



### MAR NOTICE NO. 24.201.44 PROPOSED RULE AMENDMENTS

The Board recently reviewed its rules and will be proposing a number of changes. These changes include rules to implement the recently passed mobility legislation, experience requirements for entry level applicants, revising the CPE requirements to more closely conform with the Statement of Standards for Continuing Professional Education (CPE) Programs as issued by the National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA), and general housekeeping.

Please review these changes and present your comments and concerns within the given timeframe. Do not hesitate to contact the Board office with any questions you may have regarding these proposed amendments.

### THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

#### Accounting and Audit Issues Raised in Recent Inspections

By: Board of Public Accountants 2009 PMP  
Team

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The PCAOB is a private sector, non-profit corporation, created by the Sarbanes Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair and independent audit reports.

On a rotating basis, PCAOB examiners inspect documentation in support of audits performed of

publically held organizations. The quality of audit procedures performed, appropriateness of audit reports issued and compliance with accounting standards are evaluated.

While publically traded corporations are limited in Montana, many of the findings of reports issued by PCAOB have relevance to audits performed in Montana. For each finding by a PCAOB examiner a firm has to provide a written response and set a course for corrective action.

Our team reviewed seven reports of the PCAOB. Two reports had no audit performance issues or Quality Control defects. One report had no audit performance issues but some Quality Control defects. The other four reports had both audit performance issues and Quality Control defects.

Set forth below are some of the recent, significant, PCAOB findings that have relevance to audits performed in Montana. Topics of significance are highlighted.

- In connection with audit **sampling** a firm determined its tolerable misstatement at an amount that exceeded its preliminary judgment about **materiality**, resulting in significantly smaller sample sizes
- A determination was not made as to whether an entity constituted a **Variable Interest Entity (VIE)** and thus a determination had not been made as to whether **consolidation** was appropriate
- A firm failed to test the reasonableness of specific **reserves** (allowances), other than comparing them to the prior year, obtaining client-prepared schedules, and holding discussions with management
  - A firm failed to evaluate revenue growth assumptions, despite recent historical results

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- that showed no growth, that the issuer had used in the models it employed to estimate the fair value of its **goodwill**
- **Substantive analytical procedures** were insufficient in that they failed to assess the completeness and accuracy of the underlying data used in the analytical procedures; precise **expectations** were not developed
- Company estimates and assumptions regarding future taxable income not evaluated regarding the **recoverability of deferred income tax assets**
- **Journal entries**, pursuant to the requirement set forth in AU 316, were not examined as evidence of possible material misstatement due to management override of controls
- Documentation did not include an evaluation of the probability of an unfavorable outcome of a contingent liability identified by **legal counsel**. Firm failed to perform additional procedures to evaluate this contingency
- A conclusion was not documented as to whether the issuer's use of the straight-line method of **amortization** for acquired customer-related **intangible assets** reflected the pattern in which the economic benefits were being consumed
- Management assumptions utilized in development of **accounting estimates** not tested
- A firm failed to test the data provided to **actuaries** who prepared reports that the issuer used in accounting for **benefit plans**

The aforementioned findings are but a few of the items covered in recent PCAOB reports filed with The Montana Board of Public Accountants. While they consist exclusively of comments arising out of an inspection of audits of publically traded companies, they do have relevance to audits performed in Montana.

## **FAILURE TO NOTIFY THE BOARD OF YOUR ASSOCIATION WITH FINANCIAL STATEMENTS**

According to ARM 24.201.1106 (1) "Every individual applying for a permit to practice or renewal thereof must submit a statement to the board which describes the individual's level of association with financial statements. This statement shall disclose the practice unit, if any, of which the permit holder is a member." This statement is also used to determine if the permit holder is required to file a report under the Board's Profession Monitoring Program.

With the new mobility legislation, Montana statute reads as follows: "A person who has been granted practice privileges under this section and who, for a client with its home office in this state performs any attest services or compilation may do so only through a firm registered under 37-50-335."

The Board considers this an important part of its responsibility to monitor the profession and fulfill its obligation under 37-50-203, MCA to maintain the quality of the accounting profession. Please make sure you have provided proper notification to the Board as to your association with financial statements. The Board has stated that it will take serious disciplinary action against those individual and firm licenses that have failed to provide the Board with accurate information.

## **CPE AUDIT RESULTS 2006/2007 REPORT YEAR**

The final results of the audit performed at the January 2009 Board meeting is as follows: 92 practitioners were selected; 63 submitted adequate documentation; and one failed to respond and was issued a complaint. Of the remaining 28: 13 were issued Letters of Instruction; 14 provided additional adequate information or clarification; and one received special consideration.

**Board Disciplinary Actions**  
(February 2009 through January 2010)

**Name:** William Bjarko CPA 2642  
**Violations:** 37-1-316 (18) ARM 24.201.2410 (1) (a) (e)  
**Disposition:** Revoked for at least one year (Docket No. CC-09-0326-PAC)

**Name:** Cathy Allen AO 874 & CPA 2865  
**Violations:** 37-1-316, MCA and ARM 24.201.2410 (1) (e)  
**Disposition:** \$2,000.00 administrative fine 1 year probation (Docket No. CC-09-0328-PAC)

**KEEP US APPRISED OF YOUR CURRENT E-MAIL ADDRESS**

In the future, the Newsletter will be disseminated via e-mail, and it will also be posted on the Board's website. It is important that the Board has your current address. You may access an Address Change Form at the Board's website. Please complete the form and e-mail us with any changes. Thank you for your cooperation.

**2010 BOARD MEETING DATES**

January 19-20, 2010  
May 4-5, 2010  
August 24-25, 2010  
November 16-17, 2010

**The Honorable Brian Schweitzer**  
**Governor of Montana**

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