



Activity Review

North Carolina State Board of Certified Public Accountant Examiners

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State Bar Amends Procedures for Exemption from Random Audit of Trust Accounts

Since 1985, the North Carolina State Bar (State Bar) has allowed lawyers to obtain an exemption from the random audit of trust accounts by having their trust accounts preemptively examined and reported on by a CPA.

Although the policy remains in effect, it was recently revised based in part on concerns raised by CPAs and the State Board of CPA Examiners (the Board).

[A licensee expressed concern to the Board staff that the report required by the State Bar for exemption from the random audit of trust accounts was not in accordance with the standards for agreed-upon procedures engagements as set forth in the Statements on Standards for Attestation Engagements.]

After expressing those concerns to the State Bar staff and learning that the State Bar itself was concerned about the effectiveness of the examinations, the Board staff worked with the State Bar to create an agreed-upon procedures report that follows the standards, as well as an engagement letter to be used when auditing trust accounts.

In addition to developing a report that is in accordance with

standards, the State Bar included in the agreed-upon procedures report the requirement for the CPA to report all specific findings where the lawyer client failed to comply with the State Bar's rules governing trust accounts.

Adding that requirement provides the State Bar with more detail about trust account rule violations and allows the State Bar, not the CPA, to determine the severity of the violations and whether further action is warranted.

The State Bar will only accept agreed-upon procedures reports and no longer accepts opinion-type audit reports in conjunction with engagements performed on trust accounts when a lawyer is attempting to obtain an exemption from the Bar's random audit requirements.

A copy of the NC State Bar *Journal* article, "North Carolina State Bar Amends Procedures for Exemption from Random Audit of Trust Accounts," which explains the amended procedure in more detail, is posted on the Board's website, www.nccpaboard.gov.

Also available are copies of the required engagement letter, the required agreed-upon procedures

to be performed, and the required lawyer's representation form for agreed-upon procedure engagements involving the lawyer's trust accounts.

Sample agreed-upon procedures reports are available on the forms page of the NC State Bar website, www.ncbar.gov/PDFs/11a.pdf.

Please contact Peter Bolac, the State Bar's Trust Account Compliance Counsel, at (919) 828-4620 or pbolac@ncbar.gov with questions regarding the revised procedure and forms.

Please contact the Board's Deputy Director, J. Michael Barham, CPA, at (919) 733-4215 or mbarham@nccpaboard.gov with questions about the Statements on Standards for Attestation Engagements as they apply to agreed-upon procedures engagements involving lawyer trust accounts.

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