personal information prior to sending in your financial statements. The Chairman will assign a confidential ID number and send your Financial Statements directly to the committee members. Only the Chairman will know your identity.

The Committee will evaluate and issue, to the best of our abilities and limited time restraints, written critiques and recommendations for improvements and changes in order to give the members the best chance for submitting a successful report to National Society of Accountants or their peer reviewer.

The Committee will concentrate on the following:

- q Cover Page
- q Table of Contents
- q Accountant's Compilation or Review Report
- q Statement of Assets, Liabilities, and Equity-Income Tax Basis
- q Statement of Revenues and Expenses-Income Tax Basis
- q Statement of Retained Earnings-Income Tax Basis
- q Statement of Cash Flows-Income Tax Basis
- q Notes or Selected Notes to Financial Statements
- q Supplementary Information-Income Tax Basis
- q Comments

George Parker, of NSA's QAR Committee, stated in his article "Why You Need Quality Assurance Review!" If you are a rank and file NSA member or your State Society, could you set the example? NOW is the time for you to step forward and accept the challenge of becoming QAR'd! You, too, can be a part of the growing number of NSA accountants who are and have become QAR'd! The NSA Quality Assurance Review Committee stands ready and willing to help, aid and assist you in this endeavor.

I am confident you will find that Quality Assurance Review will be the most essential, hands-on educational program in which you will participate. We look forward to working with you as you utilize your membership tools available from the North Carolina Society of Accountants.

David L. Hooker, Chairman - NCSA Quality Assurance Review Assistance Committee



## North Carolina State Board of Certified Public Accountant Examiners

1101 Oberlin Road • Suite 104 • PO Box 12827 • Raleigh NC 27605-2827 • (919) 733-4222 • [www.state.nc.us/cpabd/](http://www.state.nc.us/cpabd/)

September 20, 2001

Stefani Avila  
National Society of Accountants  
1010 North Fairfax Street  
Alexandria, Virginia 22314-1574

Dear Ms. Avila:

At its September 18, 2001, meeting, the North Carolina State Board of Certified Public Accountant Examiners reviewed a request from the North Carolina Society of Accountants (NCSA) seeking permission for its members to use *Statements on Standards for Accounting and Review Services* (SSARS) language in compilation reports submitted to the National Society of Accountants (NSA) for Quality Assurance Review (QAR).

In North Carolina, the use of SSARS language in attest service reports is restricted to those individuals licensed as CPAs by the Board. Therefore, accountants in North Carolina are limited to using "safe harbor" language, which allows no reference to SSARS language, in their attest service reports.

According to the information provided to the Board by the NCSA, the NSA QAR program uses the Peer Review Program Manual promulgated by the American Institute of CPAs (AICPA). The AICPA Peer Review program allows peer reviewers to modify the checklist with justification. From the Board's perspective, it appears that the prohibition of use of SSARS language by non-CPAs in North Carolina is sufficient justification for reviewers to modify the checklist, thereby not penalizing the North Carolina accountants who elect to participate in the QAR program.

If you have any questions, please contact me by telephone at (919) 733-1425.

Sincerely,

Robert N. Brooks  
Executive Director

cc: L. Dean Hunter, NCSA President

Administrative  
Services  
919-733-4223

Communications  
919-733-4206

Fax  
919-733-4209

CPE/Firm/QAR  
Registration  
919-733-1423

Licensing  
919-733-1422

Examinations  
919-733-4224

Professional  
Standards  
919-733-1426

Board of Directors:

**S CORP NAME**

City, North Carolina

## **ACCOUNTANTS' COMPILATION REPORT**

### **FOR QAR PURPOSES ONLY**

We have compiled the accompanying statements of assets, liabilities, and equity - income tax basis of Sub-S Corporation, INC. (a corporation) as of December 31, 2000, and the related statements of revenue and expenses - income tax basis, for the twelve month period then ended, and the accompanying supplementary information - income tax basis, which is presented only for supplementary analysis information, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the Company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements, and supplementary information, and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of departures from income tax basis of accounting that are described in the following paragraph.

The Income Tax Basis of accounting requires that the Company record an income tax provision. The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for income taxes because the earnings and losses are included in the shareholders' personal income tax returns and are taxed based on their personal tax strategies.

Management has elected to omit substantially all of the disclosures ordinarily included in the financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

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Accountants Name

August 13, 2005

**ACCOUNTANTS COMPANY NAME  
ACCOUNTANTS ADDRESS  
ACCOUNTANTS CITY, STATE ZIP  
ACCOUNTANTS PHONE #**

Board of Directors  
Clients Name  
Clients City

**ACCOUNTANTS' COMPILATION REPORT**

This report is being submitted for QAR PURPOSES ONLY

I (We) have compiled the accompanying statement of assets, liabilities and equity (stockholders equity)-income tax basis of XYZ Company, Inc. (type of entity) as of December 31, XXXX, and the related statement of revenue and expense-income tax basis (statement of retained earnings-income tax basis) (statement of cash flows-income tax basis) (accompanying supplementary information-income tax basis), for the year then ended, in accordance with Statements on Standards for Accounting & Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the cash (accrual) basis of accounting used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in the financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

\_\_\_\_\_  
Accountants Name

Date prepared (August 13, 2005)

**ACCOUNTANTS COMPANY NAME  
ACCOUNTANTS ADDRESS  
ACCOUNTANTS CITY, STATE ZIP  
ACCOUNTANTS PHONE #**

Board of Directors  
Clients Name  
Clients City

**ACCOUNTANTS' COMPILATION REPORT**

I (We) have compiled the accompanying statement of assets, liabilities and equity (stockholders equity)-income tax basis of XYZ Company, Inc. (type of entity) as of December 31, XXXX, and the related statement of revenue and expense-income tax basis (statement of retained earnings-income tax basis) (statement of cash flows-income tax basis) (accompanying supplementary information-income tax basis for the year then ended, in accordance with {1. standards established by the accounting profession or 2. professional accounting standards.}. The financial statements have been prepared on the cash (accrual) basis of accounting used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in the financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

\_\_\_\_\_ Accountants Signature  
Accountants Name

Date Prepared (August 13, 2005)



To: QAR Candidate

Re: Special QAR Application Supplement for Complying with QAR Accountants Requirements for the States of: NC, TX, VA, and Such Other States that Do Not Allow the Use of Standard Report Language with the Term "For QAR Purposes Only"

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The QAR Committee wants all accountants, licensed and unlicensed, to do work in accordance with professional standards whether or not, by State law, rule or policy, they may reference these standards in the Accountant's Report that they normally give their clients. Accordingly, this procedure is a substitute for the above states, and such other states that could impose a restriction on the "For QAR Purposes Only" expression.

The Accountant's Report Letter is a very important document for two reasons. It communicates the principles of accounting and the standards of preparation that were used in the Financial Statement.

Use of the generic terms, such as "...under applicable standards" or "...in accordance with applicable procedures", etc., are meaningless. If the accountant doesn't disclose whose standards or principles are being used, then there is no purpose in evaluating those financial statements. If such a review were to occur, any type of infraction, noted by the reviewer, can be dismissed by saying that the reviewer was basing those infractions on a different accounting standard than the one used in preparing the statements.

It is important that the candidate not only demonstrate knowledge of the standards, but also where they can be located. Accordingly, the candidate should:

1. Submit financial statements with the report transmittal language that he or she currently uses on that type of financial statements
2. Prepare a "plain paper" Accountant's Report Letter. This Letter will not: appear on the Accountant's letterhead, use the client's name, or use dates.

Said Report will be the type of report the accountant would have used had he been a licensee.

An example only of the first paragraph, but not the only first paragraph that could be used, might read:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20xx, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Review Services issued by the American Institute of Certified Public Accountants.

Please sign the below statement:

The attached Accountant's Report is the type of Accountant's Report that I would have used if I were a licensee.

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## Peer Review/QAR

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### Quality Assurance Review vs. Peer Review—Which is Right for You?

Many states have developed Peer Review or Quality Assurance Review Programs as a condition of license renewal. While these programs can have numerous variations in name, the purpose of the program remains the same: to ensure that the financial statements of the state's licensees conform to professional standards.

Unlike your State Board of Accountancy, NSA distinguishes between the Quality Assurance Review (QAR) and the Peer Review (PRP) and, therefore, offers two separate programs. Essentially, the two programs serve the same purpose—to provide assurance that the work done by the accountant is quality work—but there are key differences between the programs that affect which program best suits your needs.

#### Peer Review Program

- meets state licensure requirements
- is conducted in accordance with nationally recognized standards
- consists of a formal review of financial statements by CPAs

#### QAR Program

- is designed as an educational tool/practice peer review
- is not designed to meet state licensing requirements
- offers CPE credit to successful participants (CPE is not NASBA approved)

Still uncertain as to which program is right for you? For additional information on Peer Review and QAR,

**Contact:**

Michael Chakarun  
Director, Federal and Legislative Affairs  
1-800-966-6679, ext. 1318  
[mchakarun@nsacct.org](mailto:mchakarun@nsacct.org)



## QAR

### Why You SHOULD Get QAR'd!

*By George Parker, QAR Committee Chair*

The NSA QAR Committee has heard a lot of arguments about why you shouldn't get QAR'd. These are the most frequent reasons:

- *"Let's see if I got this. You have to pay to let someone 'red pencil' you up. I can't think of anything more ridiculous!"*
- *"I'm already an EA and ACAT accredited. What's this going to prove?"*
- *"I don't need to. It's a voluntary program."*
- *"Right now, with the economy like it is, I can't get involved with something like this."*
- *"My clients are satisfied with what I'm doing now."*

Now let's hear just one good reason why you should.

Talk to those who have been QAR'd. They would tell you that the feeling is immeasurable. They have proven that they are what they say they are—professional accountants! They can hold their heads up with the best of them. They are the kind of accountants you would want your family and your clients to go to. They are the kind of accountants who legislators and bankers would want the public to go to. You, too, can become this type of accountant! Call the NSA office today.

### QAR Application Materials

*All 3 parts must be completed for approval.*

- QAR Application (1)**
- QAR Engagement Questionnaire (2)**
- QAR Accountants Report (3)**

Whether you are a licensed or unlicensed accountant, the QAR program can benefit you. If you are a licensee, QAR can be an excellent pre-Peer Review evaluation. If you aren't, or if you are but Peer Review is not required in your state, QAR is an excellent self-evaluation program. Either way, you can't lose.

For more information, contact:

Mike Chakarun  
Director, Federal & Legislative Affairs  
1-800-966-6679, ext. 1318  
Fax: 703-549-2512  
[mchakarun@nsacct.org](mailto:mchakarun@nsacct.org)



**NATIONAL SOCIETY OF ACCOUNTANTS  
QAR APPLICATION  
(Off-Site Review)**

**Applicant's Information**

Accountant's Name: \_\_\_\_\_

Firm Name: \_\_\_\_\_

Street Address: \_\_\_\_\_

\_\_\_\_\_

City, State, Zip: \_\_\_\_\_

Telephone: \_\_\_\_\_ FAX: \_\_\_\_\_

Are you an NSA Member? Yes \_\_\_\_\_ No \_\_\_\_\_

**Scope of the Review**

You have requested that we perform an off-site QAR of your firm's financial statements. This application is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

The off-site review will be conducted in accordance with AICPA evaluation standards and in accordance with procedures established by NSA.

Information about your firm and/or any of your clients will not be disclosed outside of NSA to anyone not associated with the review unless we are advised by legal counsel that we are under legal obligation to disclose such confidential information. In connection with our review, we will not have any contact with clients of your firm.

This review is for the purpose of evaluating the financial statements submitted by the above accountant, or accountant representing the above firm. It is not for the purpose of evaluating the firm. This evaluation may not be used for licensee renewal purposes.

**Level of Financial Statement To Be Selected**

Although it is highly desirable for the candidate to submit for review a financial statement at the highest level that the candidate is practicing, this is not a requirement of the QAR Committee. The Committee will evaluate a financial statement at whatever level the candidate submits. Note that banks and other organizations may impose requirements on an accountant that financial statements have to be QAR'd at a particular level. However, this is not a requirement of this committee.

## About the Review

NSA will perform a Committee Assigned Review Team (CART) review. Upon receipt of this application, the Engagement Questionnaire, the Fees (see below), and the Financial Statement to be reviewed, the review will commence. The financial statements will be assigned to a reviewer. Once the initial review is complete, it will be sent to a second reviewer. When this is completed, you will be sent an evaluation letter with a copy of the evaluation report. The report will either be Unqualified (Unmodified), Qualified (Modified), or Adverse. If Unqualified, the applicant will receive:

- A report of Unqualified status
- A QAR Certificate
- An Attestation Letter
- A News Release for Publication

If Qualified or Adverse, the candidate may correct, upgrade, and resubmit the financial statement. Resubmission will require additional fees.

Financial statements will be evaluated using the following accounting standards: Generally Accepted Accounting Principles; Other Comprehensive Basis of Accounting; Generally Accepted Tax Accounting Principles

Note: A candidate **must use standard report language** in the Accountant's Report on the financial statements presented. **Failure to do so will count severely against the candidate in the evaluation process, or, even cause possible rejection of the financial statements.** Unlicensed accountants may put the following comment as either the beginning paragraph, or ending paragraph: FOR QAR PURPOSES ONLY. A special supplement has been prepared for use in states where the "For QAR Purposes Only" restriction could be considered a problem.

## Fees

Our fees per financial statement are:

NSA Member: \$250 \_\_\_\_\_ Non-Members \$350 \_\_\_\_\_

Checks should be made payable to NSA or the National Society of Accountants

## Submission of QAR materials

Send the application form, financial statement and other information to:

Lisa Viersé, Legislative Coordinator  
National Society of Accountants  
1010 N. Fairfax Street  
Alexandria, VA 22314-1574

Phone: 800-966-6679, ext. 1336  
FAX: 703-549-2512

## Acceptance

I accept the terms of the agreement.

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Signature & Date

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Print Name



NATIONAL SOCIETY OF ACCOUNTANTS  
QAR PROGRAM  
ENGAGEMENT QUESTIONNAIRE

Note: To be completed by applicant for each financial statement. Copy this form as necessary.

Applicant Name: \_\_\_\_\_

Statement Name: \_\_\_\_\_

1. Accounting Basis Used:
  - Generally Accepted Accounting Principles (GAAP)
  - Other Comprehensive Basis of Accounting (OCBOA)
  - Generally Accepted Tax Accounting Principles (GATAP)
  - Other (Explain) \_\_\_\_\_
  
2. Financial Statements Included with this Questionnaire:
  - Balance Sheet
  - Income Statement
  - Statement of Cash Flows
  - Statement of Retained Earnings
  - Supplementary Information
  - Other (Explain)
  
3. Level of Service:
  - Review of Financial Statements
  - Compilation, Financial Statements with Disclosures
  - Compilation, Financial Statements without Disclosures
  
4. Indicate Form of Organization for this Business:
  - S Corporation
  - Regular Corporation
  - Partnership
  - LLC
  - Sole Proprietorship
  - Other (Explain) \_\_\_\_\_
  
5. Major Line of Client's Business: \_\_\_\_\_
  
6. Complex or Troublesome Engagement Areas (if any):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
7. Is the firm independent with respect to this entity?    \_\_\_\_Yes    \_\_\_\_No

8. Review the following list of possible disclosures for applicability to this client. Does the entity have any of the following items as balances, transactions, or agreements? (Skip this section for compiled engagements that omit substantially all required disclosures)

- Accounting Changes
- Allowance for Doubtful Accounts
- Business Combinations
- Capital Stock with Significant Rights/Preferences
- Commitments
- Computer Software Costs
- Concentrations of Credit Risk
- Contingencies
- Discontinued Operations
- Economic Dependence
- Extraordinary or Unusual Items
- Financial Instruments with Off-balance Sheet Risk
- Going-concern Considerations
- Income Tax Expense, Benefits, Temporary Differences, Investment Tax Credits and Other Information on the Effects of Income Taxes
- Investments
- Leasing Arrangements
- Loan Agreements or Covenants Imposing Significant Restrictions
- Non-monetary Transactions
- Notes Receivable or Payable, Debt with No Interest Rate or Inappropriately Stated Interest Rate
- Pension Plans
- Pledging of Assets
- Post Employment/Post Retirement Plans (Non-Pension)
- Product Financing Arrangements
- Related Party Transactions (including Receivables and Payables from Officers, Employees and Affiliates)
- Research and Development Costs
- Restrictions on Cash Balances
- Significant Events between Balance Sheet and Report dates
- Stock Option or Purchase Plans
- Troubled Debt Restructurings
- Unusual or Specialized Accounting Policies

Comments \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature: \_\_\_\_\_ Date Completed: \_\_\_\_\_

Reviewer Signature: \_\_\_\_\_ Date Reviewed: \_\_\_\_\_

**STATEMENT OF CASH FLOWS - INCOME TAX BASIS**

YEAR ENDED \_\_\_\_\_

**CASH FLOWS FROM OPERATING ACTIVITIES**

**NET INCOME PER INCOME STATEMENT** \$ \_\_\_\_\_

Adjustments to reconcile net income to net cash provided by operating activities

**ADD:**

Depreciation Expense	_____
Amortization Expense	_____
Decrease in Inventories	_____
Decrease in Accounts Receivable	_____
Decrease in Prepaid Expenses	_____
Decrease in Other Current Assets	_____
Decrease in Other Assets	_____
Increase in Accounts Payable	_____
Increase in Payroll Taxes	_____
Increase in Other Current Liabilities	_____
Increase in Income Tax Payable	_____
Loss on Sale of Assets	_____
<b>TOTAL</b>	<b>\$ _____</b>

**DEDUCT:**

Increase in Inventories	_____
Increase in Accounts Receivable	_____
Increase in Prepaid Expenses	_____
Increase in Other Current Assets	_____
Increase in Other Assets	_____
Decrease in Accounts Payable	_____
Decrease in Payroll Taxes	_____
Decrease in Other Current Liabilities	_____
Decrease in Income Taxes Payable	_____
Gain on Sale of Assets	_____
<b>TOTAL</b>	<b>\$ _____</b>

**NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES** \$ \_\_\_\_\_

# STATEMENT OF CASH FLOWS - INCOME TAX BASIS

YEAR ENDED \_\_\_\_\_

## CASH FLOWS FROM INVESTING ACTIVITIES

### ADD:

Decrease in Loans to Officers \_\_\_\_\_  
Decrease in Notes Receivable \_\_\_\_\_  
Decrease in Cash Value of Life Insurance \_\_\_\_\_  
Cash from Sale of Assets \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

### DEDUCT:

Increase in Notes Receivable \_\_\_\_\_  
Increase in Cash Value of Life Insurance \_\_\_\_\_  
Increase in Loans to Officers \_\_\_\_\_  
Purchase of Vehicles \_\_\_\_\_  
Purchase of Office Equipment \_\_\_\_\_  
Purchase of Shop Equipment \_\_\_\_\_  
Purchase of Investments \_\_\_\_\_  
Purchase of Business \_\_\_\_\_  
Purchase of Leasehold Improvements \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES** \$ \_\_\_\_\_

## CASH FLOWS FROM FINANCING ACTIVITIES

### ADD:

Proceeds from Notes Payable \_\_\_\_\_  
Proceeds from Loans from Shareholders \_\_\_\_\_  
Proceeds from Sale of Capital Stock \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

### DEDUCT:

Payments on Notes Payable \_\_\_\_\_  
Payments on Loans from Shareholders \_\_\_\_\_  
Dividends Paid \_\_\_\_\_  
Proprietor's Drawing \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**NET CASH FLOW PROVIDED (USED) BY FINANCING ACTIVITIES** \$ \_\_\_\_\_

**INCREASE (DECREASE) IN CASH** \_\_\_\_\_

**CASH AT BEGINNING OF YEAR** \_\_\_\_\_

**CASH AT END OF YEAR** \$ \_\_\_\_\_

**TOTAL CASH PAID FOR INCOME TAXES** \$ \_\_\_\_\_

**TOTAL CASH PAID FOR INTEREST EXPENSE** \$ \_\_\_\_\_