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Sample quality control documents for local CPA firms

American Institute of Certified Public Accountants

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Sample Quality Control Documents for Local CPA Firms

AICPA
American Institute of
Certified Public Accountants

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Preface

This publication has been prepared by the staff to provide guidance to firms intending to participate in the AICPA Voluntary Quality Control Review Program for CPA Firms. It has not been acted on by any senior committee, the membership, or the governing body of the American Institute of Certified Public Accountants. Therefore, the contents of this publication are not official pronouncements of the AICPA.

We wish to acknowledge with appreciation the substantial help received from the quality control document task force which offered constructive criticism at various draft stages. The members of the task force are Norman S. Rachlin, chairman, Dennis R. Carson, James T. Martin, and Joseph A. Puglisi.

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November 1977

Sample Quality Control Documents for Local CPA Firms

Introduction

Under the AICPA Voluntary Quality Control Review Program for CPA Firms (the “program”) a participating firm is required to document its quality control policies and procedures.¹ In undertaking this project of guidance for local practitioners to assist them in the development of their quality control documents, many alternatives had to be considered in determining the objectives and in implementing them. For example, while it would undoubtedly be useful to firms to be able to refer to an encyclopedia of quality control documents where one could find samples suitable to each practice size, the magnitude of such a project would be unreasonable and would undermine the fundamental concept that each firm’s quality control system is distinctive to that firm’s unique practice:

Three considerations were influential in this project. The first two were timing and appropriateness. To help make the quality control review program effective for 1978, the material should be made available to local practitioners before the end of 1977. Secondly, the sample documents should be designed to provide sufficient guidance to help the practitioners make the transition between the theoretical concepts of standards for quality control reviews and the “real world” of developing and using a quality control document in their own firms.

The third consideration was that a quality control document cannot be created in a vacuum. A quality control document must be designed to fulfill the requirements of a particular practice, for, as stated in the *Guide to Implement the Voluntary Quality Control Review Program for CPA Firms—Quality Control Policies and Procedures for Participating CPA Firms* (the “guide”),

The underlying philosophy and organizational structure of a participating firm provide the framework for its quality control policies and procedures. The extent to which a participating firm should adopt these policies and procedures, and those which are appropriate for a particular firm, depend on a number of factors, such as its size, the degree of operating autonomy appropriately allowed to its people and its

¹ *Voluntary Quality Control Review Program for CPA Firms* (New York: AICPA, 1976).

practice offices, the nature of its practice, and its administrative controls. Accordingly, it is expected that policies and procedures adopted, and documentation thereof, would normally be more extensive for a larger or multi-office firm than for a smaller or single-office firm.

Therefore, the drafting of sample documents first requires the availability of model practices. Such models have been identified in the *Management of an Accounting Practice Handbook* (the *MAP Handbook*) as "Profile Firms," and the smallest two of the three firms described have been used.²

As other firm models evolve and as the quality control review program develops through experience, there will be the availability of material for sample documents for other specific types of practices, such as a sole practitioner or a local firm with more than one office.

The policies and procedures discussed herein follow the format of those enumerated in the guide. During the preparation of these sample quality control documents consideration was given, in accordance with the guide, to the policies and procedures which could be applicable for a specific firm to provide itself with reasonable assurance of conformity with professional standards. The concept of reasonable assurance recognizes that economic considerations affect the conduct of a firm's practice. Therefore, the extent to which quality control policies and procedures are adopted and placed in effect may be influenced by appropriate cost/benefit considerations.

In this document, *policies* (which are numbered and in bold type) refer to the firm's objectives and goals for placing in effect the elements of quality control. *Procedures* (which are lettered) refer to the steps taken to accomplish the policies adopted. Unless otherwise stated, *personnel* encompasses all the professionals associated with the participating firm's accounting and auditing practice and includes partners, principals, and stockholders or officers of professional corporations.

The following sample quality control documents have been prepared to provide guidance to individuals in developing quality control documents for local CPA firms.³ These sample documents were

² *Management of an Accounting Practice Handbook* (New York: AICPA, 1977).

³ A firm's quality control policies and procedures need not be contained in a single quality control document. A firm may meet the requirement of the program for documented quality control policies and procedures by preparing either a quality control document that provides a detailed description of its quality control policies and procedures or a summary statement of its quality control policies and procedures with references to supporting information contained in manuals, memorandums, or other technical literature of the firm.

prepared for two hypothetical firms based on two of the profile firms (A and B) described in the *MAP Handbook*. Although the sample quality control documents are directed toward firms of specific sizes, appropriately modified, they may have applicability to firms of various sizes. However, since no two firms of a similar size could be expected to be totally alike in other respects, no two quality control documents would be totally alike.

Policies and procedures for firm A may be adaptable to a sole practitioner who might similarly employ several professional staff members. Assuming the sole practitioner serves in the role of the executive partner in the example, the responsibilities assigned therein to the administrative partner may be assumed in part by him and in part by one or more experienced staff members. In particularly sensitive or private areas, he may want to exchange certain responsibilities with another sole practitioner or other CPA in his community. He might find an arrangement with another CPA firm to be extremely helpful in some of the elements, such as consultation, professional development, and inspection.

The background information provided for the two firms is based upon data contained in the *MAP Handbook* expanded to provide illustration. Firms undergoing compliance reviews under the program may be required to furnish background information, in addition to that which is presented with the sample documents, prior to the review.

In these two sample documents consideration has been given to all of the policies enumerated in the guide. The method of adoption of each policy is in accordance with each firm's unique qualities. Similarly, procedures that implement the policies follow the format of material contained in the guide and are based upon the size, structure, and practice of each firm. The document for firm B is more extensive than the document for firm A since the structure of firm B is more complex. Also, firm B's document refers to two practice manuals used to implement its quality control system.

It should be noted that firms A and B both have policies dealing with independence. While two policies are identical, firm A's policies do not mention the SEC and other regulatory agencies since its clients are not subject to such regulations. Similarly, firm A does not have a policy relating to confirming the independence of another firm engaged to perform segments of an engagement because, at present, firm A is the sole auditor of all its audit clients. Changes in firm A's practice may necessitate provision for these items at some future time.

Although policy 2 for independence is identical for both firms, the procedures differ in accordance with the firms' respective prac-

tices. Firm B uses a personnel manual (procedure a) to inform personnel as to independence requirements, while firm A uses internal memorandums. Firm B regularly distributes a client listing (procedure c), while firm A informs its staff of client changes at staff meetings.

The element of independence has been used to illustrate how quality control objectives have been accomplished with procedures that differ to accommodate the specific needs of each practice, similar examples are to be found in the other elements. The need for procedures that are responsive to each firm's practice should be kept in mind in the drafting of a quality control document.

In preparing a quality control document for a local CPA firm that desires to participate in the program, the following steps may prove helpful:

1. Become familiar with the program and the contents of the guide.
2. Establish a schedule to accomplish various steps.
3. Gather together all current firm materials related to the elements of quality control and, if possible, obtain other firms' quality control documents; for example, forms, checklists, memorandums, and manuals presently in use.⁴
4. Evaluate the applicability of existing policies and procedures.
5. Adopt or revise policies and procedures as applicable.
6. Prepare the firm's background information that will explain the objectives of your firm, a brief history, and some details about type of practice.
7. Draft the quality control document element by element. As each element is written, it may be helpful to refer simultaneously to the section in the guide for the particular element and to the two sample documents contained herein.
8. Submit the draft document for review to the partners and other appropriate accounting and auditing personnel of the firm.
9. Submit, if desired, the final draft to the American Institute of Certified Public Accountants for a confidential review and written comments. (Contact the AICPA for further information.)

⁴ Appendix A contains sample staff-level guidelines and timetables that relate to the element of *advancement*. Appendix C contains a list of forms in the *MAP Handbook* that relate to quality control and may be adaptable to your firm.

The preparation of a quality control document is only the first step in becoming a participating firm. The quality control document is not a static treatise. Its contents must be communicated to all personnel, and the firm must follow its policies and procedures in the daily conduct of its practice. Revisions of the document should be made when appropriate in the light of changing conditions in the firm and to recognize evolving standards of the profession.

Sample Quality Control Document for a Two-Partner Local CPA Firm (Profile Firm A)

Firm Background Information

Our firm was founded in 1962 by our executive partner after he had gained several years experience with a large regional CPA firm. The administrative partner joined the firm as a staff assistant upon his college graduation. Presently we employ three professional staff members and two clerical staff personnel giving our firm a total of seven people. (Our organization chart is on page 7.)

Our objectives of providing quality service to clients and our concern for the general public interest have established our reputation in our community and have enabled us to grow through internal expansion.¹ We do not have, nor do we anticipate accepting, publicly held corporations as clients. It is anticipated that much of our future growth will be through expanded service to present clients and the addition of new clients on a regular basis. We intend to hire and train personnel who will be able to grow professionally with us, as needed.

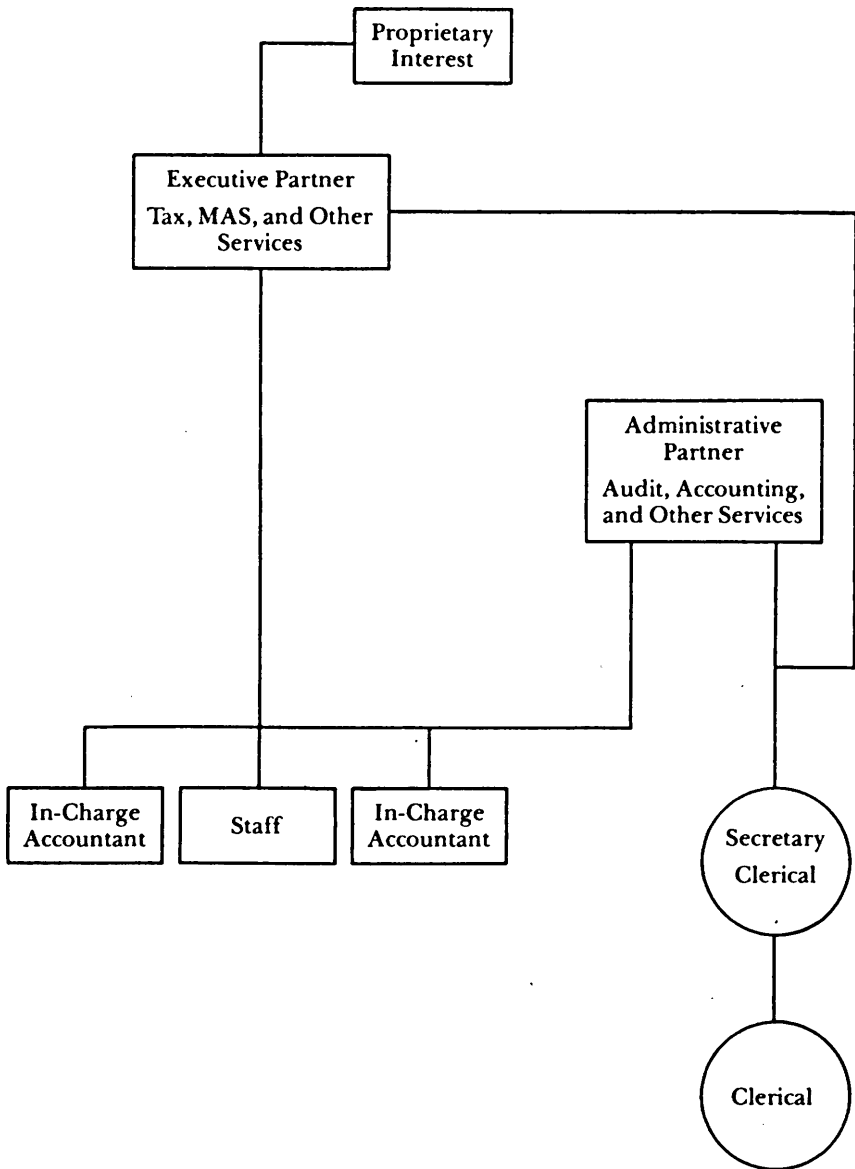
There were approximately 9,250 hours billed during the year ended December 31, 1977, as follows:

Auditing	20%
Unaudited financial statements	32
Taxes	33
Management advisory services	3
Other accounting services	12
	<u>100%</u>

Our practice is conducted from one office, and our audit clientele consists of 14 manufacturing companies, 5 retail establishments, and 2 wholesale distributors. In addition, we have 26 unaudited statements clients and 13 clients for whom we provide other accounting services.

¹ The objectives stated herein are adapted from the *MAP Handbook*. Additional considerations for establishing a firm's stated objectives are discussed in Appendix B.

**Organization Chart
Firm A**



One of our in-charge accountants has 5 years experience and is a CPA, the other has 3 years experience and has passed three parts of the CPA examination. The staff assistant has 1 year experience and has passed two parts of the CPA examination.

February 10, 1978

Independence

1. All personnel are required to adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statute.
 - a. The executive partner is responsible for resolving questions relating to independence matters and is available to provide guidance when required.
 - b. The executive partner communicates with the AICPA and/or the (state) CPA Society for assistance in resolving independence questions that are not satisfactorily resolved within the firm.
 - c. A memorandum documenting the resolution of independence questions is prepared and retained by the executive partner; the other firm personnel involved in the matter review and initial the memorandum.

2. Policies and procedures relating to independence are communicated to all personnel.
 - a. Memorandums are used to inform personnel of the firm's independence policies and procedures and advise them that they are expected to be familiar with those policies and procedures. Rulings and interpretations of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statute are also made available to personnel.
 - b. Independence of mental attitude is emphasized during the conduct of engagements.
 - c. A current client listing is reviewed with each new employee to ensure that the employee is aware of those entities to which

- independence policies apply. During the monthly staff meeting, the staff is informed of any changes in the listing.
- d. Our library contains professional, regulatory, and firm literature relating to independence matters.²
3. Compliance with policies and procedures relating to independence is monitored.
 - a. Semiannually, at the June and December monthly staff meetings, provision is made on the agenda for all personnel to indicate that—
 - (i) They are familiar with the firm's independence policies and procedures.
 - (ii) They are not now nor have been holding prohibited investments.
 - (iii) They are not now nor have been involved in relationships or transactions that are prohibited.
 - b. The executive partner is responsible for the resolution of exceptions to the firm's policies and procedures relating to independence.
 - c. Accounts receivable that are past due are reviewed monthly by the executive partner to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.

Assigning Personnel to Engagements

1. Our firm's approach to assigning personnel includes the planning of overall firm needs and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.
 - a. On an annual basis, normally in May of each year, the partners jointly develop a projection containing anticipated manpower requirements for the coming year.
 - b. In scheduling assignments the engagement partner strives to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.

² The appropriate information may be found in *AICPA Professional Standards*, vol. 2 (New York: AICPA, 1977), and in rulings and interpretations of the state CPA societies, the state boards of accountancy, and state statutes.

2. **The administrative partner is responsible for assigning personnel to engagements.**
 - a. Before making assignments to engagements, the engagement partner considers the nature of the engagement and personnel availability.
 - b. The partners attempt to achieve a balance between the need for continuity and for periodic rotation of personnel to the extent practicable.

Consultation

1. **Areas and specialized situations where consultation is required are identified, and personnel are encouraged to consult with or use authoritative sources on complex or unusual matters.**
 - a. All personnel are advised of our firm's consultation policies and procedures. These policies and procedures are set forth in a memorandum.
 - b. A listing of certain areas or specialized situations, which because of the nature or complexity of the subject have been identified as requiring consultation, is updated semiannually by the administrative partner and distributed to all personnel.
 - c. A technical reference library is maintained to assist personnel in resolving practice problems. The administrative partner is charged with the responsibility of periodically reviewing the library contents and making necessary additions.
 - d. Personnel are encouraged to seek advice from a partner or other staff member when confronted with an unusual or complex situation related to that person's particular expertise.
 - e. When expertise is not available within the firm, practice questions and problems are referred by the engagement partner to a division or group in the AICPA or the (state) CPA Society established to handle technical inquiries.
 - f. We maintain a consultation agreement with the local office of (firm name) CPAs to provide us with additional expertise. Inquiries to that firm are channeled through the administrative partner.
 - g. The results of outside consultation are reviewed by the partners before a decision is reached.
2. **Specific individuals have been designated as having specialized experience and expertise in certain technical areas. These individuals are available for consultation to all personnel.**

- a. A listing of our designated technical specialists has been prepared and circulated. The list is updated and recirculated as necessary.
 - b. The executive partner resolves differences of opinion on practice problems. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. In those areas and specialized situations where firm policy requires consultation with specialists, a summary of the consultation conclusions and the reasons for the conclusions is required.
- a. The memorandum (see item 1 (a) above) is used to inform personnel of the consultation procedures, the extent of documentation required, and the responsibility for its preparation.
 - b. Consultation summaries are filed with the engagement working papers.

Supervision

1. All engagements are adequately planned by persons knowledgeable about the client and/or the type of engagement.
 - a. On all annual recurring engagements where the anticipated manpower requirement is in excess of ten man-days, the in-charge accountant reviews with the engagement partner the following documents from the prior year's files, as applicable, to determine if modifications are appropriate:
 - (i) Engagement letter
 - (ii) Time budget compared with actual time expended
 - (iii) Evaluation of the system of internal control
 - (iv) Audit or work program
 - (v) Engagement notes and memorandums
 - (vi) Financial statements and accountant's report
 - (vii) Management letters
 - b. On all engagements in excess of ten man-days, including annual recurring engagements, new engagements, and special engagements, the in-charge accountant submits to the engagement partner the following, where applicable, for his written approval:
 - (i) Engagement letter
 - (ii) Time budget
 - (iii) Preliminary evaluation of the system of internal control

- (iv) Audit or work program
 - (v) A memorandum stating any special problems that may have an impact on the conduct of the engagement
2. **Procedures are provided for maintaining the firm's standards of quality for the work performed.**
 - a. Depending upon each individual's background in relation to his assignment, varying degrees of supervision are provided.
 - b. Copies of forms, checklists, and questionnaires are available for use on engagements.
 - c. Differences of opinion among staff members working on an engagement are brought to the attention of the engagement partner. If the partner agrees with the senior party to the dispute, the matter is considered resolved. If no resolution is made at this time, the partners jointly discuss the matter. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
 3. **All engagement working papers and reports are reviewed by appropriate supervisory personnel prior to issuance of the report.**
 - a. The in-charge accountant reviews and initials all working papers he did not prepare (including those prepared by a partner). The engagement partner reviews the overall engagement (initialing all working papers not reviewed by an in-charge accountant), including financial statements and accountant's report, and discusses with the in-charge accountant any critical audit areas and unusual accounting matters encountered during the course of the engagement. This discussion is documented by a memorandum where appropriate.
 - b. In certain circumstances (as outlined in item 1(d) on page 16) prior to the issuance of the financial statements and the auditor's report on them, another partner or an experienced staff member not otherwise associated with the engagement evaluates the appropriateness of financial statement disclosures and the auditor's report in relation to the material discussed in the engagement partner's memorandum.

Hiring

1. **The firm endeavors to obtain qualified personnel by planning for personnel needs and establishing hiring objectives.**

- a. The partners annually plan the firm's long-range personnel objectives. Current clientele, anticipated growth, personnel turnover, individual advancement, and retirement are among the criteria considered.
 - b. The partners make the employment decisions.
- 2. Our firm has established qualifications and guidelines for evaluating potential hires.**
- a. Our firm seeks to employ individuals with high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession.
 - b. Our firm normally employs college graduates with a concentration in accounting as full-time permanent members of its professional staff.
 - c. Newly employed staff members are from the top half of their college class, unless other factors such as personal achievements, work experience, and personal interests indicate the likelihood of adequate professional development.
 - d. Our firm normally expects that an applicant's academic preparation will enable him to take the CPA examination as administered by the (state) Board of Accountancy.
 - e. The backgrounds of new employees are appropriately investigated to reasonably assure hiring of persons with acceptable qualifications by obtaining completed application forms, college transcripts, and personal references.
- 3. Applicants and new personnel are informed of the firm's policies and procedures relevant to them.**
- a. The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
 - b. The administrative partner maintains and distributes to all personnel memorandums describing the firm's personnel policies and procedures.
 - c. The administrative partner discusses the firm's personnel policies and procedures with any new employee.

Professional Development

- 1. Guidelines and requirements have been established for the firm's professional development program and are communicated to all personnel.**

- a. The administrative partner is responsible for the formulation and implementation of guidelines and requirements for professional development.
 - b. As part of their orientation, new employees are informed of professional responsibilities and opportunities by the administrative partner.
 - c. Normally, a newly employed person with limited experience is sent to introductory-level training sessions of the AICPA or the (state) CPA Society during the first year of employment with our firm.
 - d. Each partner and professional employee is required to complete a minimum of 40 hours of formal continuing professional education each year. Personnel complete the record of professional development form and forward it to the administrative partner. The administrative partner is responsible for having the personnel files of each partner and professional employee updated to include a current record of hours of professional development completed. The types of programs qualifying for the fulfillment of the 40-hour requirement include—
 - (i) Continuing professional education programs of the AICPA and the (state) CPA Society. This includes sessions attended and, with written evidence of completion, cassette/workbook or workbook programs.
 - (ii) College courses related to the profession.
 - e. The executive partner annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements.
2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel. Personnel are encouraged to engage in self-development activities.
- a. It is the responsibility of the administrative partner to distribute statements relating to current developments in accounting and auditing to all personnel not receiving them directly. This includes statements and interpretations issued by the Financial Accounting Standards Board and by the AICPA

- Auditing Standards Executive Committee, and so forth.
- b. Pronouncements relating to areas of specific interest are distributed by the appropriate specialist to persons who have need for such information.
 - c. The firm does not, at present, conduct formal in-house training programs. However, from time to time personnel participate in the training programs of (firm name) CPAs.
 - d. A library of staff training cassette/workbook programs published by the AICPA and the (state) Society of CPAs is maintained by the administrative partner for self-study and reference purposes.
3. **The firm recognizes that on-the-job training accounts for a significant part of professional development.**
- a. **Personnel with in-charge responsibility on engagements—**
 - (i) Discuss with assistants the relationship of the work they are performing to the engagement as a whole.
 - (ii) Permit assistants, when practicable, to become involved in areas of the engagement other than those previously assigned.
 - (iii) Explain to assistants the reasons for any additional work requirements discovered through the review process.
 - b. Personnel are evaluated in part on their effectiveness in properly training and developing subordinates.

Advancement

- 1. **Our firm has established qualifications deemed necessary for the various levels of responsibility within the firm.**
 - a. Our firm has designated the staff classifications of in-charge accountant and staff assistant. Levels of responsibility inherent in the staff classifications are clearly defined.³
 - b. The criteria that are considered in evaluating individual performance and expected proficiency are enumerated in our staff classification guidelines.
- 2. **The performance of our personnel is continuously evaluated, and personnel are periodically advised of their progress. Per-**

³ The description of the firm's professional levels, with the responsibilities for each level and the general length of time required for advancement to the next position, is attached as Appendix A.

sonnel files are maintained containing documentation of the evaluation process.

- a. All professional employees receive an evaluation of their performance at least semiannually. Such counseling interviews are conducted by the partners. These evaluations summarize performance on engagements during the year. The individual's progress, strengths, weaknesses, future objectives, and the firm's future objectives are among the items discussed.
 - b. Results of evaluations are documented in the individual's personnel file.
3. The partners make advancement and termination decisions and document the results.

Acceptance and Continuance of Clients

1. Our firm has established procedures for evaluation of prospective clients and for their acceptance as clients.
 - a. Available financial information regarding the prospective client (such as annual reports, interim financial statements, and income tax returns) is obtained and reviewed.
 - b. Inquiries about potential clients are made to bankers, attorneys, credit services, and others having business relationships with the company.
 - c. Predecessor auditors, where applicable, are contacted and inquiries are made in accordance with generally accepted auditing standards.
 - d. Consideration is given to circumstances that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include the following:
 - (i) Audits where the annual fee is expected to exceed \$5,000 or where the expected man-hour requirement exceeds 150 hours.
 - (ii) Audits of firms operating in high risk industries such as those industries where it is difficult to establish adequate systems of internal control or those industries whose operations are especially sensitive to general economic conditions.
 - (iii) Audits of firms in the development stage.
 - (iv) Audits of firms in serious financial difficulty.
 - (v) Any of the conditions enumerated in 2(a)(iii).

- e. The firm's independence and ability to adequately serve a potential client are evaluated prior to acceptance. In evaluating the firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and personnel.
 - f. A review is made to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the codes of professional ethics of the AICPA and/or the (state) CPA Society.
 - g. Procedures for acceptance of a new engagement are as follows:
 - (i) The engagement partner assembles the information and evaluates all matters in the previous paragraphs.
 - (ii) All engagements are approved in writing by the partners.
2. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued.
- a. Reevaluations of existing clients are made—
 - (i) Annually, if any of the conditions mentioned in 1(d) exist.
 - (ii) Every three years if none of the conditions mentioned in 1(d) exist.
 - (iii) If there is a significant change in one or more of the following:
 - Management or ownership
 - Legal counsel
 - Financial condition
 - Litigation status
 - Nature of client's business
 - Scope of work
 - (iv) Upon the emergence of conditions that would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.
 - b. Based on the information obtained, both partners make the continuance decision.

Inspection

1. The firm conducts an inspection program regarding its quality control policies and procedures.

- a. Each year the partners evaluate the firm's quality control policies and procedures for compliance with professional standards. This procedure includes a review of administrative and personnel files sufficient to obtain reasonable assurance that quality control policies and procedures are being complied with.
 - b. A sample of engagements is selected annually from each partner's client listing and is given an in-depth review by the other partner or by a staff member not otherwise associated with the engagement. The working papers and reports are reviewed for compliance with professional standards, including generally accepted auditing standards, generally accepted accounting principles, and with the firm's quality control policies and procedures.
 - c. Annually, the executive partner selects a representative report to be submitted for review to the practice review committee of the (state) Society or the AICPA.
 - d. Every third year the firm undergoes an AICPA quality control compliance review.
- 2. Provision is made for reporting inspection findings and for monitoring actions taken or planned.**
- a. The results of engagement reviews are discussed with the personnel responsible for the engagement.
 - b. Inspection findings and recommendations together with corrective actions taken or planned are discussed by the partners. A memorandum outlining the findings and recommendations is prepared and retained by the executive partner.
 - c. The partners determine that planned corrective actions were taken.

Sample Quality Control Document for a Four-Partner Local CPA Firm (Profile Firm B)

Firm Background Information

Our firm has four partners, nine professional staff, and four clerical staff—a total of seventeen people. One partner has been designated as the executive partner and another as administrative partner. (A copy of our organization chart follows on page 20.)

Our executive partner founded the firm in 1953, and our growth has been derived entirely from internal expansion. All of the other partners joined the firm as staff assistants and were promoted to partner level.

Our objective is to provide quality accounting, auditing, tax, and management advisory services to our clients.¹ To this end we expect to limit our practice to those clients we can properly serve. We intend to further develop expertise that will enable us to increase the number of clients that are municipalities and savings and loan associations. Therefore, we plan to hire and train professional personnel who will be able to function to meet these goals.

We expect our growth to continue to be internal and to be limited to our present geographic practice area; a community we have served for nearly 25 years. We hope to retain our local identity and personal relationship with clients that are the foundations of our practice.

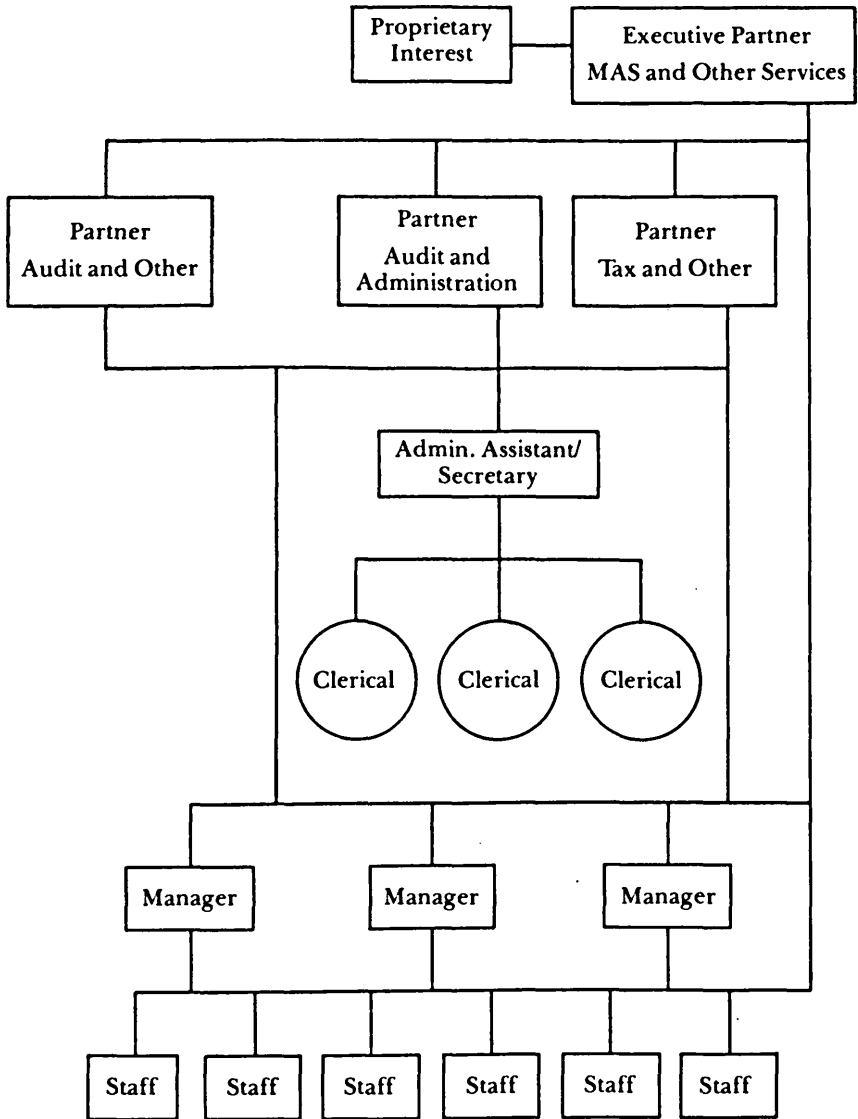
We hope to be a firm that is enjoyable and rewarding to work for. We intend to continue our involvement in and contribution to community and professional activities and organizations.

Total man hours expended during the fiscal year ended June 30, 1977, are broken down by the following categories:

Auditing	7,100
Unaudited financial statements	5,400
Taxes	5,400
Management advisory services	2,100
Other accounting services	2,300
	<u>22,300</u>

¹ The objectives stated herein are adapted from the *MAP Handbook*. Additional considerations for establishing a firm's stated objectives are discussed in Appendix B.

Organization Chart Firm B



Our practice is conducted from one office and is basically a general practice composed of the following types of clients:

Audit engagements	
Publicly held corporations	1
Manufacturing companies	14
Retail establishments	8
Savings and loan associations	5
Municipalities	3
Unaudited statement engagements	49
Other accounting services	28

Our professional staff (excluding partners) consists of the following:

- 1 Manager with 8 years experience
- 2 Managers with 6 years experience each
- 2 In-charge accountants with 3 years experience each
- 2 Staff assistants with 2 years experience each
- 2 Staff assistants with 1 year experience each
- 1 Part-time intern

All of our full-time staff members are college graduates with a concentration in accounting. One in-charge accountant and all managers are CPAs. The other full-time staff members have passed various parts of the CPA examination.

For the benefit of our professional personnel, an accounting and auditing manual and a personnel manual are maintained. Both manuals are referred to in this document and are, in effect, an integral part of our quality control system.

November 1, 1977

Independence

1. All personnel are required to adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, (state) CPA Society, (state) Board of Accountancy, state statute, and for applicable engagements, the Securities and Exchange Commission and other regulatory agencies under which we practice.

- a. The executive partner is responsible for resolving questions relating to independence matters and is available to provide guidance when required.
 - b. The executive partner communicates with the AICPA and/or the (state) CPA Society for assistance in resolving independence questions that are not satisfactorily resolved within the firm.
 - c. A memo documenting the resolution of independence questions is prepared and retained by the executive partner. The other firm personnel involved in the questions review and initial the memo.
2. Policies and procedures relating to independence are communicated to all personnel.
- a. The personnel manual is used to inform personnel of the firm's independence policies and procedures and advise them that they are expected to be familiar with these policies and procedures. Rulings and interpretations of the AICPA, (state) CPA Society, (state) Board of Accountancy, state statute, the Securities and Exchange Commission and other regulatory agencies under which we practice are referred to in the personnel manual.
 - b. Independence of mental attitude is emphasized during training sessions and in the supervision and review of engagements.
 - c. Our client list, which is periodically updated, is reviewed by all partners and professional employees to ensure that they are aware of those entities to which our independence policies apply. The executive partner is responsible for maintenance and distribution of the list.
 - d. The firm's library contains professional, regulatory, and firm literature relating to independence matters.²
3. Independence is confirmed when another firm is engaged to perform a segment of an engagement for which we are the principal auditor.
- a. The form and content of the independence representation

² The appropriate information may be found in *AICPA Professional Standards*, vol. 2, in regulation S-X and Accounting Series Releases of the Securities and Exchange Commission, rulings and interpretations of the state CPA societies, the state boards of accountancy, and state statutes.

that is to be obtained from a firm that has been engaged to perform segments of an engagement is part of the firm's accounting and auditing manual.

- b. An annual representation of independence should be obtained from an affiliate or associate firm on a repeat engagement.
4. Compliance with policies and procedures relating to independence is monitored.
 - a. Confirmations are obtained annually as of June 30 by the administrative partner from personnel and upon employment from newly hired personnel confirming that—
 - (i) They are familiar with our firm's independence policies and procedures.
 - (ii) Prohibited investments are not held and were not held during the period.
 - (iii) Prohibited relationships do not exist.
 - (iv) Transactions prohibited by the firm have not occurred.
 - b. The executive partner is responsible for the resolution of exceptions to the firm's independence policies and procedures.
 - c. The executive partner designates a partner to perform an annual review each July of the independence compliance files for completeness and the firm's independence policies and procedures for compliance with professional standards. A report of findings is presented to all the partners.
 - d. Accounts receivable that are past due are reviewed monthly by the executive partner to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.

Assigning Personnel to Engagements

1. Our firm's approach to assigning personnel includes the planning of overall firm needs and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.
 - a. On a quarterly basis all partners submit to the administrative partner a projection containing anticipated manpower requirements for engagements during the coming quarter for which they have client responsibilities. Such projections are detailed as to number and classifications of individuals required and are supported by preliminary engagement time

- estimates. The administrative partner prepares a summary schedule of assignments to be made for approval by the partners.
- b. For every engagement where the anticipated time exceeds ten man-days, a time budget is normally prepared under the direction of the engagement partner at least a month prior to the scheduled commencement of field work. Time budgets for smaller engagements are prepared as considered necessary by the engagement partners. The budgets provide detail as to appropriate staff level and time required by function such as cash, accounts receivable, inventory, and so forth.
 - c. The engagement partner considers the following factors to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization:
 - (i) Engagement size and complexity
 - (ii) Personnel availability
 - (iii) Special expertise required
 - (iv) Timing of the work to be performed
 - (v) Continuity and periodic rotation of personnel
 - (vi) Opportunities for on-the-job training
2. The administrative partner is responsible for assigning personnel to engagements.
- a. Before the assignment of a professional employee to an engagement, the following criteria are considered:
 - (i) Staffing and timing requirements of the specific engagement.
 - (ii) Evaluations of the qualifications of personnel as to experience, position, background, and any special expertise possessed.
 - (iii) The planned extent of supervision and involvement by managers and partners.
 - (iv) Projected time availability of individuals assigned.
 - (v) Situations where possible independence problems and conflicts of interest may exist, such as assignment of personnel to engagements for clients who are former employers or employers of certain kin.
 - b. The administrative partner attempts to achieve a balance between the need for continuity and for periodic rotation of personnel by every three years rotating at least one member of the engagement supervisory team (which consists of the in-charge accountant, manager, and engagement partner) off un-

audited statement engagements where engagement time exceeds ten man-days during a quarter and all audit engagements.

- 3. The engagement partner approves the scheduling and staffing of the engagement.**
 - a. The names of personnel assigned to an engagement are submitted to the engagement partner for approval.
 - b. The engagement partner considers the experience and training of the assigned personnel in relation to complexity or other engagement requirements, and the extent of supervision to be provided.
 - c. Unresolved assignment conflicts between an engagement partner and the administrative partner are resolved by the executive partner.

Consultation

- 1. Areas and specialized situations where consultation is required are identified, and personnel are encouraged to consult with or use authoritative sources on complex or unusual matters.**
 - a. All personnel are advised of our firm's consultation policies and procedures. These policies and procedures are incorporated into the firm's accounting and auditing manual.
 - b. A listing of certain areas or specialized situations, which because of the nature or complexity of the subject have been identified as requiring consultation, is updated semiannually by the administrative partner for inclusion in the accounting and auditing manual. The following areas and situations receive special consideration in preparing the list:
 - (i) Application of newly issued technical pronouncements.
 - (ii) Industries with special accounting, auditing, or reporting requirements.
 - (iii) Emerging practice problems.
 - (iv) Choices among alternative generally accepted accounting principles when an accounting change is to be made.
 - (v) Filing requirements of regulatory agencies.
 - c. A technical reference library is maintained to assist personnel in resolving practice problems. The administrative partner is charged with the responsibility of reviewing semiannually the library contents and making necessary additions.
 - d. Supervisory personnel are encouraged to seek advice from partners and managers the firm has designated as specialists

- in particular areas when confronted with a situation in the specialist's area of expertise.
- e. When expertise is not available within the firm, a practice question or problem is referred by the engagement partner to a division or group in the AICPA or the (state) CPA Society established to handle technical inquiries.
 - f. We maintain a consultation agreement with the local office of (firm name) CPAs to provide our firm with additional expertise. Inquiries to that firm are channeled through the administrative partner.
 - g. The results of outside consultation are reviewed by the engagement partner and the executive partner before a decision is reached on the matter in question.
2. Specific individuals are designated as having specialized experience and expertise in certain technical areas. These individuals are available for consultation to all personnel.
- a. A listing of firm designated specialists together with their particular expertise is updated semiannually and included in the accounting and auditing manual.
 - b. The following procedures are used to resolve differences of opinion on practice problems:
 - (i) Differences of opinion between a professional employee and an engagement partner are brought before the appropriate designated specialist.
 - (ii) If the specialist agrees with the engagement partner, the matter is considered resolved.
 - (iii) If the specialist disagrees with the engagement partner and they are unable to agree on an appropriate resolution, the executive partner is consulted.
 - c. The engagement partner is responsible for the preparation of a memorandum documenting the considerations involved in the resolution of differences of opinion. The original of the memorandum is filed with the engagement working papers and a reference copy without identification of the client is placed in the subject file maintained in the library. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. In situations where firm policy requires consultation with specialists, a summary of the consultation conclusions and the reasons for the conclusions is required.

- a. The accounting and auditing manual is used to inform personnel of the extent of documentation required and the responsibility for its preparation.
- b. Consultation summaries are filed with the engagement working papers, and a copy is placed in the subject file maintained in the library under the supervision of the administrative partner. The subject file is maintained in the event that similar questions arise in connection with the same topics.

Supervision

1. All engagements are adequately planned by persons knowledgeable about the client and/or the type of engagement.
 - a. For all annual recurring engagements where the anticipated manpower requirement is in excess of ten man-days, the in-charge accountant or manager reviews with the engagement partner the following documents from the prior year's files (as applicable) to determine if modifications are appropriate:
 - (i) Engagement letter
 - (ii) Time budget compared with actual time expended
 - (iii) Evaluation of the system of internal control
 - (iv) Audit or work program
 - (v) Engagement memorandums
 - (vi) Financial statements and accountant's report
 - (vii) Management letters
 - b. On all engagements in excess of ten man-days, including annual recurring engagements, new engagements, and special engagements, the in-charge accountant or manager submits to the engagement partner the following, where applicable, for his written approval:
 - (i) Engagement letter.
 - (ii) Time budget.
 - (iii) Preliminary evaluation of the system of internal control.
 - (iv) Audit or work program.
 - (v) A memorandum stating the manpower requirements (including the need for specialized knowledge), current economic conditions affecting the client or its industry, and any other special problems that may have an impact on the conduct of the engagement.
2. Procedures are provided for maintaining the firm's standards of quality for the work performed.

- a. Depending upon each individual's background in relationship to his assignment, varying degrees of supervision are provided by proper engagement staffing.
 - b. Each staff member receives an accounting and auditing manual upon joining the firm and is responsible for the proper filing of updates as they are issued. This manual contains examples of properly completed working papers and copies of standardized forms, checklists, and questionnaires.
 - c. Differences of opinion among staff members working on an engagement are brought to the attention of the engagement partner. If the partner agrees with the senior party in the dispute, the matter is considered resolved. If no resolution is made, the executive partner is consulted. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. All engagement working papers and reports are reviewed by appropriate supervisory personnel prior to issuance of the report.
 - a. The in-charge accountant and/or manager reviews and initials all working papers he did not prepare (including those prepared by a partner). The engagement partner reviews the overall engagement (initialing all working papers not reviewed by a manager and working papers dealing with difficult and complex subjects) including financial statements and accountant's report, and discusses with the in-charge accountant or manager any critical audit areas and unusual accounting matters encountered during the course of the engagement. This discussion is documented by a memorandum when appropriate.
 - b. In certain circumstances (as enumerated on page 35 item 1(d)) prior to the issuance of the financial statements and the auditor's report thereon, a second partner not otherwise associated with the engagement evaluates the appropriateness of financial statement disclosures and the auditor's report in relation to the material discussed in the engagement partner's memorandum.

Hiring

1. The firm maintains a program designed to obtain qualified personnel by planning for personnel needs, establishing hiring

objectives, and setting qualifications for those involved in the hiring function.

- a. The administrative partner and the executive partner plan (at least annually) the firm's long-range personnel objectives. Current clientele, anticipated growth, personnel turnover, individual advancement, and retirement are among the factors considered. This plan considers the number and qualifications of personnel as well as the sources and methods for obtaining personnel who meet the requirements and guidelines set by the firm.
 - b. The administrative partner is responsible for employment decisions.
- 2. Our firm has established qualifications and guidelines for evaluating potential hires at each professional level.**
- a. Our firm seeks to employ individuals who possess high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession.
 - b. Our firm normally employs college graduates with a concentration in accounting as full-time permanent members of our professional staff.
 - c. Newly employed staff members are from the top half of their college class, unless other factors such as personal achievements, work experience, and personal interests indicate the likelihood of adequate professional development.
 - d. Our firm requires that an applicant's academic preparation will enable him to take the CPA examination as administered by the (state) Board of Accountancy.
 - e. The approval of the executive partner is required before making an employment offer in atypical situations, such as hiring relatives of personnel or clients, rehiring former employees, or hiring clients' employees.
 - f. The background of new employees is appropriately investigated to reasonably assure hiring persons with acceptable qualifications, by obtaining completed application forms, college transcripts, and personal references.
 - g. Applicants for positions above entry level are interviewed and approved by the executive partner in addition to the administrative partner before an employment decision is made.
- 3. Applicants and new personnel are informed of the firm's policies and procedures relevant to them.**

- a. The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
- b. The administrative partner maintains and distributes to all personnel a personnel manual describing policies and procedures.
- c. The administrative partner discusses the firm's personnel policies and procedures with new employees.

Professional Development

1. **Guidelines and requirements have been established for the firm's professional development program and are communicated to all personnel.**
 - a. The administrative partner is responsible for the formulation and implementation of firm policy regarding the guidelines and requirements for the firm's professional development programs.
 - b. As part of their orientation, newly employed personnel are informed of their professional responsibilities and opportunities by the administrative partner.
 - c. Newly employed personnel with limited experience are sent to introductory level training sessions of the AICPA or the (state) CPA Society during their first year of employment with our firm.
 - d. Each partner and professional employee is required to complete a minimum of 40 hours of continuing professional education each year. Personnel complete the record of professional development form and forward it to the administrative partner. The administrative partner is responsible for having the personnel files of each partner and professional employee updated to include a current record of hours of professional development completed. The types of programs qualifying for the fulfillment of the 40-hour requirement include—
 - (i) Continuing professional education programs of the AICPA and the (state) Society. This includes both sessions attended and cassette/workbook or workbook programs, as long as there is written evidence of completion.
 - (ii) College courses related to the profession.

- e. Personnel are reimbursed for membership dues paid to the AICPA, the (state) Society of CPAs and our local chapter of the state society.
 - f. Personnel are encouraged to serve on state society or AICPA committees, write articles for professional publications, serve as discussion leaders at professional development seminars, give speeches, and so forth.
 - g. The executive partner annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements. An annual report is made to the partners.
- 2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel. Personnel are encouraged to engage in self-development activities.**
- a. It is the responsibility of the administrative partner to distribute statements about current developments in accounting and auditing to all personnel who do not receive them directly. This distribution includes statements and interpretations issued by the Financial Accounting Standards Board and by the AICPA Auditing Standards Executive Committee, and so forth.
 - b. Pronouncements relating to areas of specific interest, such as those issued by the Securities and Exchange Commission, Internal Revenue Service, and other regulatory agencies are distributed by the appropriate specialist to persons who have responsibilities in such areas.
 - c. The administrative partner, as the firm's lead technician, is responsible for maintaining an accounting and auditing manual containing firm policies and procedures on technical matters. Updates are prepared and issued to the staff as new developments and conditions arise.
 - d. The firm does not, at present, conduct formal in-house training programs other than in specialized areas. However, from time to time personnel participate in the training programs of (firm name) CPAs.
 - e. A library of staff training cassette/workbook programs published by the AICPA and (state) Society of CPAs is maintained

- by the administrative partner for self-study and reference purposes and is available to all personnel.
3. The firm provides programs to fill its needs for personnel with expertise in specialized areas and industries.
 - a. The administrative partner is responsible for arranging in-house programs on SEC matters, cost accounting, municipal accounting, and savings and loan auditing for personnel involved in these areas.
 - b. Individuals designated as having specialized experience and expertise are encouraged to maintain their proficiency by joining appropriate professional associations and attending external professional education programs.
 - c. The firm will pay for memberships in organizations concerned with specialized areas or industries in which the firm is engaged or intends to become engaged.
 - d. The administrative partner is responsible for maintaining technical literature on specialized areas and industries.
 4. The firm recognizes that on-the-job training accounts for a significant part of professional development.
 - a. Personnel with in-charge responsibility on engagements—
 - (i) Discuss with assistants the relationship of the work they are performing to the engagement as a whole.
 - (ii) Permit assistants, when practicable, to become involved in areas of the engagement other than those previously assigned.
 - (iii) Explain to assistants the reasons for any additional work requirements discovered through the review process.
 - b. Personnel are evaluated in part on their effectiveness to properly train and develop subordinates.
 - c. The administrative partner monitors assignments to determine that personnel are—
 - (i) Fulfilling, where applicable, the experience requirement of the (state) Board of Accountancy.
 - (ii) Gaining experience in various areas of engagements and varied industries.
 - (iii) Working under different supervisory personnel.

Advancement

- 1. Our firm has established qualifications deemed necessary for the various levels of responsibility within the firm.**
 - a. The levels of responsibility that are inherent in the various staff classifications are clearly defined. Our firm has provided for the following staff classifications.³
 - (i) Manager
 - (ii) In-charge accountant
 - (iii) Staff assistant
 - b. The criteria which are considered in evaluating individual performance and expected proficiency are enumerated in our staff classification guidelines contained in the personnel manual.
 - c. Our firm's personnel manual provides the staff with information regarding the firm's advancement policies and procedures. The administrative partner issues updates from time to time to reflect changes made by the partnership in the policies and procedures.
- 2. The performance of our personnel is continuously evaluated, and personnel are periodically advised of their progress. Personnel files are maintained containing documentation relating to the evaluation process.**
 - a. Professional employees assigned to an engagement for a period in excess of five days must be evaluated by their immediate superior on the engagement by use of an evaluation form. These evaluation forms are reviewed with the employee at the end of the engagement and are approved by the engagement partner.
 - b. Personnel are assigned to engagements in a manner that assures they will be reviewed by several people during the course of a year.
 - c. Personnel with the responsibility for the preparation of evaluations are counseled (at least annually) by the administrative partner to ensure that they understand the firm's objectives.

³ The description of the firm's professional levels, with the responsibilities for each level and the general length of time required for advancement to the next position, is attached as Appendix A.

- d. All professional employees receive an evaluation of their performance at least once a year. Such counseling interviews are conducted by the administrative partner. These evaluations summarize the evaluations received on engagements during the year. The individual's progress, strengths, weaknesses, future objectives, and the firm's future objectives are among the items discussed. The interviews are documented in each individual's personnel file.
 - e. Annually, each partner completes a partner evaluation form evaluating each of the partners, including himself. The completed forms are submitted to the executive partner who summarizes and reviews them with each partner.
 - f. The executive partner or his designee reviews (each August) the system of personnel evaluation and counseling to ascertain that—
 - (i) Procedures for evaluation and documentation are being followed on a timely basis.
 - (ii) Requirements established for advancement are being met.
 - (iii) Personnel decisions are consistent with evaluations.
 - (iv) Recognition is given to outstanding performance.At the completion of the review, a report is made to the partners.
- 3. Responsibility for making advancement decisions is assigned to specific individuals.**
- a. The administrative partner is responsible for making advancement and termination recommendations, conducting the evaluation interviews, documenting the results of the interviews, and maintaining appropriate records.
 - b. The partners evaluate the above data and, after giving appropriate recognition to the quality of the work performed, make advancement decisions. The executive partner has the ultimate responsibility for making advancement decisions.
 - c. The executive partner studies the firm's advancement experience annually to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility. A report is made to the partners. This report includes the executive partner's opinion of the capabilities and progress of the staff.

Acceptance and Continuance of Clients

1. Our firm has established procedures for evaluation of prospective clients and for their acceptance as clients.
 - a. Available financial information regarding the prospective client, such as annual reports, interim financial statements, reports to regulatory agencies, and income tax returns is obtained and reviewed. Registration statements and 10-K forms are obtained for public companies.
 - b. Inquiries about potential clients are made to bankers, attorneys, credit services, and others having business relationships with the company.
 - c. Predecessor auditors (if applicable) are contacted and inquiries are made in accordance with generally accepted auditing standards.
 - d. Consideration is given to circumstances that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include—
 - (i) Audits of publicly held corporations.
 - (ii) Audits where the annual fee is expected to exceed \$10,000 or where the expected man-hour requirement exceeds 300 hours.
 - (iii) Audits of firms operating in high-risk industries, such as those industries where it is difficult to establish adequate systems of internal control or those industries whose operations are especially sensitive to general economic conditions.
 - (iv) Audits of firms in the development stage.
 - (v) Audits of firms in serious financial difficulty.
 - (vi) Any of the conditions enumerated in 2(a)(iii).
 - e. The firm's independence and ability to adequately serve a potential client are evaluated prior to acceptance. In evaluating the firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and availability of qualified personnel.
 - f. A review is made to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the codes of professional ethics of the AICPA and/or the (state) CPA Society.
 - g. Procedures for acceptance of a new engagement are as follows:

- (i) The engagement partner assembles the information and evaluates all matters described in the previous paragraphs.
 - (ii) For all audit engagements, or engagements described in paragraph (d) above, the acceptance is to be approved in writing by the engagement partner and the executive partner.
 - (iii) All other engagements are to be approved in writing by the engagement partner and the administrative partner.
 - h. The administrative partner is responsible for administering the procedures for acceptance of clients. The executive partner performs an annual review for compliance with the firm's policies and procedures for acceptance of clients and makes a report to the partners.
- 2. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued.
 - a. Reevaluations are made of existing clients—
 - (i) Annually, if any of the conditions mentioned in 1(d) exist.
 - (ii) Every three years if none of the conditions mentioned in 1(d) exist.
 - (iii) If there is a significant change in one or more of the following:
 - Management
 - Directors
 - Ownership
 - Legal counsel
 - Financial condition
 - Litigation status
 - Nature of client's business
 - Scope of the auditor's work
 - (iv) Upon the emergence of conditions that would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.
 - b. The administrative partner is responsible for evaluating the information obtained, making continuance recommendations, and administering firm procedures for continuance of clients. If the administrative partner recommends discontinuance or if any of the conditions enumerated in 2(a)(iii) or (iv) exist, all partners participate in the continuance decision.

- c. The executive partner performs an annual review to test for compliance with the firm's policies and procedures for continuance of clients and makes a report to the partners.

Inspection

1. The firm conducts an inspection program regarding its quality control policies and procedures.
 - a. Each year a partner and a manager not otherwise directly involved in firm administration are appointed by the executive partner as an inspection team to evaluate the firm's quality control policies and procedures for compliance with professional standards.
 - b. The appointed partner and manager obtain reasonable assurance that quality control policies and procedures are being complied with by—
 - (i) Inquiring of persons responsible for a function or activity.
 - (ii) Reviewing selected administrative and personnel files.
 - (iii) Reviewing selected engagement working paper files and reports (described below).
 - (iv) Reviewing other evidential matter.
 - c. A sample of engagements is selected annually from each partner's and manager's client listing and is given an in-depth review by the inspection team. The administrative partner reviews engagements of the partner and manager involved in the inspection process to ensure that a representative sample of engagements from all partners and managers has been selected. The working papers and reports are reviewed for compliance with professional standards, including generally accepted auditing standards, generally accepted accounting principles, and the firm's quality control policies and procedures.
 - d. The executive partner annually selects a representative report to be submitted for review to the practice review committee of the (state) Society and/or the AICPA.
 - e. Every third year the firm undergoes an AICPA quality control compliance review. The executive partner is responsible for scheduling the review and ensuring that all partners participate in the knowledge gained by the reviews.
2. Provision is made for reporting inspection findings to the appropriate management levels and for monitoring actions taken or planned.

- a. The results of engagement reviews are discussed with the supervisory personnel responsible for the engagement.
- b. Inspection findings and recommendations are reported to the partners by the inspection team together with corrective actions taken or planned. A memo outlining the findings and recommendations is prepared by the inspection team and is retained by the executive partner.
- c. The executive partner has the responsibility to determine that planned corrective actions were taken and to report the extent of compliance to all the partners.

Description of the Firms' Professional Levels

Profile Firm A

<u>Level</u>	<u>Approximate Time Frame</u>
Staff Assistant	
Level 1	First year (0 to 1)
Level 2	Second and third year (2 to 3)
In-charge accountant	Fourth through eighth year (4 to 8)
Partner	After the eighth year

Staff Assistant (Level 1). A Level 1 staff assistant is expected to—

- Work on portions of audit and accounting engagements.
- Become familiar with the firm's policies and procedures.
- Know the rules, regulations, and code of ethics of the AICPA and the (state) Society of CPAs.
- Be familiar with pronouncements of the Financial Accounting Standards Board (FASB) and the AICPA, such as the statements on auditing standards (SASs) and Accounting Principles Board opinions (APBs).
- Progress professionally by working toward passing the CPA examination as soon as possible.

Staff Assistant (Level 2). A Level 2 staff assistant should be able to—

- Assume full responsibility under supervision for small accounting engagements involving unaudited financial statements.
- Work on more involved portions of large audit and accounting engagements.
- Prepare financial statements.

In-charge Accountant. An in-charge accountant is expected to—

- Assume full responsibility for small and medium-size audit engagements requiring the services of one or two people and large accounting engagements involving unaudited financial statements.
- Work on (and research) assignments involving “theory” and such “conceptual” areas as materiality and interrelationships of accounts.

- Review and analyze internal control.
- Prepare audit programs and time budgets.
- Be responsible for compliance with due dates and adherence to time budgets.
- Prepare management letters.
- Train and supervise the staff members assigned to the engagement.
- Recognize, in advance, the possible problem areas of an engagement.
- Pass the CPA examination, if not already certified.

Profile Firm B

<i>Level</i>	<i>Approximate Time Frame</i>
Staff Assistant	
Level 1	First year (0 to 1)
Level 2	Second year (1 to 2)
In-charge accountant	Third, fourth, fifth (3 to 5)
Audit manager	Sixth through tenth year (6 to 10)
Partner	After the tenth year

Staff Assistant (Level 1). A Level 1 staff assistant is expected to—

- Work on portions of audit and accounting engagements.
- Become familiar with the contents of the firm manuals.
- Know the rules, regulations, and code of ethics of the AICPA and the (state) Society of CPAs.
- Be familiar with the pronouncements of the Financial Accounting Standards Board (FASB) and the AICPA, such as the statements on auditing standards (SASs) and Accounting Principles Board opinions (APBs).
- Progress professionally by working toward passing the CPA examination as soon as possible.

Staff Assistant (Level 2). A Level 2 staff assistant should be able to—

- Assume full responsibility under supervision for small accounting engagements involving unaudited financial statements.
- Work on more involved portions of large audit and accounting engagements.
- Prepare financial statements.

In-charge Accountant. An in-charge accountant is expected to—

- Assume full responsibility for small and medium-size audit en-

- agements requiring the services of one or two people and large accounting engagements involving unaudited financial statements.
- Work on (and research) assignments involving “theory” and such “conceptual” areas as materiality and interrelationships of accounts.
 - Review and analyze internal control.
 - Prepare audit programs and time budgets.
 - Prepare management letters.
 - Train and supervise the staff assistants assigned to the engagement.
 - Recognize, in advance, the possible problem areas of an engagement.
 - Pass the CPA examination, if not already certified.

Manager. A manager is a CPA and is expected to—

- Assume full responsibility for large audit assignments falling within his expertise.
- Supervise the assignment of duties to, and the training of, personnel assigned to the engagement.
- Supervise a number of engagements at one time.
- In connection with engagements, be responsible for personnel scheduling, compliance with due dates, and monitoring time budgets.
- Adequately review all working papers and the completed reports to ascertain that both meet firm standards.
- Resolve all problems prior to the submission of the report for final partner review.
- Communicate firm policies and technical information to accounting and auditing personnel through individual or group meetings.
- Motivate and assist staff in their professional development.
- Represent the firm in professional and service organizations.
- Develop the firm’s reputation and his own through conducting seminars, making speeches, and the like.
- Assist partners with practice development and practice management.

Stated Objectives of Firm (Philosophy)

A particular firm's stated objectives may include items such as the following:

1. Concern for the general public interest.
2. Concern for the financial well-being of clients.
3. Reinvestment of the firm's profits in the training and advancement of the firm's partners and staff.
4. Growth plans for the firm, including opening of branch offices, annual billings, and staff size.
5. Development of specialties such as auditing governmental units or concentration in particular fields—banks, agriculture, retail, and so forth.
6. Development of other services, such as a computer data processing center.
7. Centralization (or decentralization) of authority for issuance of reports.
8. Degree of operating autonomy for individual practice offices.
9. Extent of autonomy for partners.
10. Pattern for firm growth—internal growth through acquisitions of clients and growing apace with them or growth through mergers with other accounting firms.

APPENDIX C

References to Management of an Accounting Practice Handbook

The *Management of an Accounting Practice Handbook* contains many forms and questionnaires that may facilitate a firm's implementation of its quality control document. The following list provides references to various exhibits of the *MAP Handbook* (as updated through October 1977) as they relate to the elements of quality control. Some of the exhibits could be utilized intact, while others will require modification for application to a firm's quality control document.

	<u>Reference</u>
Assigning Personnel to Engagements	
Preliminary Monthly Staff Schedule	205-5
Final Monthly Staff Schedule	205-6
Final Monthly Staff Schedule	205-7
Time Budget	205-8
Audit Time Budget	205-8-1
Audit Time Budget	205-9
Audit Time Analysis (Short Form)	205-10
Audit Time Analysis (Long Form)	205-11
Weekly Progress Report	205-12
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