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Practice continuation agreements : a practice survival kit

John A. Eads

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AICPA PEER REVIEW PROGRAM MANUAL

As of March 1, 1996

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AICPA

American Institute of Certified Public Accountants

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AICPA PEER REVIEW PROGRAM MANUAL

Prepared by the
Peer Review Board
of the
American Institute of
Certified Public Accountants

As of March 1, 1996



American Institute of Certified Public Accountants

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HOW TO USE THIS VOLUME

Scope of the Volume . . .

This Volume brings together the *Standards for Performing and Reporting on Peer Reviews* and the policies, procedures, checklists, and programs developed by the AICPA Peer Review Board for use when administering, arranging, and carrying out peer reviews.

How This Volume Is Arranged . . .

The contents of this volume are arranged as follows:

Introduction

Information About the Administration of the AICPA Peer Review Program

Standards for Performing and Reporting on Peer Reviews

Guidance on Writing Peer Review Reports

Guidance for Writing a Letter of Comments

Guidance for Writing Letters on Monitoring Actions by Outside Parties

On-Site Peer Reviews for Firms That Perform Audits

On-Site Peer Review Engagement Checklists

Engagement Checklist Supplements

Off-Site Peer Reviews for Firms That Perform No Audits

Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program

Guidance on Performing Inspections

Consulting Review Program Guidelines

Reviews of Quality Control Materials

How to Use This Volume . . .

The arrangement of material is indicated in the general table of contents at the front of the volume. There is a detailed table of contents covering the material within each major division.

The major divisions are subdivided into sections, each with its own section number. Where possible, each paragraph within a subdivision is decimally numbered. For example, PRP section 2000.01 refers to the first paragraph of section 2000, "Information About the Administration of the AICPA Peer Review Program." Section and paragraph numbers located on each page are provided as corner references at the bottom of each page.

PRP Section 1000

INTRODUCTION

.01 Members of the American Institute of Certified Public Accountants who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as proprietors, partners, shareholders, or employees of firms enrolled in an approved practice-monitoring program in order to retain their membership in the Institute beyond specified periods. A firm enrolled in the AICPA peer review program or a member firm in the AICPA Division for CPA Firms is deemed to be enrolled in an approved practice-monitoring program (an enrolled firm). (See sections 2.2.3 and 2.3.4 of the bylaws of the AICPA and the implementing Council resolutions under those sections.)

.02 In the fall of 1994, the AICPA Board of Directors and the AICPA Council approved the combination of the peer review program of the private companies practice section and the AICPA quality review program. At that time, the AICPA quality review program was renamed the AICPA peer review program and the executive committee having senior status with authority to establish and conduct the review program in cooperation with state CPA societies was renamed the AICPA Peer Review Board.

.03 This manual has been prepared by the AICPA Peer Review Board. The standards, policies, programs and checklists set forth in this manual have been developed to assist—

- a. Reviewers carrying out peer reviews of firms enrolled in the AICPA peer review program and members of the private companies practice section of the AICPA division for CPA firms.
- b. State societies that participate in the administration of the reviews of such firms.
- c. Associations of CPA firms that assist their members in arranging and carrying out peer reviews.
- d. The AICPA Peer Review Division itself.

.04 Reviews of firms that are members of the SEC practice section of the AICPA division for CPA firms are carried out under the standards issued by the SEC practice section's peer review committee that address, among other things, the various membership requirements of the section applicable to audits of SEC clients.

.05 In performing peer reviews, review teams must complete *all* relevant programs and checklists issued by the AICPA Peer Review Board in a professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program.

.06 The manual is in loose-leaf format in anticipation of updating and expansion. Changes are expected to arise from three sources:

- a. Comments and suggestions from individuals or groups in the program.
- b. Needs identified by the AICPA Peer Review Board.
- c. Issuance of new official pronouncements by the Financial Accounting Standards Board, the AICPA Auditing Standards Board, and other senior AICPA committees.

.07 Comments and suggestions should be addressed to:

Peer Review Division
AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

PRP Section 2000

INFORMATION ABOUT THE ADMINISTRATION OF THE AICPA PEER REVIEW PROGRAM

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PRP Section 2000

Information About the Administration of the AICPA Peer Review Program

General

.01 This section has been developed by the Peer Review Board to provide information on the administration of peer reviews under the AICPA peer review program.

.02 In order to retain their membership in the Institute, members of the AICPA engaged in the *practice of public accounting* in the United States or its territories are required to practice as owners or employees of firms enrolled in an approved practice-monitoring program.

.03 The *practice of public accounting* is defined in Section ET92.09 of the *Code of Professional Conduct* as "consisting of the performance for a client, by a member of a member's firm, while holding out as CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council, such as Statements of Financial Accounting Standards, Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statement on Standards for Consulting Services, Statement of Governmental Accounting Standards, Statements on Standards for Attestation Engagements, and Statement on Standards for Accountants' Services on Prospective Financial Information."

.04 A firm enrolled in the AICPA peer review program or a member of the private companies practice section or the SEC practice section of the AICPA division for CPA firms is deemed to be enrolled in an approved practice-monitoring program. (See section 2.2.3 and 2.3.4 of the bylaws of the AICPA and the implementing Council resolution under those sections.) An AICPA member may engage in the practice of public accounting with a firm auditing one or more SEC clients only if that firm is a member of the SEC Practice Section. (See section 2.3.5 of the bylaws of the AICPA and the implementing Council resolution under that section.)

.05 In the fall of 1994, the AICPA Board of Directors and the AICPA Council approved the combination of the peer review program of the private companies practice section and the AICPA quality review program effective for reviews performed April 3, 1995, and after. At that time, the AICPA quality review program was renamed the AICPA peer review program and the executive committee having senior status with authority to establish and conduct the review program in cooperation with state CPA societies was renamed the AICPA Peer Review Board.

.06 This section is effective for reviews performed on or after April 3, 1995, of firms enrolled in the AICPA peer review program and of firms that are members of the private companies practice section. They are applicable to firms enrolled in these programs and to individuals and firms who perform and report on such reviews, to state CPA societies administering the reviews, and to associations of CPA firms assisting their members in arranging and carrying out peer reviews.

.07 So the AICPA Peer Review Board can concentrate its efforts on setting standards, developing peer review program materials, and overseeing the administration of the peer review program, all state CPA societies have been asked to administer the combined program in their states or to arrange to have the reviews administered by another state CPA society. Exhibit 1 includes a listing of the state CPA societies that have elected to administer the AICPA peer review program.

Requirements for Joining the AICPA Peer Review Program and the Private Companies Practice Section

.08 Whether or not a firm has an accounting or auditing practice, it should enroll in—

- a. The AICPA peer review program; or
- b. Private companies practice section and/or SEC practice section of the AICPA division for CPA firms.

.09 A firm that does not perform audit, review or compilation services will not be required to have a peer review if the firm annually confirms that it does not perform any audit, review or compilation services. The AICPA Peer Review Board has adopted a resolution for assigning a review date to a firm that fails to confirm annually that it still does not perform audit, review or compilation services (see Exhibit 2, for the relevant resolution of the AICPA Peer Review Board).

.10 A firm may join the AICPA peer review program by completing and submitting a "Peer Review Program Enrollment Form" to the AICPA Peer Review Division at Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881. Peer review program enrollment forms can be obtained from the AICPA (201/938-3044) or participating state CPA societies. In order to enroll in the AICPA peer review program, at least one owner of the firm must be a member of the AICPA.

.11 A firm may join the Private Companies Practice Section by completing and submitting a "Division for CPA Firms' Membership Application" to the AICPA Division for CPA Firms at Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881. Applications for the Division for CPA Firms can also be obtained from the AICPA (201/938-3005) or participating state CPA societies.

.12 Every CPA firm, regardless of size and the practice-monitoring program in which it participates, must have a system of quality control for its accounting and auditing practice and must comply with the AICPA's quality control standards. However, preparation of a quality control document is not required to have a peer review. Completion of a brief quality control questionnaire is all that is required.

.13 A firm participating in the AICPA peer review program must have a peer review in accordance with the *Standards for Performing and Reporting on Peer Reviews* (see PRP Section 3000) once every three years if it performs audits, reviews, or compilations, and must comply with the administrative policies established for the AICPA peer review program.

Timing of Reviews

.14 A firm enrolling in the AICPA peer review program or the Private Companies Practice Section must have its initial peer review within eighteen months of joining either body except as indicated below:

- a. If a firm was a member of the SEC practice section prior to enrolling in the AICPA peer review program or the private companies practice section and did not have a review under that program, its initial review must commence by the date set under the SEC practice section or ninety days after enrolling in the AICPA peer review program or the private companies practice section, whichever is later.
- b. If the firm has undergone a peer review under the auspices of the SEC Practice Section, it may defer its next review until three years and six months after the end of the period covered by the previous peer review.

.15 If a firm resigns from the AICPA peer review program or the private companies practice section and rejoins its previous program or joins the other program, the firm's due date for review will be the due date originally assigned the firm or ninety days after rejoining its previous program or joining the other program, if later.

.16 A firm should maintain its review year from review to review. A firm's subsequent review should be completed within three years and six months after the end of the period covered by the previous review.

.17 Firms without audit, review or compilation clients will not be reviewed. However, if the firm gets an audit, review or compilation client, it will be expected to have a review within 18 months of the fiscal year-end of the first auditing and accounting client accepted.

.18 A firm may find that it cannot have its peer review by the date assigned. In these circumstances, the firm should submit a letter to the state CPA society administering the firm's review prior to the due date of the review. Ordinarily, that letter should be submitted at least sixty days prior to the due date and should cite the reasons why the firm cannot have the review and should offer an alternative date for the review. Extensions will be hard to get since a peer review focuses on the quality of a firm's engagements—if a firm is doing quality work, it should have no problem with a peer review. And if it's not, it's better to find out sooner, not later.

.19 If a firm has any questions regarding the date by which it is due for review, it should contact the AICPA Peer Review Division at 201/938-3030.

Sources of Reviewers

.20 A peer review may be performed by—

- a. A team appointed by a state CPA society participating in the peer review program (a committee-appointed review team or "CART").
- b. A team formed by a firm engaged by the firm under review (a firm-on-firm review).
- c. A team formed by an association of CPA firms that is authorized to form such teams (an association review).

.21 The AICPA Peer Review Board has adopted a resolution (see Exhibit 3) that requires all reviewers to meet the following initial training and continuing education requirements:

- a. A team captain must initially attend an AICPA reviewers' course on how to conduct a review under the AICPA practice-monitoring programs or a state CPA society course on how to conduct a review that has been approved by the AICPA Peer Review Board.
- b. Thereafter, a team captain must have completed, during the five-year period prior to the commencement of a review, an AICPA or other approved introductory course on how to conduct a review or an advanced reviewers' training course for experienced team captains, such as the AICPA's course "Advanced Training Course for Reviewers: Current Issues in Practice Monitoring." Individuals attending the advanced course should have attended an introductory course and performed at least one review as a team captain.
- c. A reviewer conducting an off-site review should attend an approved introductory course on how to conduct a review or the off-site course entitled "How to Perform and Report on Off-Site Practice-Monitoring Program Reviews". These courses fulfill the initial and continuing education requirements for off-site reviewers. (An off-site course does not fulfill the initial or continuing education requirements for on-site review team captains.)

Committee-Appointed Review Teams

.22 Any individual meeting the qualifications for service as a reviewer set forth in the *Standards for Performing and Reporting on Peer Reviews* who wishes to serve on a review team should complete a reviewer resume form and submit it to the AICPA. (See Exhibit 4.) The information submitted on that form will be contained in the master reviewer data bank maintained by the AICPA and will be available to participating state CPA societies. Individuals who are included in the bank of reviewers will be asked to update their resume forms annually.

Firm Reviews

.23 Firms participating in the AICPA practice-monitoring program may indicate their willingness to perform peer reviews of other firms by completing a reviewing firm interest form. That form includes, among other things, the locations of the offices of the firm that would be interested in conducting peer reviews (see Exhibit 5).

.24 The information submitted will be included in a master reviewing firm data bank maintained by the AICPA and will be available to participating state CPA societies. Upon request, firms may obtain a listing of the firms located in a particular geographic area that are included in the data bank. The inclusion of a name on a listing does not constitute an endorsement of the listed firm or a team selected therefrom. After a team is formed by a firm engaged to perform a review, the arrangements will be reviewed by the state CPA society administering the review.

Associations of CPA Firms

.25 A list of associations of CPA firms that have been authorized to arrange peer reviews for their members will be maintained. This list will be periodically updated. Section PRP 8000 of this manual discusses the guidelines for association involvement in the AICPA peer review program.

Review Team Working Papers

General

.26 Working papers must be prepared by the review team to document the work performed and the findings and conclusions reached on on-site and off-site peer reviews. Working papers, including engagement review checklists, should not name or otherwise identify the reviewed firm's clients.

.27 In performing peer reviews, review teams must complete all relevant programs and checklists issued by the AICPA Peer Review Board in a timely, professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program. (See Exhibit 6 for a discussion of a reviewer's responsibilities when performing peer reviews.)

Submission of Working Papers

.28 Within thirty days of the date of an on-site peer review exit conference, the team captain should submit to the state CPA society administering the review copies of the report and letter of comments, if any, and the working papers specified in the checklists issued by the AICPA Peer Review Board.

.29 Other working papers for on-site firm-on-firm reviews should be retained by the reviewing firm. Other working papers for on-site association reviews should be retained by the respective association. Therefore, a review team captain should notify the state CPA society administering the review of when the on-site peer review working papers will be available for review and where they are being held by submitting a properly completed review completion form (Appendix B to the Team Captain Checklist—On-Site Peer Reviews).

.30 Within thirty days of the completion of an off-site peer review, the reviewer should submit a copy of the report and letter of comments (if any) the review completion form, and all working papers prepared on the review to the state CPA society administering the review.

.31 When the timing guidelines discussed above are not met, the state CPA society's staff or a member of the applicable peer review committee should determine the reasons for the delay and act accordingly. If, in their opinion, after consultation with the chair of the applicable peer review committee—

- a. The delay arises from an unresolved problem or disagreement in the review, an attempt should be made to resolve the matter.
- b. The delay arises from a failure to perform the peer review in a timely, professional manner, the applicable peer review committee should decide whether to ask the AICPA Peer Review Board to suspend the individual's right to perform peer reviews at least until the review is completed in a professional manner.
- c. The delay arises from a failure by the reviewed firm to cooperate with the reviewer, the state CPA society's peer review committee should decide at its next meeting whether to refer the matter to the

AICPA Peer Review Board; in these instances, the AICPA Peer Review Board will decide whether to begin taking actions leading to the termination of the firm's enrollment or participation in the AICPA peer review program.

Working Paper Retention Policies

.32 All working papers, reports, letters and other materials prepared during a peer review, with the exception of those described in paragraphs .33-.34 below, should be retained by the entity or the firm that formed the review team until ninety days after the state peer review committee has issued a letter accepting the peer review report, and, if applicable, the letter of comments and the response thereto, unless the committee indicates that the working papers should be retained for a longer period of time because, for example, the firm has been required to take certain corrective, remedial actions or the committee believes that it needs to further monitor the activities of the firm.

.33 The following peer review documents should be retained from on-site and off-site reviews until the subsequent review required of the firm or until the time for such review has elapsed:

- a. The peer review report
- b. The letter of comments and the firm's response thereto, if applicable
- c. The letter accepting the peer review report and, if applicable, the letter of comment and the firm's response
- d. The letter documenting compliance with any remedial or corrective actions to which a reviewed firm agrees

.34 Also, the state CPA society administering the review may wish to consider retaining the following additional materials related to the arrangement of the review rather than the peer review itself:

- a. Engagement letters
- b. Scheduling information forms
- c. Team appointment acceptance letters
- d. Extension requests

.35 All working papers will be subject to oversight or review by the state CPA society administering the review, the AICPA Peer Review Board, or other bodies that the Board may designate, including their staff.

.36 All working papers, notes, or other documentation prepared by a participating state CPA society in connection with the scheduling, performance, or acceptance of reviews are also subject to oversight.

Submission of Peer Review Documents

.37 A firm participating in the peer review program is required under paragraph 14 of the Standards for Performing and Reporting on Peer Reviews to arrange and schedule its review in compliance with the administrative procedures established by the state CPA society administering the reviews and to cooperate with the society and with the AICPA Peer Review Board in all matters related to the review.

.38 Within thirty days of receiving the report and letter of comments, if any, the reviewed firm should submit a copy of the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments to the state CPA society administering the review.

.39 The AICPA Peer Review Board has adopted resolutions (see Exhibits 7 through 9) that provide procedures for dropping or terminating a firm's enrollment or participation in the peer review program for failure to file with the state CPA society administering the firm's review information concerning the arrangements for a mandatory

review, including providing the reviewer with information to plan and perform the review or submitting selected financial statements and accountant's reports along with specified information and representations about the engagements; to have a review by the required date; to file the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments or to cooperate with the state CPA society administering the firm's review, including completion of required corrective or monitoring actions.

Fees and Expenses

.40 State CPA societies administering peer reviews under the AICPA peer review program shall be authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the program.

.41 The AICPA Peer Review Board has adopted a resolution (see Exhibit 7) that provides procedures for dropping a firm's enrollment or participation in the peer review program for failure to pay fees charged by a state CPA society for the administration of the AICPA peer review program.

.42 State CPA societies administering the AICPA peer review program shall also be authorized to establish the rates at which reviewers will be paid for service on review teams they form. While the rates established may be stratified based on the size and nature of the reviewed firm, the rates should be used uniformly throughout the jurisdiction for review teams it arranges. Firms that perform reviews and associations of CPA firms that assist their members in arranging such reviews may set their own rates in consultation with the reviewed firm.

.43 A firm that arranges for a participating state CPA society, another firm, or an association of CPA firms to perform its peer review is obligated to pay in full the fees and expenses of the review team to which it agreed prior to the commencement of the review.

.44 The Peer Review Board has adopted a resolution that provides procedures for dropping a firm's enrollment or participation in the peer review program for failing to pay the fees and expenses of a review team formed by a participating state CPA society (see Exhibit 10). In applying these procedures, the state CPA society that formed the review team should notify the reviewed firm in writing (by certified mail) that it has failed to pay the fees and expenses. The notice—

- a. Should not be mailed to a reviewed firm until at least 90 days after the firm has been billed for the services.
- b. Should indicate that the administering state CPA society's peer review committee will be asked to review the situation, including the reasons for the nonpayment, and decide whether to recommend that the AICPA Peer Review Board drop the firm's enrollment or participation in the peer review program due to this failure pursuant to the established procedures.
- c. Should indicate that the reviewed firm has 30 days from the date of the notice in which to pay the unpaid fees and expenses.
- d. Should include a copy of the resolution in Exhibit 10.

.45 In deciding on whether to request that a firm's enrollment or participation in the peer review program be dropped, consideration should be given to whether a disagreement exists between the reviewer, the reviewed firm, and/or the Committee.

Resignations

.46 A firm may not resign from the peer review program or the private companies practice section during the course of a review because, for example, it expects to receive a qualified report or the reviewer has discovered a substandard engagement on which the firm must take some action under applicable professional standards. A review commences when an engagement letter is signed and returned to the entity that is forming the review team or when the reviewed firm enters orally into the agreements usually included in an engagement letter. A review is

deemed completed when the firm has taken any actions deemed necessary by the committee as a result of that review and has been so notified.

.47 Receipt of a firm's resignation from the peer review program or the private companies practice section, or receipt of a resignation from membership in the AICPA by the sole owner of a firm or by the only owner of a firm who is a member of the AICPA will be considered evidence of a failure to cooperate and will lead either to termination of the firm's enrollment or participation in the peer review program or a hearing to consider whether to terminate the enrollment or participation of the firm. (See Exhibit 11 for the relevant resolution of the AICPA Peer Review Board.)

.48 A firm may resign from a practice-monitoring program only if it has completed any actions deemed necessary by the committee that oversaw the most recent review of that firm.

Private Companies Practice Section

.49 The Private Companies Practice Executive Committee has established procedures for dropping or terminating the membership of a firm in the private companies practice section for defaulting on its obligation to—

- a. File its annual report to the section.
- b. Pay its annual dues.
- c. Provide requested information incident to arrangements for a required peer review.
- d. Have a peer review by the required date.
- e. Pay in full the fees and expenses of the review team appointed by the committee responsible for administering its review within 60 days of the date when the peer review was accepted by that committee.
- f. Pay fees related to the administration of the applicable peer review program.
- g. File the peer review report, the letter of comments, if any, and its response to all matters discussed in the report and the letter of comments with the committee responsible for administering its peer review.
- h. Cooperate with the committee responsible for administering its peer review in connection with that committee's duties, including completion of required follow-up actions and any disciplinary matters.

See Exhibit 12 for a copy of the resolution adopted by the Private Companies Practice Executive Committee.

Exhibit 1

Entities Administering the AICPA Peer Review Program

<u>State Where Main Office of Firm is Located</u>	<u>Name of Entity Administering AICPA Peer Review Program</u>	<u>Telephone No.</u>
Alabama	Alabama Society of CPAs	205/834-7650
Alaska	California Society of CPAs	415/802-2600
Arkansas	Arkansas Society of CPAs	501/664-8739
Arizona	California Society of CPAs	415/802-2600
California	California Society of CPAs	415/802-2600
Colorado	Colorado Society of CPAs	303/773-2877
Connecticut	Connecticut Society of CPAs	203/525-1153
Delaware	Pennsylvania Institute of CPAs	215/735-2635
District of Columbia	Virginia Society of CPAs	804/270-5344
Florida	Florida Institute of CPAs	904/224-2727
Georgia	Georgia Society of CPAs	404/231-8676
Guam	Oregon Society of CPAs	503/641-7200
Hawaii	Hawaii Society of CPAs	808/537-9475
Idaho	Idaho Society of CPAs	208/344-6261
Illinois	Illinois CPA Society	312/993-0407
Indiana	Indiana CPA Society	317/726-5000
Iowa	Iowa Society of CPAs	515/223-8161
Kansas	Kansas Society of CPAs	913/267-6460
Kentucky	Kentucky Society of CPAs	502/266-5272
Louisiana	Society of Louisiana CPAs	504/464-1040
Maine	New England Peer Review, Inc.	603/623-3513
Maryland	Maryland Association of CPAs	410/296-6250
Massachusetts	Massachusetts Society of CPAs	617/556-4000
Michigan	Michigan Association of CPAs	810/855-2288
Minnesota	Minnesota Society of CPAs	612/831-2707
Mississippi	Mississippi Society of CPAs	601/366-9824
Missouri	Missouri Society of CPAs	314/997-7966
Montana	Montana Society of CPAs	406/442-7301
Nebraska	Nevada Society of CPAs	702/826-6800
Nevada	Nevada Society of CPAs	702/826-6800
New Hampshire	New England Peer Review, Inc.	603/623-3513
New Jersey	New Jersey Society of CPAs	201/226-4494
New Mexico	New Mexico Society of CPAs	505/246-1699
New York	New York State Society of CPAs	212/719-3364
North Carolina	North Carolina Association of CPAs	919/469-1040
North Dakota	North Dakota Society of CPAs	701/775-7100
Ohio	Ohio Society of CPAs	614/764-2727
Oklahoma	Oklahoma Society of CPAs	405/841-3800
Oregon	Oregon Society of CPAs	503/641-7200
Pennsylvania	Pennsylvania Institute of CPAs	215/735-2635
Puerto Rico	Colegio de Contadores Publicos Autorizados	809/745-1950
Rhode Island	New England Peer Review, Inc.	603/623-3513
South Carolina	South Carolina Association of CPAs	803/791-4181
South Dakota	Oklahoma Society of CPAs	405/478-4484
Tennessee	Tennessee Society of CPAs	615/377-3825
Texas	Texas Society of CPAs	214/689-6083
Utah	Texas Society of CPAs	214/689-6083
Vermont	New England Peer Review, Inc.	603/623-3513
Virgin Islands	Pennsylvania Institute of CPAs	215/735-2635
Virginia	Virginia Society of CPAs	804/270-5344
Washington	Washington Society of CPAs	206/644-4800
West Virginia	West Virginia Society of CPAs	304/342-5461
Wisconsin	Wisconsin Institute of CPAs	414/785-0445
Wyoming	Nevada Society of CPAs	702/826-6800

Exhibit 2**AICPA PEER REVIEW BOARD RESOLUTION**

WHEREAS, a firm participating in the peer review program is required to have a review of its accounting and auditing practice at least every three years; and

WHEREAS, paragraph 4 of the *Standards for Performing and Reporting on Peer Reviews* (the Standards) states that a firm that does not provide audit, review or compilation services will not be reviewed; and

WHEREAS, paragraph 9 in Section 2000 of the *Peer Review Program Manual* provides that a firm that does not perform audit, review or compilation services will not be required to have a review if it annually confirms that it does not perform any audit, review or compilation services.

NOW, THEREFORE, BE IT RESOLVED: That a firm that has indicated it does not perform any audit, review, or compilation services will be notified by the AICPA Peer Review Division when it has failed to annually confirm to the AICPA or an administering state CPA society that the firm still does not perform any audit, review or compilation services, even after three requests and that, as a result, the firm has been assigned a due date for review within twelve months from the date of the notification, since it is assumed by the non-response that the firm does perform one or more of these services.

Exhibit 3

AICPA PEER REVIEW BOARD RESOLUTION

WHEREAS, under paragraph 18 of the *Standards for Performing and Reporting on Peer Reviews*, a team captain on an on-site peer review must have completed a training course or courses that meet the requirements established from time to time by the AICPA Peer Review Board in order to qualify for service as a reviewer; and

WHEREAS, under paragraph 21 of the *Standards for Performing and Reporting on Peer Reviews*, a reviewer participating in an off-site peer review must have completed a training course or courses that meet the requirements established from time to time by the AICPA Peer Review Board in order to qualify for service as a reviewer;

NOW, THEREFORE BE IT RESOLVED: That, a team captain on an on-site peer review and a reviewer participating in an off-site peer review must have completed, during the five-year period prior to the commencement of the review, a training course that meets the requirements established by the AICPA Quality Review Executive Peer Review Board.

Exhibit 4

AICPA

REVIEWER RESUME FORM

1. Applicant's Name

Mr. Ms.

Grid for name: FIRST MI LAST

2. AICPA Member Number (obtain from AICPA Member Card)

3. Firm or Organization

Grid for firm or organization name

AICPA Firm Number (if applicable)

4. Mailing Address

Grid for mailing address: CITY ST ZIP

5. Business Telephone Number () - Ext. Facsimile Number () - Ext.

6. Hourly billing rate \$

7. Firm's Federal I.D. Number

8. Association(s)/Network(s) to which your firm belongs (use code on page 5 or mark 00 if "None" or 99 for another association which has not been listed)

If you marked 99, please indicate the name of the association.

Grid for association name

9. Total number of professionals, including partners, proprietors and shareholders (for this purpose professionals are all CPAs and other individuals expected to seek that status)

- A One C 6 to 10 E 20 to 49 G 100 or more B 2 to 5 D 11 to 19 F 50 to 99

10. Are you currently practicing at a supervisory level in the accounting and auditing function of your firm?

Yes No (If no, please skip to Question 15.)

11. Are you currently practicing as (please check one)

- Owner Manager or equivalent supervisory position Senior or other staff accountant

12. Are you currently performing auditing engagements? Yes No

13. How many years experience do you have in public practice in the accounting and auditing function?

Exhibit 4—Continued

QUESTIONS FOR ALL APPLICANTS

- 22. Has your right to practice accounting and auditing been affected by an action of a regulatory or disciplinary body, or have you consented to or had imposed on you any disciplinary, remedial or corrective action by a regulatory or disciplinary body? (e.g., SEC, GAO, DOL, AICPA Professional Ethics, AICPA Joint Trial Board) Yes No

If yes, specify body and explain _____

* * * * *

If hired to perform a review under one of the AICPA practice-monitoring programs, I agree to perform and report on that review in accordance with the applicable program's standards and to cooperate fully with the entity administering the review in all matters related to the review. I also agree to ensure that I have access to the applicable program's manual if I should serve as the team captain on a review.

SIGNATURE: _____ DATE: _____

Exhibit 4—Continued

AREAS OF EXPERIENCE

Please indicate all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer and wish to perform peer reviews, including practice area 9 if you are currently active in auditing. If you have not performed an engagement in an industry in recent years, you should carefully consider your ability to detect engagement deficiencies in that industry before agreeing to perform a peer review of a firm with a client(s) in that industry. To select a practice area or industry, fill in the codes that indicates how most experience was gained. See the table below for codes.* If you agree to perform a review and you do not have recent experience in an industry, you may be called on to justify why you should be permitted to review an engagement in that industry.

PRACTICE AREAS	EXPERIENCE CODE						EXPERIENCE CODE					
	A	B	C	D	E		A	B	C	D	E	
1 SEC Rules and Regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		215 Hospitals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Reviews and Complications	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		217 Nursing Homes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Prospective Financial Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		222 HUD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Personal Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		225 Insurance Agents and Brokers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Audits Under Government Auditing Standards ("Yellow Book")	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		230 Investment Companies and Mutual Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Audits of Federal Financial Assistance Programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		235 Leasing Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Audits of Financial Institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		240 Life Insurance Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Audits of Rural Utilities Service Borrowers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		245 Manufacturing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 Other Audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		250 Mortgage Banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Audits of Employee Benefit Plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		255 Motor Carriers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
INDUSTRIES							260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
110 Agricultural, Livestock, Forestry & Fishing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		265 Employee Benefit Plans (including ERISA audits)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
115 Airlines	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		270 Professional Services (Doctors, Lawyers, Architects, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
120 Auto Dealerships	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		275 Publishing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
125 Banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		280 Real Estate Brokerage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
130 Broadcasting and Entertainment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		285 Real Estate Development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
135 Brokers and Dealers in Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		295 Real Estate Investment Trusts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
140 Brokers and Dealers in Commodities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		300 Reinsurance Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
145 Casinos	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		305 Retail Trade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
150 Colleges and Universities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		310 Savings and Loan Associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
155 Common Interest Realty Associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		315 Small Loan Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
160 Computer Software Development and Sales	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		320 School Districts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
165 Construction Contractors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		325 State and Local Government	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
170 Continuing Care Retirement Communities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		330 Telephone Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
175 Credit Unions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		335 Utilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
180 Extractive Industries—Oil and Gas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		999 Other (describe)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
185 Extractive Industries—Mining	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							
190 Finance Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							
195 Franchisors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							
200 Property and Casualty Insurance Companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							
205 Government Contractors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							
210 Health Maintenance Organizations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							

*** EXPERIENCE CODES (Checkmark all that apply)**

A—Currently supervising or performing an engagement

B—Supervising or performing engagements in last 5 years

C—Supervising or performing pre-issuance engagement review within 3 years

D—CPE courses and training in last 3 years

E—Other (please explain on a separate page)

PLEASE RETURN THE COMPLETED FORM TO:

American Institute of CPAs
 Peer Review Division
 Harborside Financial Center
 201 Plaza Three
 Jersey City, NJ 07311-3881

Exhibit 4—Continued

ASSOCIATION CODES

0001	AFAI	Accounting Firms Associated Inc.	0036	MSI	Midsnell International
0002	AGI	Accounting Group International	0018	MACPA	Montana Association of CPAs
0003	ACPAI	ACPA International	0029	MRI	Moore Rowland International
0048	ACPA	Affiliated Conference of Practicing Accountants	0045	MSNA	Moore Stephens North America, Inc.
0005	AAFI	Associated Accounting Firms International	0019	NACF	National Associated CPA Firms
0006	ARAF	Associated Regional Accounting Firms	0007	ABCF	National Association of Black CPA Firms
0049	BDOA	BDO Alliance	0021	NCCPAP	National Conference of CPA Practitioners
0020	BKRI	BKR International	0028	NETA	Network of Accountants
0008	CALGAF	California Group of Accounting Firms	0039	NI	Nexia International
0030	CORP	CORPACCT CPA Affiliates	0032	NRI	NR International
0027	CPAAV	CPA Affiliates of Virginia, Ltd.	0050	PKF	Pannell Kerr Forster
0011	CPAA	CPA Associates International, Inc.	0046	PEN	Professional's Education Network
0013	CPAMS	CPA Management Systems, Inc.	0022	SAAF	Southern Association of Accounting Firms
0012	CPAN	CPA Network Inc.	0031	SIA	Summit International Associates, Inc.
0014	DFK	DFK International (USA)	0004	TAG	TAG International
0033	FAP	Foundation for Accounting Practitioners, Inc.	0024	TMG	Texas Management Group
0037	GMNI	GMN Independent	0044	APA	The Alliance of Practicing CPAs
0035	HLB	HLB International	0010	CACF	The Contiental Association of CPA Firms, Inc.
0038	HIL	Horwath International	0047	TCN	The CPA Network
0015	IAI	Independent Accountants International	0016	IGAF	The International Group of Accounting Firms
0040	IAPA	International Association of Practicing Accountants	0023	SWAG	The Southern & Western Accounting Group
0041	JHI	Jeffreys Henry International	0025	VGLCF	The Virginia Group of Local CPA Firms, Inc.
0042	KRE	Kreston International	0026	WAAF	Western Association of Accounting Firms
0017	LSMG	Lone Star Management Group	0099		Other
0051	MAN	McFarland & Alton Newtwork			
0043	MCN	The McGladrey Network			

REVIEWER TRAINING COURSES

<u>Code</u>	<u>Course Developer</u>	<u>Course Title</u>
01 *	AICPA	How to Conduct a Review Under the AICPA Practice-Monitoring Program (first offered in 1990 and after)
02 *	AICPA	Advanced Training Course for Reviewers: Current Issues in Practice Monitoring (first offered in 1991) **
03	Florida Institute of CPAs	Quality Review: How to Conduct One (offered in Florida only)
04	AICPA	How to Perform and Report on Off-Site Peer Reviews (first offered in 1993 and thereafter)
99		Other Reviewer Training Course (8 hours or more)

* If you attended courses coded as 01 or 02, check "Yes" in questions 15 and 16 and provide the requested information.

** This course used to be called "Current Issues in Practicing Monitoring: An Advanced Guide for Reviewers."

Exhibit 5



REVIEWING FIRM INTEREST FORM

If one or more of the branches of your firm is interested in performing peer reviews of other firms enrolled in an Institute-approved practice-monitoring program, please provide the following information for each branch that wishes to be included in the AICPA reviewing firm data bank. Feel free to make as many copies of this form as needed. The information included on this form will be provided to other firms, who request the names of firms located in a particular geographic area, that are interested in performing reviews.

- 1. Firm Number and Branch No.
2. Firm Name
3. Branch Address
4. Person to contact at the branch regarding reviews:
5. Is the branch willing to perform peer reviews of firms in the:
6. Signature and Date

Please return this form to:

American Institute of Certified Public Accountants
Peer Review Division
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Exhibit 6

Reviewer's Responsibilities When Performing Peer Reviews

.01 A reviewer has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission to the administering entity of the report, letter of comments and working papers on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing omitted documentation of the work performed on the review or resolving questions raised by the report acceptance body (RAB) or a technical reviewer.

.02 In considering the peer review documents for acceptance, the report acceptance body evaluates the reviewer's performance on the peer review. If serious deficiencies in the reviewer's performance are noted on a particular review, or if a pattern of deficiencies by a particular reviewer over numerous reviews is noted, then the RAB, depending on the particular circumstances, will consider the need to impose corrective or monitoring actions on the service of the reviewer. The RAB will communicate its recommendation for corrective or monitoring actions to its administering entity's peer review committee that may require the reviewer to comply with certain actions, such as the following, in order to continue performing reviews—

- Attendance at a reviewer's training course and receipt of a satisfactory evaluation from the instructor of the course.
- Committee oversight on the next review performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as travel cost, and per diem charges at the team captain rate established by the administering entity for the review teams it forms).
- Completion of all outstanding reviews before accepting an engagement to perform another review.
- Preissuance review of the report, letter of comments, and working papers on future reviews by an individual who has experience in performing peer reviews.

.03 In such situations where these action(s) are imposed, the imposing Peer Review Committee will inform the AICPA Peer Review Board*, which may ratify the action(s); and if ratified, the action(s) may be recognized by other state societies and the SECPS peer review program.

.04 If corrective or monitoring actions are imposed on a reviewer by the SECPS Peer Review Committee or the PCPS Peer Review Committee, those actions will also apply to peer reviews performed by the reviewer, unless the actions are specific to the other programs, and need not be ratified by the AICPA Peer Review Board. In addition, any condition imposed on a reviewer will generally apply to the individual's service as a team captain or a team member unless the condition is specified to relate to the individual's service as only a team captain or only a team member.

.05 If a reviewer refuses to cooperate with the administering entity's peer review committee, fails to correct material performance deficiencies, or is found to be so seriously deficient in his or her performance, and education or other corrective or monitoring actions are not considered adequate to correct the deficiencies, the administering entity's peer review committee may recommend to the AICPA Peer Review Board that the reviewer be prohibited from performing peer reviews in the future. In such situations imposed by a state society peer review committee, the AICPA Peer Review Board must ratify the action(s) taken by the state society peer review committee for the reviewer's name to be removed from the list of qualified reviewers.

* Formerly known as the AICPA Quality Review Executive Committee.

.06 Corrective or monitoring actions can only be appealed to the practice monitoring committee that imposed the actions. For actions imposed or ratified by the AICPA Peer Review Board, if the reviewer disagrees with the corrective or monitoring action, he or she may appeal the decision by writing the AICPA Peer Review Board, and explaining why he or she believes that the actions are unwarranted. Upon receipt of the request, the AICPA Peer Review Board will review the request at its next meeting and take the actions it believes appropriate in the circumstances.

.07 If a reviewer is scheduled to perform a review after he or she has filed an appeal, but before the AICPA Peer Review Board has considered the appeal, then that review ordinarily should be overseen by a member of the administering entity's peer review committee at the reviewer's expense. If the reviewer has completed the fieldwork on one or more reviews prior to the imposition of the corrective or monitoring action, then the AICPA Peer Review Board will consider what action, if any, to take regarding those reviews, based on the facts and circumstances.

Exhibit 7

AICPA PEER REVIEW BOARD RESOLUTION

WHEREAS, the members of the American Institute of Certified Public Accountants overwhelmingly approved in January 1988 a requirement that members of the Institute shall engage in the practice of public accounting only with a firm that is enrolled in an Institute-approved practice-monitoring program; and

WHEREAS, the AICPA encouraged state societies of certified public accountants to participate in the administration of the peer review program established by Council pursuant to that membership ballot; and

WHEREAS, the *Plan to Restructure Professional Standards* contemplated that participating state societies would recover their costs and expenses through fees; and

WHEREAS, a firm participating in the AICPA peer review program is required under paragraph 14 of the *Standards for Performing and Reporting on Peer Reviews* to arrange and schedule its reviews in compliance with the administrative procedures established by the state CPA society authorized to administer its review;

NOW, THEREFORE, BE IT RESOLVED: That a firm's enrollment or participation in the AICPA peer review program will be dropped by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Division notifies the firm by certified mail that the firm has failed (1) to pay fees related to the administration of the program that have been authorized by the governing body of a participating state society, (2) to file requested information with the state CPA society administering the firm's review concerning the arrangements for a mandatory peer review, or (3) to have a peer review by the required date, if such failure(s) is not sooner corrected; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee.

Exhibit 8

AICPA PEER REVIEW BOARD

WHEREAS, a firm participating in the peer review program is required to have a peer review once every three years; and

WHEREAS, paragraph 37 of the *Standards for Performing and Reporting on Peer Reviews* (the Standards) acknowledges that background information will be needed by the reviewer in order to plan an on-site peer review; and

WHEREAS, paragraph 7 in Section 4100 of the *Peer Review Program Manual* provides a list of the types of background information a firm will be expected to provide a reviewer; and

WHEREAS, paragraph 50 of the Standards requires a firm having an off-site peer review to submit the selected financial statements and accountant's report to the reviewer or state CPA society administering the review along with specified background information and representations about each engagement;

NOW, THEREFORE, BE IT RESOLVED: That a firm's enrollment or participation in the AICPA peer review program will be dropped by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Review Division notifies the firm by certified mail that the firm has (1) failed to provide the reviewer with the information necessary to plan and perform the firm's on-site peer review or (2) failed to submit the selected financial statements and accountant's report to the reviewer or state CPA society administering the review along with specified background information and representations about each engagement, if such information is not sooner provided; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee.

Exhibit 9

AICPA PEER REVIEW BOARD RESOLUTION

WHEREAS, a firm participating in the peer review program is required to have a peer review once every three years; and

WHEREAS, a firm participating in the peer review program is required under paragraph 14 of the *Standards for Performing and Reporting on Peer Reviews* to cooperate with the state CPA society administering its review and with the AICPA Peer Review Division in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: That a firm's enrollment or participation in the AICPA peer review program will be terminated by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Review Division notifies the firm by certified mail that the firm has failed (1) to file the report, letter of comments, if any, or its response to matters discussed in the report or letter of comments with the state CPA society administering its review, or (2) to cooperate with that state CPA society in all matters related to the review, including timely acknowledgment of and completion of required corrective or monitoring actions, if such failure(s) is not sooner corrected; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee; and

BE IT FURTHER RESOLVED: That, pursuant to paragraph 75 of the *Standards for Performing and Reporting on Peer Reviews*, the fact that a firm's enrollment in the AICPA peer review program has been so terminated shall be reported in an AICPA membership periodical.

Exhibit 10

AICPA PEER REVIEW BOARD RESOLUTION

WHEREAS, a firm participating in the peer review program is required to have a peer review once every three years and to bear the direct costs of the review; and

WHEREAS, under paragraph 15 of the *Standards for Performing and Reporting on Peer Reviews* a review team may be formed by (1) a firm engaged by the firm under review, (2) a participating state CPA society (a committee-appointed review team), or (3) an association of CPA firms authorized to assist its members by organizing review teams; and

WHEREAS, a firm is required to pay the fees and expenses of the review team in compliance with paragraph 43 in Section 2000 of the *Peer Review Program Manual*;

NOW, THEREFORE, BE IT RESOLVED: That a firm's enrollment or participation in the AICPA peer review program will be dropped by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Review Division notifies the firm by certified mail that the firm has failed to pay in full the fees and expenses of the review team formed by a participating state CPA society, and such failure is not sooner corrected or explained to the satisfaction of the AICPA Peer Review Board; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee.

.61

Exhibit 11

AICPA PEER REVIEW BOARD RESOLUTION

WHEREAS, under paragraph 7 of the *Standards for Performing and Reporting on Peer Reviews*, at least one of the owners of a firm that seeks to be enrolled in the AICPA peer review program must be a member of the AICPA;

WHEREAS, a firm enrolled in the peer review program is required under paragraph 14 of the *Standards for Performing and Reporting on Peer Reviews* to cooperate with the state CPA society authorized to administer its review and with the AICPA Peer Review Division in all matters related to the review; and

WHEREAS, the AICPA Peer Review Board has determined that submission during the course of a review of a resignation from the peer review program or the private companies practice section by a firm or submission of a resignation from membership in the AICPA by the sole owner of a firm or by the only owner of a firm who is a member of the AICPA because, for example, the firm expects to receive a qualified report or the reviewer has discovered a substandard engagement on which the firm must take some action under applicable professional standards, is evidence of such a failure to cooperate;

NOW, THEREFORE, BE IT RESOLVED: That a firm's enrollment or participation in the peer review program will be terminated by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Review Division notifies the firm by certified mail that it has not cooperated with the AICPA Peer Review Board because the firm has submitted a resignation from the peer review program or the private companies practice section or the sole owner of a firm or the only owner of a firm, who is a member of the AICPA, has submitted a resignation from the AICPA because, for example, the firm expects to receive a qualified report or the reviewer has discovered a substandard engagement on which the firm must take some action under applicable professional standards and that situation is not sooner corrected, or the firm has been required to complete certain corrective or monitoring actions based on the results of the firm's most recent peer review; however, the Board may at its discretion decide to hold a hearing and, whether a hearing is held or not, a firm will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the private companies practice executive committee;

BE IT FURTHER RESOLVED: That, pursuant to paragraph 75 of the *Standards for Performing and Reporting on Peer Reviews*, the fact that a firm's enrollment in the AICPA peer review program has been so terminated shall be reported in an AICPA membership periodical.

Exhibit 12

PRIVATE COMPANIES PRACTICE EXECUTIVE COMMITTEE RESOLUTION

WHEREAS, member firms of the private companies practice section are required to abide by the requirements of membership, which include, among other things, requirements to file certain information with the section for each fiscal year, to pay dues as established by the executive committee, to submit to and pay for peer reviews of the firm's accounting and auditing practice, and to cooperate with the committee responsible for administering its peer review in connection with that committee's duties, including disciplinary matters; and

WHEREAS, the executive committee is authorized to establish general policies for the section and oversee its activities; and

WHEREAS, membership of a CPA firm may be terminated by action of the executive committee for failure to adhere to the requirements of membership;

IT IS HEREBY RESOLVED THAT: A firm shall be automatically dropped from membership in the private companies practice section thirty days after it has been notified by certified mail that it is in default of its obligation to—

- File its annual report to the section
- Pay its annual dues
- Provide requested information incident to arrangements for a required peer review
- Have a peer review by the required date
- Pay in full the fees and expenses of the review team appointed by the committee responsible for administering its review within 60 days of the date when the peer review was accepted by that committee, or
- Pay fees related to the administration of the applicable peer review program; and

such failure is not sooner corrected or explained to the satisfaction of the executive committee.

BE IT FURTHER RESOLVED THAT: A firm's membership in the private companies practice section shall be automatically terminated thirty days after it has been notified by certified mail that it is in default of its obligations to—

- File the peer review report, the letter of comments, if any, and its response to all matters discussed in the report and the letter of comments with the committee responsible for administering its peer review
- Cooperate with the committee responsible for administering its peer review in connection with that committee's duties, including completion of required follow-up actions and any disciplinary matters; and

such failure is not sooner corrected or explained to the satisfaction of the executive committee. Termination of a firm's membership shall be reported in an AICPA membership periodical.

BE IT FURTHER RESOLVED THAT: Notwithstanding the provisions above for automatically dropping a firm from membership in the section or for terminating its membership, the committee responsible for administering a firm's peer review may at its discretion decide to request that the chair of the executive committee appoint a hearing panel to consider whether sanctions should be imposed on the firm. (See the section of the organizational and structure and functions document of the private companies practice section entitled *Sanctions Against Firms*.)

Exhibit 13

SAMPLE ENGAGEMENT LETTER

[Letterhead of Administering State CPA Society for CART Reviews]

(Date)

(Managing Owner's Name)

(Firm Name)

Re: Review Number _____

Dear (Managing Owner's Name):

You asked us to appoint a reviewer(s) to perform a peer review of your firm's accounting and auditing practice. We are willing to arrange for such an engagement, under the terms and conditions set forth in this letter.

The attachment to this letter contains information on the reviewer(s). If any changes need to be made in the reviewer(s), we will notify you immediately and ask you to authorize those changes.

Scope of the Review

The review will be performed in accordance with the *Standards for Performing and Reporting on Peer Reviews*, issued by the AICPA Peer Review Board. These standards require, among other things, that the review be conducted in compliance with the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information concerning the review firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information shall not be disclosed by reviewer(s) to anyone not involved in carrying out the review or administering the peer review program or used in any way not related to meeting the objectives of the program. Also, no reviewer(s) will have contact with clients of your firm.

If it is necessary to obtain the consent of your clients for review of files and records pertaining to them, you will assume the responsibility for obtaining such consent.

Liability and Subpoena

You agree not to take, or assist in, any action seeking to hold liable, jointly or singly, us or the reviewer(s) including any staff, assistants, committees or the reviewer(s) or their firms for damages on account of any good faith act or omission or on account of any deficiency in the files overall, unless those damages arise from malice, gross negligence, or recklessness or any violation of the confidentiality standards issued by the AICPA in its *Code of Professional Conduct* and/or the confidentiality standard issued in the *Standards for Performing and Reporting on Peer Reviews*. Also, you agree not to subpoena any of those persons or organizations, or otherwise call them to testify, in any action to which they are not a party, with respect to any of the work performed, reports made, or information acquired or developed in connection with this review. However, this provision shall not apply if some other person has done that successfully and you conclude you must do so in response.

Timing of Review and Fees

We anticipate that the review will begin on (*date of commencement*) and take between _____ and _____ hours to complete. However, this is only an estimate and reviewer time will be billed at actual.

The reviewer(s) billing rates are set forth in the attachment. Your firm will also be expected to pay for all reviewer out-of-pocket expenses and the administrative fees established by the American Institute of Certified Public Accountants for the scheduling of the review and the evaluation of the review results. The administrative fee structure is also set forth in an attachment to this letter.¹

You will receive an invoice for fifty percent of the professional charges based on the upper range of the budget estimate, which must be paid at least 10 days prior to the commencement of the fieldwork on the review for the review to take place. However, under certain circumstances, other progress bills may also be rendered. A final invoice will be sent to you after the report on your review has been issued. A late charge of 1.5% per month will be assessed on all balances not paid within 90 days.²

If you accept these terms and conditions, please sign and return the enclosed copy of this letter. This letter, including the attachments, will then become a contract between you and us.

Sincerely,

We consent to the terms and conditions described in this letter.

Firm To Be Reviewed

Date

By

Position

¹ The AICPA or state society may insert the information needed in this sentence, delete it entirely, or revise it, depending on the fee structure adopted.

² State societies may wish to revise this paragraph.

Attachment to Engagement Letter Dated_____

REVIEW TEAM CAPTAIN

Name:

AICPA Member Number:

Firm Name:

AICPA Firm Number:

Address:

Telephone Number:

Position:

Billing Rate on the Review: \$ /hour

Years of Accounting and Auditing Experience:

Areas of Experience:

Size of Reviewer's Firm:

Date of Firm's Last Review (if any):

Practice Monitoring Program(s) to Which the Reviewer's Firm Currently Belongs:

REVIEW TEAM MEMBER *

Name:

AICPA Member Number:

Firm Name:

AICPA Firm Number:

Address:

Telephone Number:

Position:

Billing Rate on the Review: \$ /hour

Years of Accounting and Auditing Experience:

Areas of Experience:

Size of Reviewer's Firm:

Date of Firm's Last Review (if any):

Practice Monitoring Program(s) to Which the Reviewer's Firm Currently Belongs:

[The next page is 3001.]

* Print out this information for each review team member.

PRP Section 3000**GUIDANCE FOR PERFORMING AND REPORTING ON PEER REVIEWS**

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3100	Standards for Performing and Reporting on Peer Reviews
3200	Peer Review Standards Interpretations
3300	Guidance for Writing Peer Review Reports
3400	Guidance for Writing A Letter of Comments
3500	Guidance for Writing Letters on Monitoring Actions by Outside Parties

PRP Section 3100

Standards for Performing and Reporting on Peer Reviews

Effective April 3, 1995, as Amended

NOTICE TO READERS

Members of the American Institute of Certified Public Accountants who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as owners or employees of firms enrolled in an approved practice-monitoring program in order to retain their membership in the Institute beyond specified periods.

A firm enrolled in the AICPA peer review program or a member firm of the AICPA Division for CPA Firms is deemed to be enrolled in an approved practice-monitoring program. (See sections 2.2.3 and 2.3.4 of the bylaws of the AICPA and the implementing Council resolutions under those sections.)

In the fall of 1994, the AICPA Board of Directors and the AICPA Council approved the combination of the peer review program of the private companies practice section and the AICPA quality review program. At that time, the AICPA quality review program was renamed the AICPA peer review program and the executive committee having senior status with authority to establish and conduct the review program in cooperation with state CPA societies was renamed the AICPA Peer Review Board.

These standards are effective for reviews performed on or after April 3, 1995, of firms enrolled in the AICPA peer review program and of firms that are members of the private companies practice section. They are applicable to firms enrolled in these programs and to individuals and firms who perform and report on such reviews, to state CPA societies administering the reviews, and to associations of CPA firms assisting their members in arranging and carrying out peer reviews. Individuals using these standards should be knowledgeable about interpretations issued by the AICPA Peer Review Board which might impact the application of these standards.

Reviews of firms that are members of the SEC practice section of the AICPA Division for CPA Firms are carried out under the standards issued by the SEC practice section's peer review committee that address, among other things, the various membership requirements of the section applicable to audits of SEC clients.

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Introduction

.01 Quality in the performance of accounting and auditing engagements by AICPA members is the goal of the AICPA peer review program. The program seeks to achieve its goal through education and remedial, corrective actions. This goal serves the public interest and, at the same time, enhances the significance of AICPA membership.

.02 Participants in the peer review program need to—

- a. Understand what is necessary for quality practice.
- b. Establish appropriate quality control policies and procedures.
- c. Have an independent review of their accounting and auditing practices at least every three years.
- d. Take remedial, corrective actions as needed.

.03 Statement on Quality Control Standards No. 1, *System of Quality Control for a CPA Firm*, issued in November 1979, requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It identifies nine elements of quality control and states that a firm shall consider each of those elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. In that connection, the statement recognizes that the nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations.

.04 The objectives of the AICPA peer review program are achieved through the performance of reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform audits of historical or prospective financial statements (*audits* of prospective financial statements are referred to as *examinations* in relevant professional standards) have on-site peer reviews, while firms that provide only compilation or review services have off-site peer reviews of selected reports on those services, unless they elect to have on-site peer reviews. Firms that do not provide those services are not reviewed.

.05 Upon completing a peer review, the review team prepares a written report and, when applicable, a letter of comments in accordance with these standards. The reviewed firm transmits these documents and, when applicable, a letter outlining its response to the review team's findings and recommendations to the state CPA society administering its review. These documents are not public documents, unless the firm is a member of the private companies practice section of the AICPA Division for CPA Firms. However, the reviewed firm may make them available to the public if it so chooses after they have been formally accepted by the state CPA society administering the review.

.06 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high-quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to significant deficiencies in its quality controls or in its compliance with them. These actions will be positive and remedial. Disciplinary actions (that is, actions that can result in the termination of a firm's enrollment in the peer review program or membership in the private companies practice section of the AICPA Division for CPA Firms, and the subsequent loss of membership in the AICPA by its owners and employees) will be taken only for a failure to cooperate or for deficiencies that are so serious that remedial or corrective actions are not suitable.

General Considerations

Enrollment Requirements

.07 At least one of the owners of a firm that seeks to be enrolled in the AICPA peer review program must be a member of the AICPA.¹

Confidentiality

.08 A peer review must be conducted in compliance with the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information concerning the reviewed firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information should not be disclosed by review team members to anyone not involved in carrying out the review or administering the program, or used in any way not related to meeting the objectives of the program.

.09 It is the responsibility of the reviewed firm to take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.² In all cases, the reviewed firm may advise its clients that it will have a peer review and that accounting or auditing work for that client may be subject to review.

Independence

.10 Independence must be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review. The concepts in the AICPA Code of Professional Conduct should be considered in making independence judgments. In that connection, the specific requirements set forth in appendix A apply.

Conflict of Interest

.11 A reviewing firm or an individual participating in carrying out or administering a review must not have a conflict of interest with respect to the reviewed firm or those of its clients whose engagements are selected for review. Such firms and individuals should avoid contacts with clients or personnel of the reviewed firm that could be asserted to be evidence of a conflict of interest.

Competence

.12 A review team conducting an on-site peer review must have current knowledge of the type of practice to be reviewed. Individuals reviewing engagements, on-site or off-site, must have a familiarity with the specialized industry practices, such as those found in the banking and insurance industries, of the clients that should be selected for review.

Due Professional Care

.13 Due professional care must be exercised in performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner similar to that of an independent auditor examining financial statements.

¹ Exhibit 1 includes summarized information from Section 1000 of the *PCPS Reference Manual*, "Organizational Structure and Functions of the Private Companies Practice Section," concerning the private companies practice section membership requirements and additional peer review requirements.

² The AICPA maintains a list of states, available upon request, that do not clearly provide such an exemption. That list and related guidance material for reviewed firms have been provided to state CPA societies.

Administration of Reviews

.14 Reviews intended to meet the requirements of the AICPA peer review program must be carried out in conformity with these standards under the supervision of a state CPA society authorized by the AICPA Peer Review Board to administer peer reviews. This imposes an obligation on reviewed firms to arrange and schedule their reviews in compliance with the administrative procedures established by the applicable state CPA society, and to cooperate with the society and with the AICPA Peer Review Board in all matters related to the review.

Organization of the Review Team

.15 A review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or by a state CPA society participating in the program (a committee-appointed review team). Also, the AICPA Peer Review Board may authorize an association of CPA firms to assist its members by organizing review teams to carry out on-site and off-site peer reviews (an *association review*).

.16 A review team comprises one or more individuals, depending upon the size and nature of the reviewed firm's practice. One member of the review team is designated the team captain. That individual is responsible for organizing and conducting the review, communicating the review team's findings to the reviewed firm and to the state CPA society administering the review,³ and preparing the report and, if applicable, the letter of comments on the review. Team captains on on-site and off-site peer reviews should test the work performed by other reviewers to the extent deemed necessary in the circumstances.

Qualifications for Service as a Reviewer

General

.17 Performing and reporting on quality reviews requires the exercise of professional judgment by peers. Accordingly, an individual serving as a reviewer (whether for on-site or off-site peer reviews)⁴ must be a member of the AICPA licensed to practice as a certified public accountant, must possess current knowledge of applicable professional standards, and must be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program (that is, a firm enrolled in the AICPA peer review program or a firm that is a member of the AICPA Division for CPA Firms) as one of the following:

- (a) An owner of the firm
- (b) A manager or person with equivalent supervisory responsibilities

On-Site Peer Reviews

.18 All on-site review team members must have at least five years of recent experience in the practice of public accounting in the accounting and auditing function.⁵ A team captain must be an owner of an enrolled firm and must have completed a training course or courses that meet requirements established from time to time by the AICPA Peer Review Board. A team captain must also be associated with a firm that has received an unqualified report on its system of quality control within the previous three years. A team captain should have a familiarity gained through personal experience with the types of problems encountered by the reviewed firms.

³ The plan of administration adopted by an association of CPA firms that assists its members in arranging and carrying out peer reviews may provide that the association will communicate the review team's findings to the state CPA society administering the review.

⁴ See Exhibit 1 for additional qualifications needed by individuals performing reviews of firms in the private companies practice section.

⁵ The Peer Review Board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. This standard is not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise.

.19 An individual who serves as the team captain for two successive reviews of the same firm may not serve in that capacity for the firm's next peer review.

.20 Where required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas who need not be CPAs may assist the review team in a consulting capacity. For example, computer specialists, statistical sampling specialists, actuaries, or educators expert in continuing professional education may participate in certain segments of the review.

Off-Site Peer Reviews

.21 All reviewers participating in off-site peer reviews (available to firms that perform no audits of historical or prospective financial statements) should have had at least five years of recent experience in the practice of public accounting in the accounting or auditing function⁶ and must have completed a training course(s) that meets requirements established from time to time by the AICPA Peer Review Board. Off-site reviewers must also be associated with a firm that has received, within the three previous years, either of the following:

- a. An unqualified report on its system of quality control
- b. A report on an off-site review that is not adverse or qualified for significant departures from professional standards

Performing On-Site Peer Reviews

Objectives

.22 An on-site peer review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review—

- a. The reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (see Statement on Quality Control Standards No. 1, *System of Quality Control for a CPA Firm*).⁷
- b. The reviewed firm's quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of conforming with professional standards.
- c. If applicable, the reviewed firm was complying with the membership requirements of the private companies practice section of the AICPA Division for CPA Firms in all material respects. (See exhibit 1 for a description of the membership requirements.)

.23 Firms that perform audits of historical or prospective financial statements must have on-site peer reviews because of the public interest in the quality of such audits and the importance to the accounting profession of maintaining the quality of those services.

Basic Requirements

.24 An on-site peer review should include a study and evaluation of the quality control policies and procedures that the reviewed firm had in effect for its accounting and auditing practice during a period of one year mutually agreed upon by the reviewed firm and the team captain. If the reviewed firm is a member of the private companies practice section, the review also should include a review of the firm's compliance with the section's membership requirements. (See exhibit 1.) Ordinarily, the review year must not end before the end of the previous calendar year.

⁶ See note 5.

⁷ AICPA, *Professional Standards*, vol. 2, QC sec. 10.

.25 Statement on Quality Control Standards No. 1 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that a firm shall consider each of the following elements of quality control, to the extent applicable to its practice, in establishing its quality control policies and procedures: independence, assigning personnel to engagements, consultation, supervision, hiring, professional development, advancement, acceptance and continuance of clients, and inspection. Accordingly, the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to each of those nine elements of quality control. Ordinarily, this understanding can be obtained from reading the reviewed firm's responses to a questionnaire developed by the AICPA Peer Review Board. The review team should also perform appropriate compliance tests related to broad functions.

.26 In smaller firms, senior personnel of the firm are usually directly involved in decisions with respect to assignment of personnel, hiring, advancement, and acceptance and continuance of clients. Various factors inherent in their operations (for example, the limitations imposed by the size of the firm, the relative infrequency of certain events, or the informal, cooperative style of management that might be followed by the firm) may make it efficient and perhaps necessary for senior personnel to make those decisions based on the application of professional judgment in the specific circumstances rather than by the application of previously defined criteria and policies. Similarly, those firms may find that ongoing supervision and monitoring of their practices by senior personnel is an effective way to achieve many of the objectives of a formal inspection program. When those circumstances exist in firms with up to ten professionals (defined for this purpose as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide to restrict compliance tests of broad functions (for example, tests of administrative and personnel files) to those related to independence, consultation, supervision, and professional development. This would be appropriate when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives inherent in the other five elements of quality control.

.27 An on-site peer review should also include—

- a. Review of selected engagements, including the relevant working paper files and reports, with fiscal years ending during the review year—unless a more recent report has been issued—constituting a reasonable cross section of the reviewed firm's accounting and auditing practice. If the reviewer notes significant deficiencies in the performance of such engagements or the reporting thereon, he or she should identify actions the firm should consider taking to provide the firm with reasonable assurance that such deficiencies will not recur. In that connection, it might be necessary for the reviewer to expand compliance tests of broad functions to identify such actions. In addition, the reviewed firm shall consider whether it is required to take additional actions under relevant professional standards whenever the review team believes that the firm's report on previously issued financial statements may be inappropriate or that the firm's work may not support the report issued. In such cases, the reviewed firm shall provide the review team with its conclusions in writing (generally on a "Matter for Further Consideration" form prepared by the reviewer).
- b. Attendance at an exit conference by senior members of the reviewed firm and at least the team captain to discuss the review team's findings and recommendations and the type of report it will issue.
- c. Preparation of a written report on the results of the review and, if applicable, a letter of comments (see "Reporting on Reviews").
- d. Preparation by the reviewed firm, if applicable, of a written response to the letter of comments outlining the actions the firm plans to take with respect to the recommendations made by the review team (see "Reporting on Reviews").
- e. Appropriate consideration of the results of the review by a duly constituted committee of a participating state CPA society. Such consideration should include, where applicable, an evaluation of the adequacy of

the corrective actions the firm has represented it will take and a determination on whether other remedial, corrective actions and/or monitoring of the firm's action plan should be required (see "Acceptance of Reviews").

.28 The AICPA Peer Review Board has authorized the issuance of programs and checklists, including engagement review checklists, to guide team captains and other members of the review team in carrying out their responsibilities under these standards. Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program.

Other Requirements

.29 The requirements set forth in the paragraphs that follow supplement the basic requirements set forth above.

Scope of the Review

.30 The review should cover a firm's accounting and auditing practice which, for purposes of peer reviews under these standards, is limited to all engagements covered by Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, the Statement on Standards for Attestation Engagements *Financial Forecasts and Projections* (AICPA, *Professional Standards*, Vol. 1, AT sec. 200), and standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the U.S. General Accounting Office (the "Yellow Book").

.31 The review should be directed to the professional aspects of the firm's accounting and auditing practice; it should not include the business aspects of that practice. Moreover, review team members should not have contact with or access to any client of the reviewed firm in connection with the review.

.32 The review team will be provided with basic background information about the reviewed firm by the state CPA society administering the review or, where applicable, an authorized association of CPA firms. The review team captain should consider whether to request other useful information from the firm in planning the review. In all cases, the team captain should obtain the report on the last review of the firm and, if applicable, the letter of comments and the response thereto, and the letter accepting those documents. The team captain should consider whether the matters discussed in those documents require additional emphasis in the current review, and in the course of the review should evaluate the actions of the firm in response to the prior report and letter of comments.

.33 A divestment of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance for reports issued under the firm's name during that year. A review team captain who is considering whether a peer review report should be modified in these circumstances should consult with the state CPA society administering the review.

.34 A reviewed firm may have legitimate reasons for not permitting the working papers for certain engagements to be reviewed. For example, the financial statements of an engagement selected for review may be the subject of litigation or investigation by a government authority, or the firm may have been advised by a client that it will not permit the working papers for its engagement to be reviewed. In such circumstances, the review team should satisfy itself as to the reasonableness of the explanation. Also, in order to reach a conclusion that the excluded engagements do not have to be reported as a scope limitation, the review team needs to consider the number, size, and relative complexity of the excluded engagements, and should review other engagements in a similar area of practice as well as other work of the supervisory personnel who participated in the excluded engagements.

.35 In reviewing a practice office, the accounting and auditing practice to be reviewed includes reports issued for or to another office of the reviewed firm, a correspondent firm, or an affiliated firm. For those situations in which engagements selected in the practice office being reviewed include use of the work of another office,

correspondent, or affiliate, the review team may limit its review to portions of the engagements performed by the practice office being reviewed, but should evaluate the appropriateness of the instructions issued by the reviewed office and the adequacy of the procedures followed to comply with professional standards.

Study and Evaluation of Quality Controls

.36 The review team should begin its review by a study and evaluation of the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the guidance material contained in *Quality Control Policies and Procedures for CPA Firms, Establishing Quality Control Policies and Procedures*,⁸ and in the program for reviewers issued by the AICPA Peer Review Board. As previously stated, team captains on reviews of firms with up to ten professionals would ordinarily restrict compliance tests of broad functions to those related to the quality control elements of independence, consultation, supervision, and professional development. This study and evaluation, which should be continuously reevaluated during the course of the review, assist the review team in deciding whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

Extent of Compliance Tests

.37 Based on its consideration of the background information provided by the firm, including the results of the last review of the firm, and on its study and evaluation of the reviewed firm's quality control policies and procedures, the review team should consider whether any modifications to the programs and checklists issued by the AICPA Peer Review Board are appropriate. The team captain should then develop a general plan for the conduct of the review, including the nature and extent of compliance tests. The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm's quality control policies and procedures were complied with to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. Such tests should be performed at the practice office(s) visited and should relate either to broad functions or to individual engagements. The tests should include—

- a. Review of selected engagements, including working paper files and reports, to evaluate their conformity with professional standards and compliance with relevant firm quality control policies and procedures in their conduct.
- b. Interviews with firm professional personnel at various levels and, if applicable, other persons responsible for a function or activity, to assess their understanding of and compliance with the firm's quality control policies and procedures.
- c. Obtaining other evidential matter as appropriate, for example, by review of selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with continuing professional education requirements, and the firm's library.

Selection of Offices

.38 The process of office selection in a multi-office firm involves the exercise of considerable professional judgment. Visits to practice offices should be sufficient to enable the review team to evaluate whether the firm's quality control policies and procedures are adequately communicated throughout the firm and whether they are being complied with. Accordingly, the practice offices visited should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, and the office selection process should include consideration of the following factors:

- a. Number, size, and geographic distribution of offices
- b. The degree of centralization of accounting and auditing practice control and supervision

⁸ AICPA, *Professional Standards*, vol. 2, QC sec. 90.

- c. The review team's evaluation, where applicable, of the firm's inspection program
- d. Recently merged or recently opened offices
- e. The significance of industry concentrations (including concentrations of engagements in high-risk industries) and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices

.39 Although the process of office selection is not subject to definitive criteria, a review team should select at least one of the larger offices and one to three others in a multi-office firm with up to fifteen offices and 15 to 25 percent of the offices in a firm with more than fifteen offices.

.40 Reviewers should ask the state CPA society administering the review about any requirements of relevant state boards of accountancy that must be met for the review to be accepted by such state board(s) as the equivalent of one performed under the state board's own positive enforcement program.

Selection of Engagements

.41 When combined with other procedures performed, the number and type of accounting and auditing engagements selected by the review teams for review (see "Scope of the Review") should be sufficient to provide the review team with a reasonable basis for its conclusions regarding whether the reviewed firm's quality control system met the objectives of quality control standards established by the AICPA and was being complied with during the year under review.

.42 Engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice. However, the number of review and compilation engagements selected for review may be significantly limited when a substantial portion of the firm's accounting and auditing hours are devoted to audit engagements. Also, greater weight should be given to audit engagements that meet the following criteria:

- a. Engagements in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities, and employee benefit plans
- b. Engagements in other specialized industries
- c. Engagements that are large, complex, or high-risk or that are the reviewed firm's initial audits of clients

In addition, the sample of engagements selected for review should include at least one audit conducted pursuant to *Government Auditing Standards*.⁹

.43 Although the process of engagement selection, like office selection, is not subject to definitive criteria, the review team generally should review work that represents 5 to 10 percent of the accounting and auditing hours of the reviewed firm. However, the review team will frequently find that meeting all of the criteria discussed above would cause it to select engagements representing accounting and auditing hours substantially in excess of these percentage guidelines. In such circumstances, the review team should carefully consider whether—

- a. Adequate consideration has been given to the *key audit area* approach to engagement review. (This is discussed more fully in the AICPA programs and checklists.)
- b. Too much weight is being given to the desirability of reviewing work performed by all or most supervisory personnel.

⁹ Reviewers should be alert to peer review standards interpretations developed by the Peer Review Board that might affect the engagements selected for review.

- c. Adequate consideration has been given to engagement selection on a firm-wide basis. For example, if two offices are selected for review and each has a large client in the same specialized industry, consideration should be given to selecting only one of those engagements for review.

Extent of Engagement Review

.44 The review of engagements should include review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm. The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm's quality control policies and procedures.

.45 For each engagement reviewed (audits, reviews, and compilations), the review team must document whether anything came to its attention that caused it to believe that—

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (or, if applicable, an other comprehensive basis of accounting).
- b. The firm did not have a reasonable basis under applicable professional standards for the report issued.
- c. The documentation on the engagement did not support the report issued.
- d. The firm did not comply with its quality control policies and procedures in all material respects.

.46 If the review team reaches a negative conclusion with respect to items *a*, *b*, or *c*, the team captain should promptly inform an appropriate member of the reviewed firm (generally on a "Matter for Further Consideration" form). The reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken. The reviewed firm should advise the team captain of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required. If the reviewed firm believes that it can continue to support its previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards, the review team should pursue any remaining questions with the reviewed firm and, if necessary, with the state CPA society administering the review. The review team should also consider whether it is necessary to expand the scope of the review by selecting additional engagements to determine the extent and cause of significant departures from professional standards.

.47 In evaluating the reviewed firm's response, the review team should recognize that it has not made an examination of the financial statements in question in accordance with generally accepted auditing standards and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client's business. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances and the reviewed firm should be aware that it may be requested by the state CPA society administering the review to refer unresolved matters to the AICPA Peer Review Board for a final determination.

Exit Conference

.48 Prior to issuing its report and, if applicable, letter of comments, the review team must communicate its conclusions to senior members of the reviewed firm at an exit conference, which may also be attended by individuals with oversight responsibilities. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the review report and about all significant findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances which should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not have an effect on the report or letter of comments.

Performing Off-Site Peer Reviews

Objectives

.49 The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements and related accountant's report on the review and compilation engagements submitted for review do not depart in a material respect from the requirements of professional standards. This objective is different from the objectives of an on-site peer review in recognition of the fact that off-site peer reviews are available only to firms that perform review or compilation engagements but perform no audits of historical or prospective financial statements. An accountant's review report expresses only limited assurance about the financial statements, and an accountant's compilation report states that the accountant expresses no opinion or other form of assurance on the historical or prospective financial statements. Such firms will only be required to have an off-site peer review unless they elect to have an on-site peer review. However, this does not relieve such firms from their obligation to have a system of quality control (see paragraph .03). Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA practice-monitoring requirement.

Basic Requirements

.50 The reviewed firm shall provide summarized information showing the number of its review or compilation clients and the nature of the service provided to those clients, classified into major industry categories. That information shall be provided for each owner of the firm who is responsible for the issuance of review or compilation reports. On the basis of that information, the reviewer or the state CPA society administering the review ordinarily shall select the types of engagements to be submitted for review, in accordance with the following guidelines:

- a. Select one review or compilation engagement involving a report on a complete set of financial statements as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting, for each owner of the firm responsible for the issuance of such reports. However, at least two engagements must be selected for the firm.
- b. In selecting engagements for review, include both review and compilation engagements, if both levels of service are provided. Also, attempt to include clients operating in different industries and engagements involving prospective financial statements as well as those involving historical financial statements.
- c. In addition to the selection made in *a* above, select, where applicable, one set of financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting and the related accountant's compilation report. However, if the firm's accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, the firm must submit the financial statements and related accountant's reports for two such engagements.

The reviewed firm shall submit the appropriate financial statements and accountant's reports, masking client identity if it desires, along with specified background information and representations about each engagement. If the reviewed firm is a member of the private companies practice section, the reviewed firm shall also submit information concerning its compliance with the section's membership requirements. (See exhibit 1.)

.51 An off-site peer review consists only of reading the historical or prospective financial statements submitted by the reviewed firm and the accountant's review or compilation report thereon, together with certain background information and representations provided by the reviewed firm. The objective of the review of these engagements is to consider whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with professional standards. An off-site peer review does not include a review of the working

papers prepared on the engagements submitted for review, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site peer review.

.52 Accordingly, an off-site peer review does not provide the reviewer with a basis for expressing any form of assurance on the firm's quality control policies and procedures for its accounting practice. The reviewer's report does indicate, however, whether anything came to the reviewer's attention that caused him or her to believe that the review and compilation reports submitted for review did not conform with the requirements of professional standards.

.53 A firm that has an off-site peer review must respond promptly to questions raised in the review, whether those questions are raised orally or in writing on a "Matter for Further Consideration" form. The reviewer will contact the firm, before issuing the review report, to resolve questions raised in the review.

.54 Although an off-site peer review does not provide the reviewer with a basis for expressing any form of assurance on the firm's quality control policies and procedures for its accounting practice, it may provide the reviewer with a basis for expressing a conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review (an adverse report). In those circumstances, the reviewed firm will be expected to take appropriate remedial, corrective actions with respect to its system of quality control and with respect to engagements with significant deficiencies. In addition, it will ordinarily be required to have another off-site peer review within twelve months.

.55 The reviewer performing an off-site peer review must document the work performed using the programs and checklists issued by the AICPA Peer Review Board for that purpose. Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program.

Reporting on Reviews

General

.56 Within thirty days of the date of the exit conference or the date of completion of an off-site peer review, the team captain should furnish the reviewed firm with a written report and, where required, a letter of comments. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the association's letterhead. All other reports are to be issued on the letterhead of the state CPA society administering the review. The report on an on-site peer review ordinarily should be dated as of the date of the exit conference. The report on an off-site peer review ordinarily should be dated as of the completion of the review procedures.

.57 The team captain or, where provided by its plan of administration, an authorized association of CPA firms should notify the state CPA society administering the review that the review has been completed and should submit to that state CPA society a copy of the report and letter of comments, if any, and the working papers specified in the programs and checklists issued by the AICPA Peer Review Board.

.58 The reviewed firm should submit a copy of the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments to the state CPA society administering the review within thirty days of the date it received the report and letter.

.59 The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, its clients, or others until it has been advised that the report has been accepted by the state CPA society administering the review as meeting the requirements of the AICPA peer review program. Neither the state CPA

society nor the AICPA shall make the results of the review available to the public¹⁰, but may disclose on request the following information:

- a. The firm's name and address
- b. The firm's participation in the peer review program
- c. The date of, and the period covered by, the firm's last review
- d. If applicable, the termination of the firm from the program

Reports on On-Site Peer Reviews

.60 The written report on an on-site peer review should indicate the scope of the review, including any limitations thereon; a description of the general characteristics of a system of quality control; an opinion on whether the system of quality control for the accounting and auditing practice of the reviewed firm met the objectives of quality control standards established by the AICPA and was being complied with during the year reviewed to provide the firm with reasonable assurance of conforming with professional standards; and a description of the reason(s) for any qualification of the opinion. If the reviewed firm is a member of the private companies practice section, the report should also indicate whether the firm complied with the membership requirements of the section in all material respects and a description of the reason(s) for any qualification.

.61 A team captain may issue an unqualified, qualified, or adverse report on the review. In deciding on the type of report to be issued, the team captain should be guided by the considerations discussed in appendix B. The standard form for an unqualified report is illustrated in appendix C. Illustrations of qualified and adverse reports are presented in appendix D.

Reports on Off-Site Peer Reviews

.62 The written report on an off-site peer review should describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm's quality control policies and procedures for its accounting practice; indicate whether anything came to the reviewer's attention that caused the reviewer to believe that the review and/or compilation reports submitted for review did not conform with the requirements of professional standards in all material respects; and, if applicable, describe the general nature of significant departures from those standards. The report should also, where applicable, include the reviewer's conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review. If the reviewed firm is a member of the private companies practice section, the report should also state whether anything came to the reviewer's attention that caused the reviewer to believe the firm was not complying with the section's membership requirements.

.63 In deciding on the type of report to be issued, the reviewer should be guided by the considerations in appendix G. The standard form for an unqualified report on an off-site peer review is illustrated in appendix H. Illustrations of other types of reports are presented in appendix I.

Letters of Comments

.64 A letter of comments is required to be issued in connection with an on-site peer review when there are matters that resulted in modification to the standard form of report or when there are matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, or when a private companies practice section member firm has failed to comply with one or more of the section's membership

¹⁰ If the firm is a member of the private companies practice section, the section's membership requirements provide that a copy of the report, letter of comments, if any, and the firm's response thereto be placed in the public files of the AICPA Division for CPA Firms. (See exhibit 1.)

requirements. Such a letter should provide reasonably detailed recommendations for remedial, corrective actions by the reviewed firm so that the state CPA society administering the review can evaluate whether the firm's response to the findings noted in the review is a positive one consistent with the objectives of the peer review program and whether the actions taken or planned by the firm appear appropriate in the circumstances.

.65 The letter of comments on an on-site peer review should be prepared in accordance with the guidance and illustrations in appendix E. An illustration of a response by a reviewed firm is included in appendix F.

.66 A letter of comments is required to be issued in connection with an off-site peer review when there are matters that resulted in qualification(s) to the standard form of report or when the reviewer notes other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice, or when a private companies practice section member firm has failed to comply with one or more of the section's membership requirements. Such a letter should provide reasonably detailed descriptions of the findings and recommendations so that the state CPA society administering the review can evaluate whether the actions taken or planned by the firm appear appropriate in the circumstances.

.67 In writing a letter of comments on an off-site peer review, consideration should be given to the guidance and illustrations in appendix J. An illustration of a response by a reviewed firm is included in appendix K.

.68 When a letter of comments is issued along with a qualified or adverse report on an on-site or off-site peer review, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unqualified report.

Acceptance of Reviews

.69 A committee or committees should be appointed by each participating state CPA society for the purpose of considering the results of reviews it administers that are undertaken to meet the requirements of the peer review program. The activities of such committees (hereafter, the committee) should be carried out in accordance with administrative procedures issued by the AICPA Peer Review Board.

.70 The committee's responsibility is to consider whether—

- a. The review has been performed in accordance with these standards and related guidance materials.
- b. The report, letter of comments, if any, and the response thereto are in accordance with these standards and related guidance material.
- c. It should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions are requiring certain individuals to obtain specified types and amounts of continuing professional education, requiring the firm to carry out a more comprehensive inspection program, requiring it to engage another CPA to perform preissuance reviews of financial statements and reports, or to attempt to strengthen its professional staff.
- d. It should monitor the corrective actions implemented by the reviewed firm. Examples of monitoring procedures are requiring the firm to submit information concerning continuing professional education obtained by firm personnel, inspection reports, or reports by another CPA engaged to perform preissuance reviews of financial statements and reports. Revisits by team captains and accelerated peer reviews are other examples of monitoring procedures.

.71 If no additional corrective actions are deemed necessary, the committee will accept the report and so notify the reviewed firm. If additional actions by the reviewed firm or if monitoring procedures are deemed necessary, the firm will be required to evidence its agreement in writing before the report is accepted.

.72 In the rare event of a disagreement between the committee and the review team or the reviewed firm that cannot be resolved by ordinary good-faith efforts, the committee may request that the matter be referred to the

AICPA Peer Review Board for final resolution. In these circumstances, the AICPA Peer Review Board may consult with representatives of AICPA technical or ethical committees or with appropriate AICPA staff.

.73 In reaching its conclusions, the committee is authorized to make whatever inquiries or initiate whatever actions it considers necessary in the circumstances, including requesting revision of the report, the letter of comments, or the reviewed firm's response, with due regard for the fact that the peer review program is intended to be positive and remedial in nature, and is based on mutual trust and cooperation. Accordingly, in deciding on the need for and nature of any additional corrective actions or monitoring procedures, the committee should consider the nature, significance, pattern, and pervasiveness of engagement deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies adequately and whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible. In a subsequent review, its conclusions should be significantly influenced by a finding that the reviewed firm did not adequately implement significant corrective actions it had represented it would take and by the committee's assessment of the reason for such a failure. If such a failure continues despite requirements for corrective actions and appropriate monitoring, the committee should consider whether requirements for remedial, corrective actions are adequate responses to the situation.

.74 If a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate, the AICPA Peer Review Board may take actions, pursuant to due process procedures that it has established, leading to the termination of the firm's enrollment or participation in the AICPA peer review program.¹¹

.75 If a decision is made to terminate a firm's enrollment in the AICPA peer review program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the findings. The trial board will have the authority to confirm or to reduce the severity of the findings, but it will not have the authority to increase their severity. The fact that a firm's enrollment in the AICPA peer review program has been terminated shall be reported in an AICPA membership periodical.

.76 If a decision is made to terminate the participation of a PCPS member firm in the AICPA peer review program, that fact shall be reported to the private companies practice section for action leading to the termination of the firm's membership in the private companies practice section. Under the organizational structure and functions document of the section, the firm can appeal to the Private Companies Practice Executive Committee for a review of the findings.

Qualifications of Committee Members

.77 Each member of a committee charged with the responsibility for acceptance of reviews must be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program as owner of the firm or as a manager or person with equivalent supervisory responsibilities. A majority of the members must also possess the qualifications required of on-site peer review team captains. A member may not participate in any discussion or have any vote with respect to a reviewed firm when the member lacks independence or has a conflict of interest with the firm.

¹¹ Appendix A to the organizational structure and functions document of the private companies practice section (see *PCPS Reference Manual*, section 1000) contains provisions for automatically dropping or terminating the membership of firms in the private companies practice section that fail to meet certain requirements related to their peer review.

.78 Exhibit 1

Additional Requirements for Members of the Private Companies Practice Section *

1. Effective April 3, 1995, a member of the private companies practice section of the AICPA Division for CPA Firms shall comply with the section's requirement for mandatory peer review by—

- a. Having a review administered under the AICPA peer review program or, if it is or becomes a member of the SEC practice section of the AICPA Division for CPA Firms, a review administered by that section.
- b. Complying with all of the standards and requirements of the applicable practice-monitoring program and with any additional requirements as may be established or modified from time to time by the Private Companies Practice Executive Committee.

2. The Private Companies Practice Executive Committee has established the following additional *membership* requirements.

- a. Ensure that a super majority (66-2/3 percent) of the ownership of the firm in terms of financial interests and voting rights belongs to CPAs (firms not in compliance with this requirement have until May 1997 to ensure compliance), that the firm can legally engage in the practice of public accounting, and that each owner of the firm residing in the United States and eligible for AICPA membership is a member of the AICPA.
- b. Adhere to the quality control standards established by the AICPA.
- c. Ensure that all professionals in the firm residing in the United States, including CPAs and non-CPAs, take part in qualifying continuing professional education as follows:
 - (i) Participate in at least 120 hours every three years, but not less than 20 hours every year, or
 - (ii) Comply with mandatory continuing professional education requirements for state licensing or for state CPA society membership, provided such state or society requirements require an average of 40 hours per year of continuing professional education for each reporting period, and provided each professional in the firm participates in at least 20 hours every year.
- d. Pay dues as established by the executive committee, and comply with the rules and regulations of the section as established from time to time by the executive committee and with the decisions of the executive committee in respect of matters within its competence; cooperate with the committee responsible for administering the firm's peer review in connection with that committee's duties, including disciplinary matters; and comply with any sanction which may be imposed by the executive committee.
- e. File with the section for each fiscal year certain nonfinancial information about the firm within 90 days of the end of such fiscal year, to be open to public inspection.

3. The Private Companies Practice Executive Committee has also established the following additional peer review requirements:

- a. Each member of a review team performing a peer review of a firm that is a section member shall be associated with a firm that is a section member. Also, the firm with which the team captain is associated shall have received an unqualified report on its most recent peer review and that report shall have covered the firm's compliance with the section's membership requirements.
- b. The report, the letter of comments, and the reviewed firm's response shall be placed in the public files of the section at AICPA headquarters. If additional actions are deemed necessary by the committee

* This exhibit includes summarized information from Section 1000 of the *PCPS Reference Manual* entitled "Organizational Structure and Functions of the Private Companies Practice Section."

responsible for administering the firm's review, a memorandum indicating that they have been accepted with the understanding that the firm will agree to take certain actions shall also be placed in the public file. The letter setting forth those actions and the firm's agreement to undertake them shall be placed in the public file upon receipt.

- c. The peer review shall include appropriate tests of the firm's compliance with the membership requirements of the section and the report shall include an opinion on whether the reviewed firm complied with the membership requirements of the section in all material respects and, if not, a description of the reasons for the qualification.

Independence Requirements

Reciprocal Reviews

1. Reciprocal reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent quality review or peer review. It also means that no professional may serve on a review team carrying out a review of a firm whose professional personnel participated in the most recent review of that professional's firm.

Relationships With Clients of the Reviewed Firm

2. Review team members and, in the case of a review performed by a firm, the reviewing firm and its personnel are not precluded from owning securities in or having family or other relationships with clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client, since that individual's independence would be considered to be impaired. In addition, the effect on independence of family and other relationships and the possible resulting loss of the appearance of independence must be considered when assigning team members to engagements.

Relationships With the Reviewed Firm

3. Reviewing firms should consider any family or other relationships between the senior managements at organizational and functional levels of the reviewing firm and the firm to be reviewed and should assess the possibility of an impairment of independence.

4. If the fees for correspondent work, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team are material to any of those firms, independence for the purposes of this program is impaired.

5. If continuing arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby fees, office facilities, or professional staff are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent continuing education programs, extensive consultation, preissuance reviews of financial statements and reports, and audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their quality control systems. However, the impairment would be removed if an independent review was made of the shared materials (such as continuing education programs or an audit and accounting manual) before the peer review commenced and that independent review was accepted by the AICPA Peer Review Board or the relevant state CPA society (or the SEC Practice Section Peer Review Committee of the AICPA Division for CPA Firms) before that date. (Firms that share materials and services are advised to consult with the AICPA Peer Review Division if an independent review of such shared materials and services appears necessary.) Also, independence for the purposes of this program is not impaired by the performance of a review of a firm's quality control document, of a preliminary quality control procedures review or consulting review, or an inspection.

Considerations Governing the Type of Report Issued on an On-Site Peer Review

Limitation on Scope of Review

1. A qualified report should be issued when the scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, as indicated in the Standards, a review team may be able to apply appropriate alternate procedures when one or more engagements have been excluded from the scope of the review for legitimate reasons but ordinarily would be unable to apply alternate procedures when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began. A review team captain who is considering qualifying the review report for a scope limitation should consult with the state CPA society administering the review.

The Nature and Significance of Engagement Deficiencies

2. The overriding objective of a system of quality control is to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. When a review team encounters significant failures to reach appropriate conclusions, particularly those requiring the application of AICPA Statement on Auditing Standards (SAS) No. 46, *Consideration of Omitted Procedures After the Report Date* (AICPA, *Professional Standards*, vol. 1, AU sec. 390), and the section of SAS No. 1 entitled "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report" (AICPA, *Professional Standards*, vol. 1, AU sec. 561), the team is faced with a clear indication that, in those engagements, the firm failed to conform with professional standards. The review team's first task in such circumstances is to try to determine why the failure occurred. The cause of the failure might be systems-related and might affect the type of report issued when, for example—

- a. The failure related to a specialized industry practice and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to a matter covered by a recent professional pronouncement and the firm had failed to identify through professional development programs or appropriate supervision the relevance of that pronouncement to its practice.
- c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
- d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the state CPA society administering the review before reaching such a conclusion.

3. The failure to conform with professional standards on an engagement may be the result of an isolated human error and, therefore, does not necessarily mean that the review report should be qualified or adverse. However, when the reviewer believes that the probable cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a significant failure to conform with professional standards on one engagement also exists in other engagements, the reviewer needs to consider carefully the need for a qualified or adverse report.

The Pattern and Pervasiveness of Engagement Deficiencies

4. The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. As in the preceding section, the review team's first task is to try to determine why the deficiencies occurred. In some cases, the design of the firm's system of quality control may be deficient as, for example, when it does not provide for timely involvement in the planning process by an owner of the firm. In other cases, there may be a pattern of noncompliance with a quality control policy or procedure as, for example, when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were used only as a reference and not filled out. That, of course, makes effective review by the owner of the firm more difficult and increases the possibility that the firm might not conform with professional standards in a significant respect, which means that the reviewer must consider carefully the need for a qualified or adverse report. On the other hand, the types of deficiencies noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the deficiencies were isolated cases of human error that should not result in a qualified or adverse report.

Design Deficiencies

5. There may be circumstances when the reviewer finds few deficiencies in the work performed by the firm and yet may conclude that the design of the firm's quality control system needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to necessary policies and procedures in areas such as hiring, assigning personnel to engagements, advancement, and client acceptance and continuance. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of conforming with professional standards in one or more important respects. However, in the absence of deficiencies in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be dealt with in the letter of comments.

Noncompliance With Private Companies Practice Section Membership Requirements

6. If a firm is a member of the private companies practice section, the review team is required to evaluate whether the firm complied in all material respects with each of the membership requirements of the section. While adherence to all membership requirements in every situation may not have been possible, a high degree of compliance is expected. In evaluating the significance of noncompliance with a membership requirement, the review team should recognize that those requirements directly related to the quality of performance on accounting and auditing engagements are more critical.

Forming Conclusions

7. In order to give appropriate consideration to the evidence obtained and to form appropriate conclusions, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained cannot be evaluated primarily on a quantitative basis.

.81 Appendix C

Standard Form for an Unqualified Report on an On-Site Peer Review**Firm in the AICPA Peer Review Program ***

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 19XX

To the Owners

Able, Baker & Co.

or

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [*Name of Firm*] (the firm) in effect for the year ended June 30, 19XX. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of [*Name of Firm*] in effect for the year ended June 30, 19XX, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

John Brown, Team Captain

[*or Name of Reviewing Firm*]

* No copy of this report or any other document related to the review will be placed in a public file.

Firm in the Private Companies Practice Section *

[State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"]

August 31, 19XX

To the Owners
Smith, Jones & Co.

or

To John R. Smith, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [*Name of Firm*] (the firm) in effect for the year ended June 30, 19XX. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of [*Name of Firm*] in effect for the year ended June 30, 19XX, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

[*Name of Firm*] is a member of the private companies practice section of the AICPA Division for CPA Firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, the firm was in conformity with the membership requirements of the section during the year ended June 30, 19XX, in all material respects.

John Brown, Team Captain
[or *Name of Reviewing Firm*]

* Pursuant to the membership requirements of the private companies practice section, a copy of this report, the letter of comments, if any, and the firm's response thereto will be placed in the public files of the AICPA Division for CPA Firms, along with the letter from the state CPA society accepting those documents.

.82 Appendix D

Illustrations of Qualified and Adverse Reports on an On-Site Peer Review**Report Qualified for Design Deficiency**

[Separate paragraph after the standard first two paragraphs]

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding audit planning were not appropriately designed to provide the firm with reasonable assurance of conforming with professional standards.

[Opinion paragraph]

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control. . . .

Report Qualified for Noncompliance With Quality Control Policies and Procedures

[Separate paragraph after the standard first two paragraphs]

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding completion of financial statement reporting and disclosure checklists were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards.

[Opinion paragraph]

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control. . . .

Adverse Report

[Separate paragraph after the standard first two paragraphs]

As discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in complying with the standards for accounting and review services. In that connection, our review disclosed that the firm's quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit program, which is required by generally accepted auditing standards. In addition, our review disclosed failures to complete financial statement reporting and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by firm policy.

[Opinion paragraph]

In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the accounting and auditing practice of *[Name of Firm]* in effect for the year ended June 30, 19XX, did not meet the objectives of quality control standards established by the AICPA (, was not being complied with during the year then ended *[include when there are compliance as well as design deficiencies]*) and did not provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

Report Qualified for Noncompliance With the Private Companies Practice Section Membership Requirements*

[Fourth paragraph after the first three paragraphs of the standard report on a firm in the private companies practice section]

[Name of Firm] is a member of the private companies practice section of the AICPA Division for CPA Firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, except for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, the firm was in conformity with the membership requirements of the section during the year ended June 30, 19XX, in all material respects, as discussed in our letter of comments under this date.

* If the opinion expressed on the quality control system is adverse, the opinion expressed concerning the firm's compliance with the membership requirements of the private companies practice section should also be adverse. This can be accomplished by stating in the last sentence of the fourth paragraph that "the firm was not in conformity with the membership requirements of the section in all material respects because it did not comply with the AICPA quality control standards for the year ended June 30, 19XX."

.83 Appendix E

**Guidelines for and Illustration of a Letter of Comments
on an On-Site Peer Review****Guidelines**

1. The objectives of the letter of comments on an on-site peer review are set forth in the Standards. Such letters are expected to be issued on most on-site reviews.

2. The letter should be addressed, dated, and signed in the same manner as the report on the on-site peer review, and should include—

- a. A reference to the report on the review, indicating, where applicable, that the report was qualified or adverse.
- b. A description of the purpose of the on-site peer review.
- c. A statement that the review was performed in accordance with standards established by the Peer Review Board of the AICPA.
- d. A description of the limitations of a system of quality control.
- e. The findings on the review and related recommendations. (This section should be separated between those findings, if any, that resulted in a qualified or adverse report and those that did not. In addition, the letter should identify, where applicable, any comments that were also made in the letter of comments issued on the firm's previous peer review.)
- f. A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

3. In addition to matters that resulted in a qualified or adverse report, which must always be included in the letter, the letter of comments should include, according to the Standards, "matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, or when a private companies practice section member firm has failed to comply with one or more of the section's membership requirements." The letter should include comments on such matters even if they did not result in deficiencies on the engagements reviewed. When engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to deficiencies in the design of the firm's system of quality control or noncompliance with significant firm policies and procedures that are included in the letter, that fact should be noted in the comment.

4. Although isolated instances of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in a letter of comments, their nature, importance, causes (if determinable), and implications for the firm's quality control system as a whole should be evaluated in conjunction with the review team's other findings before making a final determination.

Illustration of a Letter of Comments

[State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"]

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [Name of Firm] (the firm) in effect for the year ended June 30, 19XX, and have issued our report thereon dated August 31, 19XX, which was qualified as described therein.* This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon the firm's system of quality control and its compliance with that system (and with the membership requirements of the private companies practice section)**. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants; however, our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it (and with the membership requirements of the section)** because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the procedure may become inadequate because of changes in conditions or that the degree of compliance with the procedure may deteriorate. As a result of our review, we have the following comments:

Matters That Resulted in a Qualified Report*

Supervision

Finding—The firm's quality control policies and procedures do not require owner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but emphasize the importance of proper planning to the conduct of the engagement. We found one engagement in which, as a result of a lack of involvement, including timely supervision, by the engagement owner in planning the audit, the work performed on receivables and inventory did not appear to support the firm's opinion on the financial statements. (As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.)

Recommendation—The firm's quality control policies and procedures should be revised to provide, at a minimum, for timely audit owner review of the preliminary audit plan and the audit program.

Matters That Did Not Result in a Qualified Report*

Supervision

Finding—The firm's quality control policies and procedures require the completion of a financial reporting and disclosure checklist on each financial statement engagement. Our review disclosed the firm had not complied with this policy on all of the engagements reviewed. In each case where a checklist was not completed, we also found

* This phrase should be used only if a qualified or adverse report is being issued, and it should be tailored to fit the circumstances.

** These phrases should be used only if the reviewed firm is a member of the private companies practice section.

certain financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional standards.

Recommendation—The firm should hold training courses on proper completion of its financial reporting and disclosure checklist and reemphasize its policy requiring completion of that checklist.

Consultation

Finding—Our review disclosed that the firm's reference library contains outdated editions of industry audit and accounting guides for industries in which some of the firm's clients operate. As a result, we found a few instances where financial statement formats departed, although not in material respects, from current practice.

Recommendation—The firm should assign to one individual the responsibility for ensuring that the library is comprehensive and up to date. That individual should monitor new publications, determine which should be obtained, and periodically advise professional personnel of additions to the library.

The foregoing matters were considered in determining our opinion set forth in our report dated August 31, 19XX, and this letter does not change that report.

[Same signature as on the report on the on-site peer review]

.84 Appendix F**Illustration of a Response by a Reviewed Firm to a Letter of Comments on an On-Site Peer Review**

The purpose of a letter of response is to describe the actions the firm has taken or will take to prevent a recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section of these Standards on "Acceptance of Reviews"). If the firm has received a qualified or adverse report, the firm's responses should be separated between those findings that resulted in a qualified or adverse report and those that did not.

* * * *

Sample Letter of Response

September 15, 19XX

[Addressed to the state CPA society administering the review]

Ladies and Gentlemen:

This letter represents our response to the letter of comments issued in connection with our firm's on-site peer review for the year ended June 30, 19XX. The matters discussed herein were brought to the attention of all professional personnel at a training session held on September 10, 19XX. In addition, the matters discussed in this letter will be monitored to ensure they are effectively implemented as a part of our quality control system.

Matters That Resulted in a Qualified Report *

Owner Involvement in Audit Planning—The firm modified its quality control policies and procedures to require an owner to be involved in the planning stage of all audit engagements. In addition, we identified review engagements that are sufficiently large or complex to warrant owner involvement in the planning stage. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely owner involvement, to quality work was emphasized in the training session referred to above.

Matters That Did Not Result in a Qualified Report *

Financial Reporting and Disclosure Checklists—All professional personnel were reminded of the importance of complying with the firm's policy requiring completion of its financial reporting and disclosure checklist at the training session held on September 10, 19XX. In addition, the firm's engagement review questionnaire is being revised to require the engagement owner to document his or her review of the completed checklist. (The engagement review questionnaire is a brief form completed by the engagement owner and manager at the conclusion of an audit to document their completion of their assigned responsibilities.)

* This caption should be used only if a qualified or adverse report is being issued, and it should be tailored to fit the circumstances.

Responsibility for Reference Library—The responsibility for keeping the firm's reference library comprehensive and up to date and for advising professional personnel of additions to the library has been assigned to an experienced audit manager. Current editions of industry audit and accounting guides have been ordered.

* * * *

We believe these actions are responsive to the findings of the review.

Sincerely,

[Name of Firm]

.85 Appendix G**Considerations Governing the Type of Report Issued on an Off-Site Peer Review****Circumstances Calling for a Qualified Report**

1. The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements and related accountant's report on review and compilation engagements submitted for review do not depart in a material respect from the requirements of professional standards. Accordingly, when the review discloses significant departures from professional standards in the engagements reviewed, those departures should be clearly described in the review report as exceptions to the limited assurance expressed in the report. In this context, a significant departure from professional standards involves—

- a. A departure from the measurement or disclosure requirements of generally accepted accounting principles or, where applicable, an other comprehensive basis of accounting, that can have a significant effect on the user's understanding of the financial information presented and that is not described in the accountant's report. Examples might include a failure to provide an allowance for doubtful accounts when it is probable that a material amount of accounts receivable is uncollectible; the use of an inappropriate method of revenue recognition; a failure to capitalize financing leases or to make important disclosures about significant leases; a failure to disclose significant related-party transactions; or a failure to disclose key assumptions in a financial forecast.
- b. The issuance of a review report that is misleading in the circumstances. Examples might include a review report on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles; or a review report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on an other comprehensive basis of accounting.
- c. The issuance of a compilation report that is misleading in the circumstances. Examples might include a report on compiled financial statements that omit substantially all disclosures required by generally accepted accounting principles that does not clearly indicate the omission in the report; or a compilation report on financial statements prepared on an other comprehensive basis of accounting that does not disclose the basis of accounting in the report or in a note to the financial statements.

2. The objective of an off-site peer review of a member of the private companies practice section is also to provide the reviewer with a reasonable basis for expressing limited assurance that the firm has complied with the membership requirements of the section in all material respects.

Circumstances Calling for an Adverse Report

3. As indicated in these Standards, an off-site peer review does not provide the reviewer with a basis for expressing any form of assurance on the reviewed firm's quality control policies and procedures, but it may provide the reviewer with a basis for expressing a conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review. Deciding whether the findings of an off-site peer review support the conclusion requires the careful exercise of professional judgment. In reaching a decision, the reviewer would ordinarily consider the significance of the departures from professional standards, as described above, that were disclosed by the review and the pervasiveness of such departures. In that connection, the reviewer needs to give appropriate weight to the fact that the report on an off-site review only addresses conformity with professional standards and not the system of quality control.

Other Departures That May Require Disclosure

3. The reviewer may note other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice. The reviewer should describe these findings in the letter of comments (see appendix J).

.86 Appendix H

Standard Form for an Unqualified Report on an Off-Site Peer Review**Firm in the AICPA Peer Review Program***

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Able, CPA

We (I) have performed an off-site peer review with respect to the accounting practice of [*Name of Firm*] for the year ended June 30, 19XX, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. [*Name of Firm*] has represented to us (me) that it performed no audits [(or compilations) (or reviews)][†] of historical or prospective financial statements during the year ended June 30, 19XX.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we (I) express no opinion or any form of assurance on them.

In connection with our (my) off-site peer review, nothing came to our (my) attention that caused us (me) to believe that the [(*compilation and review*) (*compilation*) (*review*)][†] reports submitted for review by [*Name of Firm*] and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

John Brown, Reviewer ‡
[or *Name of Reviewing Firm*]

* No copy of this report or any other documents related to this review will be placed in a public file.

† Tailor as appropriate.

‡ The description *Reviewer*, not *Team Captain*, should be used in reports on off-site peer reviews.

Firm in the Private Companies Practice Section*

[State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"]

August 31, 19XX

To the Owners

Able, Baker & Co.

or

To John B. Able, CPA

We (I) have performed an off-site peer review with respect to the accounting practice of [Name of Firm] for the year ended June 30, 19XX, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. [Name of Firm] has represented to us (me) that it performed no audits [(or compilations) (or reviews)][†] of historical or prospective financial statements during the year ended June 30, 19XX.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we (I) express no opinion or any form of assurance on them.

In connection with our (my) off-site peer review, nothing came to our (my) attention that caused us (me) to believe that the [(compilation and review) (compilation) (review)][†] reports submitted for review by [Name of Firm] and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

[Name of Firm] is a member of the private companies practice section of the AICPA Division for CPA Firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. Nothing came to our (my) attention that caused us (me) to believe that the firm did not conform with the membership requirements of the section during the year ended June 30, 19XX, in all material respects.

John Brown, Reviewer[‡]

[or Name of Reviewing Firm]

* Pursuant to the membership requirements of the private companies practice section, a copy of this report, the letter of comments, if any, and the firm's response thereto will be placed in the public files of the AICPA Division for CPA Firms, along with the letter from the state CPA society accepting those documents.

[†] Tailor as appropriate.

[‡] The description *Reviewer*, not *Team Captain*, should be used in reports on off-site peer reviews.

.87 Appendix I**Illustrations of Other Types of Reports on an Off-Site Peer Review**

[See Appendix H for information about applicable letterhead and about addressing and signing the report]

Qualified Report for Significant Departures From Professional Standards

[Separate paragraph, after the standard first two paragraphs, describing the significant matters that resulted in a qualified report]

As discussed in our (my) letter of comments under this date, the firm's review report on the financial statements of one of the engagements submitted for review did not disclose the failure to capitalize a financing lease, as required by generally accepted accounting principles. Also, significant financial statement disclosure deficiencies concerning related-party transactions were noted in several of the engagements reviewed.

[Concluding paragraph]

In connection with our (my) off-site peer review, with the exception of the matter(s) described in the preceding paragraph, nothing came to our (my) attention that caused us (me) to believe that the compilation and review reports submitted for review by [Name of Firm] and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

Adverse Report on an Off-Site Peer Review

[Separate paragraph, after the standard first two paragraphs, describing the significant matters that resulted in an adverse report]

However, as discussed in our (my) letter of comments under this date, our (my) review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in complying with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to comply with generally accepted accounting principles in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements.

[Adverse concluding paragraph]

Because of the significance of the matters described in the preceding paragraph, we (I) believe [Name of Firm] did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year ended June 30, 19XX.

Qualified Report for Noncompliance With the Private Companies Practice Section Membership Requirements *

[Fourth paragraph, after the standard first three paragraphs, describing the noncompliance with the applicable membership requirement]

[Name of Firm] is a member of the private companies practice section of the AICPA Division for CPA Firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. Except

* If the report on the accounting practice is adverse, the report on the firm's compliance with the membership requirements of the private companies practice section should also be adverse. This can be accomplished by stating in the last sentence of the fourth paragraph that "We(I) also believe the firm was not in conformity with the membership requirements of the section in all material respects because it did not comply with the AICPA quality control standards for the year ended June 30, 19XX."

for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, nothing came to our (my) attention that caused us (me) to believe that the firm did not conform with the membership requirements of the section during the year ended June 30, 19XX, in all material respects.

.88 Appendix J**Guidelines for and Illustration of a Letter of Comments
on an Off-Site Peer Review****Guidelines**

1. The objectives of the letter of comments on an off-site peer review are set forth in the Standards. Such letters are expected to be issued on many off-site reviews.
2. The letter should be addressed, dated, and signed in the same manner as the report on the off-site peer review, and should include—
 - a. A reference to the report on the review, indicating, where applicable, that the report was qualified or adverse.
 - b. A description of the purpose of the off-site peer review.
 - c. A statement that the review was performed in accordance with standards established by the Peer Review Board of the AICPA.
 - d. The findings on the review and related recommendations. (Those findings, if any, that resulted in a qualified or adverse report and those that did not should be separated in this section. In addition, the letter should identify, where applicable, any comments that were also made in the letter of comments issued on the firm's previous peer review.)
 - e. A statement that the matters discussed in the letter were considered in preparing the report.
3. In addition to matters that resulted in a qualified or adverse report, which must always be included in the letter, the letter of comments should include—
 - a. Other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice.
 - b. Instances in which the firm failed to comply with one or more of the membership requirements of the private companies practice section in all material respects, but the instances are not deemed to be significant enough to qualify the report.

Illustration of a Letter of Comments

[State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"]

August 31, 19XX

To the Owners

Able, Baker & Co.

or

To John B. Baker, CPA

We have performed an off-site peer review with respect to the accounting practice of [*Name of Firm*] for the year ended June 30, 19XX, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants, and have issued our report thereon dated August 31, 19XX (which was qualified/adverse * as described therein). This letter should be read in conjunction with that report.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them. However, the following matters did come to our attention during our review.

[*Following would be a description of—*

- *Matters that resulted in a qualified or adverse report.*
- *Matters that did not result in a qualified or adverse report.]*

The foregoing matters were considered in preparing our report dated August 31, 19XX, and this letter does not change that report.

William Brown, Reviewer

or

Jackson & Allen, P.A. [*For review by a firm*]

* To be included if the reviewer issues a qualified or adverse report. The wording should be tailored to fit the circumstances.

Examples of Matters That Might Be Included in Letters of Comments on Off-Site Peer Reviews

*Matters That Resulted in a Qualified or Adverse Report**

1. *Finding*—During our review, we noted that the firm did not qualify its reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles.

Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports which should have been modified to reflect a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

2. *Finding*—In the engagements that we reviewed, disclosures of related-party transactions and lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omission was not disclosed in the accountants' reports.

Recommendation—We recommend that the firm review the professional standards governing disclosures of related-party transactions and lease obligations and disseminate information regarding the disclosure requirements to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all necessary related-party transactions and lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.

3. *Finding*—During our review of the accountants' reports issued by the firm, we noted numerous instances in which the accompanying financial statements departed from professional standards and on which the accountants' reports were not appropriately qualified. These included the following:

- Failure to disclose material intercompany transactions
- Failure to appropriately recognize revenue
- Failure to present financial statements in a proper format
- Failure to recognize conflicting or incorrect information within the financial statements presented

In one instance, the firm has discussed the departures with its client and decided to recall its report and restate the accompanying financial statements.

Recommendation—We recommend that the firm establish a means of ensuring its compliance with professional standards on accounting engagements. Such means might include continuing professional education in accounting and reporting, use of a reporting and disclosure checklist on accounting engagements, or a "cold" review of reports and financial statements prior to issuance.

4. *Finding*—On substantially all the engagements that we reviewed, we noted that the firm did not comply with the AICPA Statement on Standards for Accounting and Review Services for reporting on comparative financial statements and going concern issues.

Recommendation—We recommend that the firm review the requirements for reporting on comparative financial statements and revise the standard reports used by the firm to conform with these requirements. Also, the firm should review the requirements governing reporting on going concern issues and provide guidance to the staff in this area.

* This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.

Matters That Did Not Result in a Qualified or Adverse Report *

5. Finding—During our review of computer-generated compiled financial statements prepared by the firm, we noted that the firm failed to indicate the level of responsibility it was taking for supplemental data presented with the basic financial statements.

Recommendation—The firm should revise the standard reports used by the firm to conform with professional standards governing reporting on supplemental data presented with basic financial statements.

6. Finding—We noted that computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) were properly reported on, but they used titles normally associated with a GAAP presentation.

Recommendation—The firm should review the professional standards governing the titles to be used when financial statements are prepared on a comprehensive basis of accounting other than GAAP and make sure that the software used by the firm is adjusted to conform with these standards. Until the software is revised, the firm should manually prepare the compiled financial statements in accordance with professional standards.

* This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.

.89 Appendix K**Illustration of a Response by a Reviewed Firm to a Letter of Comments on an Off-Site Peer Review**

The purpose of a letter of response is to describe the actions the firm has taken or will take to prevent a recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section of these Standards on "Acceptance of Reviews"). If the firm has received a qualified or adverse report, the firm's responses should be separated between those findings that resulted in a qualified or adverse report and those that did not.

* * * *

Sample Letter of Response

September 15, 19XX

[Addressed to the state CPA society administering the review]

Ladies and Gentlemen:

This letter represents our (my) response to the letter of comments on the off-site peer review of our firm's (my) accounting practice for the year ended June 30, 19XX.

To prevent the recurrence of the disclosure deficiencies noted by the reviewer and to prevent other disclosure deficiencies from occurring, we (I) have obtained copies of the AICPA reporting and disclosure checklists. These checklists will be completed on all review engagements and on all compilation engagements.

We (I) have established procedures to ensure that our (my) reports and the computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles reflect the appropriate titles.

We (I) believe these actions are responsive to the findings of the review.

Sincerely,

[Name of Firm]

AICPA Peer Review Board (1993-1994)

(Formerly the AICPA Quality Review Executive Committee)

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BARTON W. BALDWIN
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*Group Vice President,
Professional*

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*Vice President,
Peer Review*

JANET LUALLEN
*Senior Technical Manager,
Peer Review Division*

[The next page is 3201.]

* Consultant

PRP Section 3200

Peer Review Standards Interpretations

Interpretations of the *Standards for Performing and Reporting on Peer Reviews* are developed in open meetings by the AICPA Peer Review Board for peer reviews of firms enrolled in the AICPA peer review program and of members of the private companies practice section. Interpretations of standards need not be exposed for comment and are not the subject of public hearings. These interpretations are applicable to firms enrolled in the peer review program, members of the private companies practice section, individuals and firms who perform and report on peer reviews, state CPA societies that participate in the administration of the program, associations of CPA firms that assist their members in arranging and carrying out peer reviews, and the AICPA Peer Review Division itself.

In the fall of 1994, the AICPA Board of Directors and the AICPA Council approved the combination of the peer review program of the private companies practice section and the AICPA quality review program. At that time, the AICPA quality review program was renamed the AICPA peer review program and the executive committee having senior status with authority to establish and conduct the review program in cooperation with state CPA societies was renamed the AICPA Peer Review Board. The *Standards for Performing and Reporting on Peer Reviews* were formerly called the *Standards for Performing and Reporting on Quality Reviews*.

Interpretation No. 1—Reviews of Sole Practitioners Who Audit Historical or Prospective Financial Statements

(Issued January 31, 1990, and amended May 31, 1995)

.01 *Standards for Performing and Reporting on Peer Reviews* requires firms that perform audits of historical or prospective financial statements to have on-site peer reviews (*AICPA Peer Review Program Manual*, PRP section 3100.04). The review should provide the reviewer with a reasonable basis for expressing an opinion on whether during the year under review the reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA and was being complied with in order to provide the reviewed firm with reasonable assurance of conforming with professional standards.

.02 To achieve those objectives, the reviewer is required to test administrative and personnel files; review selected engagements, including the relevant working paper files and reports; interview firm personnel; access other evidential matter, as appropriate; and communicate his or her conclusions to senior members of the reviewed firm at an exit conference. It was contemplated that these procedures would be performed in the most practicable, cost-effective manner during a visit to the reviewed firm and, thus, the term "on-site peer reviews" was used in the *Standards*. However, many sole practitioners believe that their reviews could be carried out at less cost if they were permitted to send the required files, reports, and other evidential matter to the reviewer.

.03 A review conducted at the reviewer's office or another agreed-upon location can achieve the objectives of an on-site peer review and can be described as such in the reviewer's report provided that (1) the reviewed firm is a sole practitioner with four or fewer professional staff; (2) the sole practitioner holds one or more meetings, by telephone or in person, with the reviewer to discuss the firm's responses to the quality control policies and procedures questionnaire, engagement findings, and the reviewer's conclusions on the review; (3) provided the sole practitioner did not receive a qualified or adverse report on its last committee accepted on-site or off-site peer or quality review (effective for reviews performed on or after April 1, 1996); and (4) in addition to materials outlined in the "Instructions to Firms Having an On-Site Peer Review" (see PRP section 4100.07), the sole practitioner sends the following materials to the reviewer prior to the review:

- (a) All documentation related to the resolution of independence questions (a) identified during the year under review with respect to any audit or accounting client or (b) related to any of the audit or

accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period.

- (b) The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the sole practitioner acted as principal auditor or accountant.
- (c) The most recent representations received from all professional staff concerning their compliance with applicable independence requirements.
- (d) Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client.
- (e) A list of relevant technical publications used as research materials, as referred to in question B.4 of the Questionnaire (see PRP sections 4200.02.B.4 and 4300.02.C.7).
- (f) A list of audit and accounting materials, if any, identified in response to the questions in the "Supervision" section of the Questionnaire (see PRP section 4200.02.C).
- (g) CPE records sufficient to demonstrate compliance by the CPAs in the firm with state and AICPA continuing professional education requirements.
- (h) The relevant working paper files and reports on the engagements selected for review.
- (i) Any other evidential matter requested by the reviewer.
- (j) Documentation of compliance with the membership requirements of the private companies practice section (if applicable).

.04 In the event that deficiencies are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be completed.

.05 A sole practitioner and the reviewer should mutually agree on the appropriateness and efficiency of this approach to the peer review.

Interpretation No. 2—Selection in On-Site Peer Reviews of ERISA and Depository Institution Audit Engagements

(Issued December 12, 1990, and amended October 18, 1993)

.06 Question: During the 1990s, regulators and legislators focused attention on the quality of audits conducted by CPA firms. If a firm performs an audit pursuant to the Employee Retirement Income Security Act of 1974 (ERISA) or an audit of a depository institution subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 (the Act), should such engagements be selected for review in an on-site peer review?

.07 Interpretation: The *Standards for Performing and Reporting on Peer Reviews* require that the engagements selected for review in an on-site peer review provide a reasonable cross section of the reviewed firm's accounting and auditing practice and that greater weight be given to audit engagements that meet the following criteria:

- a. Engagements in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities.
- b. Engagements in other specialized industries.
- c. Engagements that are large, complex, or high-risk or that are the reviewed firm's initial audits of clients.

In addition, the *Standards* require that the sample of engagements include at least one audit conducted pursuant to *Government Auditing Standards* issued by the U.S. General Accounting Office (*AICPA Peer Review Program Manual*, PRP section 3100.41-42).

.08 In selecting engagements for review, the reviewer should consider whether “high-risk” engagements and engagements with a “significant public interest” have been identified by the firm as a result of the application of its quality control policies and procedures on, for example, acceptance and continuance of clients, supervision, or consultation. The reviewer should also consider whether certain industries represented in the reviewed firm’s accounting and auditing practice should be given greater weight in the engagement selection process because engagements in those industries pose a higher risk because of economic or business conditions or because there is a significant public interest in those engagements as evidenced by, for example, regulatory or legislative requirements or developments. The reviewer should also consider requirements that may have been published by regulatory agencies with respect to the peer review process.

.09 Regulatory and legislative developments during 1990 have made it clear that there is a significant public interest in audits conducted pursuant to the Employee Retirement Income Security Act of 1974. Accordingly greater weight should be given in the engagement selection process on on-site reviews to those audits if the firm performs such engagements.

.10 The 1993 Federal Deposit Insurance Corporation (FDIC) guidelines implementing the FDIC Improvement Act of 1991 require auditors of federally insured depository institutions with more than \$500 million in total assets to have a peer review that includes the review of at least one audit of an insured depository institution subject to the Act. If a firm performs an audit of a federally insured depository institution subject to the Act and the peer review is intended to meet the requirements of the Act, at least one engagement conducted pursuant to the Act should be selected for review. The review of that engagement should include a review of the reports on internal control or compliance with laws and regulations since those reports are required to be issued under the Act.

Interpretation No. 3—Reviewer Qualifications: Association With a Firm That Had an Unqualified Review Within the Previous Three Years

(Issued June 3, 1991, and amended October 17, 1994)

.11 Question: If a reviewer’s firm has not had a review within the previous three years because the firm’s review was postponed by the administering entity or the firm was assigned a due date beyond the three year period for its subsequent review, is the reviewer permitted to serve as a team captain on an on-site peer review or as a reviewer on an off-site peer review?

.12 Interpretation: The *Standards for Performing and Reporting on Peer Reviews* require that a team captain be associated with a firm that has received an unqualified report on its system of quality control within the previous three years (*AICPA Peer Review Program Manual*, PRP section 3100.18 and .21).

.13 In rare circumstances, reviews may be postponed as the result of a request by the AICPA or another administering entity to balance its administrative workload. In such circumstances, the requirement that a reviewer’s firm must have a review within the previous three years may be waived for a period of time equal to the length of the postponement provided that (1) all of the other requirements for service as a team captain on an on-site peer review or as a reviewer on an off-site peer review are met and (2) the firm’s most recent review resulted in an unqualified report or a report not adverse or qualified for significant departures from professional standards on an off-site peer review.

.14 Similarly, if a firm is assigned a due date beyond the three-year period for its subsequent review, the requirement that a reviewer’s firm must have a review within the previous three years will be waived for a period of time up to the due date assigned for the subsequent review provided that (1) the due date assigned is not beyond three years and six months after the end of the period covered by the previous peer or quality review and

(2) the firm's most recent review resulted in an unqualified report or a report not adverse or qualified for significant departures from professional standards on an off-site peer review.

Interpretation No. 4—(Deleted January 25, 1994)

Interpretation No. 5—(Deleted January 25, 1994)

Interpretation No. 6—(Deleted January 25, 1994)

Interpretation No. 7—Selection of SEC Engagements in On-Site Peer Reviews

(Issued May 1, 1992, and amended October 17, 1994)

.15 Question: Firms that audit one or more SEC clients as defined by Council in an Implementing Resolution under Bylaw Section 2.3.5 may enroll in the peer review program or the private companies practice section only when they have resigned, declined to stand for re-election, or been dismissed as auditor of all such clients. In that event, should one or more of such engagements be selected for review in the firm's on-site peer review?

.16 Interpretation: The *Standards for Performing and Reporting on Peer Reviews* state that "greater weight should be given to audit engagements . . . in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities." This guidance applies to all SEC audit engagements carried out during the year under review, whether or not the entities involved remain clients of the firm.

.17 In addition, the reviewer should satisfy himself or herself that the SEC has been notified by appropriate filings of Form 8-Ks that the firm has resigned, declined to stand for re-election, or been dismissed as auditor of the SEC clients that were clients at any time since the date of the firm's last peer review or during the year under review if the reviewed firm has not previously had a review.

Interpretation No. 8—Reviewer Experience Requirements

(Issued September 4, 1992, and amended October 17, 1994)

.18 Question: Paragraph 17 of the *Standards for Performing and Reporting on Peer Reviews (Standards)*, (*AICPA Peer Review Program Manual*, PRP section 3100.17) states that "an individual serving as a reviewer (whether for on-site or off-site peer reviews) must be a member of the AICPA licensed to practice as a certified public accountant, must possess current knowledge of applicable professional standards, and must be currently active in public practice at the supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program." What do the *Standards* mean by "possess current knowledge of professional standards" and "currently active in . . . auditing function?"

.19 Interpretation: Footnote 5 to Paragraph 18 of the *Standards* states that the standard set forth in paragraph 18 "is not intended to require that reviewers spend all their time on accounting and auditing engagements" and that reviewers "should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise."

.20 A reviewer would be considered "currently active in . . . auditing function" if he or she is currently involved in the auditing practice of his or her firm either supervising one or more of the firm's audit engagement teams or carrying out a quality control/review function on the firm's audit engagements.

.21 For a reviewer to be considered to have "current knowledge of applicable professional standards," he or she should also be knowledgeable about current rules and regulations applicable to the industries he or she reviews. Such knowledge may be obtained from training courses, on-the-job training, or a combination of both.

.22 Because some industries are high-risk and complex, they require a higher level of knowledge and recent practice experience. Therefore, if a reviewer does not have recent practice experience in such an industry, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry.

.23 The entity administering the review has the authority to decide whether a reviewer's experience is sufficient to perform a particular review.

Interpretation No. 9—Reviewer Qualifications: Association With a Firm That Has Had A Review

(Issued February 6, 1995 and Amended May 31, 1995)

.24 Question: Paragraph 17 of the *Standards for Performing and Reporting on Peer Reviews* (the *Standards*), (AICPA Peer Review Program Manual, PRP 3100.17) states that an individual serving as a reviewer (whether for on-site or off-site peer reviews) "must be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program as... (a) an owner of the firm" or "(b) a manager or person with equivalent supervisory responsibilities." Paragraph 18 of the *Standards* (PRP 3100.18) further states. "A team captain must also be associated with a firm that has received an unqualified report on its system of quality control within the previous three years." Similarly, paragraph 21 of the *Standards* (PRP 3100.21) states that off-site reviewers must "also be associated with a firm that has received, within the three previous years, either of the following:

- a. An unqualified report on its system of quality control.
- b. A report on an off-site review that is not adverse or qualified for significant departures from professional standards."

If a reviewer is associated with more than one firm as an owner, manager, or person with equivalent supervisory responsibilities, must each of the firms with which the reviewer is associated comply with these requirements?

.25 Interpretation: If a team captain on an on-site peer review or an individual conducting an off-site peer review is associated with more than one firm, all of those firms subject to an on-site review or an off-site review must not have received an adverse report, or a report qualified for its system of quality control or qualified for significant departures from professional standards.

Interpretation No. 10—Reviewer Qualifications: Association With Newly Formed Firms

(Issued October 19, 1995)

.26 Question: Paragraph 18 of the *Standards for Performing and Reporting on Peer Reviews* (the *Standards*), (AICPA Peer Review Program Manual, PRP 3100.18) states that "a team captain must also be associated with a firm that has received an unqualified report on its system of quality control within the previous three years." Paragraph 21 of the *Standards* (PRP 31.00.21) states that "off-site reviewers must also be associated with a firm that has received, within the three previous years, either of the following:

- a) An unqualified report on its system of quality control.
- b) A report on an off-site review that is not adverse or qualified for significant departures from professional standards".

If an individual starts or joins a newly formed firm which has never been peer reviewed, can the individual continue to conduct on-site and off-site peer reviews until his or her new firm is peer reviewed?

.27 Interpretation: An individual who was previously associated with a firm that received an unqualified report on its system of quality control that starts or joins a newly formed firm will be deemed to be in compliance with the paragraph 18 requirement described above and may serve as a team captain on on-site peer reviews

during the twelve-month transitional period beginning with the date the individual disassociates from his or her previous firm, provided the individual possesses all of the other qualifications for service as an on-site peer review team captain. Similarly, an individual conducting off-site peer reviews is deemed to be in compliance with the paragraph 21 requirement set forth above during the twelve-month transitional period beginning with the date the individual disassociates from his or her previous firm, provided the individual possesses all of the other qualifications for service as an off-site reviewer.

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PRP Section 3300

Guidance for Writing Peer Review Reports

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General Guidelines for On-Site Peer Review Reports

.01 A review team may issue one of the following types of reports:

- a. An unqualified report
- b. A qualified report
- c. An adverse report

.02 The report should contain—

- a. An indication of the scope of the review, including any limitations thereon.
- b. A description of the general characteristics of a system of quality control.
- c. A reference to the letter of comments, if the report was qualified or adverse.
- d. An opinion on whether the quality control system for the accounting and auditing practice of the reviewed firm met the objectives of quality control standards established by the AICPA, and whether it was complied with during the year reviewed, to provide the firm with reasonable assurance of conforming with professional standards.
- e. A description of the reason(s) for any qualification of the opinion.
- f. If applicable, an opinion on whether the reviewed firm complied with the membership requirements of the private companies practice section in all material respects.

.03 The report on a firm-on-firm review should be issued on the reviewing firm's letterhead and signed in the reviewing firm's name. All other reports should be issued on the letterhead of the entity that appointed or formed the review team and should be signed by the team captain on behalf of the review team (without reference to the team captain's firm).

.04 The report should be addressed to the owners of the reviewed firm and should be dated as of the date of the exit conference.

.05 The report should use plurals such as "we have reviewed"—even if the review team consists of only one person. The singular—"I have reviewed"—is appropriate only when the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

.06 Refer to PRP § 3300.54 for an illustrative unqualified report on an on-site peer review of a firm enrolled in the AICPA peer review program, and PRP § 3300.59 for an unqualified report on an on-site peer review of a firm in the private companies practice section.

.07 If a firm performing accounting (but no audit engagements) elects to have an on-site peer review, the report should be appropriately tailored to reflect this fact. Refer to PRP § 3300.55 for an illustrative unqualified report on an on-site peer review of a firm in the peer review program that performs only accounting engagements.

Guidelines for Writing Qualifying Paragraphs

.08 In deciding on the type of opinion to be issued, a review team should consider the evidence it has obtained and form the following overall conclusions with respect to the year being reviewed:

- a. Whether the policies and procedures that constitute the reviewed firm's system of quality control for its accounting and auditing practice met the applicable objectives of quality control standards established by the AICPA to the extent required to provide the firm with reasonable assurance of conforming with professional standards.
- b. Whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of conforming with professional standards.
- c. If applicable, whether the firm complied with the membership requirements of the private companies practice section in all material respects.

Report Qualified for Design Deficiencies

.09 A **design deficiency** exists when the reviewed firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective. Deficiencies in the design of a system of quality control would be significant, and a qualified report should be issued, if the design of the system resulted in one or more quality control objectives not being accomplished, and as a result, a condition was created in which the firm did not have reasonable assurance of conforming with professional standards in its accounting and auditing practice during the year being reviewed. However, in the absence of deficiencies in the engagements reviewed, the reviewer ordinarily would not reach that conclusion and would conclude that the matter should be handled in the letter of comments.

.10 The reason for the qualification should be discussed in a separate paragraph after the standard first two paragraphs. The qualifying paragraph should contain:

- a. A reference to the letter of comments such as: "As discussed in our letter of comments under this date, our review disclosed . . ."
- b. A description of the deficiency in the design of the firm's system of quality control. (The qualifying paragraph should not discuss engagement deficiencies.)
- c. A statement that the firm was not provided with reasonable assurance of conforming with professional standards on accounting and auditing engagements as a result of the design deficiency.

.11 The first sentence of the opinion paragraph of the standard report should be revised as follows: "In our opinion, except for the deficiency(ies) described in the preceding paragraph, the system of quality control. . ."

.12 Refer to PRP § 3300.56 for an illustrative report qualified for a supervision design deficiency on an on-site peer review of a firm enrolled in the AICPA peer review program, and PRP § 3300.60 for a report qualified for a supervision design deficiency on an on-site peer review of a firm in the private companies practice section.

Report Qualified for Noncompliance With Quality Control Policies and Procedures

.13 In assessing whether the degree of compliance was adequate to provide the reviewed firm with reasonable assurance of conforming with professional standards, the review team should consider the nature, causes, pattern and pervasiveness of the instances of noncompliance noted. When a review team encounters substandard engagements requiring the application of Statement on Auditing Standards (SAS) No. 46, "Consideration of Omitted Procedures After the Report Date" (AICPA, *Professional Standards*, Vol. 1, AU sec. 390) and the section of SAS No. 1 entitled "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report" (AU sec. 561), the team is faced with a clear indication that, in those engagements, the firm failed to conform with professional

standards. The review team's task in such circumstances is to try to determine why the failure occurred. If a review team concludes that the nature, causes, pattern, pervasiveness, or implications of instances of noncompliance are of such significance—individually or in the aggregate—that the reviewed firm's degree of compliance with its prescribed quality control policies and procedures did not provide it with reasonable assurance of conforming with professional standards, a qualified report should be issued.

.14 The reason for the qualification should be discussed in a separate paragraph after the standard first two paragraphs. The qualifying paragraph should contain—

- a. A reference to the letter of comments, such as: "As discussed in our letter of comments under this date, our review disclosed . . ."
- b. A description of the quality control policies and procedures that were not followed by professional staff. (The qualifying paragraph should not discuss engagement deficiencies.)
- c. A statement that the firm's policies and procedures were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards on accounting and auditing engagements.

.15 The first sentence of the opinion paragraph of the standard report should be revised as follows: "In our opinion, except for the deficiency(ies) described in the preceding paragraph, the system of quality control . . ."

.16 Refer to PRP § 3300.57 for an illustrative report qualified for noncompliance with quality control policies and procedures for supervision on an on-site peer review of a firm enrolled in the AICPA peer review program, and PRP § 3300.61 for a report qualified for noncompliance with quality control policies and procedures for supervision on an on-site peer review of a firm in the private companies practice section.

Adverse Report

.17 The review team should evaluate whether the reviewed firm's system of quality control met the objectives of quality control standards established by the AICPA, was being complied with, and provided the firm with reasonable assurance of conforming with professional standards. If the review team finds that there are significant deficiencies in the design of a reviewed firm's system of quality control or pervasive instances of noncompliance with the reviewed firm's system of quality control as a whole, resulting in several material failures to adhere to professional standards on engagements, an adverse report may be appropriate.

.18 The reasons for an adverse report should be discussed in a separate paragraph after the first two standard paragraphs. The paragraph should contain—

- a. A reference to the letter of comments, such as: "As discussed in our letter of comments under this date, our review disclosed . . ."
- b. A description of the nature and extent of the deficiencies in the reviewed firm's system of quality control and whether the deficiencies were caused by an inappropriately designed quality control system or noncompliance with the quality control system by professional staff.
- c. A description of the engagement deficiencies, such as: "In connection with these deficiencies, we noted several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in complying with the standards for accounting and review services."

.19 The opinion paragraph of the standard report should be revised as follows: "In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the accounting and auditing practice of Jones, Smith & Company in effect for the year ended June 30, 19__, did not meet the objectives of quality control standards established by the AICPA, was not being complied with during the year

then ended, and did not provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.”

.20 Refer to PRP § 3300.58 for an illustrative adverse report on an on-site peer review of a firm enrolled in the AICPA peer review program and PRP § 3300.62 for an adverse report on an on-site peer review of a firm in the private companies practice section.

Scope Limitations

.21 Situations may occur where the team captain cannot report on the firm’s system of quality control because the reviewed firm does not permit certain engagements to be reviewed. This situation may not allow the team captain to review a sufficient cross-section of engagements to meet the requirements set by the *Standards for Performing and Reporting on Peer Reviews*. This would be considered a scope limitation. Examples of some reasons why a firm would not permit working papers for certain engagements to be reviewed include the following:

- a. The financial statements of an engagement selected for review are the subject of litigation or investigation.
- b. The client will not permit the working papers for its engagement to be reviewed.
- c. During the year under review, a portion of the firm was divested, and the review team is unable to access certain engagements issued before the divestiture.

.22 When this situation occurs, the team captain should evaluate the firm’s reasons for excluding certain engagements. If the reasons are valid, the team captain should then consider the number, size and complexity of the excluded engagements and should review other engagements in a similar area of practice as well as other work of the supervisory personnel who participated in the excluded engagements. If the review team is precluded from applying one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures by applying alternate procedures, a qualified report should be issued. A team captain who is considering qualifying a report for a scope limitation should consult with the AICPA or the state CPA society administering the review.

Report Qualified for Noncompliance With Private Companies Practice Section Membership Requirements

.23 If the reviewed firm is a member of the private companies practice section, the review team is required to evaluate whether the reviewed firm complied in all material respects with each of the membership requirements of the section and to report on the results of such testing in an additional paragraph of the report. That paragraph should be placed after the opinion paragraph on the quality control system (hereafter called “the membership paragraph”). In evaluating the significance of instances of noncompliance with a membership requirement, the review team should recognize that those requirements directly related to the quality of performance on accounting and auditing engagements are more critical.

.24 If a report is qualified for a failure to comply with one or more of the membership requirements of the section, the nature and extent of noncompliance should be reported in the last sentence of the membership paragraph of the report on a member of the private companies practice section, such as:

“Also in our opinion, except for.....the firm was in conformity with the membership requirements of the section in all material respects.”

.25 If the report is qualified for noncompliance with the membership requirements, but not for a design deficiency in the quality control system or noncompliance with the system, the final sentence of the membership

paragraph should make reference to the letter of comments by adding the phrase “as discussed in our letter of comments under this date” after the words “in all material respects.”

.26 Refer to PRP § 3300.63 for an illustrative on-site report qualified for noncompliance with the membership requirements of the private companies practice section only.

.27 If the report is qualified for failure to comply with one or more of the membership requirements of the section and for noncompliance with the firm’s system of quality control, the membership paragraph should be tailored as described in paragraph .23. However, a reference to the letter of comments is not necessary since such a reference will be included in the third paragraph of the report.

.28 Refer to PRP § 3300.64 for an illustrative report qualified for noncompliance with the firm’s quality control policies and procedures for supervision and for noncompliance with one of the section’s membership requirements.

.29 If a member of the private companies practice section receives an adverse report on its quality control system, the membership paragraph should express an adverse opinion on the firm’s compliance with the membership requirements because the firm failed to comply with the quality control standards of the AICPA.

General Guidelines for Off-Site Peer Review Reports

.30 A reviewer may issue one of the following types of reports:

- a. An unqualified report
- b. A qualified report
- c. An adverse report

.31 The report should contain—

- a. An indication that the review was performed in accordance with the standards established by the AICPA.
- b. An indication that the reviewed firm has represented that it performed no audits (or reviews) of historical or prospective financial statements during the year under review.
- c. A description of the limited scope of the review and a disclaimer of an opinion or any form of assurance about the firm’s quality control policies and procedures for its accounting practice.
- d. A reference to the letter of comments, if the report was qualified or adverse.
- e. An indication of the reviewer’s conclusion:
 - (i) As to whether anything came to the reviewer’s attention that caused the reviewer to believe the engagements submitted for review did not conform with professional standards in all material respects; or
 - (ii) That the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice.
- f. A description of the reason(s) for any qualification of the opinion.
- g. If applicable, an indication that the firm is a member of the private companies practice section and whether anything came to the reviewer’s attention that caused him or her to conclude that the firm had not complied with the section’s membership requirements in all material respects.

.32 The report on a firm-on-firm review should be issued on the reviewing firm's letterhead and signed in the reviewing firm's name. All other reports should be issued on the letterhead of the entity that appointed or formed the review team and should be signed by the reviewer (without reference to the reviewer's firm).

.33 The report should be addressed to the owner(s) of the reviewed firm and should be dated as of the date of the completion of the performance of the review.

.34 The report should normally use plurals such as "we have reviewed." The singular—"I have reviewed"—is appropriate only when the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

.35 Refer to PRP § 3300.65 for an illustrative unqualified report on an off-site peer review of a firm enrolled in the AICPA peer review program that performs both compilations and reviews and PRP § 3300.69 for an unqualified report on an off-site peer review of a firm in the private companies practice section that performs both types of engagements.

.36 The report should be tailored to show the types of engagements reviewed. Refer to PRP § 3300.66 for an illustrative unqualified report on an off-site peer review of a firm enrolled in the AICPA peer review program that performs compilations only and PRP § 3300.70 for an unqualified report on an off-site peer review of a firm in the private companies practice section that performs compilations only. The report should be similarly tailored if the reviewed firm performs reviews but no compilations.

Report Qualified for Significant Departures From Professional Standards

.37 When the review discloses significant departures from professional standards in one or more of the engagements reviewed, those departures should be clearly described in the review report as exceptions to the limited assurance expressed in the report.

.38 Refer to PRP § 3100.87 *Standards for Performing and Reporting on Peer Reviews*, Appendix I, for examples of significant departures from professional standards.

.39 The reason for the qualification should be discussed in a separate paragraph after the first two standard paragraphs. The qualifying paragraph should contain:

- a. A reference to the letter of comments such as: "As discussed in our letter of comments under this date, our review disclosed . . ."
- b. A description of the deficiencies that are considered to be significant departures from professional standards.

.40 The first sentence of the opinion paragraph of the standard report should be revised as follows: "In connection with our off-site review, with the exception of the matter(s) described in the preceding paragraph, nothing came to our attention. . ."

.41 Refer to PRP § 3300.67 for an illustrative report qualified for significant departures from professional standards on an off-site review of a firm enrolled in the AICPA peer review program and PRP § 3300.71 for a report qualified for significant departures from professional standards on an off-site review of a firm in the private companies practice section.

Adverse Report

.42 In reaching a decision on whether the conclusion in the report should be qualified or adverse when there are significant departures from professional standards, the reviewer should consider the pattern and pervasiveness of significant departures from professional standards disclosed by the review.

.43 The reasons for an adverse report should be discussed in a separate paragraph after the first two standard paragraphs. The paragraph should contain:

- a. A reference to the letter of comments and statement that there were several deficiencies found in the review, such as: "However, as discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in complying with standards for accounting and review services. Specifically, the firm did not . . ."
- b. A description of the deficiencies which are considered to be significant departures from professional standards.

.44 The opinion paragraph of the standard report should be revised as follows: "Because of the significance of the matter(s) described in the preceding paragraph, we believe ABC Company did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year ended June 30, 19__."

.45 Refer to PRP § 3300.68 for an illustrative adverse report on an off-site review of a firm enrolled in the AICPA peer review program and PRP § 3300.72 for an adverse report on an off-site review of a firm in the private companies practice section.

Report Qualified for Noncompliance With Private Companies Practice Section Membership Requirements

.46 If the reviewed firm is a member of the private companies practice section, the review team is required to evaluate whether the reviewed firm complied in all material respects with each of the membership requirements of the section and to report on the results of such testing in an additional paragraph of the report. That paragraph (hereinafter referred to as "the membership paragraph") should be placed after the paragraph reporting on the conclusions of the reviewer. In evaluating the significance of instances of noncompliance with a membership requirement, the review team should recognize that those requirements directly related to the quality of performance on accounting and auditing engagements are more critical.

.47 If a report is qualified for failure to comply with one or more of the membership requirements of the section, the nature and extent of noncompliance should be reported in the last sentence of the membership paragraph of the report on a member of the private companies practice section, such as:

"Except for the failure . . . nothing came to our attention that caused us to believe the firm did not conform with the membership requirements of the section during the year ended June 30, 19__, in all material respects."

.48 If the report is qualified for noncompliance with the membership requirements, but not for significant departures from professional standards, the final sentence of the membership paragraph should make reference to the letter of comments by adding the phrase "as discussed in our letter of comments under this date" after the words "in all material respects."

.49 Refer to PRP § 3300.73 for an illustrative off-site report qualified for noncompliance with the membership requirements of the private companies practice section only.

.50 If the report is qualified for significant departures from professional standards and noncompliance with the membership requirements, the membership paragraph should be tailored as described in paragraph .48. However, a reference to the letter of comments is not necessary since such a reference will be included in the third paragraph of the report.

.51 Refer to § 3300.74 for an illustrative off-site report qualified for significant departures from professional standards and noncompliance with one of the section's membership requirements.

.52 If a member of the private companies practice section receives an adverse report on an off-site review, the membership paragraph of the report should indicate that the reviewer believes "the firm was not in conformity with the membership requirements of the section during the year ended June 30, 19___, in all material respects because it did not comply with the AICPA quality control standards."

Illustrative On-Site and Off-Site Peer Review Reports

.53 The following paragraphs contain the standard and other illustrative reports. The standard report should be appropriately tailored to fit the circumstances. Following each illustrative report is a critique of "key points" that the reviewer should focus on when preparing a report.

.54 Unqualified Report on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program

[See paragraph .03 for information on letterhead and appropriate signature]

September 30, 19__

To the Owners
 JW & Co.

We have reviewed the system of quality control for the accounting and auditing practice of JW & Co. (the firm) in effect for the year ended June 30, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm’s quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm’s system of quality control should be appropriately comprehensive and suitably designed in relation to the firm’s size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm’s quality control system, and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of JW & Co. in effect for the year ended June 30, 19__, met the objectives of quality control standards established by the AICPA, and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

DR & Company [for review by a firm]

or

 John Doe
 Team Captain [for review by an association sponsored or committee appointed review team]

Key Points:

- This is the standard form for an unqualified on-site peer review of a firm with an accounting and auditing practice that is enrolled in the AICPA peer review program. If the firm did not perform any accounting (or auditing) engagements during the year under review, the report would be tailored to indicate this. See § 3300.55 for a tailored report.
- As is customary, the review year ends about three to six months before the review commences. (The review year does not have to be the same as the firm's fiscal year. However, the review year ordinarily must not end before the end of the previous calendar year.)
- Since the firm is enrolled in the AICPA peer review program, no copy of this report or any other documents related to the review will be placed in a public file.

.55 Unqualified Report on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program That Performs Only Accounting Engagements

[See paragraph .03 for information on letterhead and appropriate signature]

September 30, 19__

To the Owners
JW & Co.

We have reviewed the system of quality control for the accounting and auditing practice of JW & Co. (the firm) in effect for the year ended June 30, 19__. (The firm had no auditing engagements during the year under review.) Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system, and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting practice of JW & Co. in effect for the year ended June 30, 19__, met the objectives of quality control standards established by the AICPA, and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

DR & Company [for
review by
a firm]

or

John Doe
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- The reviewed firm has no audit engagements, but it does have a quality control system for performing audits, the design of which was reviewed by the engagement team.
- The last sentence in the first paragraph indicates a “review of selected accounting engagements.”
- In addition, another sentence has been added parenthetically indicating “the firm had no audit engagements during the year under review.”
- The first sentence in the third paragraph also indicates “the accounting practice.”

.56 Qualified Report for a Supervision Design Deficiency on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program

[See paragraph .03 for information on letterhead and appropriate signature]

December 20, 19__

To the Owners
DR and Company

We have reviewed the system of quality control for the accounting and auditing practice of DR and Company (the firm) in effect for the year ended September 30, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding the documentation of engagement planning, including its understanding of an entity's internal control structure, were not appropriately designed to provide the firm with reasonable assurance of conforming with professional standards.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of DR and Company in effect for the year ended September 30, 19__, met the objectives of quality control standards established by the AICPA, and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

BD & Company [for
review by
a firm]

or

James Wright
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key points:

- This report is qualified for a design deficiency in the reviewed firm's quality control system for supervision. Therefore, it includes the reasons for the qualification without referring to the underlying engagement deficiencies. The qualifying paragraph of the report makes reference to the letter of comments.
- The opinion of the reviewer is included in the final paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."

.57 Qualified Report for Noncompliance With Quality Control Policies and Procedures for Supervision on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program

[See paragraph .03 for information on letterhead and appropriate signature]

May 30, 19__

To the Owners
JA and Associates

We have reviewed the system of quality control for the accounting and auditing practice of JA and Associates (the firm) in effect for the year ended December 31, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding partner review of working papers and financial statements were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards.

In our opinion, except for the deficiency noted in the preceding paragraph, the system of quality control for the accounting and auditing practice of JA and Associates in effect for the year ended December 31, 19__, met the objectives of quality control standards established by the AICPA, and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

BC & Company [for
review by
a firm]

or

Daniel Hill
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- This report is qualified for noncompliance with the firm's quality control policies and procedures for supervision of its only office. Therefore, it describes the reasons for the qualification, but it does not refer to the underlying engagement deficiencies. The qualifying paragraph of the report makes reference to the letter of comments.
- As is customary, the review year ends about three to six months before the review commences.
- The opinion of the reviewer is included in the final paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency noted in the preceding paragraph."

.58 Adverse Report on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program

[See paragraph .03 for information on letterhead and appropriate signature]

December 20, 19__

To the Owners
HL and Company

We have reviewed the system of quality control for the accounting and auditing practice of HL and Company (the firm) in effect for the year ended September 30, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system, and therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in complying with the standards for accounting and review services. In that connection, our review disclosed that the firm's quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit program, which is required by generally accepted auditing standards. In addition, our review disclosed failures to complete financial statement reporting and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by firm policy.

In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the accounting and auditing practice of HL and Company in effect for the year ended September 30, 19__, did not meet the objectives of quality control standards established by the AICPA, was not being complied with during the year then ended, and did not provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

HL and Company [for
review by
a firm]

or

John Doe
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- The report is adverse because of significant deficiencies in the design of the quality control system and pervasive noncompliance with the firm's system of quality control as a whole. Therefore, it includes a description of the reasons for the adverse report, including a reference to the underlying engagement deficiencies.
- The qualifying paragraph of the report makes reference to the letter of comments.
- The final paragraph of the report gives an adverse opinion on the system of quality control.

.59 Unqualified Report on an On-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

August 3, 19__

To the Owners
AB & Company

We have reviewed the system of quality control for the accounting and auditing practice of AB & Company (the firm) in effect for the year ended June 30, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of AB & Company in effect for the year ended June 30, 19__, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

AB & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion the firm was in conformity with the membership requirements of the section during the year ended June 30, 19__, in all material respects.

YZ & Company [for
review by
a firm]

or

John Smith
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- This is the standard unqualified report on an on-site peer review of a firm with an accounting and auditing practice that is a member of the private companies practice section. If the firm did not perform any accounting (or auditing) engagements during the year under review, the report should be tailored to indicate this.
- As is customary, the review year ends about three to six months before the review commences. (The review year does not have to be the same as the firm's fiscal year. However, the review year ordinarily must not end before the end of the previous calendar year.)
- The fourth paragraph of the report identifies the firm as a member of the private companies practice section. Pursuant to the membership requirements of the private companies practice section, a copy of this report, the letter of comments, if any, and the firm's response thereto will be placed in the public files of the AICPA division for CPA firms, along with the letter from the state CPA society accepting those documents.

.60 Qualified Report for a Supervision Design Deficiency on an On-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

December 3, 19__

To the Owners

PG & Associates

We have reviewed the system of quality control for the accounting and auditing practice of PG & Associates (the firm) in effect for the year ended September 30, 19—. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision were not appropriately designed because they do not include appropriate procedures for reviewing accountants' reports and accompanying financial statements in order to provide the firm with reasonable assurance of conforming with professional standards on accounting and auditing engagements.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of PG & Associates in effect for the year ended September 30, 19__, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

PG & Associates is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, the firm was in conformity with the membership requirements of the section during the year ended September 30, 19__, in all material respects.

SR & Company

[for
review by
a firm]

or

Ashley Brown
Team Captain

[for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- This report is qualified for a design deficiency in the reviewed firm's quality control system for supervision of its only office. Therefore, the third paragraph includes a description of the reason for the qualification without referring to the underlying engagement deficiencies.
- The third paragraph of the report makes reference to the letter of comments.
- The opinion of the reviewer on the quality control system is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."
- The final paragraph of the report identifies the firm as a member of the private companies practice section. Even though a qualified opinion is being given on the firm's quality control system, an unqualified opinion is being expressed on the firm's compliance with the section's membership requirements.

.61 Qualified Report for Noncompliance With Quality Control Policies and Procedures for Supervision on an On-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

August 30, 19__

To the Owners

SC & Company

We have reviewed the system of quality control for the accounting and auditing practice of SC & Company (the firm) in effect for the year ended May 31, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding owner review of working papers and financial statements were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of SC & Company in effect for the year ended May 31, 19__, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

SC & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, the firm was in conformity with the membership requirements of the section during the year ended May 31, 19__, in all material respects.

AA & Company

[for
review by
a firm]

or

Jane White
Team Captain

[for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- This report is qualified for noncompliance with the firm's quality control policies and procedures for supervision of its only office. Therefore, the third paragraph of the report includes a description of the reason for the qualification without referring to the underlying engagement deficiencies.
- The third paragraph of the report makes reference to the letter of comments.
- The opinion of the reviewer on the firm's quality control system is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."
- The final paragraph of the report identifies the firm as a member of the private companies practice section. Even though a qualified opinion is being expressed on the firm's quality control system, an unqualified opinion is being given on the firm's compliance with the section's membership requirements.

.62 Adverse Report on an On-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

May 3, 19__

To the Owners

NH & Company

We have reviewed the system of quality control for the accounting and auditing practice of NH & Company (the firm) in effect for the year ended January 31, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in complying with the standards for accounting review services. In that connection, our review disclosed that the firm's quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit program, which is required by generally accepted auditing standards. In addition, our review disclosed failures to complete financial statement report and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by firm policy.

In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the accounting and auditing practice of NH & Company in effect for the year ended January 31, 19__, did not meet the objectives of quality control standards established by the AICPA and was not being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

NH & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, the firm was not in conformity with the membership requirements of the section in all material respects because it did not comply with the AICPA quality control standards for the year ended January 31, 19__.

ES & Company [for
review by
a firm]

or

Mary Smith
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- This report is adverse because of significant deficiencies in the design of the quality control system and pervasive noncompliance with the firm's system of quality control as a whole. Therefore, it includes a description of the reasons for the adverse report, including a reference to the underlying engagement deficiencies.
- The third paragraph of the report makes reference to the letter of comments.
- The fourth paragraph of the report includes the reviewer's opinion on the quality control system. The adverse report is indicated by the inclusion of the phrase "because of the significance of the matters discussed in the preceding paragraph."
- The fifth paragraph of the report gives an adverse opinion on the firm's compliance with the section's membership requirements due to noncompliance with the AICPA quality control standards. This paragraph does not include a reference to the letter of comments since such a reference was included in the third paragraph.

.63 Qualified Report for Noncompliance With the Membership Requirements on the On-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

August 15, 19__

To the Owners
MM and Co.

We have reviewed the system of quality control for the accounting and auditing practice of MM and Co. (the firm) in effect for the year ended June 30, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of MM and Co. in effect for the year ended June 30, 19__, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

MM and Co. is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, except for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, the firm was in conformity with the membership requirements of the section during the year ended June 30, 19__, in all material respects, as discussed in our letter of comments.

YZ & Company [for review by a firm]

or

John Smith
Team Captain [for review by an association sponsored or committee appointed review team]

Key Points:

- This fourth paragraph of the report is qualified for noncompliance with the continuing professional education membership requirement of the private companies practice section. Therefore, the last sentence of the final paragraph describes the reason for the qualification without referring to the number of people who were not in compliance with the requirement or the hours missed. That sentence also makes reference to the letter of comments.
- Even though the report is qualified for noncompliance with the membership requirements of the private companies practice section, an unqualified opinion is being expressed on the quality control system.

.64 Qualified Report for Noncompliance With Quality Control Policies and Procedures for Supervision and With Membership Requirements on the On-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

November 30, 19__

To the Owners
DC & Company

We have reviewed the system of quality control for the accounting and auditing practice of DC & Company (the firm) in effect for the year ended July 31, 19__. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can effect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding owner review of working papers and financial statements were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of DC & Company in effect for the year ended July 31, 19__, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

DC & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. In our opinion, except for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, the firm was in conformity with the membership requirements of the section during the year ended July 31, 19__, in all material respects.

BA & Company [for
review by
a firm]

or

John Smith
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

Key Points:

- This report is qualified for noncompliance with the quality control policies and procedures for supervision of its only office. Therefore, it includes a description of the reason for the qualification without referring to the underlying engagement deficiencies. The description of the qualification makes reference to the letter of comments.
- The fourth paragraph of the report includes the reviewer's opinion on the quality control system. The qualification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."
- This report is also qualified for noncompliance with the continuing professional education membership requirement of the private companies practice section. Therefore, the last sentence of the membership paragraph describes the reason for the qualification without referring to the number of people who were not in compliance with the requirement or the hours missed. This paragraph does not make reference to the letter of comments, since a reference has been included in the third paragraph of the report.

.65 Unqualified Report on an Off-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program That Performs Both Compilations and Reviews

[See paragraph .03 for information on letterhead and appropriate signature]

October 7, 19__

To the Owners
LMN & Company

We have performed an off-site peer review with respect to the accounting practice of LMN & Company (the firm) for the year ended July 31, 19__, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. LMN & Company has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site peer review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by LMN & Company and issued in the conduct of its accounting practice during the year ended July 31, 19__, did not conform with the requirements of professional standards in all material respects.

Singer & Company [for review by a firm]

or

Carole Singer
Reviewer [for review by an association sponsored or committee appointed reviewer]

Key Points:

- This is the standard unqualified report on an off-site peer review of a firm with both compilation and review engagements that is enrolled in the AICPA peer review program.
- The individual performing the review is referred to as the “reviewer” and *not* the “review team captain.”
- Since the firm is enrolled in the AICPA peer review program, no copy of this report or any other documents related to this review will be placed in a public file.

.66 Unqualified Report on an Off-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program That Performs Compilations Only

[See paragraph .03 for information on letterhead and appropriate signature]

October 7, 19__

To the Owners
DBR & Company

We have performed an off-site peer review with respect to the accounting practice of DBR & Company (the firm) for the year ended July 31, 19__, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. DBR & Company has represented to us that it performed no audits or reviews of historical or prospective financial statements during the year ended July 31, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site peer review, nothing came to our attention that caused us to believe that the compilation reports submitted for review by DBR & Company and issued in the conduct of its accounting practice during the year ended July 31, 19__, did not conform with the requirements of professional standards in all material respects.

White & Company [for
review by
a firm]

or

Robert W. White
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- This is the standard unqualified report on an off-site peer review of a firm enrolled in the AICPA peer review program that performs compilation engagements only.
- The first paragraph has been tailored to indicate that the firm performs no “audits or reviews.”
- The second paragraph has not been tailored since the description of all off-site peer reviews should be consistent with the peer review standards.
- The conclusion paragraph has been tailored to focus on compilation reports since no review reports were submitted. If a firm performs review engagements but no compilation engagements, the off-site peer review report should be tailored in a manner similar to this report.

.67 Qualified Off-Site Peer Review Report for Significant Departures From Professional Standards of a Firm Enrolled in the AICPA Peer Review Program

[See paragraph .03 for information on letterhead and appropriate signature]

October 7, 19__

To the Owners
ABC & Company

We have performed an off-site peer review with respect to the accounting practice of ABC & Company (the firm) for the year ended July 31, 19__, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. ABC & Company has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

As discussed in our letter of comments under this date, the firm's compilation report on the financial statements of one of the engagements submitted for review failed to disclose that management had elected to omit substantially all of the disclosures required by generally accepted accounting principles.

In connection with our off-site peer review, with the exception of the matter described in the preceding paragraph, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by ABC & Company and issued in the conduct of its accounting practice during the year ended July 31, 19__ did not conform with the requirements of professional standards in all material respects.

Brick & Company [for
review by
a firm]

or

John Brick
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- This is a report on an off-site review qualified for significant departures from professional standards.
- The conclusion of the reviewer is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase “with the exception of the matter described in the following paragraph.”
- The reason for the qualified report is explained in the third paragraph of the report.

.68 Adverse Off-Site Review Report of a Firm Enrolled in the AICPA Peer Review Program

[See paragraph .03 for information on letterhead and appropriate signature]

October 7, 19__

To the Owners
RRS & Associates

We have performed an off-site peer review with respect to the accounting practice of RRS & Associates (the firm) for the year ended July 31, 19__, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. RRS & Associates has represented to us that it performed no audits or reviews of historical or prospective financial statements during the year ended July 31, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

However, as discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in complying with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failure to comply with generally accepted accounting principles in accounting for leases, in accounting for revenues from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements.

Because of the significance of the matters described in the preceding paragraph, we believe RRS & Associates did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year ended July 31, 19__.

West & Company [for
review by
a firm]

or

Adam West
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- This is an adverse report on an off-site peer review of a firm enrolled in the AICPA peer review program.
- The third paragraph explains the nature of the deficiencies noted on the review and emphasizes that the disclosure deficiencies concerned “matters important to an understanding of those statements” reviewed.
- The fourth paragraph includes the reviewer’s belief that the firm “did *not* have reasonable assurance of conforming with professional standards” during the period reviewed.
- The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.

.69 Unqualified Report on an Off-Site Peer Review of a Firm in the Private Companies Practice Section That Performs Both Compilations and Reviews

[See paragraph .03 for information on letterhead and appropriate signature]

November 15, 19__

To the Owners
LLM & Company

We have performed an off-site peer review with respect to the accounting practice of LLM & Company (the firm) for the year ended July 31, 19__, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). LLM & Company has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 19__

An off-site peer review consists only of reading selected financial statements and the accountant's compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site peer review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by LLM & Company and issued in the conduct of its accounting practice during the year ended July 31, 19__, did not conform with the requirements of professional standards in all material respects.

LLM & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. Nothing came to our attention that caused us to believe that the firm did not conform with the membership requirements of the section during the year ended July 31, 19__, in all material respects.

YZ & Company [for
review by
a firm]

or

John Smith
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- This is the standard off-site peer review report on a firm that is a member of the private companies practice section.
- The fourth paragraph of the report identifies the firm as a member of the private companies practice section. Pursuant to the membership requirements of the private companies practice section, a copy of this report, the letter of comments, if any, and the firm's response thereto will be placed in the public files of the AICPA division for CPA firms, along with the letter from the state CPA society accepting those documents.
- The individual performing the review is referred to as the "reviewer" and not the "review team captain."

.70 Unqualified Report on an Off-Site Peer Review of a Firm in the Private Companies Practice Section that Performs Compilations Only

[See paragraph .03 for information on letterhead and appropriate signature]

July 19, 19__

To John R. Doe, CPA

We have performed an off-site peer review with respect to the accounting practice of John R. Doe (the firm) for the year ended April 30, 19__ in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). John R. Doe has represented to us that it performed no audits or reviews of historical or prospective financial statements during the year ended April 30, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site peer review, nothing came to our attention that caused us to believe that the compilation reports submitted for review by John R. Doe and issued in the conduct of its accounting practice during the year ended April 30, 19__, did not conform with the requirements of professional standards in all material respects.

John R. Doe is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. Nothing came to our attention that caused us to believe that the firm did not conform with the membership requirements of the section during the year ended April 30, 19__, in all material respects.

YZ & Company [for review by a firm]

or

John Smith
Reviewer [for review by an association sponsored or committee appointed reviewer]

Key Points:

- This is the standard unqualified report on an off-site peer review of a member of the private companies practice section that performs compilation engagements only.
- The first paragraph has been tailored to indicate that the firm performs no “audits or reviews.”
- The second paragraph has not been tailored since the description of all off-site peer reviews should be consistent with professional standards.
- The third paragraph has been tailored to focus on compilation reports since no review reports were submitted. If a firm performs review engagements, but no compilation engagements, the off-site peer review report should be tailored in a manner similar to this report.
- The final paragraph of the report identifies the firm as a member of the private companies practice section.

.71 Qualified Report for Significant Departures From Professional Standards on a Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

September 2, 19__

To the Owners

LMN & Associates

I have performed an off-site peer review with respect to the accounting practice of LMN & Associates (the firm) for the year ended June 30, 19__, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). LMN & Associates has represented to me that it performed no audits of historical or prospective financial statements during the year ended June 30, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

As discussed in my letter of comments under this date, the firm's compilation report on the financial statements of one of the engagements submitted for review failed to disclose that management had elected to omit substantially all of the disclosures required by generally accepted accounting principles.

In connection with my off-site peer review, with the exception of the matter described in the preceding paragraph, nothing came to my attention that caused me to believe that the compilation and review reports submitted for review by LMN & Associates and issued in the conduct of its accounting practice during the year ended June 30, 19__, did not conform with the requirements of professional standards in all material respects.

LMN & Associates is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, I tested the firm's compliance with those requirements to the extent I considered appropriate. Nothing came to my attention that caused me to believe that the firm did not conform with the membership requirements of the section during the year ended June 30, 19__ in all material respects.

John Smith

[for
review by
a firm]

or

John Smith
Reviewer

[for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- The review was performed by a sole practitioner. Therefore, “I” is used throughout the report rather than “we”.
- This is an off-site peer review report qualified for significant departures from professional standards. The reason for the qualified report is explained in the third paragraph of the report.
- The conclusion of the reviewer on the review of the submitted engagements is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase “with the exception of the matter described in the preceding paragraph.”
- The firm is a member of the private companies practice section. Therefore, the final paragraph indicates this fact and expresses limited assurance on the testing of the firm’s compliance with the section’s membership requirements.

.72 Adverse Report on an Off-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

December 15, 19__

To the Owners
ZAP & Company

We have performed an off-site peer review with respect to the accounting practice of ZAP & Company (the firm) for the year ended October 31, 19__, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). ZAP & Company has represented to us that it performed no audits of historical or prospective financial statements during the year ended October 31, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

However, as discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in complying with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to comply with generally accepted accounting principles in accounting for leases, in accounting for revenues from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements.

Because of the significance of the matters described in the preceding paragraph, we believe ZAP & Company does not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice.

ZAP & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. We also believe the firm was not in conformity with the membership requirements of the section in all material respects because it did not comply with the AICPA quality control standards for the year ended October 31, 19__.

YZ & Company	for review by a firm
or	
_____ John Smith Reviewer	for review by an association sponsored or committee appointed reviewer

Key Points:

- This is an adverse report on the off-site peer review of a firm in the private companies practice section.
- The third paragraph explains the nature of the deficiencies noted on the review and emphasizes that the disclosure deficiencies concerned “matters important to an understanding of those statements” reviewed.
- The fourth paragraph includes the reviewer’s belief that the firm “[did] not have reasonable assurance of conforming with professional standards” during the period reviewed.
- Because the report on the accounting practice is adverse, the fifth paragraph on the compliance with the membership requirements of the private companies practice section is also adverse.

.73 Qualified Report for Noncompliance With the Membership Requirements on an Off-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

To the Owners

RTZ & Co.

We have performed an off-site peer review with respect to the accounting practice of RTZ & Co. (the firm) for the year ended February 28, 19___, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants. RTZ & Co. has represented to us that it performed no audits of historical or prospective financial statements during the year ended February 28, 19___.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site peer review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by RTZ & Co. and issued in the conduct of its accounting practice during the year ended February 28, 19___, did not conform with the requirements of professional standards in all material respects.

RTZ & Co. is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. Except for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, nothing came to our attention that caused us to believe that the firm did not conform with the membership requirements of the section during the year ended February 28, 19___, in all material respects, as discussed in our letter of comments under this date.

JS & Company [for
review by
a firm]

or

John Smith
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- The final paragraph of the report is qualified for noncompliance with the continuing professional education membership requirement of the private companies practice section. The last sentence of the final paragraph describes the reason for the qualification without referring to the number of people who were not in compliance with the requirement or the hours missed. That sentence also makes reference to the letter of comments.
- Even though the report is qualified for noncompliance with the membership requirements of the private companies practice section, the report indicates that nothing came to the reviewer's attention that caused him to believe that the compilation and review reports submitted by the firm did not conform with professional standards.
- The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.

.74 Qualified Report for Significant Departures From Professional Standards and Noncompliance With the Membership Requirements on an Off-Site Peer Review of a Firm in the Private Companies Practice Section

[See paragraph .03 for information on letterhead and appropriate signature]

May 29, 19__

To the Owners

RFA & Co.

We have performed an off-site peer review with respect to the accounting practice of RFA & Co. (the firm) for the year ended February 28, 19__, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants. RFA & Co. has represented to us that it performed no audits of historical or prospective financial statements during the year ended February 28, 19__.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

As discussed in our letter of comments under this date, the firm's compilation report on the financial statements of one of the engagements submitted for review failed to disclose that management had elected to omit substantially all of the disclosures required by generally accepted accounting principles.

In connection with our off-site peer review, with the exception of the matter described in the preceding paragraph, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by RFA & Company and issued in the conduct of its accounting practice during the year ended February 28, 19__, did not conform with the requirements of professional standards in all material respects.

RFA & Co. is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm's compliance with those requirements to the extent we considered appropriate. Except for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, nothing came to our attention that caused us to believe that the firm did not conform with the membership requirements of the section during the year ended February 28, 19__, in all material respects.

YC & Company [for
review by
a firm]

or

John Smith
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

Key Points:

- This is an off-site peer review report qualified for significant departures from professional standards. The reason for the qualified report is explained in the third paragraph of the report.
- This final paragraph of the report is qualified for noncompliance with the continuing professional education membership requirement of the private companies practice section. The last sentence of the final paragraph describes the reason for the qualification without referring to the number of people who were not in compliance with the requirement or the hours missed. This paragraph does not make reference to the letter of comments since reference has been made in the third paragraph of the report.

[The next page is 3401.]

PRP Section 3400

Guidance for Writing a Letter of Comments

This guide has been developed by the AICPA Division for CPA Firms' SEC Practice Section Peer Review Committee and the AICPA Peer Review Board to provide peer reviewers with additional guidance on preparing letters of comments on on-site reviews. The examples included in this section are for illustrative purposes only. Actual letters of comments should be prepared based on the specific facts and circumstances.

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Introduction

.01 The criteria for including an item in the Letter of Comments on an on-site peer review is whether the item resulted in a condition being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements. Because this is a very low threshold, most reviews result in the issuance of a Letter of Comments.

Objectives

.02 The major objectives of the letter are to—

- a. Report matters (including the matters, if any, that resulted in a qualified report) that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, and to set forth recommendations regarding those matters.
- b. Provide information about the effectiveness of the firm's quality control system.
- c. Provide the peer review committees and public oversight board, if applicable, with some of the information necessary to evaluate the appropriateness of the reviewed firm's responses to significant deficiencies noted in the review and whether the actions taken or planned by the firm appear appropriate in the circumstances.

General Guidelines

.03 The letter should be addressed, dated, and signed in the same manner as the report. It should include—

- a. A reference to the report indicating if it was qualified.
- b. A description of the purpose of the peer review.
- c. A statement that the review was performed in accordance with the standards established by the applicable committee.
- d. A description of any limitations on the scope of the review.
- e. A description of the limitations of a system of quality control.
- f. The reviewer's findings and recommendations.
- g. A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

Matters to Be Included in the Letter of Comments

.04 The letter of comments should include comments, as described below, regarding the design of the reviewed firm's system of quality control, or its compliance or documentation of its compliance with that system or with the membership requirements.¹ In addition, if a qualified practice monitoring review report is issued, the letter should include a section on the matters that resulted in the qualification. This section would ordinarily include an elaboration of the findings discussed in the qualifying paragraph of the report.

.05 In order to give appropriate consideration to the evidence obtained and to reach conclusions regarding the matters to be included in the letter of comments, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of

¹ Membership requirements are applicable only to peer reviews of SECPS and PCPS members. See SECPS § 1000, "Organizational Structure and Functions of the SEC Practice Section," in the SEC Practice Section Reference Manual and PCPS § 1000, "Organizational Structure and Functions of the Private Companies Practice Section," in the Private Companies Practice Section Reference Manual for additional information about the membership requirements.

the evidence obtained during the review must be evaluated qualitatively and not primarily on a quantitative basis. Reviewers should take the necessary time to investigate findings and understand the underlying cause of the finding from the perspective of the quality control system.

.06 The review findings should be based on professional standards and not on personal preferences. Reviewers are occasionally surprised to find that some “generally accepted professional standards” are, in reality, only a preferred treatment by their firm.

.07 If any of the matters to be included in the letter were included in the letter issued in connection with the firm’s previous peer review or quality review, that fact ordinarily should be noted. The letter may also include comments concerning actions taken by the reviewed firm.

Reporting Considerations

Comments Regarding the Design of the Firm’s Quality Control System

.08 A design deficiency exists when the reviewed firm’s quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.

.09 Deficiencies in the design of the reviewed firm’s quality control system should be included in the letter of comments if the design of the system resulted in one or more quality control objectives not being accomplished, and, as a result, a condition was created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though there was reasonable assurance of conforming with professional standards.

.10 When engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to such design deficiencies, the presence of the engagement deficiencies ordinarily should be noted in the comment along with the description of the design deficiency.²

Noncompliance With the Firm’s Quality Control System

.11 The best system of quality control can only be effective when the firm complies with that system. Although firms have good intentions for following their systems of quality control, other factors, such as lack of communication within the firm, lack of understanding of the system, and complacency can cause compliance problems.

.12 Instances of noncompliance with significant firm policies or procedures, either because of a lack of performance or a lack of adequate documentation of performance, should be included in the letter whenever the degree of such noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though the degree of noncompliance was not such as to warrant a qualified report.

.13 Documentation deficiencies are deficiencies in which the reviewer has become convinced, through discussions with the members of the engagement team or other appropriate means, that the engagement team is knowledgeable about the matter under discussion and that the work in question was performed, but was not documented in the working papers.

.14 In assessing whether the degree of noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, the review team should consider the **nature, causes, pattern, and pervasiveness** of the instances of

² For purposes of this section, professional standards refers to (a) currently effective pronouncements on professional standards issued by the American Institute of Certified Public Accountants (AICPA), (b) currently effective statements of financial accounting standards issued by the Financial Accounting Standards Board (FASB), (c) other materials issued by the AICPA or its committees and by the FASB, (d) government auditing standards, and (e) governmental accounting and financial reporting standards issued by the Governmental Accounting Standards Board.

non-compliance noted, as well as the implications for the firm's quality control system as a whole, not merely the importance in the specific circumstances in which the instances were observed. In order to do this, the review team should evaluate the instances of noncompliance, both individually and collectively, recognizing that adherence to certain policies or procedures is more critical to assuring conformity with professional standards than adherence to others. Accordingly, a higher degree of compliance should be expected for the more critical policies and procedures. However, noncompliance with quality control policies and procedures that are less critical to assuring conformity with professional standards may also be reportable in a letter of comments. For example, a higher degree of noncompliance with a hiring policy relative to the obtaining of background information might be tolerated than with a policy which requires an independent partner to review the report and accompanying financial statements prior to issuance of the report.

.15 When engagement deficiencies—particularly instances of nonconformity with professional standards—were attributable to instances of noncompliance with significant firm policies or procedures that are described in the letter, that information ordinarily should be included in the description of the finding.

.16 When the nature and degree of noncompliance at one or more offices of a multi-office firm were of such significance that a condition was created in which there was more than a remote possibility that the office would not conform with professional standards on accounting and auditing engagements, the review team should consider whether the matter should be included in the letter of comments, even though the degree of compliance for the remainder of the firm did not create such a condition with respect to the firm as a whole. In these instances, the identity of the office should not be revealed in the letter of comments.

Noncompliance With Membership Requirements

.17 The review team should evaluate whether the firm complied in all material respects with each of the membership requirements. When the firm has not achieved a very high degree of compliance with a membership requirement—especially those directly related to the quality of performance on accounting and auditing engagements—that fact ordinarily should be included in the letter.³

Matters That Should Not Be Included in the Letter of Comments

.18 In the course of its work, a review team may note matters that do not merit reporting in the letter of comments because such matters do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. However, such matters may be communicated to the firm orally.⁴ Examples of such matters are described in the following paragraphs.

Apparent Deficiencies in Design or Compliance Wholly or Partially Offset by Other Compensating Policies and Procedures

.19 If a firm's quality control system does not include a procedure that the review team considers significant (such as the use of a financial statement disclosure or report review checklist) but it does include other compensating procedures (such as a second management-level preissuance review that is functioning effectively), the matter should not be included in the letter. The design deficiency is offset by other compensating procedures and no further action is required.

³ See footnote 2.

⁴ Such matters may be communicated in a written letter of suggestions. This letter should be prepared on the letterhead of the team captain's firm since it is a private communication between the team captain and the reviewed firm only. A copy of this letter should not be included in the working papers.

Recommendations Regarding the Firm's Quality Control Document

.20 Reviewers may notice that a firm's quality control document does not provide for all circumstances that may arise. For example, a firm may not have established consultation policies relative to specialized industries because, at the present time, it has no clients in any specialized industries. Such matters may be discussed with the reviewed firm; however, they should not be included in the letter of comments.

.21 Reviewers may find that a firm does not comply with certain policies and procedures that, in practice, are excessive or redundant and not necessary to assure conformity with professional standards on accounting and auditing engagements. Such findings should be discussed with the firm, but they should not be included in the letter of comments.

Isolated Occurrences

.22 Ordinarily, an isolated instance of noncompliance should not be included in the letter. However, the review team should evaluate the nature, significance, and cause of the isolated occurrence and its implications for the firm's quality control system, as a whole. The review team also should consider the results of its evaluation in conjunction with its other instances of noncompliance findings to determine if the item does, in fact, represent an isolated occurrence. For example, a single disclosure deficiency, an instance of noncompliance with a quality control procedure, and a single documentation deficiency may all appear to be isolated but, in fact, may have resulted from the same underlying cause. Such instances of noncompliance should be included in the letter of comments if they created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements.

Administrative Matters

.23 Matters relating to poor firm administration or engagement inefficiencies ordinarily do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. Therefore, such matters should not be reported in a letter of comments.

Points to Consider When Writing the Letter of Comments

.24 The objectives of the letter of comments are more likely to be met when the letter is written in a clear, concise manner. The following points should be considered when writing a letter:

- a. If a qualified report is issued, the letter should be divided into two sections: (a) Matters that resulted in a qualified (adverse) report, and (b) Matters that did not result in a qualified (adverse) report. If the report is not qualified, do not include either phrase.
- b. Use the format recommended in this section of "findings" and "recommendations for improvement." Separate, clearly captioned paragraphs should be used to report the findings and related recommendations.
- c. Include headings for each quality control element for which there is a comment.
- d. Items included in the letter should have a "systems" orientation. That is to say, identify the underlying weakness in the quality control system which caused a particular engagement deficiency to occur. It should not just describe the engagement deficiency.
- e. Identify the likely causes of the deficiencies (for example, describe the deficiencies as either design deficiencies or compliance deficiencies (performance or documentation)).
- f. Group findings caused by the same deficiency into a single comment. For example, if the review team notes various disclosure deficiencies that are caused by the failure to use a disclosure checklist or to

perform other appropriate procedures, a single comment on the cause of all the disclosure deficiencies is preferable to numerous comments on individual deficiencies. The letter should not list each disclosure deficiency noted by the review team.

- g. Do not group unrelated findings into one comment. For example, disclosure deficiencies should be separated from comments regarding insufficient documentation unless they relate to the same quality control deficiency.
- h. Describe the findings in a complete manner, but avoid excessive or unnecessary detail in the letter of comments.
- i. Use general terms to indicate frequency of occurrence. Terms such as “in some instances” or “frequently” are preferable to the specific number of instances.
- j. Do not identify specific engagements, individuals, or offices by name or otherwise. For example, do not refer to “the firm’s SEC engagement.”
- k. Do not include personal preferences in the letter when they relate to procedures (such as engagement letters or time budgets) that are not required by the firm’s quality control system and are not essential to the reviewed firm’s conformity with professional standards on accounting and auditing engagements. Such matters may be communicated to the firm orally.
- l. Avoid references to specific technical standards, where possible. In most instances, a general reference to “professional standards” will suffice. If a reference to a specific technical standard is necessary, always include a complete description of the topic to which it relates.
- m. When a finding describes a performance deficiency where the firm may have departed from professional standards, include a sentence advising the reader whether additional actions are necessary on the engagement reviewed (“close the loop”). If corrective actions are necessary, a description of the actions taken or planned by the reviewed firm should be included. Ordinarily, the reviewer need not “close the loop” for documentation deficiencies.
- n. Use general terms when referring to purchased practice aids, instead of the names of specific publishers.
- o. If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm’s previous peer or quality review, this fact ordinarily should be noted in describing the matter. In this regard, comments should not be written in a general manner such that they may be “automatically repeated” in the documents issued in connection with the firm’s next review.
- p. Be careful not to overemphasize the use of standardized forms and checklists as a recommendation for improving the firm’s quality control system. Although forms and checklists may be helpful in many circumstances, their use will not cure all deficiencies. Think carefully about the cause of the deficiency and whether a more effective recommendation would provide a cure.
- q. Have someone in your firm unfamiliar with the findings on the review read the letter of comments before it is finalized. Ask them whether they understand the findings and recommendations *without asking any questions*.

General Guidelines for Describing the Review Team’s Findings

.25 In describing a deficiency in the design of the reviewed firm’s system or instances of noncompliance, the findings ordinarily can be described in the following manner:

- a. *Design deficiency*—(1) state what the system does or does not require; (2) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the *AICPA Professional Standards*, vol. 1, AU sections 390

and 561 or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued—were attributable to the design deficiency; and (3) describe the effect, if any, that the deficiency had on the financial statements issued.

- b. *Instances of noncompliance (performance or documentation)*—(1) state what the system requires; (2) state the frequency of noncompliance in general terms; (3) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the *AICPA Professional Standards*, vol. 1, AU sections 390 and 561, or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued—were attributable to the instances of noncompliance; and (4) describe the effect, if any, that the instances of noncompliance had on the financial statements issued.

.26 Under the above guidelines—

- a. A good way to start a letter of comments finding would be with the following words: “The firm’s quality control policies and procedures. . . .” Then go on to state what the system does or does not require. This informs the reader of the status of the quality control system.
- b. The second sentence of the finding explains the result, such as “As a result. . . .” or “However, the firm did not always comply with these policies and as a result. . . .”
- c. The last sentence should “close the loop” if the finding relates to an engagement performance deficiency. Following are some examples of “closing the loop”:
- None of the missing or incomplete disclosures represented significant departures from professional standards.
 - None of the missing disclosures were of such significance to make the financial statements misleading.
 - We noted financial statements that did not include all of the disclosures required by generally accepted accounting principles, and, in one instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.
 - We were satisfied that the firm performed the necessary procedures even though they were not documented.
 - We found one engagement in which, as a result of a lack of involvement by the engagement partner in planning the audit, the work performed on receivables and inventory did not appear to support the firm’s opinion on the financial statements. As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.

.27 Appendix A illustrates how the foregoing matters may be covered in a letter of comments under the SECPS peer review program.

.28 Appendix B illustrates how the foregoing matters may be covered in a letter of comments under the AICPA peer review program.

.29 Appendix C contains a checklist for reviewing drafts of letters of comments.

.30 Appendix D contains illustrative examples of poorly written letter of comments items.

Illustrative Examples That Might Be Included in the Letter of Comments

.31 The rest of this section contains illustrative examples of items that might be included in letters of comments.

.32 A reviewer must evaluate whether the reviewed firm's system meets the objectives of the quality control standards applicable to its practice and whether the system was being complied with to provide the firm with reasonable assurance of conforming with professional standards. By considering the nature, cause, pattern and pervasiveness of a particular deficiency or group of deficiencies, a reviewer will decide whether a peer review report should be qualified, or whether a matter should be included in a letter of comments, communicated orally, or not communicated at all based on—

- a. The extent to which the designed system meets these objectives, and
- b. The instances of noncompliance with the policies and procedures established by the firm.

As a result, some of the examples may warrant the issuance of a qualified report in certain circumstances, while an unqualified report will be appropriate in other situations with the matter being included in the letter of comments or communicated orally.

Independence

Quality Control Objective

.33 Statement on Quality Control Standards No. 1 states that—

Policies and procedures should be established to provide the firm with reasonable assurance that persons at all organizational levels maintain independence to the extent required by the rules of conduct of the AICPA. Rule 101 of the rules of conduct contains examples of instances wherein a firm's independence will be considered to be impaired.⁵

Illustrative Examples of Design Deficiencies

.34 *Finding*—The firm's independence policies and procedures have been appropriately communicated to the firm's professional personnel through its quality control document and through training programs. However, the firm's policies and procedures do not require that professional personnel be informed of all new attest engagements on a timely basis. Nonetheless, we were able to determine that the firm's independence had not been impaired on any attest engagements.

Recommendation—The firm should, on a periodic basis, communicate in writing to all personnel new attest engagements accepted by the firm. This communication should also request that any personnel with a possible independence problem with respect to the new engagements contact the administrative owner immediately.

.35 *Finding*—The firm's independence policies and procedures do not require confirmation of the independence of another firm engaged to perform segments of an engagement. As a result, on the firm's only engagement where it was the principal auditor, there was no documentation indicating that the firm engaged to perform a segment of the engagement was independent of the client. Through discussions with firm personnel, it was determined that the firm had received an oral representation from the correspondent firm that it was independent.

Recommendation—We recommend that the firm's policies and procedures be revised to require that a written independence representation be obtained from other firms engaged to perform segments of an engagement when the firm is acting as the principal auditor.

.36 *Finding*—The firm's quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence. However, the firm does not require that such resolutions be documented. As a result, the firm did not document the resolution of several independence matters that were identified by its staff in their annual independence statements. However, we were able to satisfy ourselves that appropriate resolutions had been reached.

⁵ AICPA Professional Standards, Vol. 2, QC § 10.07.

Recommendation—We recommend that the firm’s quality control policies and procedures be revised to require documentation of the resolution of independence questions.

Illustrative Examples of Compliance Deficiencies

.37 Finding—The firm’s quality control policies and procedures require that written independence representations be obtained annually from all partners and professional staff. During our review, we noted that several of the firm’s professional staff had failed to sign such a representation. Written independence representatives were subsequently obtained and no instances were noted where the firm was not independent with respect to the financial statements on which it reported.

Recommendation—We recommend that the firm comply with its policy of obtaining annual independence representations from all professional personnel, and that this compliance, be monitored by the managing owner of the firm. In addition, the firm should highlight this matter during its annual inspections.

.38 Finding—The firm’s quality control policies and procedures require an evaluation and resolution of all questions regarding independence, including a review of its accounts receivable for unpaid fees on continuing clients. Our review disclosed an instance where the firm issued a report on a client’s financial statements before the prior year’s fee had been paid. As a result, the independence of the firm was considered impaired. The firm has recalled its report and disclaimed an opinion with respect to the financial statements.

Recommendation—To prevent the recurrence of the above situation, we recommend that the firm’s owners review the list of clients with past due fees in their periodic owner meetings. In this review, the owners should consider when subsequent work can be performed and the report on the financial statements can be issued.

Assigning Personnel to Engagements

Quality Control Objective

.39 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for assigning personnel to engagements should be established to provide the firm with reasonable assurance that work will be performed by persons having the degree of technical training and proficiency required in the circumstances. In making assignments, the nature and extent of supervision to be provided should be taken into account. Generally, the more able and experienced the personnel assigned to a particular engagement, the less is the need for direct supervision.⁶

Illustrative Examples of Design Deficiencies

.40 Finding—The firm’s quality control policies and procedures require that personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, the firm has not established adequate procedures to identify staffing requirements for specific engagements. As a result, on several engagements reviewed, certain complex procedures performed by its personnel were not performed properly. The firm has subsequently performed alternative auditing procedures on the respective engagements.

Recommendation—The firm should revise its policies and procedures to establish specific procedures for planning overall personnel needs of the firm and identifying staffing requirements for specific engagements. This may be accomplished by assigning to one individual the responsibility for assigning personnel to engagements and for coordinating the resolution of scheduling problems.

⁶ See footnote 5.

.41 *Finding*—The firm’s quality control policies and procedures do not require that the person responsible for assigning personnel to engagements consider special industry knowledge when assigning all levels of personnel to engagements. We noted that the firm relies heavily on the engagement owner’s background and knowledge and does not give adequate consideration to the complexity or other requirements of the engagement when assigning other engagement personnel. On several engagements, we noted instances in which certain personnel did not have sufficient experience or training in the areas assigned to them. As a result, the firm did not properly report on several financial statements in a specialized industry. The firm has appropriately recalled and reissued all of the reports.

Recommendation—The firm should revise its policies and procedures to require that personnel assigned to engagements have sufficient experience to perform the work assigned to them. When it is necessary to assign a person who does not have sufficient experience to perform a key role on an engagement, the owner should be required to document how the engagement team will compensate for this lack of experience.

Illustrative Examples of Compliance Deficiencies

.42 *Finding*—The firm’s quality control policies and procedures require that engagement owners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, on some engagements reviewed, the personnel below the owner level did not appear to have adequate experience to handle their work. As a result, certain procedures were not performed properly. The firm has considered the requirements of professional standards, and has determined that enough procedures had been performed in other areas to support the report issued on the financial statements.

Recommendation—The firm should revise its policies and procedures to require that, when a person who does not have sufficient experience is assigned a key role on an engagement, an action plan be developed and documented by the engagement owner on how the engagement team will compensate for this lack of experience.

Consultation

Quality Control Objectives

.43 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for consultation should be established to provide the firm with reasonable assurance that personnel will seek assistance to the extent required from persons having appropriate levels of knowledge, competence, judgment, and authority. The nature of the arrangements for consultation will depend on a number of factors, including the size of the firm and the levels of knowledge, competence, and judgment possessed by the persons performing the work.⁷

Illustrative Examples of Design Deficiencies

.44 *Finding*—Our review disclosed that the firm’s consultation policies and procedures do not identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. As a result, we noted a few instances where consultation was lacking when it would have been appropriate. These instances did not, however, result in the issuance of an inappropriate report.

Recommendation—The firm should revise its quality control policies and procedures to specify the situations where, because of their nature or complexity, consultation is required. Such situations might include the following: (1) the application of newly issued technical pronouncements, (2) the application of a regulatory agency’s filing requirements, (3) industries with special accounting, auditing, or reporting considerations, (4)

⁷ See footnote 5.

emerging practice problems, and (5) cases where there is a choice among alternative generally accepted accounting principles.

.45 Finding—Our review disclosed that the firm’s consultation policies and procedures do not provide procedures for resolving differences of opinion among engagement personnel and specialists. We noted no instances in which differences of opinion on practice problems had not been resolved to the satisfaction of all the parties involved, even though the individuals indicated that they did not have a clear understanding of the steps to be followed in such circumstances.

Recommendation—We recommend that the firm revise its quality control policies and procedures to describe the procedures for resolving differences of opinion among engagement personnel and specialists. These procedures should then be communicated to all professional personnel.

.46 Finding—The firm’s policies and procedures do not provide a means for ensuring that its library contains all relevant technical manuals. Our review disclosed that the firm’s reference library contains outdated technical manuals and lacks industry audit and accounting guides in many of the industries in which the firm’s clients operate. As a result, we noted a few instances where financial statement formats and disclosures deviated from these guides. However, none of these instances caused the statements to be misleading.

Recommendation—We recommend that the firm’s quality control policies and procedures be revised to ensure that the firm’s library contains all relevant materials. The firm may wish to consider assigning to one person the responsibility of ensuring that the library is comprehensive and up-to-date and that it includes all the industry auditing and accounting guides for the industries in which the firm’s clients operate.

Illustrative Examples of Compliance Deficiencies

.47 Finding—The firm’s quality control document identifies areas and specialized situations where consultation and the documentation thereof is required. Our review disclosed several instances where consultation should have taken place, but there was no documentation of such consultation in the working papers. However, through discussions with engagement owners, we were able to satisfy ourselves that the staff had consulted as required.

Recommendation—We recommend that the firm discuss the importance of documenting consultations in a staff training session. The firm should also consider requiring the documentation to be reviewed and approved by the person consulted.

.48 Finding—The firm’s quality control policies and procedures identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. During our review, we noted a few instances where the firm appropriately consulted with outside sources; however, they failed to reconcile a difference between the advice of the outside source and the requirements of professional standards. As a result, the firm did not issue certain reports that are required in a regulated industry. Subsequent to the peer review, the firm issued those reports.

Recommendation—We recommend that, in addition to consulting outside sources when necessary, the firm also consult the appropriate technical literature. If differences arise between these sources, the firm should take steps to reconcile the differences.

.49 Finding—The firm’s quality control policies and procedures state that when experience is not available within the firm to resolve a practice question or problem, the engagement owner should consult with the AICPA or the state CPA society. Our review disclosed an instance where the firm did not have the experience required and did not consult with the AICPA or the state CPA society as required. In this instance, an owner designated as a specialist in another industry was consulted, but the advice rendered resulted in the misapplication of a generally accepted accounting principle. Since the amount involved did not make the financial statements misleading, the firm did not have to recall its report; the client has agreed, however, to adjust the financial statements in the next period in which they are prepared.

Recommendation—We recommend that the firm discuss at an owner and staff training session the importance of consulting the appropriate resources and that, when those resources are not available internally, an outside one should be contacted. In addition, designated specialists should be reminded that they should not exceed their authority in consultative situations by providing advice in areas outside their expertise.

.50 *Finding*—The firm's policies and procedures require consultation in situations that involve complex subject matter or newly issued technical pronouncements. During our review, we noted several instances where the firm did not consult, but should have. The firm issued several reports on financial statements prepared on a basis of accounting prescribed by a regulatory agency for filing with that agency. However, the auditors' reports issued did not include all required wording to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor's reports misleading.

Recommendation—We recommend the firm revise its quality control checklist to require the engagement and/or concurring owners to affirm specifically that consultation occurred in all situations where it appears to be required by firm policy or otherwise warranted. In addition, the firm should discuss at a staff training session its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

Supervision

Quality Control Objective

.51 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for the conduct and supervision of work at all organizational levels should be established to provide the firm with reasonable assurance that the work performed meets the firm's standards of quality. The extent of supervision and review appropriate in a given instance depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work, and the extent of consultation available and used. The responsibility of a firm for establishing procedures for supervision is distinct from the responsibility of individuals to adequately plan and supervise the work on a particular engagement.⁸

Illustrative Examples of Design Deficiencies

.52 *Finding*—The firm's policies and procedures require the engagement owner to review the firm's reports and the accompanying financial statements before they are issued. However, on several engagements reviewed, the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the areas of related party transactions and leases. None of the missing disclosures were of such significance to make the financial statements misleading.

Recommendation—The firm should revise its quality control policies and procedures for ensuring that clients' financial statements include all relevant disclosures. This could be accomplished by obtaining or developing comprehensive reporting and disclosure checklists and requiring that these checklists be completed by a member of the engagement team, reviewed by the engagement owner, and retained with the engagement working papers.

.53 *Finding*—The firm's quality control policies and procedures do not specify the working papers that should be reviewed by engagement owners or require any documentation of the partner's reviews. While reviewing engagements, we were unable to determine from the working papers the extent of the engagement owner's review. This did not result in the issuance of an inappropriate report.

⁸ See footnote 5.

Recommendation—The firm should revise its quality control policies and procedures to specify the extent and nature of the engagement owner’s review of work papers, and require documentation of the extent of the review. Such documentation can be in the form of initialing the working papers, file covers, or an owner review checklist.

.54 Finding—The firm’s quality control policies and procedures require that all accounting and auditing engagements be properly planned. However, the firm does not provide specific procedures for documenting its engagement planning, including the consideration of audit risks and preliminary judgments about materiality limits. During the review of engagements, we noted several instances where we could not determine if the firm had considered preliminary judgments about materiality or its assessment of control risk. Through discussion with firm personnel, we satisfied ourselves that appropriate planning procedures had been performed.

Recommendation—The firm should revise its policies and procedures to designate those matters that should be considered and documented during the planning process. These may include such areas as (1) current economic conditions affecting the client or the client’s industry and the potential effect on the conduct of the engagement, (2) results of preliminary analytical procedures, (3) changes in the client’s organization, (4) need for specialized knowledge, (5) proposed work programs, and (6) preliminary judgments about materiality levels. In establishing such policies, the firm should consider obtaining or designing a planning checklist or requiring the preparation of an overall planning memorandum.

.55 Finding—The firm requires that its model audit program be used on all audit engagements. However, the firm does not require that this program be tailored to cover the requirements of specialized industries, when necessary. As a result, our review of engagements disclosed that certain industry-specific audit procedures were not performed. The firm has subsequently performed the omitted procedures to support the audit opinion issued.

Recommendation—The firm’s planning policies and procedures should be expanded to include a review and, when necessary, tailoring of the audit program before the start of field work. The firm should consider obtaining or developing audit programs that are reflective of the specialized industries in which its clients operate.

.56 Finding—The firm does not provide its professional staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm’s review and compilation working papers did not include documentation of all the procedures required by firm policy or professional standards. However, we were able to satisfy ourselves that, in each case, sufficient procedures had been performed.

Recommendation—Although not required by professional standards, the firm should consider obtaining or developing work programs for use on review and compilation engagements.

.57 Finding—The firm’s policies and procedures do not require documentation of sample selections and evaluation of the results of sampling applications. During our review of engagements, we noted several instances where the firm performed non-statistical sampling, but did not document its considerations. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

Recommendation—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results for statistical and nonstatistical sampling. This may be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards.

.58 Finding—The firm’s quality control policies and procedures do not require documentation of its understanding of an entity’s internal control structure on engagements for which it has assessed control risk at the maximum level. As a result, on several engagements reviewed there was no documentation in the working papers of the firm’s understanding of the internal control structure of the client. However, we were satisfied that the firm has a good understanding of the client’s internal control structure and that the audit was properly planned.

Recommendation—The firm should revise its policies and procedures to require documentation of its understanding of internal control structures on all audit clients as required by professional standards. Such documentation may be in the form of a memorandum in the working papers.

.59 Finding—The firm has acquired accounting and auditing practice aids from a third-party provider. Our review disclosed that the firm has selectively used these materials in conjunction with materials from other sources without carefully reviewing the compatibility of the materials. As a result, on the audit engagements reviewed, the programs and checklists used did not address certain aspects of engagement planning, particularly preliminary analytical review, audit risk assessment, and consideration of an entity's internal control structure. These areas were not adequately documented in the engagement workpapers; however, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

Recommendation—We recommend the firm review the materials obtained from the third-party provider and determine how they can best be implemented in the firm's accounting and auditing practice. The use of other materials for specialized areas should be blended with the new materials in such a way that engagement planning is adequately addressed.

.60 Finding—The firm's policies and procedures for reviewing accountants' reports and financial statements before issuance are not adequately designed to ensure compliance with professional standards. During our review, we noted that on several compilation and review engagements the accountant's report did not describe what responsibility, if any, the accountant was taking in regards to accompanying supplementary information. Also, we found some occasions where the supplementary information was not referenced to the accountant's report. In all cases, supporting working papers were present to indicate an appropriate level of service had been performed on the supplementary information. The firm's inspection program did identify this situation and use of a disclosure checklist was instituted subsequent to the year under review.

Recommendation—Although not required by professional standards, the firm should implement the use of reporting and disclosure checklists on all engagements. Continued monitoring of its use through the inspection process will help ensure adherence to the firm's quality control standards.

.61 Finding—The firm's policies and procedures require the engagement owner to review the accountants' or auditors' reports and accompanying financial statements before they are issued. During our review, we noted instances where the accountants' reports did not report on supplementary data included in the financial statements. In addition, an auditor's report prepared on a basis prescribed by a regulatory agency did not include the appropriate wording required by professional standards. None of the reporting deficiencies were of such significance as to require additional action by the firm.

Recommendation—The firm should establish a mechanism to assist owners in reviewing auditors' reports and accompanying financial statements, such as requiring staff to use a comprehensive reporting checklist. The engagement owner can then review the checklist prior to issuance of the accountants' or auditors' reports.

Illustrative Examples of Compliance Deficiencies

.62 Finding—The firm's policies and procedures require the use of standard programs on audit engagements for the review of EDP controls. However, we noted that these programs were not always used. As a result, audit working papers did not include documentation of the firm's understanding of its clients' EDP controls. We were able to satisfy ourselves that a sufficient review of these controls had been performed in accordance with professional standards.

Recommendation—The firm should discuss at a staff training session its policy to use standard programs to review EDP controls. All owners should be advised to monitor compliance with this policy when reviewing audit working papers. Further, the firm should add a step to its planning checklist to ensure that EDP programs have been completed.

.63 Finding—On several of the engagements reviewed, we noted that a review by an owner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the

financial statements. However, none of the missing disclosures were of such significance to make the financial statements misleading.

Recommendation—The firm should comply with its policy of having a second owner review each engagement. To insure compliance with this policy, the firm should require that the second owner initial the report control sheet before the report is issued.

.64 Finding—The firm’s audit programs outline steps for performing and documenting audit planning procedures for preliminary judgments about materiality levels, planned assessed level of control risk, analytical review procedures, and conditions that may require extension or modification of tests. However, our review disclosed several instances where the firm’s planning working papers did not include documentation for these areas. Through discussion with engagement personnel, we were able to satisfy ourselves that the engagement planning was adequate.

Recommendation—The firm should hold a training session for all professionals on the matters to be considered and documented when planning an audit engagement. In addition, the firm may consider obtaining or developing a planning checklist to assist staff when planning an audit engagement and documenting the results thereof.

.65 Finding—The firm’s policies and procedures require communication of reportable conditions noted during an audit to client management in accordance with professional standards. During our review, however, we noted instances where the communication of reportable conditions in internal accounting controls was not documented. Although the firm has represented that the reportable conditions were communicated orally to its client, there was no memorandum or notation in the working papers as required by professional standards.

Recommendation—The firm should discuss at a staff meeting the importance of adhering to professional standards regarding documentation of communication of reportable conditions. In addition, the firm should also update its audit programs to include a step on documenting the communication of reportable conditions.

.66 Finding—The firm’s quality control policies and procedures require completion of a reporting and disclosure checklist and an owner review of the firm’s reports and accompanying financial statements prior to issuance. However, on several engagements reviewed, we noted inappropriate answers on these checklists. As a result, several financial statements did not include all the disclosures required by generally accepted accounting principles in such areas as concentrations of credit risk and related-party transactions. None of the missing disclosures were of such significance as to make the financial statements misleading.

Recommendation—The owners of the firm should carefully review the report and disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with the staff the questions on the financial statement reporting and disclosure checklist. The firm should monitor compliance with this item in its next inspection.

Hiring

Quality Control Objective

.67 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for hiring should be established to provide the firm with reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently. The quality of a firm’s work ultimately depends on the integrity, competence, and motivation of personnel who perform and supervise the work. Thus, a firm’s recruiting programs are factors in maintaining such quality.⁹

⁹ See footnote 5.

Illustrative Example of Design Deficiencies

.68 Finding—The firm's policies and procedures require that new hires possess certain specified qualifications. However, the policies do not require that the firm document its hiring decisions and the basis thereof. As a result, the personnel files did not always contain sufficient evidence confirming that the individuals hired possessed the required qualifications. During our review of engagements, nothing came to our attention to indicate that the individuals hired by the firm did not possess the required qualifications.¹⁰

Recommendation—We recommend that the firm revise its policies and procedures to require that hiring decisions be documented. The nature of the documentation may vary; however, at a minimum, it should document whether an individual meets the stated qualifications and, if not, why it is acceptable to deviate from the firm's stated hiring criteria in the situation.

Illustrative Example of Compliance Deficiencies

.69 Finding—The firm's policies require that certain background information be obtained relative to the qualifications of prospective employees (including resumes, applications, college transcripts, and references). During our review, we noted numerous instances in which the personnel files for professional staff hired other than through the firm's college campus recruiting program did not contain evidence that the individual met the firm's stated qualifications.

Recommendation—We recommend that the firm take greater care in ensuring that it complies more fully with its policies. The firm should assign an individual with appropriate experience to monitor the firm's compliance with its policy of obtaining background information on prospective employees.

Professional Development

Quality Control Objective

.70 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for professional development should be established to provide the firm with reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned. Continuing professional education and training activities enable a firm to provide personnel with the knowledge required to fulfill responsibilities assigned to them and to progress within the firm.¹¹

Illustrative Examples of Design Deficiencies

.71 Finding—Although the firm's personnel were in compliance with the firm's and the section's continuing professional education requirement, an inadequate amount of the courses taken were in accounting and auditing related areas. As a consequence, we encountered instances in which emerging issues and matters relating to recent professional pronouncements had not been considered on engagements. In one such instance, the report was recalled and the accompanying financial statements were restated.

Recommendation—The firm's policies and procedures should be revised to include a requirement that personnel participate in an appropriate amount of continuing professional education in accounting and auditing areas.

¹⁰ This example may not be applicable for smaller firms that have ongoing monitoring and involvement of senior personnel of the firm with respect to this element of quality control.

¹¹ See footnote 5.

.72 Finding—The firm’s policies and procedures require that professional staff participate in at least forty hours of continuing professional education courses and that the administrative owner compile, at the end of each educational year, a summary of professional education courses in which the professional staff participated. The policies and procedures do not require that the files be maintained during the period or that the files be reviewed periodically to determine whether the staff is in compliance with the firm’s requirements. During our review, we noted a few individuals who had not participated in the required amount of continuing professional education courses during the year under review and were unable to make up the deficiency during the two-month grace period that followed the education year end.

Recommendation—We recommend that the firm revise its quality control policies and procedures to require that the administrative owner maintain current professional development records and that he review these periodically to determine whether the professional staff are complying with the firm’s policies in this area.

.73 Finding—The firm’s policies and procedures require that the firm maintain formal professional development records documenting each professional education course in which the professional staff participated. However, the policies and procedures do not specify the nature or extent of these records. Consequently, we noted incomplete documentation in the continuing professional education records, even though we were satisfied that the staff had participated in a sufficient amount of continuing professional education.

Recommendation—We recommend that the firm’s policies and procedures be revised to require that records be maintained for each professional in the firm for the five most recent educational years. Furthermore, the policies should require that the following information be maintained relative to each continuing professional education activity for which credit is claimed:

- Sponsoring organization
- Location of program by city and state
- Title of program and/or description of content
- Dates attended or completed
- Continuing professional education hours claimed

.74 Finding—The firm’s policies and procedures require that professional staff participating in governmental engagements meet the continuing education requirements established both by the section and Government Auditing Standards. However, we noted that the firm has not specifically identified these staff members and monitored their compliance with government auditing standards. As a result, we noted several individuals who had not completed sufficient professional education courses to comply with government auditing standards.

Recommendation—The firm’s professional education director should identify and monitor those individuals participating in governmental engagements to ensure that the government auditing standards continuing professional education requirements are met.

.75 Finding—The firm’s policies and procedures require all firm personnel to meet the professional development requirements of both their state board of accountancy and the American Institute of Certified Public Accountants. While firm personnel met these requirements, the courses taken did not provide firm personnel with sufficient information about current developments in accounting and auditing matters. As a result, our review discovered that firm personnel were not aware of recent pronouncements and new disclosure requirements and had not made necessary disclosures in financial statements in such areas as concentrations of credit risk and income taxes. None of the missing disclosures were of such significance to make the financial statement misleading.

Recommendation—The firm should revise its quality control policies to require firm personnel to participate in an appropriate amount of accounting and auditing continuing professional education in the industry areas in which the firm practices.

Illustrative Examples of Compliance Deficiencies

.76 Finding—Our review disclosed that professional staff had not received copies of certain professional pronouncements issued during the past year as required by firm policy. During our review, we did not note any significant departures from professional standards as a result of this deficiency.

Recommendation—In order to keep professional staff current on financial accounting, auditing and reporting matters, we recommend that all professional staff receive copies of professional pronouncements as soon as they are available to the firm for distribution.

Advancement

Quality Control Objective

.77 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for advancing personnel should be established to provide the firm with reasonable assurance that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume. Practices in advancing personnel have important implications for the quality of a firm's work. Qualifications that personnel selected for advancement should possess include, but are not limited to, character, intelligence, judgment, and motivation.¹²

Illustrative Example of Design Deficiencies

.78 Finding—The firm has not established specific policies and procedures regarding the qualifications necessary for each level of responsibility within the firm and for the advancement of personnel. However, we did not encounter any situation where the firm's personnel did not have the qualifications necessary to fulfill their responsibilities.¹³

Recommendation—We recommend that the firm establish and document the qualifications necessary for each level of responsibility and create a review structure to ascertain that personnel meet the firm's requirements before they are promoted.

Illustrative Example of Compliance Deficiencies

.79 Finding—The firm's policies and procedures require periodic personnel evaluations. Our review of the personnel files indicates that this policy is not always being adhered to for management level personnel.¹⁴

Recommendation—Personnel at all levels should be provided with constructive recommendations for improvements in their performance. The firm should develop a system for monitoring the timely completion of periodic evaluations of personnel.

Acceptance and Continuance of Clients

Quality Control Objective

.80 Statement on Quality Control Standards No. 1 states that—

Policies and procedures should be established for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management

¹² See footnote 5.

¹³ See footnote 10.

¹⁴ See footnote 10.

lacks integrity. Suggesting that there should be procedures for this purpose does not imply that a firm vouches for the integrity or reliability of a client, nor does it imply that a firm has a duty to anyone but itself with respect to the acceptance, rejection, or retention of clients. However, prudence suggests that a firm be selective in determining its professional relationships.¹⁵

Illustrative Examples of Design Deficiencies

.81 Finding—The firm's policies and procedures do not require communication with the predecessor auditor of a prospective client as required by professional standards. During our review, we noted an instance where there was no documentation of communication with a predecessor auditor. However, we were informed by the firm's personnel that the required communication had been made orally.

Recommendation—The firm should revise its quality control document to require communication with predecessor auditors and to require that such communications be documented.

.82 Finding—The firm's quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance as clients, and for the periodic evaluation of all clients to ensure that the firm's criteria for client continuance are met. However, the firm does not require any specific documentation of such evaluations and we noted no documented evidence that evaluations had been performed. We were informed by the firm's owners that they had complied with their policies and procedures, but had not documented this information.

Recommendation—The firm's quality control policies and procedures should be revised to require documentation of its acceptance and continuance procedures and decisions. The firm should revise and implement client acceptance and continuance forms to ensure that all appropriate factors are considered in each case.

.83 Finding—The firm's quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance as clients. However, the firm does not have specific procedures for handling the acceptance of an engagement in a specialized industry for which it does not have the necessary industry expertise. During our review, we noted an instance where the firm accepted an engagement in a specialized industry when it had no prior experience in that industry and it did not update its library to include reference materials related to that area of practice. As a result, certain industry-specific audit procedures were not performed on that engagement. The firm has subsequently performed the omitted audit procedures to support the audit opinion issued.

Recommendation—The firm should revise its quality control policies and procedures for client acceptance to require that, when an engagement is accepted in a specialized industry for which the firm has no prior experience, a specific action plan be developed and documented for obtaining the necessary industry expertise. The firm should not perform engagements in specialized industries unless it obtains the appropriate experience or expertise. This matter should be emphasized during the firm's next inspection.

Illustrative Examples of Compliance Deficiencies

.84 Finding—The firm's quality control policies and procedures specify criteria that should be considered when making client continuance decisions and requires that such decisions be documented. During our review, we were unable to determine whether client continuance decisions had been made in accordance with the firm's policies. However, we were informed by the firm's owners that continuance decisions are discussed informally and that continuance is assumed by staff in the absence of instructions to discontinue service to the client.

Recommendation—The firm should comply with its policies and procedures by periodically evaluating its existing clients in accordance with the criteria set forth in its quality control document. The firm should also document such evaluations and decisions as required by firm policy, possibly through the use of a standardized form that could be examined as part of the planning process.

¹⁵ See footnote 5.

.85 Finding—The firm’s quality control policies and procedures regarding new client acceptance require the preparation and approval of a new client acceptance form to document the considerations and conclusions. During our review, we noted that the form was not prepared for all new clients. However, we were informed by the firm’s owners that appropriate considerations had been made in each case.

Recommendation—To ensure that all appropriate facts are considered when accepting a new client, the firm should comply with its policy of documenting its considerations and conclusions by completing the new client acceptance form for each new client.

Inspection

Quality Control Objective

.86 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for inspection should be established to provide the firm with reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures for inspection may be developed and performed by individuals acting on behalf of the firm’s management. The type of inspection procedures used will depend on the controls established by the firm and the assignment of responsibilities within the firm to implement its quality control policies and procedures.¹⁶

Illustrative Examples of Design Deficiencies

.87 Finding—The firm’s quality control policies and procedures do not require that a formal annual inspection program be performed. However, the firm does require pre-issuance reviews of each audit, review, and compilation report, the accompanying financial statements and the related working papers by both the engagement owner and an owner or a manager who is not otherwise associated with the engagement. The firm’s procedures do not require an annual review of the firm’s compliance with each element of quality control, nor do they require a written summary of deficiencies identified or corrective actions taken or planned to be taken.

Recommendation—The firm should revise its quality control policies and procedures to require that a formal annual inspection be performed. The firm’s inspections should address each of the elements of quality control in addition to engagements. The quality control policies and procedures should also require the preparation of written inspection reports that summarize the deficiencies identified and document the actions taken or planned to prevent similar deficiencies from occurring in the future.

.88 Finding—The firm’s inspection policies and procedures omit specialized industry knowledge as criteria in selecting inspectors. As a result, a manager reviewed several engagements in a specialized industry of which the manager had little knowledge. Our review of engagements in this industry, however, did not disclose any significant departures from professional standards.

Recommendation—The firm should revise its quality control policies and procedures to include technical expertise and relevant specialized industry knowledge as a criteria in selecting inspectors. In doing so, the firm can implement appropriate corrective actions for inspection findings.

.89 Finding—The firm’s inspection policies and procedures do not require the preparation of memoranda summarizing the results of the firm’s annual inspection program and the implementation of corrective actions. As a result, the firm did not document its monitoring of the actions taken in response to the inspection findings.

Recommendation—The firm should revise its quality control policies and procedures to require the preparation of an inspection memorandum summarizing findings, indicating recommended corrective actions, and setting

¹⁶ See footnote 5.

timetables for completing the corrective actions. At a minimum, the memorandum should be distributed to key management personnel and an owner should be designated to monitor the firm's compliance with the policy.

Illustrative Examples of Compliance Deficiencies

.90 Finding—The firm's policies and procedures require that findings on engagement reviews be summarized so that management can consider what types of actions, if any, are necessary. However, the firm did not summarize inspection findings from engagement reviews on the most recent inspection, even though each engagement owner considered and responded to findings on their individual engagements.

Recommendation—The firm should comply with its policy of summarizing inspection findings, considering the overall systems' implication of these findings and documenting management's monitoring of the actions taken. An owner in the firm should be designated to monitor the firm's compliance with this policy.

.91 Finding—The firm's quality control document requires that annual inspections be performed in accordance with the AICPA's "Guidelines on How to Perform an Internal Inspection." In the most recent inspection, however, the firm did not review certain elements of quality control.

Recommendation—The firm should comply with its quality control policies and procedures by using all of the recommended forms in the AICPA's "Guidelines on How to Perform an Internal Inspection." The use of these forms should result in the performance of all the required inspection procedures, including the review of all of the functional areas of quality control. In addition, an owner in the firm should be designated to monitor the firm's compliance with this policy.

.92 Finding—The firm's quality control policies and procedures require timely annual inspections. Our review revealed that the reports on the past two inspections were dated almost one year after the particular inspection year-end. As a result, the firm did not implement the recommended corrective actions prior to beginning subsequent engagements.

Recommendation—To maximize the benefits that can be gained from a timely inspection, the firm should perform its inspections in a timely manner so that corrective actions can be implemented before procedures and engagements are performed in the subsequent year. The managing owner of the firm should monitor the firm's timely performance of its annual inspection.

.93 Finding—The firm has a written quality control document that requires the firm to perform annual internal inspections. However, during our review, we noted that the firm did not perform annual inspections as required. If an adequate and timely inspection had been performed each year, many of the departures from professional standards that were noted during our review probably would have been identified and corrected.

Recommendation—The firm should comply with its quality control policies and procedures regarding inspection, and the managing owner of the firm should monitor the firm's compliance with it.

Membership Requirements

PCPS & SECPS Membership Requirements

.94 Finding—The firm's policies and procedures require that each professional in the firm participate in at least 120 hours of continuing professional education every three years, but not less than 20 hours each year. Our review disclosed that, for the period ended June 30, 19XX, several of the firm's management personnel failed to comply with the three-year requirement.

Recommendation—The firm should establish procedures to monitor compliance, on a timely basis, with the section's continuing education requirements.

.95 Finding—The section requires that all professional staff, including CPAs and non-CPAs, participate in at least 120 hours of continuing professional education every three years with a minimum of 20 hours per year. The firm's policy is not consistent with this requirement, since its policy states that only CPAs are required to participate in the hours prescribed by the section. As a result, a significant number of professionals did not comply with the section's membership requirements since the firm did not monitor compliance by professionals who are not CPAs.

Recommendation—The firm should expand its continuing professional education requirements to encompass both CPAs and other professionals.

.96 Finding—The firm's quality control policies and procedures are not consistent with the section's membership requirements which require each member firm to ensure that a majority of the owners of the firm are CPAs, and that the firm can legally engage in the practice of public accounting. Although the firm is qualified to practice under state law, only one of the owners is a CPA. This does not meet the majority requirement.

Recommendation—The firm should revise its policies and procedures to ensure compliance with all membership requirements. In addition, the firm should take steps necessary to be in compliance with this membership requirement as soon as possible.

SECPS Membership Requirements

.97 Finding—The section's membership requirements require that each member firm establish policies and procedures for a concurring review of the report and financial statements by a partner other than the audit partner-in-charge of an SEC engagement before the issuance of an audit report on the financial statements of an SEC engagement. These policies and procedures should cover such areas as (1) qualifications of the concurring reviewer, (2) nature, extent, and timing of the review, and (3) documentation required evidencing that the reviewer had complied with the firm's policies and procedures for the concurring review. During our review of the working papers on these types of clients, we found inconsistency in the extent of the review and in the types of documentation contained in the working papers. However, we were satisfied that a comprehensive review was performed by qualified individuals.

Recommendation—We recommend that the firm's quality control policies and procedures be revised to include specific requirements regarding concurring review including the nature and extent of the review and the types of documentation required. This may include the implementation of a concurring reviewer's checklist and/or a requirement that the reviewer initial all memoranda and selected working papers, in addition to the report and financial statements.

.98 Appendix A

Sample Letter of Comments for the SECPS Peer Review Program

[AICPA or other appropriate letterhead]

September 15, 19__

[Should correspond with date of report]

To the Owners
Jones, Smith & Co.

We have reviewed the system of quality control for the accounting and auditing practice of Jones, Smith & Co. (the firm) in effect for the year ended June 30, 19____, and have issued our report thereon dated September 15, 19____ (which was qualified as described therein).^{*} This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon your system of quality control and your compliance with it and with the membership requirements of the SEC practice section of the AICPA Division for CPA Firms (the section). Our review was performed in accordance with the standards promulgated by the peer review committee of the section; however, our review would not necessarily disclose all weaknesses in the system or lack of compliance with it or with the membership requirements of the section because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the procedure may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. As a result of our review, we have the following comments:

Matters That Resulted in a Qualified Report[†]**Supervision**

Finding—Our review disclosed that the firm's quality control policies and procedures do not provide a means of ensuring that the financial statements reported on include all relevant disclosures. As a result, we noted financial statements that did not include all of the disclosures required by generally accepted accounting principles, and in one instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.

Recommendation—The firm should adopt procedures to ensure that clients' financial statements include all relevant disclosures, such as by obtaining or developing comprehensive financial statement disclosure and reporting checklists.

Consultation

Finding—Our review disclosed that the firm's quality control policies and procedures for consultation with designated parties outside the firm were not followed on two engagements. One engagement, discussed above, involved a material error in a financial statement, on which the firm had issued an unqualified report. On the other engagement, the firm had issued an unqualified audit report when it was not independent. In both cases, we concluded that adherence to the firm's consultation policies and procedures probably would have prevented the issuance of these reports, which the firm has since recalled.

Recommendation—The firm should (1) reemphasize the importance of its quality control policies and procedures for outside consultation, (2) more closely monitor compliance with its consultation policies and procedures during the preissuance review of engagements, and (3) emphasize these policies and procedures in its next inspection.

^{*} To be included if the review team issues a qualified or adverse report. The wording should be tailored to fit the circumstances.

[†] This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.

Matters That Did Not Result in a Qualified Report**Client Acceptance**

Finding—The firm's quality control policies and procedures require that the managing owner approve the acceptance of new clients and document such approval. We noted several instances where this had not been done. The letter of comments issued in connection with the firm's prior peer review also noted that this policy had not been followed in a number of instances.

Recommendation—We recommend that the firm revise its new client information form, as it indicated it would in its prior letter of response, to provide an appropriate place for the managing owner's signature evidencing approval. In addition, an account number should not be assigned to a new client until this form has been completed.

Independence

Finding—The firm's quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence. However, the firm does not require any specific documentation of such resolutions. We noted that there was no documentation supporting such resolutions.

Recommendation—We recommend that the firm amend its quality control policies and procedures to require documentation of the resolution of independence questions.

Supervision

Finding—Our review disclosed that on several audit engagements the firm's standard programs for testing related-party transactions and subsequent events were not used as required by firm policy. However, we were able to satisfy ourselves that sufficient audit procedures had been performed in these areas.

Recommendation—The firm should reemphasize its policy of using the standard programs as required by its auditing and accounting manual.

Finding—The firm's quality control policies and procedures require the use of standard audit and work programs. However, in one recently acquired office of the firm, representing a small portion of the firm's practice, the firm's standard audit and work programs have not been used consistently.

Recommendation—The firm should reemphasize the need to comply with its policies and procedures. In addition, an owner from another office should be assigned the responsibility for training personnel of the acquired office in the use of the firm's standard programs.

Continuing Professional Education

Finding—The firm's quality control policies, and the membership requirements of the section, require each professional to obtain at least 20 hours of continuing education annually and at least 120 hours every three years. However, the firm does not have adequate procedures to monitor compliance with this policy. As a result, our review disclosed that five of the firm's sixty professionals had not participated in the required number of hours of qualifying continuing education.

Recommendation—The firm should make sure that the five professionals referred to above obtain a sufficient number of continuing education hours to meet the section's annual and three-year requirements for its current educational year.

The foregoing matters were considered in determining our opinion set forth in our report dated September 15, 19____, and this letter does not change that report.

Johnson & Co. [for
review by
a firm]

or

William Brown
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

.99 Appendix B**Sample On-Site Letter of Comments for the AICPA Peer Review Program**

[AICPA or other appropriate letterhead]

September 15, 19____

[Should correspond with date of report]

To the Owners

Able, Baker & Co.

or

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [Name of Firm] (the firm) in effect for the year ended June 30, 19____, and have issued our report thereon dated September 15, 19____ (, which was qualified as described therein).^{*} This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon the firm's system of quality control and its compliance with that system (and with the membership requirements of the private companies practice section).^{**} Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants however, our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it (and with the membership requirements of the section)^{**} because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the procedure may become inadequate because of changes in conditions or that the degree of compliance with the procedure may deteriorate. As a result of our review, we have the following comments:

Matters That Resulted in a Qualified Report^{*}**Supervision**

Finding—The firm's quality control policies and procedures do not require owner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but emphasize the importance of proper planning to the conduct of the engagement. We found one engagement in which, as a result of a lack of involvement, including timely supervision, by the engagement owner in planning the audit, the work performed on receivables and inventory did not appear to support the firm's opinion on the financial statements. (As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.)

Recommendation—The firm's quality control policies and procedures should be reviewed to provide, at a minimum, for timely owner review of the preliminary audit plan and the audit program.

Matters That Did Not Result in a Qualified Report^{*}**Supervision**

Finding—Our review disclosed several engagements for which financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional

^{*} Include these captions only when the report is qualified or adverse.

^{**} These phrases should be used only if the reviewed firm is a member of the private companies practice section.

standards, but in each case we noted that the firm had not complied with its policy requiring completion of a financial reporting and disclosure checklist.

Recommendation—The firm should comply with its policy requiring completion of its financial reporting and disclosure checklist. We recommend that the firm emphasize the importance of this policy to all personnel in its training sessions.

Consultation

Finding—Our review disclosed that the firm’s reference library contains outdated editions of industry audit and accounting guides for industries in which some of the firm’s clients operate. As a result, we found a few instances where financial statement formats departed, although not in material respects, from current practice.

Recommendation—The firm should assign to one individual the responsibility for ensuring that the library is comprehensive and up to date. That individual should monitor new publications, determine which should be obtained, and periodically advise professional personnel of additions to the library.

The foregoing matters were considered in determining our opinion set forth in our report dated September 15, 19____, and this letter does not change that report.

Johnson & Co. [for
review by
a firm]

or

William Brown
Team Captain [for review by
an association
sponsored or
committee
appointed
review team]

.100

Sample Off-Site Letter of Comments for the AICPA Peer Review Program

[State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"]

August 31, 19____

To the Owners
Able, Baker & Co.
or

To John B. Baker, CPA

We have performed an off-site peer review with respect to the accounting practice of [Name of Firm] for the year ended June 30, 19____, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants, and have issued our report thereon dated August 31, 19____ (which was qualified/adverse * as described therein). This letter should be read in conjunction with that report.

An off-site peer review consists only of reading selected financial statements and the accountant's compilation or review report thereon for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them. However, the following matters did come to our attention during our review.

Matters That Resulted in a Qualified or Adverse Report *

1. Finding—During our review, we noted that the firm did not qualify its reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles.

Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports which should have been modified to reflect a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

2. Finding—In the engagements that we reviewed, disclosures of related-party transactions and lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omission was not disclosed in the accountants' reports.

Recommendation—We recommend that the firm review the professional standards governing disclosures of related-party transactions and lease obligations and disseminate information regarding the disclosure requirements to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all necessary related-party transactions and lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.

3. Finding—During our review of the accountants' reports issued by the firm, we noted numerous instances in which the accompanying financial statements departed from professional standards and on which the accountants' reports were not appropriately qualified. These included the following:

- Failure to disclose material intercompany transactions
- Failure to appropriately recognize revenue

* This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.

- Failure to present financial statements in a proper format
- Failure to recognize conflicting or incorrect information within the financial statements presented

In one instance, the firm has discussed the departures with its client and decided to recall its report and restate the accompanying financial statements.

Recommendation—We recommend that the firm establish a means of ensuring its compliance with professional standards on accounting engagements. Such means might include continuing professional education in accounting and reporting, use of a reporting and disclosure checklist on accounting engagements, or a “cold” review of reports and financial statements prior to issuance.

4. Finding—On substantially all the engagements that we reviewed, we noted that the firm did not comply with the AICPA Statement on Standards for Accounting and Review Services for reporting on comparative financial statements and going concern issues.

Recommendation—We recommend that the firm review the requirements for reporting on comparative financial statements and revise the standard reports used by the firm to conform with these requirements. Also, the firm should review the requirements governing reporting on going concern issues and provide guidance to the staff in this area.

Matters That Did Not Result in a Qualified or Adverse Report *

5. Finding—During our review of computer-generated compiled financial statements prepared by the firm, we noted that the firm failed to indicate the level of responsibility it was taking for supplemental data presented with the basic financial statements.

Recommendation—The firm should revise the standard reports used by the firm to conform with professional standards governing reporting on supplemental data presented with basic financial statements.

* This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.

6. Finding—We noted that computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) were properly reported on, but they used titles normally associated with a GAAP presentation.

Recommendation—The firm should review the professional standards governing the titles to be used when financial statements are prepared on a comprehensive basis of accounting other than GAAP and make sure that the software used by the firm is adjusted to conform with these standards. Until the software is revised, the firm should manually prepare the compiled financial statements in accordance with professional standards.

The foregoing matters were considered in preparing our report dated August 31, 19____, and this letter does not change that report.

William Brown [for
review by
a firm]

or

William Brown
Reviewer [for review by
an association
sponsored or
committee
appointed
reviewer]

.101 Appendix C

Checklist for Reviewing Drafts of Letters of Comments

	Yes	No *
1. Do the first three paragraphs and the last paragraph of the letter of comments (LOC) conform with the standard LOC included in the applicable standards? *	_____	_____
2. If the report is qualified or adverse, is the first section of the report entitled "Matters that Resulted in a Qualified (Adverse) Report?"	_____	_____
3. Are headings included for each quality control element on which there is a comment?	_____	_____
4. Is each finding and recommendation clearly captioned?	_____	_____
5. Are findings written with a systems orientation?	_____	_____
6. Are findings caused by the same quality control deficiency grouped into a single comment?	_____	_____
7. Are general terms used to indicate frequency of occurrence rather than specific numbers?	_____	_____
8. Have you avoided identifying, by name or otherwise, specific engagements, individuals, or offices?	_____	_____
9. Are comments written in a succinct, but complete manner (without excessive details)?	_____	_____
10. Are the findings clearly understandable to someone not familiar with the specific engagement and functional area findings?	_____	_____
11. Are findings written in a specific enough manner so that the comment will not automatically be repeated on the next review?	_____	_____
12. Have personal preference items been excluded from the letter?	_____	_____
13. Is the letter of comments free of all references to specific technical standards?	_____	_____
14. Have third-party practice aids been referred to in general terms?	_____	_____
15. Has the "loop been closed" in all cases in which performance deficiencies are mentioned?	_____	_____
16. Are repeat comments clearly identified?	_____	_____

* All "no" answers should be resolved before the letter of comments is finalized.

.102 Appendix D**Examples of Poorly Written Letter of Comments Items**

This appendix contains illustrative examples of poorly written items included in letters of comments. Each example includes a critique of the deficiencies noted. Reviewers should focus on the points included in the critiques. It is important to remember that a well-written letter of comments enhances the peer or quality review documents.

.103 Example 1:

In one audit engagement, the firm's files did not contain a letter from the client's attorney as to litigation, etc. In another engagement, attorney responses were dated several weeks prior to the date of the auditor's report.

The firm should add a step to its audit programs to require documentation of the procedures performed to obtain updated responses to attorney letter replies received prior to the end of field work.

Critique of Example 1:

- The finding does not indicate what the firm's quality control policies and procedures do or do not require regarding the obtaining of letters of inquiry from a client's attorney. Further, the finding does not describe the implications of the deficiencies noted.
- The finding is written in an engagement-oriented format rather than a systems-oriented format. As described in the guidance material, the letter of comments should include comments regarding the design of the reviewed firm's system of quality control or its compliance with that system.
- The finding cites the exact number of instances noted rather than using general terms to indicate frequency, such as "in some instances," "frequently," or "an isolated case."
- The example does not include captions highlighting the findings and recommendations.

Suggested Wording for Example 1:

Finding—The firm's quality control policies and procedures require obtaining letters of inquiry from a client's attorney for all audit engagements. However, we noted instances where the attorney's letters had not been obtained or were dated several weeks prior to the auditor's report. Subsequent to our review, the firm has requested and received the missing attorney letters and received updated responses for the attorney letters that were dated prior to the date of the auditor's report.

Recommendation—The firm should reemphasize the importance of complying with its policy of obtaining attorney letters for all auditing engagements. In addition, during their review of engagement working papers, supervisory personnel should ensure that attorney letters are dated as close to the completion of fieldwork as is practicable in the circumstances. The owners of the firm should ensure that these documents are reviewed as part of their review of working papers.

.104 Example 2:

In a few instances, the financial statements did not disclose the carrying basis of property, plant and equipment, and whether or not any of the assets were donated.

Critique of Example 2:

- The finding does not have a recommendation.
- The finding does not indicate the effect on the financial statements, if any, as a result of the deficiencies noted, and it is not clear why the finding is important.

- The finding does not indicate the likely cause of the deficiency (for example, inadequate financial statement disclosure and reporting checklist or lack of appropriate owner review).

Suggested Wording for Example 2:

Finding—The firm’s quality control policies and procedures require the completion of a reporting and disclosure checklist for all audit engagements. However, on several engagements reviewed, the financial statements did not include all the disclosures required by generally accepted accounting principles. None of the missing disclosures were of enough significance to make the financial statements misleading.

Recommendation—The firm should reemphasize the importance of thoroughly completing its comprehensive financial statement reporting and disclosure checklists. The owners should carefully review the report and disclosure checklist as part of the final financial statement review.

.105 Example 3:

Finding—Every engagement we reviewed was determined to be in compliance in all material respects with professional standards. However, in a number of engagements reviewed, there were inadequate disclosures regarding related party matters.

Recommendation—All material related party transactions should be disclosed in the financial statements as required by FASB Statement No. 57.

Critique of Example 3:

- The finding and recommendation do not indicate what the systems implications of the deficiency are. Why were the disclosures inadequate? Were firm policies followed?
- Generally, a finding should include a conclusion as to the effect, if any, the deficiencies had on the financial statements reviewed.
- Recommendations that essentially say “follow professional standards,” as in the example, are not helpful to the firm. Instead, recommendations should address the underlying cause of the deficiency.
- The recommendation refers to a specific technical pronouncement without a clear indication of the nature of the standard.

Suggested Wording for Example 3:

Finding—The firm’s policies and procedures require the completion of financial statement disclosure checklists for all audit, review and full disclosure compilation engagements. However, our review disclosed several instances where the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the area of related party matters. The incomplete disclosures were not of such significance as to make the financial statements misleading.

Recommendation—The firm should reemphasize its policy of using disclosure checklists on all full disclosure engagements. The owners should carefully review the disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with staff the disclosure requirements for related party transactions.

.106 Example 4:

Finding—The firm’s procedural documents do not provide guidance with respect to audit sampling procedures, or analytical review procedures.

Recommendation—The firm should include, in its accounting manual, guidance on audit sampling procedures and analytical review procedures.

Critique of Example 4:

- The finding does not describe the engagement deficiencies, if any, resulting from this design deficiency.

Suggested Wording for Example 4:

Finding—The firm’s quality control policies and procedures provide for audit sampling procedures and analytical review procedures. However, the firm has not established procedures for performance or the documentation required for these areas. As a result, we noted instances where the firm performed nonstatistical sampling, but did not document its considerations. In addition, on several engagements reviewed, there was no documentation of analytical review procedures. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

Recommendation—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results. This can be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards. In addition, the firm should revise its policies to require specific analytical review procedures and the documentation of such procedures.

.107 Example 5:

Finding—The firm does not use planning programs and, as a result, planning procedures are not always fully documented in engagement working papers. On certain of the engagements reviewed, there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other audit planning considerations.

Recommendation—The firm should develop or obtain a planning program for use on each engagement.

Critique of Example 5:

- The finding does not indicate what the system does or does not require regarding audit planning. Also, the finding does not indicate whether the reviewer believes sufficient planning procedures were performed on the engagements reviewed.
- A recommendation for a “canned” program or checklist is not particularly helpful, as it is too specific. Rather, the recommendation should indicate that the firm should establish policies or procedures to ensure that planning considerations are documented, such as by developing or obtaining a planning checklist that deals with the areas cited. The recommendation might also note that proper planning may reduce audit time overall.

Suggested Wording for Example 5:

Finding—The firm’s quality control policies and procedures require documentation of audit planning considerations. The firm does not require the use of planning programs, checklists, or other appropriate means of documenting such planning considerations. During our review, we noted there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other planning considerations. However, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

Recommendation—The firm should establish policies and procedures to ensure that planning considerations are documented, such as by obtaining or developing a planning checklist for use on audit engagements.

.108 Example 6:

Finding—The firm’s quality control policies and procedures require all working papers to be reviewed by someone at a higher, or at least the same, level.

Recommendation—The firm should reemphasize to its professional personnel the importance of reviews. This requirement could be added to the owner’s review checklists to ensure compliance.

Critique of Example 6:

- The finding does not indicate that the firm did not comply with its policy and, if not, whether this resulted in any engagement deficiencies.

Suggested Wording for Example 6:

Finding—On several of the engagements reviewed, we noted that a review by an owner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance as to make financial statements misleading.

Recommendation—The firm should comply with its policy of having a second owner who is not associated with the engagement review each engagement. To ensure compliance with this policy, the firm should require that the second owner initial the report control sheet before the report is issued.

.109 Appendix E**Guidance for Determining Whether a Finding Appeared in the Letter Issued in Connection With a Prior Peer or Quality Review**

Paragraph .24(o) states—

If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm's previous peer or quality review, this fact ordinarily should be noted in describing the matter.

A finding would be considered a repeat finding if the deficiencies noted during the current review are caused by the same quality control system weakness noted in the letter issued in connection with the reviewed firm's prior peer or quality review. To determine whether a finding is a repeat finding, the team captain should read the prior letter of comments and letter of response and evaluate whether the actions outlined in the response have been implemented as promised. If the promised actions have been implemented and the same engagement deficiencies are occurring (such as incomplete or omitted disclosure deficiencies), the team captain should, with the reviewed firm's assistance, determine the weakness in the firm's quality control system, which could be causing the deficiencies to continue to occur.

.110 Example 1:

This finding was included in the firm's previous review.

Prior Finding—The firm's quality control policies and procedures require the firm to complete a reporting and disclosure checklist on all engagements. Our review discovered that these checklists were not completed on all engagements. Disclosure deficiencies were noted in such areas as related-party transactions and lease commitments. None of these disclosures were considered significant departures from professional standards.

Prior Recommendation—The firm should reemphasize its policies regarding the completion of a comprehensive disclosure checklist on all accounting and auditing engagements. These checklists should be completed by a member of the engagement team, reviewed by the engagement owner, and retained with the engagement working papers.

Prior Response—The firm has reemphasized its policies regarding the completion of a comprehensive disclosure checklist on all accounting and auditing engagements. These checklists will be completed by a member of the engagement team, reviewed by the engagement owner, and retained with the engagement working papers.

Results on Current Review

In the performance of the current year's review, the team captain noted the firm personnel are completing a disclosure and reporting checklist on all accounting and auditing engagements. However, some disclosure deficiencies are still noted in the areas of deferred taxes and concentration of credit risk.

Comparison of Prior and Current Deficiencies

In this example, the firm reinforced its policy on the use of a disclosure checklist as promised. Therefore, the team captain must look for other weaknesses in the firm's quality control system which could be causing the disclosure deficiencies to continue to occur.

The team captain noted that concentration of credit risk was covered by a recent pronouncement and that deferred taxes was a complex area that often requires special training. Upon further investigation, the team captain also found that the firm has taken the continuing education required by the state board of accountancy and the AICPA, but most of the classes did not relate to accounting and auditing. Therefore, the team captain concluded that the cause of the disclosure deficiencies is a weakness in the firm's professional development policies because those policies do not require that sufficient education be taken on new accounting pronouncements and on specialized

areas. Since this was not noted in the prior review, the finding in the current review would not be considered a repeat finding.

.111 Example 2:

This finding was included in the firm's previous review.

Prior Finding—The firm's policies and procedures require consultation in situations that involve complex subject matters or newly issued technical pronouncements. During our review, we noted several instances where the firm researched the issues encountered but failed to consult with the individual designated in the quality control document. The firm issued several reports for a governmental entity, but did not include all required wording to comply with professional standards. The reporting deficiencies were not of such significance as to make the auditor's report misleading.

Prior Recommendation—The firm should reemphasize its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

Prior Response—In a meeting held on October 15, 19____, we reviewed our policies regarding consultation with all of our accounting and auditing staff and encouraged the staff to consult with or use authoritative sources on complex or unusual matters.

Results on Current Review

In the performance of the current year's review, the review team confirmed that the meeting of October 15 took place and that the firm's consultation policies were reviewed at that meeting. However, the review team also found that issues requiring consultation, such as a change in the method of recording inventory and pooling of interests, were not reported appropriately.

Comparison of Prior and Current Deficiencies

Upon further research, the team captain discovered that the staff members researched these issues internally, but failed to consult with the partner designated as the consultant for the issues involved as required under the firm's quality control system. Since the current engagement deficiencies are caused by the same weakness in the firm's quality control system noted in the prior review, this finding would be considered a repeat finding in the current review.

.112 Appendix F**Case Studies for Writing Letters of Comments**

Reviewers are often asked to revise letters of comments because they describe engagement deficiencies without identifying the deficiencies in the firm's quality control system that caused them. If the reviewer does not understand the underlying cause, he or she cannot make recommendations to the firm that will reduce the likelihood of the deficiencies recurring.

Because the exact same engagement deficiencies may come from completely different causes, reviewers should make sure findings and recommendations are based on careful thought and discussions with the owners of the firm about their underlying cause(s). To determine the underlying cause(s) of engagement deficiencies, a reviewer sometimes needs to expand testing in an area. This expanded testing will also allow the reviewer to determine whether a deficiency is isolated or pervasive.

In evaluating engagement deficiencies, the review team should consider all aspects of a firm's quality control system and try to determine the cause(s) of those deficiencies. In some cases the cause(s) of certain deficiencies from a quality control perspective may not be clear and may appear to be the result of a combination of factors. When the most likely cause(s) of the deficiencies cannot be readily identified, the review team should hold further discussions with the owners of the reviewed firm. Together, the reviewed firm and the review team will be able to identify the cause(s) of the deficiencies and develop a plan for reducing the likelihood of their recurrence.

The following case studies are designed to provide review teams with examples of the process of searching for the underlying cause(s) of engagement deficiencies.

.113 Case Study One

Facts About the Reviewed Firm: ABC, P.C. is a CPA firm with two owners, one manager, and four other professional staff. The manager has six years of experience and the other four professionals have from six months to two years of experience.

Prior Peer Review Findings: On the firm's previous peer review, it received an unqualified report with a letter of comments citing a failure to comply with the firm's policies and procedures for documenting analytical review procedures and the engagement team's assessment of risk and materiality considerations. The reviewed firm's responses to the recommendations of the review team appeared to address the deficiencies adequately and appeared to be comprehensive and feasible in the circumstances.

Current Peer Review Engagement Findings: The firm performed only one audit engagement subject to government auditing standards, which was an audit of a not-for-profit organization receiving Federal awards and subject to the audit requirements set forth in OMB Circular A-133. As required, this engagement was included in the scope of the peer review and the review team noted the following engagement deficiencies:

1. A third-party developed audit program for governmental engagements was included in the working papers, but it was not properly initialed or dated at the completion of the procedures.
2. The firm did not issue a report on compliance with general requirements as required by OMB Circular A-133.
3. During the audit, the firm noted the client had made a non-qualifying expenditure and had failed to establish a drug-free workplace policy. These are areas of noncompliance with general requirements.
4. The firm issued a report on irregularities and illegal acts even though no such events were discovered during the performance of the audit.

During the discussions of the above matters with the manager on the engagement, the review team learned the following:

1. The firm borrowed a governmental audit program from another CPA firm in the same building, since this was the only engagement the reviewed firm performed pursuant to *Government Auditing Standards*.
2. The non-qualifying expenditure was a political contribution of \$25 to a candidate running for a local office. Because one of the owners of the CPA firm served as treasurer of the candidate's political campaign, the manager decided the contribution did not need to be mentioned in a report.

Current Peer Review Quality Control System Finding: While the manager agreed the proper reports had not been issued and indicated the owner in charge of the engagement had pressured him into completing the engagement before the owner left on vacation, the review team explored further the underlying causes of the engagement deficiencies with the firm's owners. During this exploration, it learned:

1. The owner in charge of the engagement ("engagement owner") had no prior government auditing experience.
2. Because this was the only engagement performed by the firm under *Government Auditing Standards* and because the engagement owner was trying to keep the engagement costs to a minimum, only the manager on the engagement had taken any governmental accounting or auditing related continuing professional education and that training only consisted of a four-hour self-study update on *Government Auditing Standards*.
3. Even though the firm's consultation policies require that an adequate up-to-date library be maintained, the firm's library did not contain copies of *Government Auditing Standards*, the Single Audit Act, OMB Circular A-133, or a third-party auditing or accounting manual for the performance of engagements pursuant to governmental auditing standards.
4. The firm accepted the audit engagement because one of the owners did not want to lose a business opportunity to a competitor and had indicated at a local chamber of commerce function that the firm performed audits of not-for-profit organizations receiving federal awards.

Possible Letter of Comment Items Resulting From This Case: Depending on the conclusions reached as to the underlying cause of the deficiencies, the related finding and recommendation included in the letter of comments might be one of the following—

Consultation

Finding—The firm's policies and procedures require an adequate reference library be maintained as a resource for performing engagements in specialized areas and for solving problems identified on engagements. During our review, we noted that the firm did not have copies of various government auditing standards even though it had a client, the audit of which is subject to those standards. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation—The firm should designate an individual within the firm to ensure that its library, or access to such a library, provides adequate resources for performing engagements in all areas in which the clients of the firm practice and for solving accounting and auditing problems identified on engagements.

Professional Development

Finding—The firm's policies require all professional staff to comply with applicable state board of accountancy and AICPA continuing professional education requirements. While the professional staff was in compliance with this policy, sufficient courses were not taken in the area of government accounting and auditing to comply with *Government Auditing Standards*, a new practice area for the

firm. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation—The firm’s policies and procedures for professional development should be revised to ensure that firm personnel participate in training courses in all areas in which the firm practices and to monitor compliance with the professional education requirements outlined in *Government Auditing Standards*.

Acceptance of Clients

Finding—The firm’s quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance. During our review, we noted the firm accepted an engagement subject to *Government Auditing Standards* when it had no prior experience in that area and its library did not include materials related to such engagements. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation for Improvement—The firm should follow its quality control policies for client acceptance and not accept engagements in specialized industries unless it obtains the expertise necessary to perform that engagement in accordance with professional standards. This matter should be monitored during the firm’s next inspection.

.114 Case Study Two

Facts About the Reviewed Firm: XYZ & Associates is a CPA firm with three owners and four professional staff. Two of the owners perform primarily tax work, but they also perform engagements involving compilation reports on complete sets of financial statements (“full disclosure compilations”) and compilation reports on financial statements that omit substantially all disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting (“compilations that omit disclosures”). The third owner, who also prepares some tax returns and performs some compilation engagements, is responsible for all of the firm’s audit and review engagements. Each owner is responsible for reviewing his own work.

The firm uses practice aids developed by a third-party provider and has identified in its quality control policies and procedures those forms and checklists that are required and those that are optional. The firm’s accounting and auditing practice is comprised of 15 audits and reviews for 2,100 hours and 65 compilations for 1,100 hours.

Prior Peer Review Findings: On the firm’s previous review, it received an unqualified report with a letter of comments citing the firm’s failure to carefully complete reporting and disclosure checklists and the incomplete or omitted disclosures noted on the engagements reviewed. (The specific omissions were not identified.)

Current Peer Review Engagement Findings: The review team noted the following deficiencies on the engagements reviewed:

1. On the two full-disclosure compilation engagements selected for review, various disclosures were consistently omitted, including: terms of operating leases; concentrations of credit risk relating to bank balances and trade accounts receivable; interest and income taxes paid when the indirect method was used for the cash flow statement; and noncash financing and investing activities for the cash flow statement.
2. On the audit and review engagements selected for review, only a few isolated and minor disclosures were missed.

Even though the omitted disclosures on the compilation engagements did not make any of the financial statements misleading, the review team believed they reflected a weakness in the firm's quality control system for which the underlying cause needed to be identified. Since the review team believed it needed further information to identify the underlying cause, it selected three additional full-disclosure compilations—one for each owner. The review team found similar missing disclosures on the compilations performed by the two owners primarily responsible for the tax practice (who were also the owners on the two compilations initially reviewed) and no disclosure deficiencies on the compilation engagement performed by the owner responsible for the audit practice.

Current Quality Control System Findings: Based on a comparison of the original engagements selected for review and the additional engagements selected, the review team determined that the firm had complied with its policies and procedures requiring the completion of financial statement reporting and disclosure checklists on all engagements involving a report on a full set of financial statements. While a review of the completed reporting and disclosure checklists indicated each of the omitted disclosures was on the checklist (though some were referred to only briefly), the owners' responses were inappropriately marked "N/A" or "yes."

Based on the expanded scope and discussions with the owners, the review team was able to determine that the two owners primarily responsible for the tax practice were not reviewing the disclosure checklists carefully. The two owners also admitted they were not familiar with the disclosure requirements that were omitted and had not reviewed the disclosure checklists carefully because such review was time consuming. Even though all CPAs in the firm had met their state board of accountancy continuing professional education requirements, the review team noticed that these two owners had taken no training courses on accounting and auditing topics during the last three years.

Possible Letter of Comment Item Resulting From This Case: The review team determined the finding was not a repeat from the firm's prior review because the underlying cause of the engagement deficiencies was different and, after discussing possible solutions with the firm's owners to correct the weakness identified, decided the following supervision finding and recommendation should be included in the letter of comments:

Supervision

Finding—The firm's quality control policies and procedures require all accounting and auditing engagements to be properly supervised and reviewed. Our review noted that certain compilation engagements involving a complete set of financial statements were reviewed by members of the firm whose primary practice area was not financial statement engagements and those individuals had not participated in sufficient accounting courses during the period. The financial statements for these engagements did not include all of the disclosures required by professional standards, particularly in the areas of concentrations of credit risk and cash flow statements. None of the missing disclosures were of such significance as to make the financial statements misleading.

Recommendation—The firm should revise its policies and procedures to require a preissuance review of full-disclosure compiled financial statements by a qualified individual. In addition, all firm members responsible for reviewing financial statement engagements should periodically take appropriate courses on accounting and auditing topics.

If the review team had determined that the owners had participated in a reasonable number of training courses on accounting and auditing topics and observed during its review that the disclosure checklists on compilation engagements were haphazardly completed, the review team would probably have concluded the matter was a repeat finding from the prior review and the following supervision finding and recommendation would have been included in the letter of comments:

Supervision

Finding—The firm's quality control policies and procedures require accounting and auditing engagements to be properly supervised and reviewed. During our review, we noted on several full-disclosure

compilation engagements that, though a owner reviewed the firm's report and the accompanying financial statements, the disclosure checklist required by firm policy on such engagements was inappropriately completed. As a result, the financial statements of those engagements did not include all of the disclosures required by professional standards, particularly in the areas of concentrations of credit risk and cash flow statements. None of the missing disclosures were of such significance as to make the financial statements misleading. A similar finding was reported in the firm's prior peer review.

Recommendation—The firm should revise its policies and procedures to require a preissuance review of full-disclosure compiled financial statements by a designated individual. In addition, guidance should be provided to firm members reminding them to diligently complete all disclosure checklists.

.115 Case Study Three

Facts About the Reviewed Firm: LMNOP, S.C., is a CPA firm with three owners and three other professional staff with experience ranging from one to five years. Two of the three owners are responsible for one audit each, while all the owners are responsible for compilation and review services. All owners and staff are significantly involved in tax preparation and related services, which is a sizable portion of the firm's practice.

Prior Peer Review Findings: This is the firm's initial peer review.

Current Peer Review Engagement Findings: While performing the review, the review team noted lack of documentation for the following areas of planning on the audit engagement selected for review:

- consideration of matters affecting the industry.
- preliminary judgment of materiality.
- analytical review procedures.
- internal control structure.
- assessment of risk.

Although the planning area of the audit program was initialed and dated, few working papers existed to support the audit program steps. In addition, documentation of a few other areas of the audit was also deficient and little documentation existed for the owner's review of the working papers.

After discussing the above findings with the owner and staff on the engagement and reviewing the firm's written responses to the matter for further consideration forms detailing the procedures performed by the firm, the review team determined that, though the firm had performed inadequate testing of internal control, sufficient planning procedures had been performed in all other areas, though those procedures were not documented. The review team was also able to conclude that similar deficiencies would be encountered on the other audit performed by the firm.

Current Peer Review Quality Control System Findings: The review team believes the firm's quality control policies and procedures are adequately designed for a firm of its size and that the library is appropriate since it contains, among other things, appropriate auditing and accounting practice aids purchased from a third-party provider. When asked by the review team about the reason for the lack of documentation and the inadequate testing of internal control, the owner indicated that they had encountered time constraints when completing the audit.

Possible Letter of Comment Items Resulting From This Case: The review team concluded a supervision comment such as the following should be included in the letter of comments because the owner's review of the engagement was not adequate to identify the documentation and performance deficiencies:

Supervision

Finding—The firm’s policies and procedures require a owner to review audit working papers, financial statements, and auditors’ reports. However, the firm’s planning working papers do not include documentation of the firm’s preliminary judgement about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests. Through discussion with firm personnel, we were able to satisfy ourselves that appropriate planning procedures in the above areas had been performed. However, inadequate testing was performed of the internal control structure in an instance where such testing was required. The firm has subsequently performed the omitted procedures to support the opinion issued on the engagement.

Recommendation—The owner responsible for the engagement should review and approve the engagement planning procedures. In addition, the owner should perform a more diligent review of the working papers, financial statements, and auditor’s report, and should document that review in the working papers.

The nature of this letter of comment finding and recommendation would differ entirely if—

1. The review team had learned during further discussions with the professional staff on the audit engagements that the staff was uncertain about how to perform the procedures outlined in the planning area of the audit program and the working papers necessary to support the work performed; or
2. The firm had provided its owners and professional staff with a substantial number of training courses in the tax area during the last three years, but few courses in the accounting area and none in the audit area, and the owners had indicated that training courses in the audit area were not beneficial to the firm because the firm only performs the two audits to fill in during its slower periods.

If these conditions had been encountered, the review team might have determined that a more thorough review of the working papers by the owners would not necessarily have found the performance deficiencies or the need for additional planning documentation. As a result, the review team might have decided the letter of comments should contain a finding for a design deficiency in the firm’s quality control system related to professional development as follows:

Professional Development

Finding—The firm’s quality control policies require all professional staff to participate in forty hours of continuing professional education each year. Even though the firm’s personnel met these requirements, the courses taken did not provide the firm’s personnel with sufficient information about auditing pronouncements and related procedures. As a result of inadequate training, on the audit engagement reviewed, the firm’s planning working papers did not include documentation of the firm’s preliminary judgments about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests. In addition, inadequate testing was performed of the internal control structure in an instance where such testing was required. The firm has subsequently performed the omitted procedures to support the opinion issued on that engagement.

Recommendation—The firm should revise its quality control policies to require firm personnel to participate in an appropriate amount of professional development courses relating to all the areas in which they perform services. In addition, the firm should assign an individual the responsibility of monitoring the professional development courses taken during the year to ensure that appropriate courses have been taken in all of the areas in which the firm practices.

.116 Case Study Four

Facts About the Reviewed Firm: AEIO & U is a CPA firm with four owners and ten other professional staff. The firm’s practice is predominantly accounting and auditing. While most professional staff perform some tax

services, one owner of the firm performs only tax services and supervises two seniors and one manager who perform only tax work.

Prior Peer Review Findings: Each of the firm's prior two reviews resulted in the issuance of an unqualified report without a letter of comment.

Current Peer Review Engagement Findings: While performing the review, the review team noted several engagements where the financial statements reported on by the firm did not include all of the disclosures required by generally accepted accounting principles. However, the deficiencies noted did not make the financial statements misleading. On each engagement on which disclosure deficiencies were noted, the firm's required reporting and disclosure checklist was inappropriately completed. Disclosure deficiencies were noted on engagements supervised by all of the firm's owners.

Current Quality Control System Finding: The review team believes the firm's quality control policies and procedures are suitably designed and appropriately modified throughout the years for changes in the firm's practice. The firm has adopted practice aids developed by a third-party provider for use on engagements and provided appropriate training to its accounting and auditing personnel on the use of the materials.

The firm belongs to an association of CPA firms and its annual inspections were performed by qualified members of that association. However, an inspection was not performed during the year of the peer review.

Though it appears on the surface that the firm has not complied with its supervision policies and procedures, upon investigation of the underlying cause of the deficiencies, the review team learned:

1. The background information provided by the firm during the planning stage of the review stated the firm's accounting and auditing hours grew by 15% while its total number of professional staff remained constant.
2. Interviews with owners of the firm involved in accounting and auditing revealed the firm's recent growth occurred predominantly in the not-for-profit area, a firm specialty. Rather than hire additional personnel during the firm's busy season, the firm assigned the two tax seniors to supervise the work on a few audit and review engagements. The firm also assigned one audit senior responsibility for supervising the field work on two audits of large not-for-profit entities even though that individual had minimal experience auditing such entities.

When the scope of the review was expanded to review two additional engagements prepared by the staff discussed above, similar deficiencies were found.

Possible Letter of Comments Item Resulting From This Case: The review team concluded that the deficiencies noted during the review were the result of the assignment of inexperienced personnel to engagements and that the following finding and recommendation should be included in the letter of comments:

Assigning Personnel to Engagements

Finding—The firm's quality control policies and procedures require that the owners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, on some engagements reviewed, the personnel below the owner level did not appear to have adequate experience to handle their assigned tasks. As a result, we noted several instances where the financial statements reported on by the firm did not include all of the disclosures required by generally accepted accounting principles. However, none of the missing disclosures were of such significance to make the financial statements misleading.

Recommendation—The firm should carefully consider the degree of technical training and proficiency required in the circumstances prior to making personnel assignments. When it is necessary to assign a person to a key role on an engagement who does not have sufficient experience to handle all the work

assigned to him or her, the owner in charge of the engagement should document how the engagement team will compensate for this deviation from firm policy.

.117 Case Study Five (This is a case study pertaining to a large firm. It includes helpful guidance on dealing with merged and acquired practices regardless of the size of the firm.)

Facts About the Reviewed Firm: B & B is a four-office CPA firm with the following characteristics:

	Office A	Office B	Office C	Office D	Firm Total
Owners	4	3	2	3	12
Other Prof	16	14	7	11	48
A&A Hours	15,000	13,000	7,000	8,000	43,000
SEC Clients	1	0	0	0	1
Yellow Book	3	2	1	2	8

The firm's main office, office A, was founded in 1972. Offices B, C, and D were acquired through mergers in 1984, 1989, and 1993, respectively. The most recent merger was effective July 1, 1993, the start of the firm's current peer review year. There were extensive financial negotiations prior to each of the mergers and both sides performed limited due diligence procedures with respect to the quality of the other firm's accounting and auditing and tax practices. During the peer review year ended June 30, 1994, approximately 45 percent of the firm's charged hours were in accounting and auditing, approximately 45 percent in tax, and the remainder in consulting. The firm's only SEC client is a mature, low risk company requiring about 400 hours to audit.

Prior Peer Review Findings: On the firm's previous peer review, it received an unqualified report with a letter of comment citing failure to comply with the firm's policies and procedures for documenting oral communications to audit committees required under SAS 61, "Communication With Audit Committees."

Current Peer Review Engagement Findings: The peer review covered all the owners in offices A and D. The review of office A included five audits, one subject to *Government Auditing Standards* and the firm's sole SEC client, two reviews, and one compilation. The peer review results in office A were excellent; the review team found only a few isolated and unrelated minor documentation deficiencies.

The review of office D included six audits (two for each owner), two reviews, and one compilation. On two of the audits the review team concluded the engagements did not comply with generally accepted auditing standards in all material respects, and on one of the review engagements, the review team concluded the engagement did not comply with the performance standards of the Statements on Standards for Accounting and Review Services in all material respects. In addition, the work on all of the other engagements reviewed had deficiencies.

The three engagements that did not conform with professional standards in all materials respects resulted from the following:

1. On an audit of a manufacturing company, only negative confirmation requests were circulated even though none of the three conditions for sending negative confirmations set forth in Section 330.20 of *AICPA Professional Standards* were met.
2. No legal letter was sent on one audit even though outside counsel had been consulted during the year in connection with potential litigation. Management stated in its management representation letter that the company was not a plaintiff or a defendant in any litigation matters, and that it was not aware of any unasserted claims or assessments.
3. A management representation letter was not obtained on one of the review engagements.

The review team expanded its scope to look at the legal letters and confirmation procedures on five additional audits in office D. In each case, positive confirmations were used appropriately and legal letters were obtained,

except on one audit where the client did not have any legal counsel and management represented in writing that the company was not involved in any litigation and was not aware of any unasserted claims or assessments. The review team also looked at the client representation letters on three additional review engagements, and noted that an appropriate letter was obtained in each case.

The firm immediately performed, under the direction of the Director of Accounting and Auditing in office A, the necessary additional procedures on the three engagements and concluded that the financial statements and the firm's report were appropriate in each case. The review team reviewed the additional work and agreed with the firm's conclusions in each case.

Current Quality Control System Finding: The results of the firm's inspection programs performed during each of the two years between peer reviews were excellent and covered the work of all owners. The firm does not conduct an inspection in a peer review year.

After extensive discussions with firm management in an attempt to discover the reasons for the poor quality work in office D, the review team learned the following:

1. The firm does not have any formal written policies for assessing the quality of the accounting and/or auditing practice of a potential merger or acquisition candidate prior to a merger or acquisition.
2. The merger negotiations focused almost exclusively on financial matters, and the firm performed limited due diligence procedures with respect to the quality of the work of the firm that became office D.
3. The only orientation office D personnel received regarding the firm's policies and procedures was a two-hour session four days after the effective date of the merger. That session primarily covered administrative matters.
4. There was no interchange of personnel on engagements between offices A, B, and C on the one hand and office D on the other.
5. No one from the three previously existing offices of the firm had performed any preissuance reviews of the working papers, financial statements, or reports issued by office D from the time of the merger until the peer review.

Possible Letter of Comments Item Resulting From This Case: Three of the nine engagements reviewed from the recently merged-in office D were not in conformity with professional standards and additional procedures had to be performed on them. The engagement deficiencies resulted from the lack of adequate policies for the evaluation of potential merger candidates and the failure to adequately train staff from the merged practice. If the review team concludes that an unqualified peer review report can be issued, the letter of comments might include the following finding and recommendation in the supervision area:

Supervision

Finding—The firm has very limited quality control policies and procedures for assessing the quality of the accounting and auditing practice of a potential merger or acquisition candidate and for providing reasonable assurance that personnel from a merged or acquired practice will comply with professional and firm standards. The firm merged with a smaller firm at the beginning of the peer review year. The peer review noted three instances where engagements in the merged office did not comply with generally accepted auditing standards or the Statements on Standards for Accounting and Review Services. In each case, the omitted procedures were performed promptly, and the client's financial statements and the firm's report were deemed to be appropriate.

Recommendation—We recommend that the firm establish written quality control policies and procedures to provide reasonable assurance that personnel from accounting and auditing practices acquired by merger or acquisition will comply with professional and firm standards. Such policies and procedures should include:

1. Performing appropriate due diligence procedures, including reviewing a sample of the potential merger or acquisition candidate's accounting and auditing engagements, prior to the merger or acquisition.
2. Providing training programs for the personnel from merged or acquired practices that cover the firm's policies and procedures for accounting and auditing engagements, and where necessary, professional standards.
3. Assigning personnel from existing offices to accounting and auditing engagements performed by personnel from the merged or acquired practice, and vice versa.
4. Requiring the firm's Director of Accounting and Auditing or designee to perform detailed preissuance reviews of the working papers, financial statements, and reports for some or all of the merged office's accounting and auditing engagements.

.118 Case Study Six

Facts About the Reviewed Firm: A and B is a CPA firm with four owners and sixteen professional staff.

Prior Peer Review Findings: The firm's prior peer review was unqualified without a letter of comment.

Current Peer Review Engagement Findings: During the review, the review team noted the reviewed firm issued a review report which included a final paragraph stating a lack of independence. The engagement file included a Review Engagement Work Program that contained a step related to independence and cautioned that a review report could not be issued if the firm was not independent.

Current Quality Control System Finding: After further investigation the review team learned the following:

1. The owner responsible for the engagement signed off as reviewing the engagement, but performed only a cursory review of the staff's work.
2. The staff member on the engagement had been with the firm three years, but worked almost exclusively in the tax area.
3. The staff member had taken only ten hours of continuing education in accounting and auditing subjects during the past three years.
4. The other work supervised by this owner contained no major deficiencies. However, the quality of the owner's work was not up to the same standard as that of the other owners in the firm.

Because the specific underlying cause of the deficiency had not been determined, the review team held extensive discussions with the firm's owners and, as a result, concluded the following:

1. The firm had adequate policies and procedures for independence. The firm communicated its policies and procedures to the staff, independence confirmations were obtained and all questions resolved. All other engagements where the firm noted a lack of independence were compilation engagements.
2. The firm had adequate policies and procedures for assigning personnel to engagements. The firm attempts to use tax staff on low risk audit and accounting engagements to aid in their overall development, and assigns an audit owner or audit manager to oversee their work.
3. The firm had adequate policies and procedures for professional development. All staff were in compliance with the professional development requirement. However, the tax staff generally had less than sixteen hours of professional education in accounting and auditing over a three-year period.
4. The failure on the review engagement was due to a lack of supervision by the owner even though the firm had adequate policies and procedures for supervision.

Possible Letter of Comment Item Resulting From This Case: The review team and firm agreed that the following finding and recommendation were appropriate:

Supervision

Finding—The firm's quality control policies and procedures require preparation and completion of work programs that appropriately request the preparer to affirm the firm's independence. However, the firm issued a review report stating a lack of independence, which is not allowed by professional standards. The work program was inappropriately signed off, and the review process failed to note this error. The firm has recalled the review report and issued a compilation report.

Recommendation—The firm has adequate policies and procedures in this area. However, a more thorough review of the work program by the staff and the owner would have prevented the violation of professional standards. We recommend that the firm hold in-house training sessions to review the work programs and checklists currently utilized. The training session should be attended by all personnel involved in the accounting and auditing process.

[The next page is 3501.]

PRP Section 3500

Guidance for Writing Letters on Monitoring Actions by Outside Parties

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Introduction

.01 A peer review report, letter of comments, and the firm's response to all matters discussed in the report and letter of comments may be accepted by a report acceptance body with the understanding that the firm will allow the team captain or another party acceptable to the committee (hereinafter referred to collectively as "outside party") to monitor the implementation of certain corrective actions ("monitoring procedures") taken by the firm. In such situations, the reviewed firm will have to engage an individual outside of the firm to perform those monitoring procedures and to allow the outside party to communicate the conclusions reached during the performance of the procedures to the report acceptance body.

.02 The purpose of these guidelines is to provide assistance to outside parties engaged to monitor one or more corrective actions taken by a reviewed firm as a result of a peer review —other than an accelerated peer review. If the report acceptance body requires the reviewed firm to have an accelerated peer review, or the firm elects to have such an accelerated review as an alternative to completing other actions required by the report acceptance body, then the reviewed firm and the reviewer should adhere to the "Standards For Performing and Reporting on Peer Reviews" (see PRP section 3100).

Objectives

.03 The objective of the monitoring actions is to determine whether the firm took one or more actions it agreed to as a result of a peer review and is not intended to be a substitute or a replacement for a full scope peer review. While the procedures performed may not be sufficient to enable the outside party to express an opinion on whether the corrective action achieved the goal for which it was designed or whether the action has been implemented in all required situations, they should be sufficient to provide the outside party with reasonable assurance about whether the firm implemented the action(s) to which it agreed in the situations tested.

.04 At the conclusion of the monitoring procedures, the outside party should issue a letter that describes the procedures performed and the conclusions reached as a result of those procedures. The letter should be sufficiently comprehensive—but concise—to enable the report acceptance body to conclude on the reviewed firm's implementation of the corrective action(s) being monitored. Since the letter will not be included in a public file, it should be written as a private communication between the outside party and the report acceptance body. However, the outside party should send the reviewed firm a copy of the communication.

General Guidelines

.05 The outside party should obtain a clear understanding of the corrective actions agreed to by the firm and the monitoring procedures that need to be performed by obtaining a copy of the firm's most recent peer review report, the related letter of comments, the firm's letter of response, and the acceptance letter describing the monitoring actions required by the report acceptance body.

.06 The outside party should design and perform appropriate procedures to provide him or her with sufficient information to evaluate the reviewed firm's compliance with the corrective action(s) being monitored. In certain circumstances, the outside party may wish to confirm the appropriateness of the procedures to be performed with the staff of the entity administering the review.

.07 The outside party should summarize the procedures performed and the conclusions reached as a result of those procedures, and discuss those conclusions with the reviewed firm. During the discussions, the outside party should ask whether the firm plans to implement further corrective actions to address any deficiencies noted during the monitoring procedures.

.08 The outside party should send a letter to the report acceptance body describing the procedures performed and conclusions reached. The letter should be issued on the letterhead of the outside party's firm, addressed to the report acceptance body with a copy to the reviewed firm, and include the following elements—

- a. A description of the monitoring procedures required by the report acceptance body.

- b. A description of the representations made by the reviewed firm regarding the corrective actions taken by the firm since its most recent peer review.
- c. A description of the procedures performed by the outside party.
- d. A summary of the outside party's findings, including a description of any representations made by the reviewed firm regarding planned corrective actions and the outside party's comments on the appropriateness of those actions. The outside party may consider recommending additional corrective actions or monitoring procedures if he or she believes the findings reveal continued weaknesses in the reviewed firm's quality control system.
- e. A statement that the letter is intended for limited distribution to the report acceptance body and the reviewed firm, and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm's peer review.

Illustrative Letters

.09 The following letters are for illustrative purposes only. It is recommended, but not required, that the outside party adopt the form of these letters and tailor them to describe the conclusions reached based on the specific procedures performed.

.10 Exhibit A

Sample Letter on an Outside Party's Revisit

[Outside Party's Firm Letterhead]

September 13, 19XX

[Name and Address of the Report Acceptance Body]

Dear Committee Members:

This letter is written to assist [Reviewed Firm's Name] in complying with certain actions the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]'s acceptance of its 19XX peer review report, letter of comments, and response thereto.

The [Name of the Report Acceptance Body] accepted the firm's 19XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to

- a. Review the planning for the firm's 19XX inspection program in advance.
- b. Revisit the firm at the end of its 19XX inspection to review the findings (with emphasis on those items noted in the letter of comments) and the corrective actions taken on the findings noted, and
- c. Provide a written communication on the firm's inspection to the Committee by September 30, 19XX.

Prior to the firm performing its 19XX inspection, I performed the following procedures:

- a. Reviewed a copy of the firm's 19XX peer review report, the accompanying letter of comments and the firm's response thereto, and the acceptance letter describing the required actions.
- b. Reviewed the firm's inspection planning documentation.

I revisited the firm on September 9, 19XX, after the completion of its 19XX inspection. During that revisit, I performed the following procedures—

- a. Discussed the corrective actions described in its letter of response with the firm to determine if the actions have been fully implemented.
- b. Reviewed the firm's inspection report and underlying documentation, including the engagement review checklists prepared during the inspection.
- c. Reviewed the working papers of selected engagements included in the inspection and any changes in the firm's quality control materials to evaluate the effectiveness of the inspection and the corrective actions implemented by the firm as a result of its 19XX peer review.
- d. Discussed the inspection findings and corrective action plan with the firm and evaluated the feasibility of the firm achieving its plan.

Listed below are the results of the procedures I performed and a description of the firm's representations regarding planned corrective actions.

Letter of Comment Finding No. 1

This finding related to the firm's failure to issue accountants' compilation reports on monthly computer generated financial statements. The firm's letter of response stated that the firm would revise its quality control policies and procedures to require the issuance of compilation reports with the accompanying financial statements.

Revisit Results

The firm adopted a policy requiring the owners to ensure that an accountant's report accompanies compiled financial statements when those statements are issued to the client. The inspection results indicated that compilation reports were issued with monthly compiled financial statements. However, some of the reports did not disclose that the cash basis of accounting was used. This deficiency resulted because the firm obtained a copy of the standard compilation report from the reviewer and used it on all of its compiled financial statements. The firm was not familiar with cash basis reporting on SSARS engagements and did not have any third-party reference material. In addition, the firm had not taken any training courses relating to SSARS engagements.

Planned Corrective Actions

The firm implemented a reviewer checklist to provide assurance that the proper type of compilation report will be issued and its policies and procedures were revised to require completion of this checklist. In addition, the firm represented that all personnel involved in preparing and/or reviewing compilation engagements will take 8 hours of CPE in SSARS within the next month. To assess the effectiveness of using the new checklist, the firm represented that it plans to review a sample of compilation reports issued subsequent to the implementation of the checklist.

Letter of Comment Finding No. 2

The firm performed an audit of a defined benefit pension plan subject to ERISA requirements. The firm failed to test investments and did not obtain a representation letter from its client or the plan administrator. The firm subsequently obtained the missing representation letter and performed tests of the investments which I reviewed before the firm's peer review documents were presented to the Committee for acceptance. The firm's letter of response indicated it would obtain an industry specific audit program and update its library to include the AICPA Audit and Accounting Guide for Audits of Employee Benefit Plans.

Revisit Results

The firm did not obtain a copy of the ERISA Audit and Accounting Guide and my review of the ERISA audit showed an industry specific audit program was not obtained and used by the firm on the audit. In addition, some key confirmations relating to investment balances were not obtained and alternative procedures were not performed. The owner with responsibility for the engagement indicated that the firm obtained a large new client that took up a lot of time, and as a result, the staff rushed through the ERISA audit using the prior year's working papers.

Planned Corrective Actions

The firm represented that the ERISA Audit and Accounting Guide and the ERISA industry specific audit program have now been ordered from the AICPA. The firm has subsequently obtained confirmations and/or performed alternative procedures to substantiate the investment balances. I have reviewed the additional procedures performed and they are appropriate. In addition, the firm represented that it plans to send its audit staff responsible for conducting ERISA engagements to 8 hours of training in ERISA audits.

Letter of Comment Finding No. 3

The firm performed several audits subject to the requirements of the Single Audit Act. The firm failed to issue the required reports on internal controls and compliance with laws and regulations, did not document its consideration and testing of the internal control structure, and did not perform the necessary procedures to test compliance with laws and regulations. In addition, the owner responsible for the engagement was not in compliance with the

“Yellow Book” CPE requirement. The firm performed the omitted audit procedures and issued the missing reports which I reviewed prior to the Committee’s acceptance of the firm’s peer review documents. The firm’s letter of response stated that the owner would take the necessary CPE.

Revisit Results

My review of a Single Audit Act engagement performed subsequent to the firm’s peer review noted that all required reports were issued on the engagement and that the owner participated in the necessary CPE. However, I was unable to determine the extent of the testing for compliance with laws and regulations because of significant documentation deficiencies. In addition, documentation deficiencies continued to exist with respect to considering and testing the entity’s internal control structure and testing for compliance with the requirements applicable to the federal financial assistance programs.

Planned Corrective Actions

The firm represented that it plans to conduct a training session for owners and staff during the next month on documentation of audit procedures performed. In addition, the firm represented that it will instruct owners to focus on documentation during their review process and will amend the owner review checklist to add this focus.

Summary

The firm’s inspection appears to have been comprehensive, suitably designed and adequately documented, and the results appear to have been effectively communicated to professional personnel. However, I believe the Committee should further monitor the firm’s corrective actions since the results of these procedures revealed that the firm has failed to adequately implement the corrective actions described in its letter of response. I recommend that the Committee consider requiring the firm to hire an outside third party, who is sufficiently experienced in the industries in which the firm’s clients operate, to perform a preissuance review of all of the firm’s audit engagements in specialized industries.

This letter is intended solely for the information and use of the [*Name of the Report Acceptance Body*] and the owners of [*Reviewed Firm’s Name*], and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm’s 19XX peer review.

Sincerely,

[*Outside Party’s Signature*]

cc: [*Reviewed Firm’s Name*]

.11 Exhibit B**Sample Letter on an Outside Party's Review of a Subsequent Engagement***[Outside Party's Firm Letterhead]*

July 21, 19XX

[Name and Address of the Report Acceptance Body]

Dear Committee Members:

This letter is written to assist *[Reviewed Firm's Name]* in complying with certain actions the firm voluntarily agreed to take in connection with the *[Name of the Report Acceptance Body]*'s acceptance of its 19XX peer review report, letter of comments, and response thereto.

The *[Name of the Report Acceptance Body]* accepted the firm's 19XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers of an audit engagement issued subsequent to the firm's peer review, and communicate to the Committee in writing on the results of that review by July 31, 19XX.

I performed the following procedures—

- a. Reviewed a copy of the firm's 19XX peer review report, the accompanying letter of comments and the firm's response thereto, and the acceptance letter describing the required actions.
- b. Reviewed the report, financial statements, and working papers for a not-for-profit audit engagement issued subsequent to the peer review to determine whether the engagement was performed in accordance with professional standards in all material respects. I documented my review using the AICPA "Checklist for Review of Audit Engagements of Not-for-Profit Organizations."
- c. Discussed with the firm the findings and the corrective action plan, and evaluated the feasibility of the firm achieving its plan.

While performing the above procedures, I found some minor incomplete disclosures in the areas of promises to give and collections. The firm's letter of comments on the most recent peer review also cited disclosure deficiencies; however, they were in other areas. The firm represented that it will conduct a "refresher" training session on disclosures for all owners and professional staff and also will instruct owners to focus on disclosures during their review process.

Because only minor deficiencies were found on the engagement I reviewed, I believe no further monitoring of the firm by the *[Name of the Report Acceptance Body]* is necessary at this time.

This letter is intended solely for the information and use of the *[Name of the Report Acceptance Body]* and the owners of *[Reviewed Firm's Name]*, and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm's 19XX peer review.

Sincerely,

*[Outside Party's Signature]*cc: *[Reviewed Firm's Name]*

[The next page is 4001.]

PRP Section 4000

ON-SITE PEER REVIEWS FOR FIRMS THAT PERFORM AUDITS

In performing peer reviews, review teams must complete *all* relevant programs and checklists issued by the AICPA Peer Review Board in a professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program.

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[The next page is 4101.]

PRP Section 4100

Instructions to Firms Having an On-Site Peer Review

General

.01 An on-site peer review is required for all firms that perform one or more audits of historical or prospective financial statements because of the public interest in the quality of such audits and the importance to the accounting profession of maintaining the quality of those services. On-site peer reviews are administered by state CPA societies that elect to participate in the program. The appropriate society will contact your firm before the beginning of the calendar year in which your firm is scheduled to have an on-site review to begin to make arrangements for the conduct of the review. Well before then, you should have read the applicable sections of *Standards for Performing and Reporting on Peer Reviews* issued by the AICPA Peer Review Board, as well as these instructions and the quality control policies and procedures questionnaire and review guidelines applicable to your size firm.

.02 These instructions have been designed for reviews conducted by committee-appointed review teams. However, they should be helpful in reviews conducted by firms or with the assistance of an association of CPA firms. Also, completing the procedures listed under "Prior to the Review" should expedite the conduct of the review.

.03 It is the reviewed firm's responsibility to be certain that the quality control policies and procedures in effect for the period covered by the review have provided the firm with reasonable assurance that it has met its responsibility to provide accounting and auditing services that conform with professional standards. Also, firms should carefully evaluate the effectiveness of the way in which quality control policies and procedures are communicated to all professional personnel and should determine that appropriate action is taken when inspection or other procedures reveal design or compliance deficiencies.

Prior to the Review

.04 Identify the individual—usually an owner—who will be responsible for acting as a liaison with the review team.

.05 Review and sign the engagement letter for the review.

.06 Agree with the team captain on the date the review will commence, which must not be later than the date established by the administering entity, the 12-month period to be covered, and the anticipated exit conference date.

.07 Submit the following to the team captain as soon as possible:

- a. A completed quality control policies and procedures questionnaire. (There is one form of questionnaire for sole practitioners without professional staff—defined as CPAs and those expected to seek that status—and one for all other firms.)
- b. Relevant manuals, checklists, etc., if practicable.
- c. A list of accounting and auditing engagements prepared in the form shown in the Appendix to these instructions.

- d. A list of the firm's professional personnel, showing name, position, and years of experience (i) with the firm and (ii) in total.
- e. Other information requested by the team captain.

.08 Based on that information, the team captain will make a preliminary advance selection of engagements for review. Complete profile sheets on those engagements and assemble all working papers, including the permanent files and reports, before the review begins.

.09 Review the applicable guidelines for review of quality control policies and procedures that will be followed by the team captain and make sure documentation that the team captain will ask for will be readily available. Examples of such documentation are noted in the following list, which is not all-inclusive:

- a. Independence confirmations, documentation of independence of correspondents, and documentation supporting the resolution of independence questions
- b. Personnel files
- c. CPE records
- d. Documentation regarding consultations with outside parties
- e. Dues paid to the AICPA and, if applicable, the private companies practice section

During the Review

.10 Make sure firm personnel will be available for discussion with the reviewer(s) as necessary. The reviewers will endeavor to have these discussions and interviews without disrupting the firm's operations.

.11 The team captain will ask your firm to respond to "Matter for Further Consideration" forms. The firm should provide a thorough written response to those forms to avoid any misunderstanding about its quality control policies and procedures or the circumstances of the individual engagement.

.12 Arrange for appropriate owners and staff to attend the exit conference. If the firm disagrees with any of the reviewer's findings, those differences should be discussed as they arise. Any differences of opinion that have not been previously discussed should be covered during the exit conference.

After the Review

.13 Obtain the report and letter of comments, if any, from the team captain. These documents should be delivered to the firm within 30 days of the date of the exit conference.

.14 Prepare a letter of response to the report and letter of comments and submit all three documents to the administering entity within 30 days of the date the report and letter of comments are received from the team captain. As indicated in the *Standards*, the letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review.

.15 The state CPA society administering the review will not make the report on the review available to the public. The firm itself may do so, if it wishes. However, the firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that it has been accepted by the administering entity.

.16 After the peer review documents are accepted on a review of a member of the private companies practice section, a copy of the report, letter of comments, and the reviewed firm's response thereto, and the letter indicating that the committee has accepted the report will be forwarded to the public files of the Division for CPA Firms and will be retained in those files until completion of the subsequent review.

.17

Appendix A

AN ILLUSTRATION OF A LIST OF ACCOUNTING AND AUDITING CLIENTS

<u>Client Code</u>	<u>Period Covered</u>	<u>Level of Service Provided *</u>	<u>Initial Eng.</u>	<u>Industry **</u>	<u>Name of Partner</u>	<u>Approx. Total Hours</u>
10001	9/30/93	A5 (Bank Director's Exam)	N	125	White	500
10002	10/31/93	A5	Y	165	Smith	350
10003	6/30/93	A2	N	320	Jones	275
10005	12/31/93	A3	N	260	Smith	150
10005	6/30/93	R	N	260	Smith	110
20001	12/31/93	R	Y	165	Smith	100
20002	3/31/94	R	N	245	White	125
20003	4/30/94	R	N	270	Jones	45
20003	3/31/94	C	N	270	Jones	35
30001	12/31/93	C	N	165	Smith	50
30002	3/31/94	CO	N	270	Jones	40
30003	6/30/93	CO	N	270	Jones	60
30004	9/30/93	CP	Y	270	Jones	40
30005	12/31/93	C	N	220	White	80
		Total				<u>1960</u>

* Denotes the level of service by using the codes set forth on page 4104.

** Denotes the type of industry by using the codes set forth on page 4105.

Codes for Level of Service

- A1 Audit of SEC Registrant
- A2 Audit Performed Under *Government Auditing Standards* Issued by the U.S. General Accounting Office, including engagements subject to OMB Circular A-128 and OMB Circular A-133
- A3 Audit Performed Under the Employee Retirement Income Security Act of 1974 (ERISA)
- A4 Audit of Financial Institution With Over \$500 Million in Total Assets
- A5 Other Audits of Historical Financial Information
- A6 Examination of Prospective Financial Information
- A7 Other Special Audits—Identify

- R Review of Historical Financial Statements

- C Compilation of Historical Financial Statements With Disclosures
- CO Compilation of Historical Financial Statements Omitting Substantially All Disclosures
- CP Compilation of Prospective Financial Information

Industry Codes

105 Advertising	240 Life Insurance Companies
110 Agricultural, Livestock, Forestry & Fishing	245 Manufacturing
115 Airlines	250 Mortgage Banking
120 Auto Dealerships	255 Motor Carriers
125 Banking	260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)
130 Broadcasting and Entertainment	265 Employee Benefit Plans (including ERISA audits)
135 Brokers and Dealers in Securities	268 Personal Financial Statements
140 Brokers and Dealers in Commodities	270 Professional Services (Doctors, Lawyers, Architects, etc.)
145 Casinos	275 Publishing
150 Colleges and Universities	280 Real Estate Brokerage
155 Common Interest Realty Associations	285 Real Estate Development
160 Computer Software Development and Sales	290 Real Estate Management
165 Construction Contractors	295 Real Estate Investment Trusts
170 Continuing Care Retirement Communities	300 Reinsurance Companies
175 Credit Unions	305 Retail Trade
180 Extractive Industries—Oil and Gas	310 Savings and Loan Associations
185 Extractive Industries—Mining	315 Small Loan Companies
190 Finance Companies	320 School Districts
195 Franchisors	325 State and Local Government
200 Fire and Casualty Insurance Companies	330 Telephone Companies
205 Government Contractors	335 Utilities
210 Health Maintenance Organizations	340 Wholesale Distributors
215 Hospitals and Nursing Homes	999 Other (Describe)
220 Hotels and Restaurants	
222 HUD	
225 Insurance Agents and Brokers	
230 Investment Companies and Mutual Funds	
235 Leasing Companies	

[The next page is 4201.]

PRP Section 4200

Quality Control Policies and Procedures Questionnaire for Sole Practitioners With No Professional Staff

.01 This section of the manual contains a questionnaire that a reviewed firm must complete prior to the commencement of the review. This questionnaire has been developed for sole practitioners without professional staff. Completion of the questionnaire assists a sole practitioner in accumulating and organizing the information regarding its quality control system.

.02 Sole practitioners should respond directly with “yes,” “no,” or “N/A” answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, sole practitioners should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

AICPA Peer Review Program

QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a practice. Sole practitioners who are about to be reviewed should respond directly with "yes," "no," or "N/A" answers and briefly describe, where requested, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, make reference to any documents that describe those policies and procedures in more detail. Examples of such documents might be audit and accounting manuals and forms and checklists used in the practice.

Response, Including Reference to Firm Documents

A. Independence

1. Do you adhere to the independence rules, regulations, interpretations, and rulings of the—
 - a. AICPA?
 - b. State CPA society?
 - c. State board of accountancy?
 - d. State accountancy laws?
 - e. SEC and other regulatory agencies?

2. Have you, during the year under review, identified any independence problems with respect to audit or accounting clients?

3. Briefly describe how you do or would resolve independence questions by answering the following—
 - a. What sources do you or would you consult?
 - b. Have you found it necessary to consult with outside parties on independence matters within the last year?
 - c. In what circumstances do you or would you document the resolution of an independence question?

4. Do you have any engagements where you act as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?

Response, Including Reference to Firm Documents

5. If the answer to (4) above is “yes”—
 - a. Do you confirm the independence of such other firm(s)?
 - b. Do you do so in writing?
 - c. Do you do so annually?
6. Have you had during the year under review any accounts receivable from clients that may have taken on some of the characteristics of loans and, therefore, may impair your independence?

B. Consultation

1. During the year under review, have you sought advice from outside parties to resolve questions involving professional standards or specialized industry practices?
2. How do you determine when to consult with outside parties and with whom to consult?
3. Describe the extent to which you document consultations with outside parties by answering the following—
 - a. Do you document all such consultations?
 - b. If the answer to (a) is “no,” describe the circumstances in which you would document a consultation.
 - c. Does your documentation always, usually, or never include the following information:
 - Description of the issue?
 - The client’s position, if any?
 - The possible alternatives?
 - The sources consulted (both written materials and people)?
 - The position indicated by those sources?
 - Your conclusion?
 - Your underlying rationale?

4. Does your library include current editions of—
 - a. AICPA *Professional Standards*?
 - b. AICPA industry audit guides relevant to your practice?
 - c. FASB pronouncements?
 - d. GASB pronouncements, *Government Auditing Standards* (the "Yellow Book"), and other government audit guides relevant to your practice?

C. Supervision

1. Do you follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (for example, in an audit and accounting manual)?
2. If the answer to (1) is "no," briefly describe the procedures you perform in planning audit and accounting engagements in practice, including the information you obtain and consider and when you do your planning. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.
3. Is a written audit program used on all audit engagements?
4. Do you use written guidance materials regarding the following matters? If so, indicate whether you developed it or obtained it from an outside source, and name the source.
 - a. Consideration of internal control structure in planning and performing an audit.
 - b. Assessment of control risk.
 - c. Consideration of audit risk and materiality when planning and performing an audit.
 - d. Audit sampling techniques.
 - e. Degree of reliance to be placed on analytical procedures.
 - f. Form and content of working papers.
 - g. Other audit and accounting matters, in the form of an audit and accounting manual.

Response, Including Reference to Firm Documents

5. Do you use any standardized forms, checklists, or questionnaires? If so, attach a list and describe the types of engagements on which you use them. (Note that the reviewer will want to inspect these forms during the review.)
6. Do you use correspondents for audit or accounting engagements? If "yes," describe how (in writing or orally and when this is done) instructions are given to such correspondents and the extent to which you review their work.
7. Have you purchased audit or accounting clients from another CPA during the year under review?

D. Professional Development

1. Are you in compliance with the continuing professional education requirements of the following:
 - a. Board(s) of accountancy in state(s) in which you are licensed?
 - b. The AICPA?
 - c. Your state CPA society (if applicable)?
 - d. The Private Companies Practice Section (if applicable)?
 - e. *Government Auditing Standards*—the "Yellow Book" (if applicable)?
2. If the answer is "no" to any of the above, indicate how and when you plan to correct the situation.
3. Briefly describe how you plan the allocation of your CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
4. Do you maintain CPE records and course materials?

E. Acceptance and Continuance of Clients

1. Briefly describe the procedures you follow, including any documents you generally obtain and review and any inquiries you generally make of third parties, before you accept a client for whom you will perform audit or accounting services, in order to provide yourself with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate your ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.

Response, Including Reference to Firm Documents

2. Did you terminate any audit or accounting relationships during the year under review?

F. Inspection

1. Have you performed a timely, formal, documented inspection of your quality control policies and procedures for each year since your last peer or quality review (or for the year preceding the review year if you have not previously had a review) and, if so, have you retained the summary or report for the team captain's review?
2. Have you taken appropriate corrective action in response to the findings on your most recent quality review or peer review?

[The next page is 4301.]

PRP Section 4300

Quality Control Policies and Procedures Questionnaire for Firms With Two or More Professional Staff

.01 This section of the manual contains a questionnaire that a reviewed firm must complete prior to the commencement of the review. The questionnaire has been developed for firms with two or more professional staff. Completion of the questionnaire assists a firm in accumulating and organizing the information regarding its quality control system.

.02 The reviewed firm should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

.03

AICPA Peer Review Program

QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE
FOR FIRMS WITH TWO OR MORE PROFESSIONAL STAFF

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a firm's practice. Firms about to be reviewed should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists.

Response, Including Reference to Firm Documents

A. Independence

1. Does the firm, including all its professional personnel, adhere to the independence rules, regulations, interpretations, and rulings of the—
 - a. AICPA?
 - b. State CPA society?
 - c. State board of accountancy?
 - d. State accountancy laws?
 - e. SEC and other regulatory agencies?

2. Describe how the firm informs its professional personnel of the applicable independence requirements (for example, through its personnel manual, audit and accounting manual, training meetings, memoranda).

3. How does the firm inform its professional personnel of the new clients to which independence requirements apply? For example, does the firm—
 - a. Circulate new client lists to all personnel?
 - b. Post new clients on a staff bulletin board?
 - c. Report new clients at staff meetings?
 - d. Use other (describe) means?

4. Does the firm obtain at least annually written representations from all professional personnel concerning their compliance with applicable independence requirements? If not, how does the firm monitor compliance with its independence policies? If yes, do these representations affirm that—

Response, Including Reference to Firm Documents

- a. The individual is familiar with the firm's independence policies and procedures?
 - b. Prohibited investments are not held and were not held during the period?
 - c. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?
5. Who is responsible for resolving independence questions:
- a. The engagement owner?
 - b. The managing owner?
 - c. Someone else (identify individual)?
6. In connection with the resolution of independence questions—
- a. In what circumstances must the question and its resolution be documented?
 - b. Where is the documentation maintained (for example, the working paper files or other specific firm or client files)?
 - c. What sources are or would be consulted?
 - d. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence matters?
7. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?
8. If the answer to (7) above is "yes"—
- a. Does the firm confirm the independence of such other firm(s)?
 - b. Does it do so in writing?
 - c. Does it do so annually?
9. Does the firm review accounts receivable from clients to ascertain whether any outstanding amounts have taken on some of the characteristics of loans and, therefore, may impair the firm's independence?
- a. Who does this?

- b. How often is it done?
- c. Have there been any such situations during the year under review?

B. Assigning Personnel to Engagements

1. Describe the method the firm uses to assign professional personnel to engagements. In that description, include—
 - a. The basis on which assignments are made. For example, some firms make assignments on an engagement by engagement basis; others assign personnel to specific clients and hold them accountable for all services to those clients.
 - b. How staff are advised of their assignments. For example, some firms do this orally; others issue memoranda or copies of scheduling forms; others post assignments to a staff bulletin board.
 - c. Who is responsible for making staff assignments on a day-to-day basis.
 - d. How that person is informed of estimated time requirements and of any special skills or experience that a given assignment might demand.
 - e. How far in advance assignments are typically made.
2. Does the firm require the following to have experience appropriate to the engagement:
 - a. Staff?
 - b. Owner in charge of the engagement?
 - c. Concurring reviewer (if applicable)?

C. Consultation

1. Have certain areas or specialized situations been identified as requiring consultation? If "yes," attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).
2. Does the firm designate any individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their specialties are and indicate how personnel have been made aware of this information.
3. How are differences of opinion between personnel and specialists resolved?

4. During the year under review, did the firm seek consultation from internal or external sources?
5. How does the firm determine when to consult with outside parties and with whom to consult?
6. Describe the extent to which the firm expects consultations with outside parties to be documented. Where is such documentation maintained?
7. Does the firm's library include current editions of—
 - a. AICPA *Professional Standards*?
 - b. AICPA industry audit guides relevant to the firm's practice?
 - c. FASB pronouncements?
 - d. GASB pronouncements, *Government Auditing Standards* (the "Yellow Book") and other government audit guides relevant to the firm's practice?
8. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS50? If yes, indicate where such guidance can be found. Also, indicate whether the firm issued any such reports during the year under review.

D. Supervision

1. Does the firm follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (e.g., in an audit and accounting manual)?
2. If the answer to (1) is "no," briefly describe the procedures the firm performs in planning audit and accounting engagements in practice, including the information obtained and considered and the nature, timing and extent of partner involvement in the planning process. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.
3. Is a written audit program used on all audit engagements? If yes, who is required to review and approve the audit program, and how is this approval documented?

4. Indicate whether the firm has written guidance materials regarding the following matters. If so, indicate where the material is found and whether it was developed internally or was obtained from an outside source, and name the source.
 - a. Consideration of internal control structure in planning and performing an audit.
 - b. Assessment of control risk.
 - c. Consideration of audit risk and materiality when planning and performing an audit.
 - d. Audit sampling techniques.
 - e. Degree of reliance to be placed on analytical procedures.
 - f. Form and content of working papers.
 - g. Other audit and accounting matters, in the form of an audit and accounting manual
5. Does the firm use any standardized forms, checklists, or questionnaires? If so, attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.)
6. Has the firm established procedures to be followed when differences of opinion exist among firm personnel on an audit (see AICPA *Professional Standards*, AU section 311.14)?
 - a. Are those procedures documented? Where?
 - b. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?
7. Does the firm use other offices or correspondents for audit or accounting engagements? If "yes," describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm's procedures for the supervision and control of that work are found.
8. Does the firm have documented procedures for review by supervisors and owners of the reports, financial statements, and working papers for —
 - a. Audits?
 - b. Reviews?

c. Compilations?

9. If the answer to (8) is “yes,” indicate where those procedures are found. If the answer is “no,” briefly describe the procedures that are followed, including how the review process is documented.
10. Does the firm require that an individual having no other significant responsibility for the engagement perform a preissuance review of some or all engagements? If “yes,” indicate who performs such preissuance reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable. Alternatively, indicate where these procedures are found.
11. Has the firm merged with or acquired any other firm since the date of its last quality review or in the last three years? If “yes”—
 - a. When did such merger or acquisition take place?
 - b. How did the firm evaluate the quality of a potential merger/acquisition candidate?
 - c. Did the firm acquire any professional personnel in the merger/acquisition?
 - d. Did the firm acquire and retain any new office or offices in the merger/acquisition (indicate the locations of any such offices)?
 - e. Have the personnel of the merged/acquired firm adopted the firm’s quality control policies and procedures?

E. Hiring

1. Briefly describe how the firm identifies its professional personnel needs, how it goes about recruiting such personnel, and who makes the decision to hire an applicant.
2. Briefly describe the personal, educational, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.
3. Identify the types of background information the firm requires for new hires, such as resumes, transcripts, and personal or employment references.

- 4. Briefly describe how new professional personnel are informed about the policies and procedures that are applicable to them. Also, attach a list of the manuals, professional publications, and other documents relevant to their professional assignments that are provided to them individually.

F. Professional Development

- 1. Are all professional personnel in compliance with the continuing professional education requirements of—
 - a. Board(s) of accountancy in state(s) where they are licensed?
 - b. The AICPA (if applicable)?
 - c. The state CPA society (if applicable)?
 - d. The Private Companies Practice Section (if applicable)?
 - e. *Government Auditing Standards*—the “Yellow Book” (if applicable)?
- 2. If the answer is “no” to any of the above, attach a list of those personnel who are not in compliance and indicate the firm’s plan for correcting the situation.
- 3. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
- 4. Provide an approximation of the nature of the CPE taken by professional personnel assigned to audit and accounting engagements:
 - a. Self-study courses %
 - b. In-house training programs—
 - (i) Developed by the firm %
 - (ii) Obtained from outside vendors %
 - c. State society or AICPA programs %
 - d. Other programs %
- 5. Who maintains CPE records and course materials?

6. How are professional personnel made aware of changes in accounting and auditing standards and in the firm's technical policies and procedures (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?

G. Advancement

1. What levels of responsibility exist within the firm (e.g., partner, manager, senior)?
2. Are personnel at all levels aware of the responsibilities of each of these positions? How is this accomplished? Are those responsibilities documented in, for example, a personnel manual?
3. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?
 - a. When are these evaluations performed?
 - b. Are they documented?
 - c. Are standard evaluation forms used?
4. Are owners periodically evaluated, and by what means (e.g., peer evaluation, self-appraisal, counseling)?
5. Briefly describe how advancement decisions are made (a) within the professional staff and (b) to the firm.

H. Acceptance and Continuance of Clients

1. Briefly describe the procedures followed by the firm, including any documents generally obtained and reviewed and any inquiries generally made of third parties, before accepting a client for whom the firm will provide audit or accounting services in order to provide the firm with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate the firm's ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.
2. Indicate when or under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.
3. Were any audit or accounting client relationships terminated by the firm during the year under review?

Response, Including Reference to Firm Documents**I. Inspection**

1. Has the firm performed a timely, formal, documented inspection of its quality control policies and procedures for each year since its last peer or quality review (or for the year preceding the review year if the firm has not previously had a review)? If "yes," briefly describe—
 - a. The scope of the program, including who carries it out.
 - b. The materials used, such as questionnaires, programs, and checklists.
 - c. The documentation of the work performed and conclusions reached and the period of time such documentation and conclusions are retained.

2. Has the firm taken appropriate corrective action in response to the findings on its most recent quality review or peer review?

[The next page is 4401.]

PRP Section 4400

Guidelines for Review of Quality Control Policies and Procedures for Sole Practitioners With No Professional Staff

.01 To assist the reviewer in performing his or her work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing compliance with them. The suggested procedures for review of a sole practitioner with no professional staff are set forth in PRP section 4400.

.02 The suggested review procedures are based on typical policies and procedures that a firm may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team's testing should be documented on the appropriate pages of the Guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 The suggested procedures include procedures for testing compliance with the membership requirements of the private companies practice section (PCPS) in the event the firm being reviewed is a member of the PCPS.

.05

AICPA Peer Review Program

GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>A. Independence</p> <ol style="list-style-type: none"> 1. Interview the CPA and— <ol style="list-style-type: none"> a. Review the CPA's responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary. b. Inquire about financial or other relationships that may be prohibited relationships, such as— <ol style="list-style-type: none"> (i) Business relationships with clients or with nonclients that have investor or investee relationships with clients. (ii) Loans from financial institutions. (iii) Family members in director or manager positions with client entities, including not-for-profit organizations. (iv) Past-due fees for professional services. (v) Accounting or advisory services that have evolved into situations where the CPA has assumed some of the responsibilities of management. c. Inquire about any situations where the CPA has elected <i>not</i> to be independent and whether the CPA withdrew from the audit or accounting engagement or appropriately modified his or her report. d. Inquire into the procedures the CPA follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice. 2. Identify by review of files or by interviewing the CPA all situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate. 3. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the CPA has complied with his or her policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the CPA is the principal auditor or accountant. 		
<p>B. Consultation</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> 1. Interview the CPA and— <ol style="list-style-type: none"> a. Review the CPA's responses to the consultation section (part B) of the questionnaire and clarify those responses, if necessary. b. Inquire into and evaluate the CPA's views concerning when outside consultation should take place and the sources that should be used. 2. Identify by review of appropriate documentation (see questionnaire, B.1, B.2, and B.3) or by interviewing the CPA situations in which consultation has taken place and evaluate whether the advice appears appropriate and whether the CPA responded appropriately to that advice. 3. Inspect the CPA's library for his or her audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the CPA's specialties and that loose-leaf services are filed on a timely basis. 		
<p>C. Supervision</p>		
<ol style="list-style-type: none"> 1. Interview the CPA and review his or her responses to the supervision section (part C) of the questionnaire and clarify those responses, if necessary. 2. Evaluate the CPA's procedures for planning audit and accounting engagements. 3. If the CPA uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer also may wish to obtain the most recent report of the design of those materials.) 4. Review and evaluate the following quality control materials developed by the CPA and those materials developed by other parties on which there is no separate report on the review of the suitability of their design— <ol style="list-style-type: none"> a. Consideration of internal control structure in planning and performing an audit. b. Assessment of control risk. c. Consideration of audit risk and materiality when planning and performing an audit. d. Audit sampling techniques. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>e. Degree of reliance to be placed on analytical procedures.</p> <p>f. Form and content of working papers.</p> <p>g. Other audit and accounting matters, in the form of an audit and accounting manual.</p> <p>Generally, a "high-spot" review will be made of these materials because the team captain will usually emphasize engagement review, compared to review of policies and procedures, in the conduct of the review of a sole practitioner.</p> <p>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, C.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the CPA.</p> <p>6. Evaluate the CPA's procedures for the supervision and control of work, if any, performed by correspondents.</p> <p>7. Inquire about any unusual accounting or auditing problems related to clients purchased during the year under review and evaluate the appropriateness of the CPA's assessment and treatment of such matters.</p>		
<p>D. Professional Development</p> <p>1. Review the CPA's continuing professional education records and determine that those records are adequate to demonstrate compliance with the requirements of the—</p> <p>a. Board(s) of accountancy in state(s) in which the CPA is licensed.</p> <p>b. AICPA.</p> <p>c. State CPA society (if applicable).</p> <p>d. Private companies practice section (if applicable).</p> <p>e. <i>Government Auditing Standards</i>—the "Yellow Book" (if applicable).</p> <p>2. Discuss with the CPA the factors considered in planning his or her CPE activities and evaluate the appropriateness of the plan for the year under review and compliance with the plan. In that connection, consider—</p> <p>a. The allocation of CPE hours among accounting and auditing, tax, and other topics.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. The nature of the CPE obtained (self-study, attendance at conferences, participation in group-study programs).</p> <p>E. Other Matters</p> <ol style="list-style-type: none"> 1. Read the CPA's responses to the sections of the questionnaire on acceptance and continuance of clients (part E) and inspection (part F) to obtain a general understanding of the CPA's quality control policies and procedures with respect to those two elements of quality control. However, no specific compliance tests of these two broad functions are required, provided that the team captain concludes that the review of selected engagements and interviews with the CPA will provide an adequate means of identifying failures, if any, to achieve the objectives inherent in those two elements of quality control. 2. Discuss with the CPA plans, if any, the CPA may have for recruiting professional personnel and review with the CPA the quality control considerations related to the hiring of additional personnel as well as the implications of that for the CPA's quality control system. <p>F. Membership Requirements (for PCPS member firms only)</p> <ol style="list-style-type: none"> 1. Obtain reasonable assurance that the firm's form of organization and name comply with Rule 505 of the AICPA Code of Professional Conduct. 2. Obtain reasonable assurance that the CPA is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and cancelled checks. 3. Inquire about the existence of present or pending matters that might affect the ability of the CPA to engage legally in the practice of public accounting. 4. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected. 5. Review documentation evidencing payment of the applicable section's dues for the current year. 		

[The next page is 4501.]

PRP Section 4500

Guidelines for Review of Quality Control Policies and Procedures for Firms With Two or More Professional Staff

.01 To assist the review team in performing its work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing the firm's compliance with them. The suggested procedures for reviews of firms with two or more professional staff are set forth in PRP section 4500.

.02 The suggested review procedures are based on typical policies and procedures that a firm may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team's testing should be documented on the appropriate pages of the Guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 Some of the suggested quality review procedures include inquiring about particular quality control functions. The objectives of these inquiries include:

- a. Corroborating the information provided to the reviewer in the questionnaire completed by the reviewed firm; and
- b. Determining whether the firm's policies and procedures have been effectively communicated to the individual(s) responsible for the particular quality control function.

.05 The suggested procedures include procedures for testing compliance with the membership requirements of the private companies practice section (PCPS) in the event that the firm being reviewed is a member of the PCPS.

AICPA Peer Review Program
GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR FIRMS WITH TWO OR MORE PROFESSIONAL STAFF

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>A. Independence</p> <ol style="list-style-type: none"> 1. Compare the firm's independence policies and procedures with professional and regulatory requirements. 2. Interview the appropriate individual ¹ and— <ol style="list-style-type: none"> a. Review the firm's responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary. b. Inquire about financial or other relationships that may be prohibited relationships, such as <ol style="list-style-type: none"> (i) Business relationships with clients or with nonclients that have investor or investee relationships with clients. (ii) Loans from financial institutions. (iii) Family members in director or manager positions with client entities, including not-for-profit organizations. (iv) Past-due fees for professional services. (v) Accounting or advisory services that have evolved into situations where the firm has assumed some of the responsibilities of management. c. Inquire about how frequently the staff is informed of changes in the entities to which the firm's independence rules apply. d. Inquire about any situations where the firm is not independent and whether the firm withdrew from the audit or accounting engagement or appropriately qualified its report. 		

¹The "appropriate individual" would usually be an owner and, depending on the circumstances, may be the managing partner, the individual responsible for the accounting and auditing function, the individual responsible for the quality control function, or other partners or shareholders responsible for specific functions.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>e. Inquire into the procedures the firm follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice.</p> <p>3. Identify by review of files or by interviewing the appropriate individual a selection of situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</p> <p>4. Review the written independence confirmations obtained by the firm for a sample (indicate number ____) of professional personnel, if required by firm policy.</p> <p>5. Determine by review of appropriate documentation (see questionnaire, A.3) and by interviews with selected staff (see separate interview guidelines) that the firm has advised all professional personnel on a timely basis about entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.</p> <p>6. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the firm has complied with its policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the firm is the principal auditor.</p>		
<p>B. Assigning Personnel to Engagements</p> <p><i>For firms with up to ten professionals (defined as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide not to complete this section of the questionnaire. This would be appropriate, according to the Standards, when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives of this element of quality control. However, when significant deficiencies are noted in the engagements reviewed, the team captain may need to perform some or all of the procedures described in this section in order to identify corrective actions the firm should consider taking. Moreover, in all reviews, as noted in the Standards, the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to this element of quality control; ordinarily, that understanding can be obtained from reading the reviewed firm's responses to the quality control policies and procedures questionnaire.</i></p> <p>1. Interview the appropriate individual and—</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>a. Review the firm's responses to the assigning personnel section (part B) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire about the criteria and other factors considered in making personnel assignments and about the relative priorities assigned to:</p> <ul style="list-style-type: none"> (i) Engagement size and complexity. (ii) Personnel availability. (iii) Special expertise required. (iv) Timing of work to be performed. (v) Continuity and periodic rotation of personnel. (vi) Opportunities for on-the-job training. <p>2. Determine by review of appropriate documentation (see questionnaire, B.1.b) and by interviewing the appropriate individual how far in advance staffing requirements for engagements are determined and how far in advance staff are notified of their particular work assignments.</p> <p>3. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate. (See separate interview guidelines.)</p> <p>C. Consultation</p> <p>1. Interview the appropriate individual and—</p> <ul style="list-style-type: none"> a. Review the firm's responses to the consultation section (part C) of the questionnaire and clarify those responses, if necessary. b. Inquire into and evaluate the firm's policies and procedures concerning consultation outside the firm, especially those dealing with when consultation should take place and the sources that should be used. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> 2. Identify by review of documentation (see questionnaire, C.2, C.3, and C.4) or by interviewing the appropriate individual situations in which consultation with outside parties has taken place. Evaluate the advice received and whether the firm acted appropriately on that advice. 3. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis. 4. Interview selected staff to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.) <p>D. Supervision</p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and review the firm's responses to the supervision section (part D) of the questionnaire and clarify those responses, if necessary. 2. Evaluate the firm's procedures for planning audit and accounting engagements. 3. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer may also wish to obtain the most recent report on the review of the design of those materials.) 4. Review and evaluate the following quality control materials developed by the firm and those materials developed by other parties on which there is no separate report on the review of the suitability of their design: <ol style="list-style-type: none"> a. Consideration of internal control structure in planning and performing an audit. b. Assessment of control risk. c. Consideration of audit risk and materiality when planning and performing an audit. d. Audit sampling techniques. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>e. Degree of reliance to be placed on analytical procedures.</p> <p>f. Form and content of working papers.</p> <p>g. Other audit and accounting matters, in the form of an audit and accounting manual.</p> <p>The timing and extent of the review of these materials will depend on the size of the firm and the extent to which the team captain has decided to emphasize engagement review, compared to review of policies and procedures, in the conduct of the review.</p> <p>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, D.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the firm.</p> <p>6. Evaluate the firm’s procedures for review of the engagement reports, financial statements, and working papers.</p> <p>7. Evaluate the firm’s procedures for the supervision and control of work, if any, performed by other offices or correspondents.</p> <p>8. Evaluate the firm’s procedures for resolving differences of opinion among members of an engagement team.</p> <p>9. Review and evaluate the firm’s policies and procedures for:</p> <p>a. Evaluating the quality of a potential merger candidate.</p> <p>b. Training and integrating the professional personnel of the merged-in practice in the reviewed firm’s quality control policies and procedures.</p> <p>10. Inquire of the appropriate individual about any unusual accounting or auditing problems related to clients obtained in a merger during the year under review and evaluate the appropriateness of the firm’s assessment and treatment of such matters.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>11. Interview selected staff to confirm their awareness of the firm's supervision policies and procedures. (See separate interview guidelines.)</p>		
<p>E. Hiring</p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and— <ol style="list-style-type: none"> a. Review the firm's responses to the hiring section (part E) of the questionnaire and clarify those responses, if necessary. b. Inquire into how the firm plans its personnel needs and whether the hiring program satisfies those needs. c. Ask how potential hires are identified and informed about the firm. 2. Select a sample (indicate number ____) of new hires, including those joining the firm through mergers or at supervisory levels, obtain each individual's personnel file, and— <ol style="list-style-type: none"> a. Determine whether the background information and other documentation required by firm policy was obtained. b. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience. If not, ascertain from other documentation or from inquiry why an exception was made. c. Select one or more of these new hires for an interview. (See separate interview guidelines.) 		
<p>F. Professional Development</p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and— <ol style="list-style-type: none"> a. Review the firm's responses to the professional development section (part F) of the questionnaire and clarify those responses, if necessary. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> b. Evaluate the adequacy of the actions being taken to correct situations involving professional personnel, if any, who are not in compliance with CPE requirements (see questionnaire, F.1). c. Discuss the factors considered in planning the CPE program and evaluate the appropriateness of the plan for the year under review, including the allocation of CPE hours by subject area and the nature of the CPE taken (see questionnaire, F.2 and F.3). <p>2. Review the firm's CPE records on a test basis and consider whether they appear adequate to demonstrate compliance with the plans for the firm's CPE program and with the CPE requirements of—</p> <ul style="list-style-type: none"> a. Board(s) of accountancy in state(s) where the firm's professional staff are licensed. b. AICPA (if applicable). c. State CPA society (if applicable). d. Private companies practice section (if applicable). e. <i>Government Auditing Standards</i>—the "Yellow Book" (if applicable). <p>3. If the firm presents a significant amount of in-house training, select a sample (indicate number ____) of such programs for review. Examine appropriate documentation to determine whether—</p> <ul style="list-style-type: none"> a. The developer is qualified. b. The course is technically accurate, current, and contributes to the professional competence of the attendees. c. The instructor is qualified. d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>4. Interview selected staff to obtain their impressions of the firm's CPE function and their on-the-job training, and to determine whether new professional standards and guidance materials are made available to them on a timely basis. (See separate interview guidelines.)</p>		
<p>G. Advancement</p>		
<p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p>		
<ol style="list-style-type: none"> 1. Interview the appropriate individual and— <ol style="list-style-type: none"> a. Review the firm's responses to the advancement section (part G) of the questionnaire and clarify those responses, if necessary. b. Inquire into the firm's underlying philosophy with respect to advancement, termination, and partner responsibilities. c. Inquire as to how the firm monitors the firm's compliance with its policies and procedures. 2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm. 3. For a sample of professional personnel (indicate number _____), review personnel files, personnel evaluations, or other documentation to determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy. 4. Evaluate the effectiveness of the method used to evaluate owners and whether they fulfill the responsibilities assigned to them. In that connection, consider interviewing selected owners to assist in evaluating the effectiveness of the method used. 5. Interview selected staff to determine their awareness of the firm's advancement policies and procedures and whether they are followed. (See separate interview guidelines.) 		
<p>H. Acceptance and Continuance of Clients</p>		
<p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p>		
<ol style="list-style-type: none"> 1. Interview the appropriate individual and— 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> a. Review the firm’s responses to the acceptance and continuance section (part H) of the questionnaire and clarify those responses, if necessary. b. Inquire into the circumstances surrounding the termination, if any, of audit or accounting relationships during the year under review. c. Determine the extent to which firm policies and procedures require client acceptance and continuance decisions to be documented, and where such documentation is maintained. <ul style="list-style-type: none"> 2. Evaluate the appropriateness of the firm’s policies and procedures for the acceptance and continuance of clients, including procedures to ensure compliance with professional standards on communications between predecessor and successor accountants. 3. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its own policies and procedures and with the requirements of professional standards. 4. Interview selected staff and determine whether the firm’s policies on client continuance decisions have been adequately communicated to the staff. (See separate interview guidelines.) 		
<p>I. Inspection</p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <ul style="list-style-type: none"> 1. Interview the appropriate individual and— <ul style="list-style-type: none"> a. Review the firm’s responses to the inspection section (part I) of the questionnaire and clarify those responses, if necessary. b. Discuss the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures. c. Discuss how the firm monitors whether the corrective actions planned as a result of an inspection are actually carried out. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>2. Review the available documentation supporting annual inspections conducted since the last quality review, if any, and evaluate whether—</p> <p>a. The inspectors had sufficient training and experience.</p> <p>b. The inspection coverage included:</p> <p style="padding-left: 40px;">(i) Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control.</p> <p style="padding-left: 40px;">(ii) Reviewing an appropriate number of offices.</p> <p style="padding-left: 40px;">(iii) Reviewing an appropriate number and type of engagements for compliance with professional standards.</p> <p>c. The inspection findings are appropriately summarized and documented.</p> <p>d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate.</p> <p>e. Appropriate corrective action was taken on inspection findings, including, if necessary, action pursuant to the requirements of AICPA <i>Professional Standards</i>, AU 390 and AU 561 or supplementing the working papers to document the procedures performed.</p> <p>3. Consider whether inspection findings for the year under review correlate with the findings on the quality review and explain any significant differences.</p> <p>4. Interview selected staff to determine whether inspection findings have been appropriately communicated and considered. (See separate interview guidelines.)</p> <p>J. Membership Requirements (for PCPS firms only)</p> <p>1. Obtain reasonable assurance that the firm’s form of organization and name comply with Rule 505 of the AICPA Code of Professional Conduct.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> 2. Obtain reasonable assurance that each owner of the firm residing in the United States and eligible for AICPA membership is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and cancelled checks. 3. Inquire about the existence of present or pending matters that might affect the ability of the CPA to engage legally in the practice of public accounting. 4. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected. 5. Review documentation evidencing payment of the applicable Section's dues for the current year. 		

[The next page is 4601.]

PRP Section 4600

Staff Interview Questionnaire

.01 The review of a CPA firm's quality control policies and procedures requires that professional personnel be interviewed. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated.

.02 When soliciting information, reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm.

.03 The questionnaire developed to guide the reviewer in conducting interviews is included in this section of the manual. It should be tailored as the interviewer deems appropriate.

.04 The individuals interviewed should have varying levels of experience and background. The number of individuals interviewed will be affected by the size and nature of the reviewed firm's practice.

.05

AICPA Peer Review Program

STAFF INTERVIEW QUESTIONNAIRE

The review of a CPA firm’s quality control policies and procedures requires that professional personnel be interviewed. Interviews with firm personnel are generally contemplated as a corroborative technique rather than as a means for initially gathering information. Reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm when soliciting information. This questionnaire lists suggested interview questions that may be tailored as the interviewer deems appropriate. Interviews can also elicit reactions or perceptions of which the firm should be, but is not, aware. The interviewee should be advised that no record is kept of his or her name.

Office Code No.	Interviewee Code	Level of Interviewee
Suggested Questions		Responses
<p>A. Independence</p> <ol style="list-style-type: none"> 1. How does the firm inform you of its policies and of those entities to which the firm’s independence policies apply? 2. If you had a question on an independence matter, what would you do? 3. Are you aware of any engagements in which you believe the firm was not independent? Yes _____ No _____. If yes, which engagements? 4. Has another firm ever performed a segment of an engagement on which you have been involved and for which your firm was the principal auditor? Yes _____ No _____. If yes, has the independence of that firm been confirmed? Yes _____ No _____. If not, why? <p>B. Assigning Personnel to Engagements</p> <ol style="list-style-type: none"> 1. What types of assignments have you had in the past year? 2. Did you believe that the assignments you have received have been appropriate for your level? <p>C. Consultation</p> <ol style="list-style-type: none"> 1. If you do not know the answer to an accounting or auditing question, what would you do? 		

Suggested Questions

Responses

2. Has the firm identified any specialized situations requiring consultation? Yes _____ No _____. If yes, give a few examples. How have you been apprised of situations requiring consultation with a specialist?
3. Has the firm identified any individuals within the firm as (industry) specialists? Yes _____ No _____. If yes, give a few examples. How have you been apprised of them?

D. Supervision

1. Do you believe that the engagements on which you have participated have been properly planned? Yes _____ No _____. If no, explain why.
2. In planning an engagement, what forms should be prepared and what procedures should be performed? (Applicable only to staff with planning responsibility.)
3. To what extent have you been supervised on the engagements on which you have participated and do you believe that the degree of supervision was adequate?
4. To what extent have you supervised other people on engagements on which you have participated? Were you adequately trained to carry out that responsibility?
5. How are differences of professional judgment among members of an engagement team resolved?

E. Hiring

1. How were you informed about the quality control policies and procedures that are relevant to you?

Staff Involved in Recruiting Process

2. Prior to becoming involved in the hiring process, were you informed about the firm's hiring objectives? Yes _____ No _____. If yes, how were you apprised of this information?
3. What attributes, achievements and experiences are sought in hirees?

Suggested Questions

Responses

F. Professional Development

1. What is your general evaluation of the courses you attended in the last year, and do you believe that the courses you attended contributed to your professional competence?
2. Do you believe that the on-the-job training that you received during the year under review was adequate? Yes ____ No ____ . If no, briefly describe why.
3. Are new professional standards and guidance materials distributed to you on a timely basis?

G. Advancement

1. What are the responsibilities of your position?
2. What are the qualifications deemed necessary for promotion to the level immediately above yours?
3. To what extent do you receive feedback on your performance? Do you feel that this is satisfactory?
4. How often have you been evaluated during the last year and do you believe that these evaluations, if any, were performed on a timely professional basis?

H. Acceptance and Continuance of Clients

1. What conditions on an engagement would cause you to bring them to the attention of your supervisor so that a decision could be made whether the firm's relationship with the client should be continued?

Suggested Questions	Responses
<p>I. Inspection</p> <ol style="list-style-type: none"> 1. Were any of the engagements on which you worked selected for review during the most recent inspection and the one immediately preceding it? Yes _____ No _____. If yes, were you made aware of the findings concerning your work and were they considered on the subsequent engagement(s)? 2. What were the findings of the most recent inspection and how were these communicated to you? 	

Date of Interview _____

Interviewer's Signature _____

Date Interview Questionnaire Reviewed by Team Captain _____

Team Captain's Signature _____

[The next page is 4701.]

PRP Section 4700

Conclusions of the Review Team on an On-Site Peer Review

.01 Section 4700 sets forth a series of questions designed to assist reviewers in reaching overall conclusions on the functional areas. The responses also assist the reviewers in determining whether the appropriate procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of quality reviews.

.02 Reviewers should answer the questions asked in this section for each quality control element for which the corresponding section of the *Guidelines for Review of Quality Control Policies and Procedures* (PRP sections 4400 or 4500) was completed. If the questions concerning a particular element were not answered in the *Guidelines*, reviewers should place an "X" in the box directly below the name of the element.

.03 Section 4700 should be completed after the summaries of "no" answers on engagements and the summary of matter for further consideration forms have been prepared.

.04 See Appendixes B and D of the *Standards for Performing and Reporting on Peer Reviews* (section 3100) of this manual for guidance on when a qualified or adverse report should be issued and what matters should be included in a letter of comments.

.05 The conclusions noted in this section should be consistent with the matters discussed in the report and, if applicable, the letter of comments.

.06

AICPA Peer Review Program

CONCLUSIONS OF THE REVIEW TEAM ON AN ON-SITE PEER REVIEW

Reviewers should answer the questions asked on this form concerning each quality control element for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed. If the questions concerning a particular quality control element were not answered in the *Guidelines*, reviewers should place an "X" in the box below the name of that element.

See Appendixes B and D of the *Standards for Performing and Reporting on Peer Reviews* (section 3100) for guidance on when a qualified or adverse report should be issued and what matters should be included in a letter of comments.

YES NO N/A

A. Independence

- | | | | |
|---|--|--|--|
| <p>1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:</p> <p>a. Requires all professional personnel to adhere to applicable independence rules, regulations, interpretations, and rulings?</p> <p>b. Communicates its policies and procedures relating to independence to all professional personnel?</p> <p>c. Requires, when acting as principal auditor, confirmation of the independence of another firm engaged to perform segments of an engagement?</p> <p>d. Adequately monitors compliance with its policies and procedures relating to independence on a timely basis?</p> <p>e. Complied with its independence policies and procedures during the period and adequately documented its compliance to the extent required by firm policy?</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|---|--|--|--|

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

- | | | |
|---|---------------------------|---------------------------|
| <p>2. In your opinion, do the "no" answers in Question 1 above indicate:</p> <p>a. A deficiency in the design of the system of quality control?</p> <p>b. Noncompliance with the system of quality control?</p> | <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> |
|---|---------------------------|---------------------------|

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

- a. Result in a qualified or adverse report?
b. Be included in the letter of comments?

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

B. Assigning Personnel to Engagements

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm—

- | | | | |
|---|-------|-------|-------|
| a. Identifies on a timely basis the staffing requirements of specific engagements? | _____ | _____ | _____ |
| b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel? | _____ | _____ | _____ |
| c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization: | _____ | _____ | _____ |
| i. Engagement size and complexity? | _____ | _____ | _____ |
| ii. Timing of the work to be performed? | _____ | _____ | _____ |
| iii. Special expertise required? | _____ | _____ | _____ |
| iv. Continuity and periodic rotation of personnel? | _____ | _____ | _____ |
| v. Opportunities for on-the-job training? | _____ | _____ | _____ |
| vi. Personnel availability? | _____ | _____ | _____ |
| d. Notifies staff of work assignments on a timely basis? | _____ | _____ | _____ |
| e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy? | _____ | _____ | _____ |

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

- | | | |
|---|-------|-------|
| 2. In your opinion, do the "no" answers in Question 1 above indicate: | | |
| a. A deficiency in the design of the system of quality control? | _____ | _____ |
| b. Noncompliance with the system of quality control? | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

4. In your opinion, do the "no" answers indicate matters that should:
a. Result in a qualified or adverse report? YES NO
b. Be included in the letter of comments? YES NO

Reviewer's Signature _____ Date _____
Team Captain's Signature _____ Date _____

YES NO N/A

C. Consultation

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:
 - a. Appropriately identifies areas and specialized situations where consultation is required? _____
 - b. Designates, if applicable, appropriate individuals as specialists to serve as authoritative sources? _____
 - c. Specifies the authority to be accorded specialists in consultations? _____
 - d. Provides adequate procedures for resolving differences of opinion between engagement personnel and specialists? _____
 - e. Requires and maintains appropriate documentation of the results of consultations, including, if applicable, considerations involved in the resolution of differences of opinion? _____
 - f. Maintains or provides access to an adequate reference library or other authoritative source? _____
 - g. Adequately communicates its policies and procedures relating to consultation to all professional personnel? _____
 - h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
 - a. A deficiency in the design of the system of quality control? _____
 - b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a qualified or adverse report?

YES

NO

b. Be included in the letter of comments?

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

D. Supervision

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, and/or discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- | | | | |
|---|-------|-------|-------|
| a. Has established appropriate procedures for planning engagements? | _____ | _____ | _____ |
| b. Has established appropriate procedures for maintaining the firm's standards of quality, including: | _____ | _____ | _____ |
| i. Guidelines for the form and content of working papers? | _____ | _____ | _____ |
| ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate? | _____ | _____ | _____ |
| iii. Adequate supervision at all organizational levels? | _____ | _____ | _____ |
| iv. Procedures for resolving differences of professional judgment among the engagement team? | _____ | _____ | _____ |
| c. Has established appropriate procedures for reviewing engagements and for the documentation thereof? | _____ | _____ | _____ |
| d. Adequately communicates its policies and procedures relating to supervision to all professional personnel? | _____ | _____ | _____ |
| e. Complied with its policies and procedures for supervision during the period and adequately documents its compliance to the extent required by firm policy? | _____ | _____ | _____ |
| f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review? | _____ | _____ | _____ |

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

- | | | |
|---|-------|-------|
| a. A deficiency in the design of the system of quality control? | _____ | _____ |
| b. Noncompliance with the system of quality control? | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

4. In your opinion, do the "no" answers indicate matters that should:
a. Result in a qualified or adverse report?
b. Be included in the letter of comments?
YES NO
_____ _____
_____ _____

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

E. Hiring

Questions In *Guidelines* Not Answered

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:
 - a. Adequately plans for the firm’s personnel needs and establishes appropriate hiring objectives, based on current clientele, anticipated growth, personnel turnover, etc.? _____
 - b. Identifies relevant attributes, achievements and experience to be sought in hirees? _____
 - c. Appropriately investigates and evaluates the qualifications of prospective employees to assure that they meet the firm’s requirements and standards? _____
 - d. Adequately communicates its policies and procedures relating to hiring to those persons involved in the hiring process? _____
 - e. Adequately monitors the effectiveness of its recruiting program? _____
 - f. Informs new personnel of the firm’s policies and procedures on a timely basis? _____
 - g. Complied with its policies and procedures relating to hiring during the period and adequately documented its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered “No,” Please Answer the Remaining Questions

YES NO

2. In your opinion, do the “no” answers in Question 1 above indicate:
 - a. A deficiency in the design of the system of quality control? _____
 - b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

- a. Result in a qualified or adverse report?
b. Be included in the letter of comments?

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

F. Professional Development

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:
 - a. Has established appropriate continuing professional education requirements for personnel at each level within the firm? _____
 - b. Adequately monitors development of continuing professional education programs, maintains appropriate records, and monitors the records? _____
 - c. Provides personnel with appropriate professional literature relating to current developments on a timely basis? _____
 - d. Provides personnel with appropriate programs, including to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries? _____
 - e. Provides adequate on-the-job training? _____
 - f. Adequately communicates its policies and procedures relating to continuing professional education to all professional personnel? _____
 - g. Complied with its policies and procedures relating to professional development during the period and adequately documented its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
 - a. A deficiency in the design of the system of quality control? _____
 - b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a qualified or adverse report?

b. Be included in the letter of comments?

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

G. Advancement

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm—

- a. Has established appropriate qualifications for the various levels of responsibility within the firm? _____
- b. Has identified relevant criteria for evaluating individual performance and expected proficiency? _____
- c. Adequately communicates criteria for evaluating individual performance and expected proficiency to professional personnel? _____
- d. Appropriately evaluates the performance of owners and other professional personnel on a periodic basis? _____
- e. Provides for appropriate documentation of evaluations of performance? _____
- f. Appropriately evaluates the data obtained regarding performance and gives proper recognition in advancement decisions to the quality of work performed? _____
- g. Appropriately monitors the firm's advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increasing degrees of responsibility? _____
- h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
- a. A deficiency in the design of the system of quality control? _____
 - b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

- | | | |
|---|-------|-------|
| a. Result in a qualified or adverse report? | _____ | _____ |
| b. Be included in the letter of comments? | _____ | _____ |

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

H. Acceptance and Continuance of Clients

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm, and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Has established appropriate policies and procedures for evaluating and obtaining information about prospective clients? _____
- b. Requires communication with predecessor auditors, if any, in accordance with auditing standards? _____
- c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued? _____
- d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel? _____
- e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients? _____
- f. Complied with its policies and procedures relating to acceptance and continuance of clients during the period and adequately documents its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

- 2. In your opinion, do the "no" answers in Question 1 above indicate:
 - a. A deficiency in the design of the system of quality control? _____
 - b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

4. In your opinion, do the "no" answers indicate matters that should:
a. Result in a qualified or adverse report?
b. Be included in the letter of comments?
YES NO
_____ _____
_____ _____

Reviewer's Signature _____ Date _____
Team Captain's Signature _____ Date _____

YES

NO

N/A

I. Inspection

Questions in *Guidelines* Not Answered

1. Based on the reading information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures performed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in other areas are operating effectively?

b. Has established appropriate qualifications for personnel who participate in inspection activities?

c. Has performed and documented a comprehensive inspection:

i. Covering the year under review?

ii. Covering the two preceding years?

d. Has discussed inspection findings with appropriate personnel?

e. Has taken or planned appropriate corrective actions with respect to inspection findings?

f. Adequately monitors the corrective actions taken.

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES

NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control?

b. Noncompliance with the system of quality control?

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

4. In your opinion, do the "no" answers indicate matters that should:

YES NO

a. Result in a qualified or adverse report?

b. Be included in the letter of comments?

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

J. Membership Requirements (For PCPS Member Firms Only)

- 1. Based on reading the relevant section in the quality control document (if any) and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm complied with each of the Section's membership requirements in all material respects?

**If the Answer to the Preceding Question Was "No,"
Please Answer the Remaining Questions**

- 2. Briefly describe the reason for the "no" answer.*

YES NO

- 3. In your opinion, does the "no" answer indicate matters that should— **

- a. Result in a qualified report? Briefly explain why.

- b. Be included in the letter of comments? Briefly explain why.

- c. Be discussed at the exit conference only? Briefly explain why.

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

[The next page is 4801.]

* Attach additional pages as necessary in responding to questions on this form.

** See PRP § 3100, Appendix B for guidance on reporting.

PRP Section 4800

Team Captain Checklist—On-Site Peer Reviews

.01 This section of the manual contains a team captain checklist for on-site peer reviews. It provides a basic overview of the way in which all on-site peer reviews—regardless of firm size—are to be conducted.

.02 The checklist must be completed on all on-site peer reviews of firms participating in the AICPA Peer Review Program, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program (a *committee-appointed review team*), or by an authorized association of CPA firms.

AICPA Peer Review Program

TEAM CAPTAIN CHECKLIST—ON-SITE PEER REVIEWS

This checklist provides a basic overview of the way in which all on-site peer reviews—regardless of firm size—are to be conducted. It must be completed on all on-site peer reviews of firms enrolled in the AICPA Peer Review Program or the private companies practice section, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program (a *committee-appointed review team*), or by an authorized association of CPA firms.

On-site peer reviews are administered by state CPA societies participating in the program. Hereafter, those entities are referred to collectively as the *administering entity*.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

Initial	Date
_____	_____

I. Prior to the Review

- | | | |
|--|-------|-------|
| 1. Review the background information furnished by the firm and ascertain whether the firm is enrolled in the AICPA Peer Review Program or a member of the PCPS. | _____ | _____ |
| 2. Contact the firm to be reviewed sufficiently in advance of the review (ordinarily, at least three weeks before the review) and— | | |
| a. Confirm the timing of the review and the expected date of the exit conference. | _____ | _____ |
| b. Confirm that the administering entity has been notified about the arrangements for the review and that the firm has received acknowledgement of that information. | _____ | _____ |
| c. Confirm in all reviews performed by a committee-appointed review team that the firm has returned a signed copy of the engagement letter to the administering entity. | _____ | _____ |
| d. Request the firm to provide— | | |
| (i) A copy of its completed quality control policies and procedures questionnaire. | _____ | _____ |
| (ii) A client list (see illustration in “Instructions to Reviewed Firms”). | _____ | _____ |
| (iii) A list of the firm’s professional personnel, showing name, position, and years of experience (1) with the firm and (2) in total. | _____ | _____ |
| (iv) A copy of the client’s 8-K filing notifying the SEC of the change in auditors if the firm has been the auditor for an SEC registrant and has resigned, declined to stand for re-election or been dismissed since the date of the firm’s last peer review or quality review or during the review year if the firm has not previously had a review to verify that the client/auditor relationship has terminated. | _____ | _____ |
| e. Inquire whether the firm has had a previous peer or quality review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents. | _____ | _____ |
| f. If the firm performed an SEC engagement during the review year contact the AICPA Peer Review Division. | _____ | _____ |
| g. Confirm that the firm has designated an owner or senior staff member to act as a liaison with the review team. | _____ | _____ |

	Initial	Date
h. Confirm that persons in the firm responsible for the various quality control functions will be available for interviews during the review, especially at the beginning of the review. (In smaller firms, the managing owner might be the primary source of information about the firm’s quality controls.)	_____	_____
i. Inquire whether—		
(i) The owners of the firm and the firm itself have licenses to practice public accounting in the state(s) in which the firm practices as required by the applicable state board(s) of accountancy.	_____	_____
(ii) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm’s accounting and auditing practice and, if available, the results thereof.	_____	_____
(iii) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing that were effective during the period since the firm’s last peer or quality review (or since enrolling in one of the AICPA practice monitoring programs, whichever is later) and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (e.g., SEC, GAO, or DOL). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s actions to comply with such restrictions or limitations.	_____	_____
(iv) Any requirements of relevant state boards of accountancy must be met for the review to be accepted by such board(s) as meeting its requirements.	_____	_____
j. Select a review period that covers a current period of one year and obtain the agreement of the reviewed firm. The review year ordinarily should end about three to four months before the review commences. It does not have to be the same as the firm’s fiscal year. However, the review year ordinarily must not end before the end of the previous calendar year.	_____	_____
3. Contact any other review team members and confirm arrangements, including travel and hotel arrangements, with them.	_____	_____
4. Read the reviewed firm’s responses to the appropriate quality control policies and procedures questionnaire and the firm’s inspection reports (if available) to obtain a general understanding of those policies and procedures.	_____	_____
5. Based on the information provided by the reviewed firm, make a preliminary selection of the practice offices to be visited and the engagements to be reviewed. (See the <i>Standards</i> for guidance on the selection of offices and engagements and note that engagements selected for review should be those with years ending during the year under review unless a more recent report has been issued at the time of selection.) To minimize any assertion that advance selections may afford undue opportunities for “clean-up” of the working papers, it is preferable that the selection of some engagements not be made known to the firm until the review team arrives. In selecting engagements for review, greater weight should be given to large, complex, and high-risk engagements and audits conducted pursuant to the Employee Retirement Income Security Act (ERISA) of 1974. In addition, the sample of engagements selected for review should include—		

Initial _____ Date _____

- One or more audits conducted pursuant to the *Government Auditing Standards* issued by the U.S. General Accounting Office (the "Yellow Book").
- One or more engagements subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act.
- a. Assign code numbers to the engagements selected to maintain client confidentiality and request the firm to complete the profile sheets in the engagement review checklists and to assemble the working papers and reports before the review begins. _____
- b. If the reviewed firm does not permit the working papers for certain engagements to be reviewed, evaluate the reasonableness of the explanation and consider what other actions may be appropriate in the circumstances (see the *Standards*, on "Scope of the Review"). When the explanation is that the client has refused to allow its engagement to be reviewed, inspect any written communications between the firm and the client and evaluate whether the firm made a good-faith effort to obtain the client's concurrence to the review. _____

II. At the Beginning of the Review

1. Meet with other reviewers to—
 - a. Orient them to firm policies and procedures. _____
 - b. Instruct them in the manner in which working papers, questionnaires, checklists, and MFC forms are to be prepared to facilitate supervision and review. _____
 - c. Explain the "key audit area" approach to engagement review, noting that the team captain should concur in advance with respect to such decisions. _____
 - d. Assign responsibilities. _____
2. If the firm was previously reviewed, consider whether matters, if any, discussed in the firm's prior report, letter of comments, and response thereto require additional emphasis in the current review, and discuss these matters with the other members of the review team. _____

III. During the Review

1. Gain, through discussion with the managing owner and/or other key personnel an understanding of the firm's professional and management environment and the business environment in which the firm and its clients practice. (The professional environment established by a firm and the business environment in which it and its clients operate can have a significant impact on the effectiveness of a firm's quality control system. A quality firm has as its overriding objective the provision of audit, accounting, tax, and advisory services to clients in the best professional manner; the reviewer should know whether this philosophy is espoused by the firm and whether it is communicated to and understood by all personnel. Also, the business environment in which the firm and its clients operate can place pressures on professionalism, pressures that only a strong system supported by leadership from the top can ordinarily meet.) _____

	Initial	Date
2. Make or approve any modifications to programs and checklists issued by the AICPA for the conduct of the review, noting that the <i>Standards</i> provide: "Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program."	_____	_____
3. Make any additional selection of offices or engagements for review and ascertain that the scope of the review conforms with the guidance in the <i>Standards</i> .	_____	_____
4. Make appropriate arrangements for an exit conference and, for multi-office firms, determine that appropriate arrangements are made for an exit conference at each office visited.	_____	_____
5. Consult with the administering entity or its designee in situations previously identified by the entity and whenever any of the following situations are encountered:		
a. The review team feels it may not have the expertise required under the <i>Standards</i> to accomplish the required engagement reviews satisfactorily.	_____	_____
b. The review team is considering whether to terminate the review because, for example, of a lack of cooperation.	_____	_____
c. The review team and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, the letter of comment to be issued, matters that may require the application of the guidance in AICPA Professional Standards, AU 561 and AU 390, and similar matters with respect to engagements to compile or review historical financial statements or to examine prospective financial statements.	_____	_____
d. There is any uncertainty about the report to be issued or the matters to be included in the letter of comments (see IV. 1).	_____	_____
6. Consider the need to consult with the administering entity or its designee whenever the following situations are encountered:		
a. Difficulties in complying with the <i>Standards</i> , especially in selecting engagements or offices for review.	_____	_____
b. Circumstances that may call for issuance of other than an unqualified report.	_____	_____
7. Prepare or review the applicable checklist, "Guidelines for On-Site Peer Reviews." [There is one checklist for sole practitioners with no professional staff (PRP section 4400) and one for all firms with two or more professional staff (PRP section 4500).]	_____	_____
8. Prepare or review a summary of "no" answers on engagements reviewed.	_____	_____
a. Ascertain that all significant items are included on an MFC form and	_____	_____
b. Review the reviewed firm's responses to all such forms, making sure that the form clearly indicates that the reviewed firm agrees with the facts as described or explains its reasons for disagreement.	_____	_____
9. If the firm is a multi-office firm and it facilitates summarization of the results of the review of the firm as a whole, prepare or review memoranda summarizing the results of the reviews of each office visited using the format suggested in Appendix A to this checklist.	_____	_____

	Initial	Date
10. Prepare or review a summary of MFC forms and evaluate the impact of the matters discussed on those forms on the firm's quality control system and its compliance with that system and, if applicable, with the membership requirements of the private companies practice section. (The format of the summarization is left to the discretion of the reviewer; however, a summary format is available in PRP section 4900.)		
11. Complete the applicable sections of the "Conclusions of the Review Team on an On-Site Peer Review." The reviewer should only complete those sections for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed.		
12. Develop a list of points to be discussed at the firm-wide exit conference, distinguishing between—		
a. Matters that require a qualified or adverse report.		
b. Other matters that will be included in the letter of comments.		
c. Other comments and suggestions.		
13. Prepare the firm-wide summary review memorandum using the format suggested in Appendix B to this checklist.		
14. Notify the administering entity promptly if there is a change in the date of the exit conference.		

IV. At Completion of the Review

1. Communicate the review team's findings to senior members of the reviewed firm at an exit conference. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the report and about all significant findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances which should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. Also, at that time discuss the following with the reviewed firm—		
a. The report and letter of comments:		
(i) Are to be provided to the reviewed firm within thirty days of the exit conference.		
(ii) Are to be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report and letter of comments.		
b. The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial or corrective actions taken or planned to prevent a recurrence of each matter described in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement.		
c. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.		
d. The actual time incurred on the review to date and additional time anticipated to complete all aspects of the review.		
2. Review Section 3400, Guidance for Writing a Letter of Comments.		

	Initial	Date
3. Prepare the report and letter of comments following the guidance in the <i>Standards</i> , and—		
a. Submit the original of such documents to the reviewed firm within thirty days of the date of the exit conference.	_____	_____
b. Submit a copy of such documents to the administering entity, along with a copy of the review completion form. (See Appendix A.)	_____	_____
4. Complete the summary review memorandum. (See Appendix B.)	_____	_____
5. For reviews conducted by committee-appointed review teams—		
a. Send all working papers to the administering entity in two separate mailings—		
(i) Working papers for reviews of individual engagements.	_____	_____
(ii) All other working papers and correspondence. (See Appendix C.)	_____	_____
b. Approve bills for time and expenses of review team members and submit them along with your own bill to the administering entity. Make sure the bills include the Federal employer identification number for Form 1099 purposes, when applicable.	_____	_____
6. For all other reviews, send a copy of the firm-wide summary review memorandum, the team captain checklist and the MFC forms to the administering entity. Note that other working papers on these reviews are subject to oversight procedures, which may be applied at a later date.	_____	_____

.04

Appendix A

ON-SITE PEER REVIEW COMPLETION FORM

Date: _____

To: _____

From: _____
(Name of the Review Team Captain)

Re: Review of _____
Firm Number _____ Review Number _____

1. On what date was the firm-wide exit conference held? _____

2. When was the report delivered to the reviewed firm? _____

3. What was the general nature of the report? * _____

4. If the report was qualified or adverse, what were the reasons?* _____

5. Where will the working papers be shipped?

6. When will the working papers be shipped to the entity noted in 5 above? _____

* * * * *

Team Captain Signature _____

* Please use the report codes on page 4809.

REPORT CODES*GENERAL NATURE OF THE REPORT*

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Qualified—Quality Control System (only)
- 4 Qualified—Membership Requirements of the Division for CPA Firms (only)
- 5 Qualified—Scope Limitation (only)
- 6 Qualified—Quality Control System and Membership Requirements of the Division for CPA Firms
- 7 Adverse

REASONS FOR QUALITY CONTROL SYSTEM QUALIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

REASONS FOR MEMBERSHIP QUALIFICATIONS

- 401 Continuing Professional Education
- 499 Other

Appendix B**AICPA Peer Review Program****INSTRUCTIONS FOR PREPARATION OF SUMMARY REVIEW MEMORANDUM
ON ON-SITE PEER REVIEWS**

The purpose of the Summary Review Memorandum is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments, if any, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments. This documentation is required to enable the state CPA society administering the review to exercise its oversight function in an effective and consistent manner.

The attached form, if properly completed, ordinarily should provide the documentation necessary to meet these objectives. If there is insufficient space to fully describe any matters, additional sheets should be used and attached to the form.

A copy of the summary review memorandum and of the team captain checklist must be submitted to the administering entity for all on-site peer reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations of CPA firms.

AICPA Peer Review Program

SUMMARY REVIEW MEMORANDUM FOR ON-SITE PEER REVIEWS

Reviewed Firm's Name _____

Reviewed Firm's Address _____

Peer Review Year End _____

I. Description of Firm

A. Professional Staff Profile (if the firm has more than one office, provide a breakdown by office):

	<i>Office 1</i>	<i>Office 2</i>	<i>Office 3</i>	<i>Total</i>
Owners (or equivalent)	_____	_____	_____	_____
Managers (or equivalent)	_____	_____	_____	_____
Other Professionals	_____	_____	_____	_____
	=====	=====	=====	=====

B. Indicate extent of industry specializations, if any:

II. Planning the Review

A. Composition of Review Team:

1. Team Captain _____
 Firm _____ Position _____
 Areas of Experience ¹ _____
2. Team Member _____
 Firm _____ Position _____
 Areas of Experience ¹ _____
3. Team Member _____
 Firm _____ Position _____
 Areas of Experience ¹ _____

¹ As it relates to the reviewed firm's practice.

- B. Describe basis for and degree of reliance, if any, on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

- C. Was the firm previously reviewed? Yes ____ No ____ . If yes, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review and how that was done.

- D. Development of Review Program:
 - 1. Describe any significant deviations from AICPA peer review questionnaires and checklists and explain reason:

- 2. Describe major considerations in selection of offices for review, and indicate whether and how requirements of relevant state boards of accountancy in that regard were met in order for the review to be accepted by such board(s) as the equivalent of ones performed under the board's own positive enforcement program:

- 3. Describe major considerations in selection of engagements for review:

E. Important Dates:

Commencement of Review _____

Exit Conference _____

Issuance of report and, if applicable, letter of comments _____

Mailing of working papers (committee-appointed review teams only) or team captain checklist and SRM to the state CPA society administering the review _____

III. Scope of Work Performed

A. Accounting and Auditing Statistics:

	Total		Offices					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
Subject to <i>Government Auditing Standards</i> ²								
ERISA								
SEC								
Other								
Reviews ³								
Compilations ³								
Other Accounting Services ⁴								

B. Engagements Reviewed:

	Total		Offices					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
Subject to <i>Government Auditing Standards</i> ²								
ERISA								
SEC								
Other								
Reviews ³								
Compilations ³								
Other Accounting Services ⁴								
Percentage of A&A Practice Reviewed								

² Includes only audits of entities subject to *Government Auditing Standards* ("Yellow Book"), including audits subject to OMB Circulars A-128 and A-133.

³ The number of engagements should include each monthly, quarterly and annual report issued.

⁴ Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting controls, its prospective financial statements, and the results of applying agreed-upon procedures to specified elements, accounts, or items of financial statements, etc.

- C. Did the firm perform any audits of federally insured depository institutions with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes No . If yes, how many were included in the scope of the peer review? _____
- D. Were you requested not to review any engagements? Yes No . If yes, describe the reason for the request, whether you were satisfied as to the reason, and how this affected the scope of the review.

IV. Overall Findings and Conclusions:

- A. Attach a copy of the report issued.
- B. Was a letter of comments issued? Yes No . If yes, attach a copy. If no, comment briefly on the reviewer’s findings in relation to that decision.

- C. If a letter of comments was issued, did any matters in the letter cause you to consider issuing a qualified or adverse report but not result in such a report being issued? Yes ____ No ____ . If yes, describe such matters fully, including the basis for the conclusion.

- D. Was the firm previously reviewed? Yes ____ No ____ . If yes, were any matters noted on the previous review repeated in the letter of comments on the current review? Yes ____ No ____ . If yes, please describe what the firm has done or plans to do to prevent a recurrence of the matter(s) and whether you concur with the actions taken or planned.

- E.1. Does the firm perform inspections as contemplated by the AICPA quality control standards? Yes ____ No _____. (This question should be answered for all reviews.)
- 2. If the answer to E.1 is yes, were the inspection procedures appropriate? Yes ____ No ____.⁵
- 3. If the answer to E.2 is no, describe the reason(s) why the inspection procedures are inappropriate.⁶

- F. Does the reviewed firm have more than one office? Yes ____ No _____. If yes, did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes _____ No _____. If yes, briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

⁵ Questions E.2 and E.3 should be answered for all reviews of firms with more than ten professionals.
⁶ Questions E.2 and E.3 should be answered for reviews of firms with up to ten professionals when the review team notes significant deficiencies on the engagements reviewed.

H. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor's/ accountant's report was not appropriately modified? (AU561 and ET203) Yes ___ No ___.⁷
If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

⁷ These situations should be reflected on the Engagement Statistics Data Sheet in Attachment 1. Also, when there is a disagreement with the reviewed firm about these situations, the reviewers should consult with the administering entity or its designee.

I. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU390 and ET202)? Yes ____ No ____.⁸ If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate. _____

5. If the firm has not performed the necessary procedures, indicate whether you concur with the planned actions. _____

⁸ See footnote 7

J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with standards for accounting and review services (ET202)? Yes ____ No ____.⁹ If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. _____

5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions. _____

⁹ See footnote 7.

K. Did the review disclose any situations that led the reviewers to conclude the documentation on any engagement does not support the standards under which the engagement was performed? Yes ____ No ____ . If yes:

1. Describe such situations fully. _____

2. Describe the procedures the firm has represented that it performed in the situation(s). _____

3. Indicate whether you believe the procedures described by the firm are sufficient in the circumstances. _____

L. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accountants' services on prospective financial information or any other standards not encompassed in items H, I, and J of this section? Yes ____ No ____ .¹⁰ If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

¹⁰ See footnote 7.

4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

M. If reliance is being placed on the firm’s inspection program for the current year, did the reviewed firm’s inspection program identify any engagements on which the firm must consider taking action pursuant to the standards cited in Items H, I, J and K of this section? Yes ____ No _____. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.¹¹

¹¹ See footnote 7.

N. The following is the actual or best estimate of the number of hours expended to complete the peer review.

	<i>Actual Review Hours</i>
Team Captain	_____
Team Member(s) A.	_____
B.	_____
C.	_____
D.	_____
Total Review Hours	_____

Team Captain _____

Date _____

.06

ATTACHMENT 1
ENGAGEMENT STATISTICS DATA SHEET *
 (To Be Completed On All Reviews)

I. Engagement Statistics

<i>Type of Engagement</i>	<i>Total No. Reviewed</i>	<i>Total No. Substandard</i>
Audits—Governmental	_____	_____
Audits—ERISA	_____	_____
Audits—SEC	_____	_____
Audits—Other	_____	_____
Reviews	_____	_____
Compilations	_____	_____
Other Accounting Services	_____	_____
Total	=====	=====

REASON CODES
Substandard Engagement Reason Codes GAA Non-GAAS and Non-GAAP GAP Non-GAAP GAS Non-GAAS SAR Non-SSARS

ACTION CODES
Substandard Engagement Action Codes 1. Report and/or financial statements recalled, revised and reissued 2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent) 3. Omitted auditing procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent) 4. Cause of independence impairment eliminated 5. Unable to apply omitted procedures 6. Notified parties that no reliance should be placed on the report issued

II. Reasons for Substandard Engagements

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

III. Actions To Be Taken on Substandard Engagements

<i>Type of Engagement Reviewed</i>	<i>Action Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

IV. Engagements Excluded from Review

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

EXCLUDED ENGAGEMENT REASON CODES
1. Subject of litigation 2. Subject of investigation by government agency 3. Client imposed restrictions 4. Other

* The information reflected on this sheet should agree with the information reflected in Items III.A, IV.H, IV.I, IV.J, and IV.K of the summary review memorandum.

.07

ATTACHMENT 2

Cost Information

(Required only for committee-appointed review teams)

A. Budget to Actual Comparison

	<i>Budgeted Hours</i>	<i>Actual Hours</i>		
		<i>Total</i>	<i>Team Captain</i>	<i>Team Member(s)</i>
Planning	_____	_____	_____	_____
Engagement Review	_____	_____	_____	_____
Quality Control System Review	_____	_____	_____	_____
Exit Conference	_____	_____	_____	_____
Report	_____	_____	_____	_____
Letter of Comments	_____	_____	_____	_____
Other (describe if significant)	_____	_____	_____	_____
Total Hours	_____	_____	_____	_____
Range per Engagement Letter	_____			
Rate/Hour			_____	_____
Total Amount			_____	_____

B. Was the actual review time discussed with the firm? Yes ___ No ___.

C. Does actual time exceed the upper end of the estimated range? Yes ___ No ___. If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

Team Captain _____

Date _____

.08

Appendix C

Index for Non-Engagement Related Working Papers

<i>Ref.</i>	<i>Section Description</i>	<i>X Where Applicable</i>
A	Peer Review Report	<input type="checkbox"/>
B	Letter of Comments	<input type="checkbox"/>
C	Prior Review Report, Letter of Comments and Letter of Response	<input type="checkbox"/>
D	Team Captain Checklist (PRP Section 4800)	<input type="checkbox"/>
E	Summary Review Memorandum (PRP Section 4800)	<input type="checkbox"/>
PLANNING		
F	Engagement Letter	<input type="checkbox"/>
G	Firm Background Information	<input type="checkbox"/>
H	Firm Quality Control Document	<input type="checkbox"/>
I	Quality Control Policies and Procedures Questionnaire (PRP Section 4200 or 4300)	<input type="checkbox"/>
J	Planning Conference Memorandum	<input type="checkbox"/>
K	Preliminary Selection of Engagements	<input type="checkbox"/>
L	Other Planning Materials	<input type="checkbox"/>
PERFORMANCE		
M	Guidelines for Review of Quality Control Policies and Procedures (PRP Section 4400 or 4500)	<input type="checkbox"/>
N	Staff Interview Questionnaires (PRP Section 4600)	<input type="checkbox"/>
O	Summary of Matter for Further Consideration Forms (PRP Section 4900)	<input type="checkbox"/>
P	Matter for Further Consideration Forms	<input type="checkbox"/>
Q	Conclusions of the Review Team (PRP Section 4700)	<input type="checkbox"/>
R	Other Performance Related Materials	<input type="checkbox"/>
REPORTING		
S	List of Points for the Exit Conference	<input type="checkbox"/>
T	Exit Conference Memorandum	<input type="checkbox"/>
U	Other Reporting Materials	<input type="checkbox"/>
ADMINISTRATION		
V	Time Summaries	<input type="checkbox"/>
W	Evaluation of Team Members	<input type="checkbox"/>
X	Other Miscellaneous Correspondence	<input type="checkbox"/>

[The next page is 4901.]

PRP Section 4900

Instructions for Use of Matter for Further Consideration Forms

.01 A reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of the facts from the reviewed firm.

.02 If a MFC form is prepared during the course of the review and subsequent information indicated that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter has been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.

.03 The matters discussed on an MFC form should be classified as follows—

Design—The reviewer believes that the firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.

Performance—The reviewer believes that the reviewed firm failed to adhere to professional standards, including GAAP, GAAS, GAGAS, and SSARS.

Compliance—Quality Control System—The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did comply with professional standards.

Compliance—PCPS membership—The reviewer believes that the reviewed firm did not comply with an applicable membership requirement of the private companies practice section.

Documentation—The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

.04 Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.

.05 MFCs relating to both functional and engagement review areas should be sorted by nature of comment.

.06 The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. Matter for Further Consideration forms should be summarized to facilitate these considerations. The format of summarization is left to the discretion of the reviewer; however, a summary format is included on page 4903. Reviewers may use this summary format or develop their own.

.07

MATTER FOR FURTHER CONSIDERATION

REVIEWER'S DESCRIPTION OF THE MATTER

CONTROL NO. _____

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES ___ NO ___

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS

Type of Matter:

Design	_____
Performance	_____
Compliance— Quality Control System	_____
Compliance— PCPS Membership	_____
Documentation	_____

TEAM CAPTAIN'S COMMENTS, IF ANY

FIRM _____ CONTROL NO. _____

OFFICE CODE NO. _____

<i>Signatures</i>		<i>Dates</i>
Engagement Owner	_____	_____
Reviewer	_____	_____
Team Captain	_____	_____

<i>Program Questionnaire</i>		<i>Engagement</i>
Section	_____	No. _____
Element	_____	Checklist Page _____
Program Step	_____	Question _____

.08

Summary of Matter for Further Consideration Forms

 (Name of Reviewed Firm)

MFC Number	Type of Matter *	Brief Description of Matter	Reference **	Does this matter, individually or collectively, result in a "no" answer in Section 4700?		
				Yes/No	Briefly explain reasons	If "yes", indicate Section 4700 Reference

* The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either a) design, b) performance, c) compliance—quality control system, d) compliance—PCPS membership, or e) documentation.

** The reviewer should indicate the program or engagement checklist step that led to the MFC.

 [The next page is 5001.]

PRP Section 5000

ON-SITE PEER REVIEW ENGAGEMENT CHECKLISTS

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PRP Section 5100

Instructions for Use of Engagement Checklists

General

.01 The review of engagements should include the review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm.

.02 The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm's quality control policies and procedures.

.03 Since, in most cases the engagement personnel will not be responsible for establishing firm policies, the reviewer should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the engagement reviews, these matters should be discussed with the team captain.

Engagement Checklists

.04 The following checklists have been developed for use by review teams performing on-site peer reviews and are contained in this section of the manual:

- a. General Compilation Engagement Checklist (PRP Section 5200)
- b. General Review Engagement Checklist (PRP Section 5300)
- c. General Audit Engagement Checklist (PRP Section 5400)
- d. Governmental Audit Engagement Checklist (PRP Section 5500)
- e. Not-for-Profit Audit Engagement Checklist (PRP Section 5600)
- f. Employee Benefit Plan Engagement Checklist (PRP Section 5700)
- g. Prospective Financial Statement Engagement Checklist (PRP Section 5800)

.05 The general engagement checklists were developed for use in reviewing engagements of "for-profit" companies. They will require extensive modification or supplementation for engagements involving companies in specialized industries, such as insurance and finance companies. Reviewers may wish to refer to the specialized industry disclosure checklists and illustrative financial statements published by the AICPA.

.06 The engagement review checklists (which can be used for most engagements) contain the following sections¹—

- a. The first section of each checklist contains questions on the accountant's report and the related financial statements and footnotes. This section of the checklist ordinarily would be completed for each engagement reviewed. However, on peer reviews of firms that have their own report and financial statement

¹The Governmental Audit Engagement Checklist includes all of the sections discussed herein, as well as an additional section on compliance with the requirements of the Single Audit Act of 1984.

disclosure checklist that is completed by the firm's personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm's checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a "Matter for Further Consideration" (MFC) form.

- b. The second section of the checklist contains questions concerning planning and other general procedures that normally should be performed for the applicable level of service (e.g., audit, review, or compilation). This section should be completed for each engagement reviewed.
- c. The third section included in the general audit engagement checklist contains questions relating to specific audit areas. It is not ordinarily necessary to answer all parts of this section because of the emphasis on key audit areas. (See paragraph .09 below for a discussion of the "key audit area" approach.)
- d. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the nine quality control areas. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm. For example, a number of the questions are not applicable to sole practitioners without full-time professional staff. Each part of this section should be completed for each engagement reviewed.

.07 Audit Engagement Supplements have been developed to facilitate the reviews of audit engagements within specialized industries. At the present time, the checklists that have been approved by the AICPA Peer Review Board are listed in PRP § 6000.

Techniques for Review of Engagements

.08 Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections, memoranda or other working papers describing the company and its business, the firm's audit approach and problem areas.

.09 Most reviewers find it effective to perform the review—that is, read the financial statements and the related report, review the "top files," applicable sections of the audit programs, correspondence files, consolidating working papers and other "key audit area" working papers—and then complete the engagement checklist. Any unanswered questions on the checklist are then completed by additional reference to the engagement files.

.10 The depth of review of working papers for particular engagements is left to the judgment of the reviewers; however, the review should ordinarily include all the key areas of an engagement. A page-by-page review of all working papers is *not* necessary. Points to be considered in determining the key areas include—

- a. Key areas in the client's industry (e.g., revenue recognition for construction companies; inventories and accounts receivable for manufacturing and retail concerns; or loan loss allowances for financial institutions).
- b. Key areas noted during the review of the financial statements and discussions with engagement personnel (e.g., review of loan defaults or follow-up of litigation matters).
- c. Key areas identified by the firm in planning or conducting the engagement.
- d. Recent accounting and auditing developments and pronouncements.

- e. Weaknesses noted in other engagements reviewed.
- f. Weaknesses noted by the firm during its inspection program.
- g. Weaknesses noted in the last review of the firm's quality control system.

.11 Ordinarily, in applying the "key area" concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. In such cases, the reviewer should document in the working papers the reasons why all key areas were not reviewed. The reviewer should also exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement.

.12 For each engagement reviewed (audits, reviews, and compilations), the *Standards* require the review team to document whether anything came to its attention that caused it to believe that—

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (or, if applicable, an other comprehensive basis of accounting).
- b. The firm did not have a reasonable basis under applicable professional standards for the report issued.
- c. The documentation on the engagement did not support the report issued.
- d. The firm did not comply with its quality control policies and procedures in all material respects.

.13 If the review team reaches a negative conclusion with respect to items a., b., or c. above, the team captain should promptly inform an appropriate member of the reviewed firm (generally on a "Matter for Further Consideration" form). The reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken. The reviewed firm should advise the team captain of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required. If the reviewed firm believes that it can continue to support its previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards, the review team should pursue any remaining questions with the reviewed firm and, if necessary, with the entity administering the review. The review team should also consider expanding the scope of the review by selecting additional engagements to determine the extent and cause of significant departures from professional standards.

.14 In evaluating the reviewed firm's response, the review team should recognize that it has not made an examination of the financial statements in question in accordance with generally accepted auditing standards and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client's business. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances and the reviewed firm should be aware that it may be requested by the state CPA society administering the review to refer unresolved matters to the AICPA Peer Review Board for a final determination.

[The next page is 5201.]

PRP Section 5200

General Compilation Engagement Checklist

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner/Partner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Date Report Released _____

This engagement involves reporting on:

1. compiled balance sheet complete set of compiled financial statements
 compiled income statement compiled financial statements without statement of cash flows
2. that (include) (omit) substantially all required disclosures and
3. that (include) (do not include) supplementary information.

The financial statements are for an entity that is a (an):

- independent entity subsidiary, division or branch
 consolidated or combined group other (explain)

The financial statements cover an (annual) (interim) reporting period.

Date that the fee for the prior engagement was paid _____

Key data reported on by this office for this engagement:

Total assets \$ _____
 Equity \$ _____
 Net sales \$ _____
 Net income \$ _____

Major lines of business:

Complex or troublesome engagement areas:

Compilation hours on this engagement:

Owner _____
 Manager (or equivalent) _____
 Senior/other professionals _____
 Total this office _____
 Total budgeted _____

Personnel Continuity:

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

*Owner
or
Partner* *Manager
or
equivalent*

Number of years assigned to this job _____

Number of years in current position on the job _____

Date Engagement Review Performed _____ Date Checklist Reviewed by
Team Captain _____

Reviewer _____ Signature _____

Checklist for Review of a Compilation of Financial Statements

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NOTE: This checklist has been updated through SSARS No. 7, SFAS No. 121, and FASB Interpretation No. 41.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AR	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct in <i>AICPA Professional Standards</i> (vol. 2)
FAS	Reference to Financial Accounting Standards Board Pronouncement
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SOP	AICPA Statement of Position [included in <i>AICPA Technical Practice Aids</i> (TPA), vol. 2]

I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

For all engagements which omit substantially all disclosures, Section IV should be completed in lieu of Section I.

	QUES.	N/A*	YES	NO	REF.**
Accountants' Report					
Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)	C101	_____	_____	_____	_____
Does the report contain all of the elements required by professional standards, including appropriate language describing any departures from the basis of accounting used? (AR Sec. 100.14 and, .39-.41)	C102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	C103	_____	_____	_____	_____
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and AR9 100.41-.45)	C104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? [AR Sec. 100.43, for CIRAS, see SOP 93-5 (TPA Sec. 11,270) and the supplemental checklist at PRP Sec. 6060]	C105	_____	_____	_____	_____
Does each page of financial statements that have been compiled include a reference to the accountant's report? (AR Sec. 100.16)	C106	_____	_____	_____	_____
Financial Statements and Notes					
General					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	C107	_____	_____	_____	_____
Do the financial statements appear to be free of material error? (AR Sec. 100.13)	C108	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Significant accounting policies? [AC Sec. A10.105-.108, for an other comprehensive basis of accounting (OCBOA) AR Sec. 100.04 fn4]	C109	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	C110	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43)	C111	_____	_____	_____	_____
Business combinations? (AC Sec. B50)	C112	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	QUES.	N/A	YES	NO	REF.
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)	C113	_____	_____	_____	_____
If an individual or entity controls a group of related entities, did the accountant consider whether combined financial statements may be more meaningful? (AC Sec. C51.121-.122)	C114	_____	_____	_____	_____
For financial instruments, is information about concentrations of credit risk and fair value (including the methods and significant assumptions used to estimate fair value) disclosed? (AC Sec. F25.105, .115, and .115A-.115K)	C115	_____	_____	_____	_____
For financial instruments with off-balance sheet risk, are the required disclosures made including distinguishing between instruments held or issued for trading purposes and held or issued for purposes other than trading? (AC Sec. F25.112-.113)	C116	_____	_____	_____	_____
For derivative financial instruments, are the required distinctions made ("trading purposes" and "purposes other than trading") and the required disclosures made for each type? (AC Sec. F25.115L-.115O)	C117	_____	_____	_____	_____
Are required disclosures made concerning related-party transactions? (AC Sec. R36)	C118	_____	_____	_____	_____
Are required disclosures about risks and uncertainties made regarding the nature of operations, the use of estimates, certain significant estimates, and current vulnerabilities due to certain concentrations? (SOP 94-6; TPA Sec. 10,640)	C119	_____	_____	_____	_____
Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)	C120	_____	_____	_____	_____
Are foreign operations and export sales adequately disclosed? (AC Sec. F65)	C121	_____	_____	_____	_____
Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)	C122	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)	C123	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	C124	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59. 105 and .112)	C125	_____	_____	_____	_____
Are the financial statements adjusted where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AR Sec. 100.40 fn 18 and AU Sec. 341.10-.11)	C126	_____	_____	_____	_____
Are defined benefit pension plans properly accounted for and disclosed? (AC Sec. P16.150)	C127	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are all other pension plans properly accounted for and disclosed? (AC Sec. P16)	C128	_____	_____	_____	_____
Are postretirement plans other than pensions properly accounted for and disclosed? (AC Sec. P40.169)	C129	_____	_____	_____	_____
Are postemployment benefits (after employment but before retirement) properly accounted for and disclosed? (AC Secs. P32 and P40)	C130	_____	_____	_____	_____
If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)	C131	_____	_____	_____	_____
Do the financial statements, where required, include appropriate disclosures of:					
Employee stock ownership plans (ESOPs)? (SOP 93-6; TPA Sec. 10,580)	C132	_____	_____	_____	_____
Futures contracts? (AC Sec. F80)	C133	_____	_____	_____	_____
Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)	C134	_____	_____	_____	_____
If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated? (AC Sec. Q15)	C135	_____	_____	_____	_____
Balance Sheet					
Is the accounting appropriate and are the disclosures adequate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	C136	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	C137	_____	_____	_____	_____
Restricted cash, (e.g. compensating balances)? (AC Secs. B05.107 and C59.120)	C138	_____	_____	_____	_____
Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity? (AC Sec. I80.103-.110)	C139	_____	_____	_____	_____
Accounts and Notes Receivable:					
Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	C140	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)	C141	_____	_____	_____	_____
Effects of troubled debt restructurings? (AC Secs. D22.121, .136-.137 and I08)	C142	_____	_____	_____	_____
Other receivables?	C143	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
If FAS No. 114 as amended by FAS No. 118 was applicable to this engagement (either as a result of the statement's effective date or the early adoption of the statement) are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed? (AC Sec. I08.118)	C144	_____	_____	_____	_____
Inventories? (AC Secs. B05.105, I78 and for interim financial reporting AC Secs. I73.107 and .109)	C145	_____	_____	_____	_____
Investments accounted for under the equity method? (AC Sec. I82.109-.110)	C146	_____	_____	_____	_____
Property and equipment, including accounting for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of, assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I08.122-.138, I13.108, I67 and I27)	C147	_____	_____	_____	_____
Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	C148	_____	_____	_____	_____
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges, and their impairment, if applicable? (AC Secs. I08, I27.140, I60, Co2.102-.111, and I27.140-.142)	C149	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	C150	_____	_____	_____	_____
Related assets and liabilities? [These may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law.] (AC Sec. B10.101A)	C151	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	C152	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117)	C153	_____	_____	_____	_____
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	C154	_____	_____	_____	_____
Other terms and covenants? (AC Sec. C59.120)	C155	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69)	C156	_____	_____	_____	_____
Effect of troubled debt restructurings? (AC Sec. D22.121-.122)	C157	_____	_____	_____	_____
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	C158	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	C159	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Capital leases of lessees? (AC Sec. L10.106 and .112)	C160	_____	_____	_____	_____
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue? (AC Secs. C44.104 and .108 and I27.140)	C161	_____	_____	_____	_____
Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?	C162	_____	_____	_____	_____
Treasury stock? (AC Sec. C23)	C163	_____	_____	_____	_____
Stock option and stock purchase plans? (AC Sec. C47)	C164	_____	_____	_____	_____
Stock subscriptions receivable? (EITF 85-1)	C165	_____	_____	_____	_____
Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)	C166	_____	_____	_____	_____
Changes in stockholders' equity? (AC Secs. Co8.102 and A35.103, .105-.107)	C167	_____	_____	_____	_____
Redemption requirements on capital stock for the next five years? (AC Sec. C32.105; for redemption requirements outside of the issuer's control, e.g. mandatory redeemable preferred stock, TPA Sec. 4110.08)	C168	_____	_____	_____	_____
Income Statement					
Are the important components of the income statement separately disclosed?	C169	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Method of income recognition, for example: long-term contracts and real estate transactions? (AC Secs. R10, Co4.110 and Co5)	C170	_____	_____	_____	_____
Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses? (AC Sec. I80)	C171	_____	_____	_____	_____
Application of the equity method? (AC Sec. I82.109)	C172	_____	_____	_____	_____
Advertising costs? (SOP 93-7; TPA Sec. 10,590)	C173	_____	_____	_____	_____
Research and development costs? (AC Sec. R50)	C174	_____	_____	_____	_____
Computer software costs? (AC Sec. Co2.110)	C175	_____	_____	_____	_____
Capitalization of interest costs? (AC Sec. I67)	C176	_____	_____	_____	_____
Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)	C177	_____	_____	_____	_____
Recognition of impairment of long-lived assets? (AC Sec. I08.122-.138)	C178	_____	_____	_____	_____
Depreciation? (AC Sec. D40)	C179	_____	_____	_____	_____
Compensatory stock issuance plans? (AC Sec. C47)	C180	_____	_____	_____	_____
Deferred compensation agreements? (AC Sec. C38)	C181	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Sales transactions in which the buyer has the right to return the product? (AC Sec. R75.107-.109)	C182	_____	_____	_____	_____
Product financing arrangements? (AC Sec. D18.106-.107)	C183	_____	_____	_____	_____
Operating leases and rent expense of lessees? (AC Sec. L10.111-.112)	C184	_____	_____	_____	_____
Income Taxes:					
The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.140-.142)	C185	_____	_____	_____	_____
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carry forwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I27.144)	C186	_____	_____	_____	_____
Components of the net deferred tax liability or asset including, if present, the total of all deferred tax liabilities, total of all deferred tax assets, the total valuation allowance, and the net change in the valuation allowance? (AC Sec. I27.142)	C187	_____	_____	_____	_____
Significant reconciling items between GAAP income tax expense or benefit attributable to continuing operations and the amount of income tax expense that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (A nonpublic company needs to disclose the nature of such items; a public company also needs to include a reconciliation using percents or amounts (AC Sec. I27.146)	C188	_____	_____	_____	_____
Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. I27.147)	C189	_____	_____	_____	_____
Discontinued operations? (AC Sec. I13)	C190	_____	_____	_____	_____
Extraordinary items? (AC Sec. I17)	C191	_____	_____	_____	_____
Unusual or infrequent items, but not both? (AC Sec. I22)	C192	_____	_____	_____	_____

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided (or is the report appropriately modified)? (AC Sec. C25.101)	C193	_____	_____	_____	_____
Does it report cash provided or used by investing, financing, and operating activities? (AC Sec. C25.112-.124)	C194	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	C195	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.127)	C196	_____	_____	_____	_____
Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	C197	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.127)	C198	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and is the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)	C199	_____	_____	_____	_____
Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)	C200	_____	_____	_____	_____
Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (I80.117)	C201	_____	_____	_____	_____
Other					
If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?	C202	_____	_____	_____	_____
Summary					
Does it appear that disclosures in the financial statements are reasonably adequate?	C203	_____	_____	_____	_____

II. GENERAL PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing.) (AR Sec. 100.08)	C204	_____	_____	_____	_____
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements? (AR Sec. 100.10-.12)	C205	_____	_____	_____	_____
If the engagement was originally intended to be an audit or review, rather than a compilation, did the accountant consider (AR Sec. 100.44-.49):					
The reason given for the client's request, particularly the implications of a restriction on the scope of the audit or review, whether imposed by the client or by circumstances?	C206	_____	_____	_____	_____
The additional effort required to complete the audit or review?	C207	_____	_____	_____	_____
The estimated additional cost to complete the audit or review?	C208	_____	_____	_____	_____
Did the accountant read the compiled financial statements and consider whether such financial statements appeared to be appropriate in form and free of obvious material errors? (AR Sec. 100.13)	C209	_____	_____	_____	_____
If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information? (AR Sec. 100.12)	C210	_____	_____	_____	_____
Have all questions, exceptions or notes posed during the work been followed up and resolved?	C211	_____	_____	_____	_____
If the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AR Sec. 100.42)	C212	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If comparative financial statements have been presented and the accountant's report on the prior period financial statements contains a changed reference to a departure from generally accepted accounting principles, does the current report have an explanatory paragraph indicating the date of the previous report, circumstances or events that caused the reference to be changed, and, if applicable, that the financial statements of the prior period have been changed? (AR Sec. 200.13-.15)	C213	_____	_____	_____	_____

III. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm, and its effects appropriately considered? If the accountant was not independent, was the report appropriately modified? (ET Sec. 101 and AR Sec. 100.22)	C301	_____	_____	_____	_____
Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	C302	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior year's services paid prior to issuance of the current year's report? (ET 191.103-.104)	C303	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b) (These steps may not be necessary for recurring compilation engagements with no unusual complexity.)					
Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel? (QC Sec. 90.12)	C304	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided? (QC Sec. 90.12)	C305	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation thereof:					
In situations specified by firm policy?	C306	_____	_____	_____	_____
Where the complexity or unusual nature of the issues warranted it? (QC Sec. 90.14)	C307	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances? (SECPS only)	C308	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards? (SECPS only)	C309	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	C310	_____	_____	_____	_____
Supervision (QC Sec. 10.07d)					
Does it appear that engagement planning was appropriate? (QC Sec. 90.16)	C311	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	QUES.	N/A	YES	NO	REF.
Were all forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklists?	C312	_____	_____	_____	_____
Work programs?	C313	_____	_____	_____	_____
Financial statement disclosures?	C314	_____	_____	_____	_____
Working paper preparation and reading of financial statements?	C315	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies for compilation engagements?	C316	_____	_____	_____	_____
Were the firm's guidelines for the form and content of working papers complied with?	C317	_____	_____	_____	_____
Was an appropriate review made of the working papers, report and financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?	C318	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	C319	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	C320	_____	_____	_____	_____
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)	C321	_____	_____	_____	_____

IV. QUESTIONS FOR USE ON COMPILATION ENGAGEMENTS THAT OMIT SUBSTANTIALLY ALL DISCLOSURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
Accountants' Report					
Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)	C101	_____	_____	_____	_____
Does the report contain all of the elements required by professional standards, including appropriate language describing any departures from the basis of accounting used? (AR Secs. 100.14, .19-.21, and .39-.41)	C102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	C103	_____	_____	_____	_____
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Sec. 100.20 and 9100.41-.45)	C104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)	C105	_____	_____	_____	_____
Does each page of financial statements that have been compiled include a reference to the accountant's report? (AR Sec. 100.16)	C106	_____	_____	_____	_____
Financial Statements					
General					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	C107	_____	_____	_____	_____
Do the financial statements appear to be free of material error? (AR Sec. 100.13)	C108	_____	_____	_____	_____
Is the accounting appropriate for accounting changes? (AC Sec. A06)	C110	_____	_____	_____	_____
Are loss contingencies accrued, as appropriate? (AU Sec. C59)	C123	_____	_____	_____	_____
Are the financial statements adjusted for significant subsequent events? (AC Sec. C59.105 and .112)	C125	_____	_____	_____	_____
Have postemployment and postretirement benefits, other than pensions, been properly accounted for? (AC Secs. P32 and P40)	C130	_____	_____	_____	_____
Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)	C134	_____	_____	_____	_____
Balance Sheet					
Is the presentation appropriate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	C136	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	C137	_____	_____	_____	_____
Effect of troubled debt restructuring? (D22)	C142	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "No" answers must be explained on the pages provided at the end of this checklist.

	QUES.	N/A	YES	NO	REF.
Are operating and capital leases properly accounted for? (L10)	C148	_____	_____	_____	_____
Other assets, including deferred charges?	C149	_____	_____	_____	_____
Presentation of notes payable and other debt?	C154	_____	_____	_____	_____
Other liabilities, including compensation for future absences? (C44.104-108)	C161	_____	_____	_____	_____
Treasury stock? (AC Sec. C23)	C163	_____	_____	_____	_____
Income Statement					
Are the important components of the income statement separately stated?	C169	_____	_____	_____	_____
Is the accounting appropriate regarding:					
Method of income recognition; for example, long-term contracts and real estate transactions? (AC Secs. R10, Co4 and Co5)	C170	_____	_____	_____	_____
Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented and disclosed in accordance with the statement? (AC Sec. I 80)	C171	_____	_____	_____	_____
Application of the equity method? (AC Sec. I 82.109)	C172	_____	_____	_____	_____
Depreciation? (AC Sec. D40)	C179	_____	_____	_____	_____
Deferred compensation agreements? (AC Sec. C38)	C181	_____	_____	_____	_____
Accounting for income taxes? (AC Sec. I 27)	C185	_____	_____	_____	_____
Discontinued operations? (AC Sec. I13)	C190	_____	_____	_____	_____
Extraordinary items? (AC Sec. I17)	C191	_____	_____	_____	_____
Unusual or infrequent items, but not both? (AC Sec. I22)	C192	_____	_____	_____	_____
Statement of Cash Flows					
Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	C193	_____	_____	_____	_____
Does it report cash provided or used by investing, financing, and operating activities? (AC Sec. C25.112-.124)	C194	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	C195	_____	_____	_____	_____
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.127)	C196	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less? (AC Sec. C25.106-.108)	C199	_____	_____	_____	_____
Are the components of the cash flow statements shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)	C200	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (180.117)	C201	_____	_____	_____	_____
Other					
If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format and statements consistent with the guide?	C202	_____	_____	_____	_____
If the statements include only a few disclosures in the form of notes, are they labelled as "Selected Information - Substantially All Disclosures Required By Generally Accepted Accounting Principles Are Not Included," as required by SSARS? (AR Sec. 100.19)	C203	_____	_____	_____	_____

V. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers on which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<i>Page Number</i>	<i>Question Number</i>	<i>Explanatory Comments</i>	<i>Disposition of Comments*</i>
------------------------	----------------------------	-----------------------------	-------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the manner is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

NOTE: Attach additional sheets if required.

VI. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe:

- The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services? (ET 202) YES* _____ NO _____
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the compilation report was not appropriately modified? (AR 300.04 and ET 203) YES* _____ NO _____
- The compilation report was not appropriate in the circumstances? YES* _____ NO _____
- The documentation on this engagement does not evidence compliance with professional standards? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 5301.]

* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Peer Reviews*.

PRP Section 5300

General Review Engagement Checklist

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner/Partner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Senior _____ Date Report Released _____

This engagement involves reporting on a (an):

- independent entity subsidiary, division or branch
- consolidated or combined group other (explain)

The financial statements cover an (annual) (interim) reporting period and (do) (do not) include supplemental information.

Date that the fee for the prior engagement was paid _____

Key data reported on by this office for this engagement:

Total assets \$ _____
 Equity \$ _____
 Net sales \$ _____
 Net income \$ _____

Major lines of business:

Complex or troublesome engagement areas:

Review hours on this engagement:

Owner _____
 Manager (or equivalent) _____
 Senior/other professionals _____
 Total this office _____
 Total budgeted _____

Personnel Continuity:

<i>Owner or Partner</i>	<i>Manager or equivalent</i>
---------------------------------	--------------------------------------

Number of years assigned to this job _____

Number of years in current position on the job _____

* * * * *

Date Engagement Review Performed _____ Date Checklist Reviewed
 by Team Captain _____

Reviewer _____ Signature _____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

General Review Engagement Checklist

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NOTE: This checklist has been updated through SSARS No. 7, SFAS No. 121, and FASB Interpretation No. 41.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AR	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct in <i>AICPA Professional Standards</i> (vol. 2)
FAS	Financial Accounting Standards Board Pronouncement
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SOP	AICPA Statement of Position [included in <i>AICPA Technical Practice Aids (TPA)</i> , vol. 2]

I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	QUES.	N/A*	YES	NO	REF.**
Accountants' Report					
Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.33)	R101	_____	_____	_____	_____
Does the report contain all of the elements required by professional standards including appropriate language describing any departures from the basis of accounting used? (AR Sec. 100.32-41)	R102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	R103	_____	_____	_____	_____
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Sec. 9100.41-45)	R104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? [AR Sec. 100.43: for CIRAS, see SOP 93-5 (TPA Sec. 102.70) and Supplemental Checklist at PRP Sec. 6060]	R105	_____	_____	_____	_____
Does each page of financial statements that have been reviewed include a reference to the accountant's report? (AR Sec. 100.34)	R106	_____	_____	_____	_____
Financial Statements and Notes					
General					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	R107	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Significant accounting policies? [AC Sec. A 10.105-108; for an other comprehensive basis of accounting (OCBOA) AR Sec. 100.04 fn4]	R108	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	R109	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43)	R110	_____	_____	_____	_____
Business combinations? (AC Sec. B50)	R111	_____	_____	_____	_____
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)	R112	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If an individual or entity controls a group of related entities, did the accountant consider whether combined financial statements may be more meaningful? (AC Sec. C51.121)	R113	_____	_____	_____	_____
For financial instruments, is information about concentrations of credit risk and fair value (including the methods and significant assumptions used to estimate fair value) disclosed? (AC Sec. F25.105, .115, and .115A-.115K)	R114	_____	_____	_____	_____
For financial instruments with off-balance sheet risk, are the required disclosures made including distinguishing between instruments held or issued for trading purposes and held or issued for purposes other than trading? (AC Sec. F25.112-.113)	R115	_____	_____	_____	_____
For derivative financial instruments, are the required distinctions made ("trading purposes" and "purposes other than trading") and the required disclosures made for each type? (AC Sec. F25.115L-.115O)	R116	_____	_____	_____	_____
Are required disclosures made concerning related-party transactions? (AC Sec. R36)	R117	_____	_____	_____	_____
Are required disclosures about risks and uncertainties made regarding the nature of operations, the use of estimates, certain significant estimates, and current vulnerabilities due to certain concentrations? (SOP 94-6; TPA Sec. 10,640)	R118	_____	_____	_____	_____
Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)	R119	_____	_____	_____	_____
Are foreign operations and export sales adequately disclosed? (AC Sec. F65)	R120	_____	_____	_____	_____
Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)	R121	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)	R122	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	R123	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112)	R124	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AR Sec. 100.40 fn 18 and AU Sec. 341.10 and .11)	R125	_____	_____	_____	_____
Are defined benefit pension plans properly accounted for and disclosed? (AC Sec. P16.150)	R126	_____	_____	_____	_____
Are all other pension plans properly accounted for and disclosed? (AC Sec. P16)	R127	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are post-retirement benefit plans other than pensions properly accounted for and disclosed? (AC Sec. P40.169)	R128	_____	_____	_____	_____
Have postemployment benefits (after employment but before retirement) been properly accounted for and disclosed? (AC Sec. P32 and P40)	R129	_____	_____	_____	_____
If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)	R130	_____	_____	_____	_____
Do the financial statements, where required, include appropriate presentations:					
Employee stock ownership plans (ESOPs)? (SOP 93-6, TPA Sec. 10,580)	R131	_____	_____	_____	_____
Futures contracts? (AC Sec. F80)	R132	_____	_____	_____	_____
Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)	R133	_____	_____	_____	_____
If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated? (AC Sec. Q15)	R134	_____	_____	_____	_____
Balance Sheet					
Is the accounting appropriate and are the disclosures adequate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	R135	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	R136	_____	_____	_____	_____
Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)	R137	_____	_____	_____	_____
Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity? (AC Sec. I80.103-.110)	R138	_____	_____	_____	_____
Accounts and Notes Receivable:					
Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	R139	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)	R140	_____	_____	_____	_____
Effects of troubled debt restructurings? (AC Secs. D22.121, .136-.137 and I08)	R141	_____	_____	_____	_____
Other receivables?	R142	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
If FAS No. 114 as amended by FAS No. 118 was applicable to this engagement (either as a result of the statement's effective date or the early adoption of the statement), are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed? (AC Sec. I08.118)	R143	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	R144	_____	_____	_____	_____
Investments accounted for under the equity method? (AC Secs. I82.109-.110)	R145	_____	_____	_____	_____
Property and equipment, including accounting for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of, assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I08.122-.138, I13.108, I67 and I27)	R146	_____	_____	_____	_____
Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Secs. L10.119 and .143-.149)	R147	_____	_____	_____	_____
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges, and their impairment, if applicable? (AC Secs. I08, I27.140, I60, Co2.102-.111, and I27.140-.142)	R148	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	R149	_____	_____	_____	_____
Related assets and liabilities? [These may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law.] (AC Sec. B10.101A)	R150	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	R151	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117)	R152	_____	_____	_____	_____
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	R153	_____	_____	_____	_____
Other terms and covenants? (AC Sec. C59.120)	R154	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69)	R155	_____	_____	_____	_____
Effect of troubled debt restructurings? (AC Sec. D22.121-.122)	R156	_____	_____	_____	_____
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	R157	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	R158	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Capital leases of lessees? (AC Sec. L10.106 and .112)	R159				
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue? (AC Secs. C44.104 and .108 and I27.140)	R160				
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	R161				
Treasury stock? (AC Sec. C23)	R162				
Stock option and stock purchase plans? (AC Sec. C47)	R163				
Stock subscriptions receivable? (EITF 85-1)	R164				
Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)	R165				
Changes in stockholders' equity? (AC Secs. C08.102, and A35.103, .105-.107)	R166				
Redemption requirements on capital stock for the next five years? (AC Sec. C32.105; for redemption requirements outside of the issuer's control, e.g. mandatory redeemable preferred stock, TPA Sec. 4110.08)	R167				
Income Statement					
Are the important components of the income statement separately disclosed?	R168				
Is the accounting appropriate and are the disclosures adequate regarding:					
Method of income recognition, where appropriate; for example: long-term contracts and real estate transactions? (AC Secs. R10, Co4.110 and Co5)	R169				
Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses? (AC Sec. I80)	R170				
Application of the equity method? (AC Sec. I82.109)	R171				
Advertising costs? (SOP 93-7; TPA Sec. 10,590)	R172				
Research and development costs? (AC Sec. R50)	R173				
Computer software costs? (AC Sec. Co2.110)	R174				
Capitalization of interest costs? (AC Sec. I67)	R175				
Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)	R176				
Recognition of impairment of long-lived assets? (AC Sec. I08.122-.138)	R177				
Depreciation? (AC Sec. D40)	R178				
Compensatory stock issuance plans? (AC Sec. C47)	R179				
Deferred compensation agreements? (AC Sec. C38)	R180				

	QUES.	N/A	YES	NO	REF.
Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)	R181	_____	_____	_____	_____
Product financing arrangements? (AC Sec. D18.106-.107)	R182	_____	_____	_____	_____
Operating leases and rent expense of lessees? (AC Sec. L10.111-.112)	R183	_____	_____	_____	_____
Income Taxes:					
The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.140-.142)	R184	_____	_____	_____	_____
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I27.144)	R185	_____	_____	_____	_____
Components of the net deferred tax liability or asset including, if present, the total of all deferred tax liabilities, total of all deferred tax assets, the total valuation allowance, and the net change in the valuation allowance? (AC Sec. I27.142)	R186	_____	_____	_____	_____
Significant reconciling items between GAAP income tax expense or benefit attributable to continuing operations and the amount of income tax expense that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (A nonpublic company needs to disclose the nature of such items; a public company also needs to include a reconciliation using percents or amounts) (AC Sec. I27.146)	R187	_____	_____	_____	_____
Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. I27.147)	R188	_____	_____	_____	_____
Discontinued operations? (AC Sec. I13)	R189	_____	_____	_____	_____
Extraordinary items? (AC Sec. I17)	R190	_____	_____	_____	_____
Unusual or infrequent items, but not both?	R191	_____	_____	_____	_____
Statement of Cash Flows					
Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	R192	_____	_____	_____	_____
Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)	R193	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	R194	_____	_____	_____	_____
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.127)	R195	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	R196	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.127)	R197	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and is the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)	R198	_____	_____	_____	_____
Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)	R199	_____	_____	_____	_____
Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I80.117)	R200	_____	_____	_____	_____
Other					
If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements, and disclosures consistent with the guide?	R201	_____	_____	_____	_____
Summary					
Does it appear that disclosures in the financial statements are reasonably adequate?	R202	_____	_____	_____	_____

II. GENERAL REVIEW PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing.) (AR Sec. 100.08)	R203	_____	_____	_____	_____
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business? (AR Sec. 100.24-.26)	R204	_____	_____	_____	_____
If the engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider (AR Sec. 100.44-.49):					
The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?	R205	_____	_____	_____	_____
The additional audit effort required to complete the audit?	R206	_____	_____	_____	_____
The estimated additional cost to complete the audit?	R207	_____	_____	_____	_____
Did the accountant's inquiries and analytical procedures consist of the following (AR Sec. 100.27):					
Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?	R208	_____	_____	_____	_____
Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?	R209	_____	_____	_____	_____
Analytical procedures designed to identify relationships and individual items that appear to be unusual?	R210	_____	_____	_____	_____
Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?	R211	_____	_____	_____	_____
Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?	R212	_____	_____	_____	_____
Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?	R213	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?	R214	_____	_____	_____	_____
If the accountant became aware that information that came to the accountant's attention was incorrect, incomplete, or otherwise unsatisfactory, did the accountant perform additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles? (AR Sec. 100.30)	R215	_____	_____	_____	_____
Do the accountant's working papers adequately reflect (AR Sec. 100.31):					
The matters covered in the accountant's inquiry and analytical procedures?	R216	_____	_____	_____	_____
Unusual matters that were considered during the performance of the review, including their disposition?	R217	_____	_____	_____	_____
Did the accountant obtain a representation letter from members of management whom the accountant believes are responsible for and knowledgeable, directly or through others in the organization, about the matters covered in the representation letter? (AR Sec. 100.28)	R218	_____	_____	_____	_____
If any circumstances were encountered by the accountant that precluded the accountant from performing inquiries and analytical procedures as deemed necessary or the client did not provide the accountant with a representation letter (AR Sec. 100.36):					
Did the accountant consider whether these circumstances would have resulted in an incomplete review?	R219	_____	_____	_____	_____
Did the accountant consider whether these same circumstances would also preclude him/her from issuing a compilation report?	R220	_____	_____	_____	_____
Do such determinations by the accountant appear to be proper?	R221	_____	_____	_____	_____
Have all questions and/or exceptions been followed up and resolved?	R222	_____	_____	_____	_____
If there is an indication that the accountant became aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AR Sec. 100.42)	R223	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>If comparative financial statements have been presented and the prior period accountant's report on the prior period financial statements contains a changed reference to a departure from generally accepted accounting principles, does the current report have an explanatory paragraph indicating the date of the previous report, circumstances or events that caused the reference to be changed and, if applicable, that the financial statements of the prior period have been changed? (AR 200.13-.15)</p>	R224				

III. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm, and its effects appropriately considered? (ET Sec. 101)	R301	_____	_____	_____	_____
Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10 and AR Sec. 100.38)	R302	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to perform segments of the engagement? (AU Sec. 543.10)	R303	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior year's services paid prior to issuance of the current year's report? (ET Sec. 191.103-.104)	R304	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	R305	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided? (QC Sec. 90.12)	R306	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation thereof:					
In situations specified by firm policy?	R307	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	R308	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?	R309	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?	R310	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	R311	_____	_____	_____	_____
Supervision (QC Sec. 10.07d)					
Does it appear that engagement planning was appropriate? (QC Sec. 90.16)	R312	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the owner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?	R313	_____	_____	_____	_____
Does it appear that involvement by the owner and manager was both adequate and appropriately timed to provide for any planning and supervision as the job progressed?	R314	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	R315	_____	_____	_____	_____
Work programs?	R316	_____	_____	_____	_____
Financial statement disclosures?	R317	_____	_____	_____	_____
Working paper preparation and reading of financial statements?	R318	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to a review?	R319	_____	_____	_____	_____
Were the firm's guidelines for the form and content of working papers for a review complied with?	R320	_____	_____	_____	_____
Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?	R321	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	R322	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	R323	_____	_____	_____	_____
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)	R324	_____	_____	_____	_____

IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated, or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

NOTE: Attach additional sheets if required.

V. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services? (ET 202) YES* _____ NO _____
- The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified? (ET 203) YES* _____ NO _____
- The review report was not appropriate in the circumstances? YES* _____ NO _____
- The documentation on this engagement does not evidence compliance with professional standards? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 5401.]

*If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Peer Reviews*.

PRP Section 5400

General Audit Engagement Checklist

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner/Partner _____ Date of Financial Statements * _____
 Manager _____ Date of Report _____
 Concurring Reviewer _____ Date Report Released _____

Is this an SEC audit client? Yes___ No___

Is the client a part of other related groups? Yes___ No___

This engagement involves reporting on:

- | | |
|---|--|
| <input type="checkbox"/> financial statements (single entity) | <input type="checkbox"/> special report |
| <input type="checkbox"/> consolidated financial statements | <input type="checkbox"/> interim reviews |
| <input type="checkbox"/> combined financial statements | <input type="checkbox"/> reportable conditions—material weaknesses |
| <input type="checkbox"/> subsidiary, division or branch | <input type="checkbox"/> other (explain) |

Was the work performed at the request of another office? Yes___ No___

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total assets	\$ _____
Equity	\$ _____
Net sales	\$ _____
Net income	\$ _____

Major lines of business:

Complex or troublesome audit areas:

List any management consulting services performed for the client during the period of the financial statements being reported on and through the date of the auditor's report:

Personnel Continuity:

<i>Owner or Partner</i>	<i>Manager or equivalent</i>
---------------------------------	--------------------------------------

Number of years assigned to this job _____

Number of years in current position on the job _____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Owner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Concurring Reviewer **	_____	_____	_____	_____
Senior/Other Professionals	_____	_____	_____	_____
Total this office	=====	_____	_____	_____

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement, and if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, IV and VII should be answered in addition to the questions in Section V for the key areas identified, and for commitments and contingencies, income and expenses, and other.

- 1.
- 2.
- 3.
- 4.
- 5.

Date Engagement Review Performed _____

Date Checklist Reviewed by Team Captain _____

Reviewer _____

Signature _____

** Not applicable on reviews of non-SEC clients unless required by firm policy.

Checklist for Review of Audit Engagements

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NOTE: This checklist has been updated through SAS No. 76, FAS No. 121, and FASB Interpretation No. 41.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct in <i>AICPA Professional Standards</i> (vol. 2)
FAS	Financial Accounting Standards Board Pronouncement
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SECPS	SEC Practice Section Reference Manual
SOP	AICPA Statement of Position (included in <i>AICPA Technical Practice Aids</i> , Vol. 2)
TPA	AICPA Technical Practice Aids

NOTE: Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1994 revision), referred to as the "Yellow Book." (The 1994 revision of the Yellow Book is effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Earlier application is permissible.) Reviewers of engagements involving HUD projects should use the *Supplemental Checklist for Review of Audits of HUD Engagements* (PRP Section 6080).

I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Auditor's Report					
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08j, .46 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report in the circumstances described in such standards? (AU Secs. 508.08-.10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08 and .74)	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 for accompanying information and 558 "for required supplementary information")	A105	_____	_____	_____	_____
For special reports, have professional standards been complied with regarding:					
Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.01-.10)	A106	_____	_____	_____	_____
Specified elements, accounts or items of a financial statement? (AU Sec. 623.11-.18)	A107	_____	_____	_____	_____
Compliance with aspects of agreements or regulatory requirements related to audited financial statements? (AU Sec. 623.19-.21)	A108	_____	_____	_____	_____
Financial presentations to comply with contractual agreements or regulatory provisions? (AU Sec. 623.22-.30)	A109	_____	_____	_____	_____
Financial information in prescribed forms or schedules (AU Sec. 623.32-.33)	A110	_____	_____	_____	_____
For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards? (AU Sec. 534)	A111	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Financial Statements and Notes					
General					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	A112	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Significant accounting policies? (AC Sec. A10.105-.108; for OCBOA, AU Sec. 623.09-.10)	A113	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	A114	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43)	A115	_____	_____	_____	_____
Business combinations? (AC Sec. B50)	A116	_____	_____	_____	_____
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102-.103)	A117	_____	_____	_____	_____
If an individual or entity controls a group of related entities, did the auditor consider whether combined financial statements may be more meaningful? (AC Sec. C51.121-.122)	A118	_____	_____	_____	_____
For financial instruments, is information about concentrations of credit risk and fair value (including the methods and significant assumptions used to estimate fair value) disclosed? (AC Sec. F25.105, .115, and .115A-.115K)	A119	_____	_____	_____	_____
For financial instruments with off-balance sheet risk, are the required disclosures made including distinguishing between instruments held or issued for trading purposes and held or issued for purposes other than trading? (AC Sec. F25.112-.113)	A120	_____	_____	_____	_____
For derivative financial instruments, are the required distinctions made ("trading purposes" and "purposes other than trading") and the required disclosures made for each type? (AC Sec. F25.115L-.115O)	A121	_____	_____	_____	_____
Are required disclosures made concerning related-party transactions? (AC Sec. R36)	A122	_____	_____	_____	_____
Are required disclosures about risks and uncertainties made regarding the nature of operations, the use of estimates, certain significant estimates, and current vulnerabilities due to certain concentrations? (SOP 94-6; TPA Sec. 10,640)	A123	_____	_____	_____	_____
Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)	A124	_____	_____	_____	_____
Are foreign operations and export sales adequately accounted for? (AC Sec. F65)	A125	_____	_____	_____	_____
Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)	A126	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)	A127	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	A128	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.01-.09 and 561)	A129				
Have defined benefit pension plans been properly accounted for and disclosed? (AC Sec. P16)	A130				
Have other pension plans been properly accounted for and disclosed? (P 16)	A131				
Have postretirement plans other than pensions, been properly accounted for disclosed? (AC Sec. P40.169)	A132				
Have postemployment benefits (after employment but, before retirement) been properly accounted for and disclosed? (AC Secs. P32 and P40)	A133				
If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)	A134				
Do the financial statements, where required, include appropriate presentations of:					
Employee stock ownership plans (ESOPs)? (SOP 93-6, TPA Sec. 10,580)	A135				
Futures contracts? (AC Sec. F80)	A136				
Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)	A137				
If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated? (AC Sec. Q15)	A138				
Balance Sheet					
Is the accounting appropriate and are the disclosures adequate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	A139				
Valuation allowances? (AC Sec. V18)	A140				
Restricted cash (e.g. compensating balances)? (AC Secs. B05.107 and C59.120)	A141				
Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity? (AC Sec. I80.103-.110)	A142				
Accounts and Notes Receivable:					
Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	A143				
Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)	A144				
Effect of troubled debt restructurings? (AC Sec. D22.121 and .136-.137)	A145				
Other receivables?	A146				

	QUES.	N/A	YES	NO	REF.
If FAS No. 114 as amended by FAS No. 118 was applicable to this engagement (either as a result of the statement's effective date or the early adoption of the statement), are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and the creditor's income recognition policy disclosed? (AC Sec. I08.118)	A147	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	A148	_____	_____	_____	_____
Investments accounted for under the equity method? (AC Sec. I82.109-.110)	A149	_____	_____	_____	_____
Property and equipment, including accounting for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of, assets of discontinued operations, investment credit, and capitalized interest? (AC Secs. D40.105, I08.122-.138 I13.108, I67 and I27)	A150	_____	_____	_____	_____
Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	A151	_____	_____	_____	_____
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges, and their impairment, if applicable? (AC Secs. I08, I27.140, I60, and Co2.102-.110)	A152	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	A153	_____	_____	_____	_____
Related assets and liabilities? [These may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law.] (AC Sec. B10)	A154	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	A155	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117 and .138-.139)	A156	_____	_____	_____	_____
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	A157	_____	_____	_____	_____
Other terms and covenants? (AC Sec. C59.120)	A158	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69)	A159	_____	_____	_____	_____
Effect of troubled debt restructurings? (AC Sec. D22.121-.122)	A160	_____	_____	_____	_____
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	A161	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	A162	_____	_____	_____	_____
Capital leases of lessees? (AC Sec. L10.106 and .112)	A163	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue? (AC Secs. C44.104 and .108 and I27.140)	A164				
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	A165				
Treasury stock? (AC Sec. C23)	A166				
Stock option and stock purchase plans? (AC Sec. C47)	A167				
Stock subscriptions receivable? (EITF 85-1)	A168				
Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)	A169				
Changes in stockholders' equity? (AC Secs. C08.102 and A35.103, .105 and .107)	A170				
Redemption requirements on capital stock for the next five years? (AC Sec. C32.105; for redemption requirements outside of the issuer' control, e.g. mandatory redeemable preferred stock, TPA Sec. 4110.08)	A171				
Income Statement					
Are the important components of the income statement separately disclosed?	A172				
Is the accounting appropriate and are the disclosures adequate regarding:					
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? (AC Secs. R10 and Co5)	A173				
Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments? (AC Sec. I80)	A174				
Application of the equity method? (AC Sec. I82.109)	A175				
Advertising costs? (SOP 93-7; TPA Sec. 10,590)	A176				
Research and development costs? (AC Sec. R50)	A177				
Computer software costs? (AC Sec. Co2.110)	A178				
Capitalization of interest costs? (AC Sec. I67)	A179				
Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)	A180				
Recognition of impairment of long-lived assets? (AC Sec. I08.122-.138)	A181				
Depreciation? (AC Sec. D40)	A182				
Compensatory stock issuance plans? (AC Sec. C47)	A183				
Deferred compensation agreements? (AC Sec. C38)	A184				
Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)	A185				
Product financing arrangements? (AC Sec. D18.106-.107)	A186				
Operating leases and rent expenses of lessees? (AC Sec. L10.111-.112)	A187				

	QUES.	N/A	YES	NO	REF.
Income taxes:					
The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.140-.142)	A188				
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I27.144)	A189				
Components of the net deferred tax liability or asset including, if present, the total of all deferred tax liabilities, total of all deferred tax assets, the total valuation allowance, and the net change in the valuation allowance? (AC Sec. I27.142)	A190				
Significant reconciling items between GAAP income tax expense or benefit attributable to continuing operations and the amount of income tax expense that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (A nonpublic company needs to disclose the nature of such items; a public company also needs to include a reconciliation using percents or amounts) (AC Sec. I27.146)	A191				
Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. I27.147)	A192				
Discontinued operations? (AC Sec. I13)	A193				
Extraordinary items? (AC Sec. I17)	A194				
Unusual or infrequent items, but not both? (AC Sec. I22)	A195				

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	A196				
Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)	A197				
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and did the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	A198				
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.127)	A199				
Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	A200				
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.127)	A201				
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)	A202				

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the financial statements avoid reporting cash flow per share amounts? (AC Sec. C25.135)	A203	_____	_____	_____	_____
Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)	A204	_____	_____	_____	_____
Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification, and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I80.117)	A205	_____	_____	_____	_____
Other					
If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements, and disclosures consistent with the guide?	A206	_____	_____	_____	_____
Do the financial statements, where required, include appropriate presentation and disclosure of:					
Segment information? (AC Sec. S20)	A207	_____	_____	_____	_____
Earnings per share information? (AC Sec. E09)	A208	_____	_____	_____	_____

II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
In planning the audit engagement, did the auditor properly consider:					
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes? (AU Secs. 311.03 and 801.11)	A300	_____	_____	_____	_____
Matters affecting the entity's business, such as organization and types of products and services and contractual obligations? (AU Sec. 311.03-.04)	A301	_____	_____	_____	_____
Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08)	A302	_____	_____	_____	_____
Did the auditor:					
Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05 and 317.05)	A303	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)	A304	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities and direct-effect illegal acts that could be material to the financial statements? (AU Sec. 316.05 and 317.05)	A305	_____	_____	_____	_____
Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures? (AU Sec. 329.01 and .06)	A306	_____	_____	_____	_____
If the auditor succeeded another auditor, did the auditor:					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A307	_____	_____	_____	_____
Obtain satisfaction as to the account balances at the beginning of the year and consistency of the application of accounting principles in the year being audited as compared with the preceding year? (AU Sec. 315.08)	A308	_____	_____	_____	_____
If consideration was given to the work of internal auditors in determining the scope of the audit, was it done in accordance with professional standards? (AU Sec. 322)	A309	_____	_____	_____	_____
Did the auditor:					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10)	A310	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Document the understanding of the internal control structure? (AU Sec. 319.26)	A311	_____	_____	_____	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A312	_____	_____	_____	_____
Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A313	_____	_____	_____	_____
If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the internal control structure policies and procedures at the service organization that may affect the processing of the client's transactions and internal control structure? (AU Sec. 324.06-.10)	A314	_____	_____	_____	_____
If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor's report that describes the results of the service auditor's tests of operating effectiveness obtained, were tests performed by the auditor at the service organization, or were tests of the client's controls over the activities of the service organization performed by the auditor? (AU Sec. 324.14-.16)	A315	_____	_____	_____	_____
If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:					
Do the instructions to the other office or firm appear adequate? (AU Sec. 311)	A316	_____	_____	_____	_____
Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)	A317	_____	_____	_____	_____
Was there appropriate follow-up of open matters? (AU Sec. 311)	A318	_____	_____	_____	_____
In those cases where another firm was used, were appropriate inquiries made regarding its independence and professional reputation? (AU Sec. 543.10)	A319	_____	_____	_____	_____
If a specialist was used (eg. actuary, appraiser, engineer, environmental consultant, or geologist):					
Were the appropriate considerations and evaluations made in accordance with professional standards? (AU Sec. 336.06-.11)	A320	_____	_____	_____	_____
Were appropriate procedures applied to the specialist' findings? (AU Sec. 336.12)	A321	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA Industry Audit Guide)	A322	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement and the understanding of the internal control structure obtained during the planning process? (AU Sec. 319.02 and .05)	A323	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A324	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A325	_____	_____	_____	_____
Have all the procedures called for in the audit program been signed when completed? (AU Sec. 339)	A326	_____	_____	_____	_____
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):					
Does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population when planning the sample? (AU Sec. 350.31)	A327	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A328	_____	_____	_____	_____
If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures reevaluated based on a revised consideration of the assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)	A329	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A330	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A331	_____	_____	_____	_____
If statistical or nonstatistical sampling was used for substantive tests of details:					
Does it appear the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population when planning the sample? (AU Sec. 350.16)	A332	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A333	_____	_____	_____	_____
Were the misstatements in the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A334	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed? (AU Sec. 350.25)	A335	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
In evaluating whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements resulting from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)	A336	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A337	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A338	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A339	_____	_____	_____	_____
Has the auditor evaluated the reasonableness of significant accounting estimates made by management? (AU Secs. 326 and 342)	A340	_____	_____	_____	_____
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)	A341	_____	_____	_____	_____
Did the auditor obtain written timely and appropriate representations from management and was the representation letter properly dated? (AU Secs. 333)	A342	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the entity's attorneys concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)	A343	_____	_____	_____	_____
Have all questions, exceptions, or notes been followed up and resolved?	A344	_____	_____	_____	_____
Was appropriate consideration given to passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A345	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.29)	A346	_____	_____	_____	_____
Consider the implications for other aspects of the audit of an audit adjustment that the auditor has determined is, or may be, an irregularity and has either determined that the effect could be material or has been unable to evaluate the materiality? (AU Sec. 316.25)	A347	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A348	_____	_____	_____	_____
When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:					

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Follow up in accordance with professional standards? (AU Secs. 317.10-.11)	A349	_____	_____	_____	_____
Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A350	_____	_____	_____	_____
Communicate directly with the audit committee if the illegal act(s) involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor's attention, except those that are clearly inconsequential, were adequately communicated? (AU Sec. 317.17)	A351	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (AU Sec. 341.02)	A352	_____	_____	_____	_____
If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans that are intended to mitigate the effect of such conditions or events, and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))	A353	_____	_____	_____	_____
If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with the mitigating factors? (AU Sec. 341.11)	A354	_____	_____	_____	_____
If the auditor's substantial doubt was not alleviated, did the auditor's report include an explanatory paragraph that adequately communicates the auditor's substantial doubt (i.e., included the terms "substantial doubt" and "going concern")? (AU Sec. 341.12-.13)	A355	_____	_____	_____	_____
During the performance of the audit:					
If the auditor identified reportable conditions, were they communicated to the audit committee, management and others within the organization in a time frame influenced by the relative significance of the matters noted and urgency of corrective action? If the communication was oral, was it documented in the working papers? (AU Sec. 325.09 and .18)	A356	_____	_____	_____	_____
Do the auditor's conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)	A357	_____	_____	_____	_____
If a report was issued on reportable conditions, did it indicate that the purpose of the audit was to report on the financial statements and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and the restriction on distribution? (AU Sec. 325.11)	A358	_____	_____	_____	_____
Has the auditor complied with the requirement not to issue a written representation stating that no reportable conditions were noted during an audit? (AU Sec. 325.17)	A359	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>If the auditor was engaged to prepare or perform procedures on interim financial information filed with a specified regulatory agency and the auditor became aware of matters that caused the auditor to believe such information was probably materially misstated as a result of a departure from generally accepted accounting principles, did the auditor:</p>					
<p>Discuss the matter with the appropriate level of management? (AU Sec. 722.20)</p>	A360	_____	_____	_____	_____
<p>Inform the audit committee or others with equivalent authority and responsibility, if management did not respond appropriately or within a reasonable period of time? (AU Sec. 722.21)</p>	A361	_____	_____	_____	_____
<p>Evaluate whether to resign or remain as the client's auditor, if the audit committee did not respond appropriately or within a reasonable period of time? (AU Sec. 722.22)</p>	A362	_____	_____	_____	_____
<p>Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report? (AU Sec. 560)</p>	A363	_____	_____	_____	_____
<p>If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)</p>	A364	_____	_____	_____	_____
<p>If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)</p>	A365	_____	_____	_____	_____
<p>Where there is an audit committee or some other formal oversight group, or the client is an SEC client, did the auditor:</p>					
<p>Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)</p>	A366	_____	_____	_____	_____
<p>If the communication was in writing, include a statement that it was intended solely for the use of the audit committee or the board of directors, and if appropriate, management? (AU Sec. 380.03)</p>	A367	_____	_____	_____	_____
<p>If the communication was oral, document the information communicated by appropriate memoranda or notations in the working papers? (AU Sec. 380.03)</p>	A368	_____	_____	_____	_____

III. WORKING PAPER AREAS

NOTE: Complete only the sections on Commitments and Contingencies, Income and Expenses, Other, and for the key areas selected for review. In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box below the name of the working paper area. (As indicated on page 5402, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.)

	<u>QUES.</u>	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.***</u>
Cash					
<input type="checkbox"/> Not a key area					
Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?	A401	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period?	A402	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Confirmation of cash balances?	A403	_____	_____	_____	_____
Restrictions on cash balances?	A404	_____	_____	_____	_____
Confirmation of bank credit arrangements such as compensating balances?	A405	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A406	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of cash appear adequate? (AU Secs. 312 and 319)	A407	_____	_____	_____	_____
Receivables					
<input type="checkbox"/> Not a key area					
Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330.24-.30)	A408	_____	_____	_____	_____
If confirmation work was performed prior to year-end, is there evidence that adequate substantive procedures were applied to the period from the confirmation date to the balance-sheet date? (AU Sec. 313)	A409	_____	_____	_____	_____
If a significant number and amount of the accounts receivable selected for positive confirmation did not respond, is there evidence that alternative auditing procedures were performed? (AU Sec. 330.31-.32)	A410	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material.

*** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were significant notes receivable confirmed as of a date consistent with the auditor' assessment of inherent, control and detection risks? (AU Sec. 313)	A411	_____	_____	_____	_____
Were the results of confirmation and alternative procedures summarized and were appropriate conclusions included in the working papers? (AU Sec. 330.33)	A412	_____	_____	_____	_____
Was collateral (if any) for receivables tested with respect to existence, ownership and value?	A413	_____	_____	_____	_____
Were adequate tests of discounts and allowances made?	A414	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)	A415	_____	_____	_____	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned, or otherwise encumbered?	A416	_____	_____	_____	_____
Was receivable work coordinated with the tests of revenue, including cut-off tests?	A417	_____	_____	_____	_____
Were appropriate procedures applied to notes receivable regarding imputation of interest (if necessary), carrying amount, fair value (FAS No. 107), and recognition of related interest income? (AC Secs. I69 and F25.115A-.115K)	A418	_____	_____	_____	_____
If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)	A419	_____	_____	_____	_____
If FAS No. 114 (as amended by FAS No. 118) was applicable to this engagement (either as a result of the statement's effective date or the early adoption of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loans' expected future cash flows discounted at the loans' effective interest rates or at the observable market prices or the fair value of the collateral if the loans are collateral dependent? (AC Sec. I08.111)	A420	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of receivables appear adequate? (AU Secs. 312 and 319)	A421	_____	_____	_____	_____
Inventories					
<input type="checkbox"/> Not a key area					
Where the physical inventory is taken at a date other than the balance-sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory activities between the inventory date(s) and the balance sheet date? (AU Sec. 313.08-.09)	A422	_____	_____	_____	_____
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the counts reflected in the final inventory)? (AU Sec. 331.09)	A423	_____	_____	_____	_____
Were physical inventories observed at all locations where material amounts are located?	A424	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Where physical inventory in the hands of others was not observed, were inventory confirmations received (e.g., inventory in public warehouses, on consignment, etc.)? (AU Sec. 331.14)	A425	_____	_____	_____	_____
If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the accounts?	A426	_____	_____	_____	_____
Do the working papers indicate that there were adequate tests of:					
The clerical accuracy of the inventory?	A427	_____	_____	_____	_____
Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?	A428	_____	_____	_____	_____
Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?	A429	_____	_____	_____	_____
Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO? (File 3175 November 30, 1984)	A430	_____	_____	_____	_____
Do the working papers indicate that consideration was given to whether the inventory was carried at lower of cost or market (including consideration of obsolete or slow-moving inventory)?	A431	_____	_____	_____	_____
Were inquiries concerning purchase and sales commitments made, including consideration of any possible adverse effects?	A432	_____	_____	_____	_____
Were appropriate inventory cut-off tests performed?	A433	_____	_____	_____	_____
Do the working papers indicate that steps were performed to determine if any inventory is pledged?	A434	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of inventory appear adequate? (AU Secs. 312 and 319 and AC Sec. I78)	A435	_____	_____	_____	_____
Investments					
<input type="checkbox"/> Not a key area					
Was a summary schedule prepared (or obtained) and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc., of investments?	A436	_____	_____	_____	_____
Were securities either examined or confirmed? (AU Sec. 332.04)	A437	_____	_____	_____	_____
Was the computation of realized and unrealized gains and losses tested by the auditor?	A438	_____	_____	_____	_____
Do the working papers reflect that consideration was given to the appropriateness of the carrying values of securities and their classification? (AC Sec. I80)	A439	_____	_____	_____	_____
Was consideration given to the possible impairment of the carrying value of long-term investments? (AU Sec. 332.03 and EITF 85-39)	A440	_____	_____	_____	_____
Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on their marketability?	A441	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the note disclosures made? (AU Sec. 332.07-.08 and .15)	A442	_____	_____	_____	_____
For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of the agreement, collateral, etc.)?	A443	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of investments appear adequate? (AU Secs. 312 and 319)	A444	_____	_____	_____	_____
Prepaid Expenses, Intangible Assets, Deferred Charges, etc.					
<input type="checkbox"/> Not a key area					
Were adequate tests made for all material:					
Prepaid expenses?	A445	_____	_____	_____	_____
Intangible assets? (AC Sec. I60)	A446	_____	_____	_____	_____
Deferred charges?	A447	_____	_____	_____	_____
Other?	A448	_____	_____	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A449	_____	_____	_____	_____
Were reviews made of the continuing value and possible impairment of goodwill and other intangible assets? (AC Sec. I60)	A450	_____	_____	_____	_____
If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether the accounting for the related loans was appropriate? (AC Secs. I69 and F25.115F)	A451	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Secs. 312 and 319)	A452	_____	_____	_____	_____
Property, Plant and Equipment					
<input type="checkbox"/> Not a key area					
Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:					
Property, plant and equipment?	A453	_____	_____	_____	_____
Accumulated depreciation?	A454	_____	_____	_____	_____
Do the tests appear adequate and were proper conclusions drawn with respect to:					
Additions (e.g., by examining supporting documents and/or physical inspection)?	A455	_____	_____	_____	_____
Retirements, etc. (including examining miscellaneous income, scrap sales)?	A456	_____	_____	_____	_____
The adequacy of the current and accumulated provisions for depreciation and depletion?	A457	_____	_____	_____	_____
Consideration of asset impairment including status of idle facilities? (AC Sec I08.122-.130)	A458	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the working papers indicate that the auditor considered whether property was subject to liens?	A459	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of property, plant and equipment appear adequate? (AU Secs. 312 and 319)	A460	_____	_____	_____	_____
Liabilities					
<input type="checkbox"/> Not a key area					
Were accounts payable adequately tested for existence?	A461	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A462	_____	_____	_____	_____
Was the payables work coordinated with the testing of the purchases cut off?	A463	_____	_____	_____	_____
Was consideration given to expenses that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated? (AC Secs. P16, C44, P32 and P40)	A464	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures applied?	A465	_____	_____	_____	_____
Were appropriate procedures applied to notes payable regarding imputation of interest (if necessary), carrying amount, fair value (FAS No. 107), and recognition of related interest expense? AC Secs. I69 and F25.115A-.115K)	A466	_____	_____	_____	_____
Do the working papers indicate that the auditor reviewed compliance with the covenants of the entity's debt obligations?	A467	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of liabilities appear adequate? (AU Secs. 312 and 319)	A468	_____	_____	_____	_____
Deferred Credits					
<input type="checkbox"/> Not a key area					
Do the working papers indicate that:					
The basis of deferring income is reasonable and consistent from year to year?	A469	_____	_____	_____	_____
Deferrals have been established on a reasonable basis?	A470	_____	_____	_____	_____
Income Taxes					
<input type="checkbox"/> Not a key area					
Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures applied?	A471	_____	_____	_____	_____
Were adequate auditing procedures performed regarding the adequacy of the valuation allowance related to any deferred tax assets?	A472	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:					
Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?	A473	_____	_____	_____	_____
Possible assessments, penalties or interest, including similar adjustments applicable to years not yet examined?	A474	_____	_____	_____	_____
Based upon the review of the financial statements and working papers, and if necessary, discussions with engagement personnel, does it appear that substantive tax matters applicable to this engagement were given adequate consideration?	A475	_____	_____	_____	_____
Commitments and Contingencies					
Do the working papers contain evidence of the following:					
Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?	A476	_____	_____	_____	_____
Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?	A477	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A478	_____	_____	_____	_____
Inquiries of and discussions with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 333 and 337.05)	A479	_____	_____	_____	_____
Procedures regarding other contingent liabilities (such as buy/sell agreements) or guarantees?	A480	_____	_____	_____	_____
Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)	A481	_____	_____	_____	_____
Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers?	A482	_____	_____	_____	_____
Was appropriate consideration given to issues related to known environmental matters? (EITF 93-5 and SEC SAB No. 92)	A483	_____	_____	_____	_____
Capital Accounts					
<input type="checkbox"/> Not a key area					
Were changes in capitalization checked to authorizations?	A484	_____	_____	_____	_____
If applicable, was confirmation received from the registrar, or was examination made of stock certificate records?	A485	_____	_____	_____	_____
Do the working papers indicate that there were adequate inquiries and review of applicable documents, if necessary, regarding stock options, warrants, rights, redemptions and conversion privileges?	A486	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of the capital accounts appear adequate? (AU Secs. 312 and 319)	A487	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Income and Expenses					
Were tests of payrolls, including account distribution, made where appropriate?	A488	_____	_____	_____	_____
Do the tests of the pension and profit sharing (including the effects of ERISA) expenses and liabilities appear adequate? (AC Sec. P16)	A489	_____	_____	_____	_____
Were appropriate analytical procedures used in substantive tests of revenue and expenses for the period? (AU Sec. 329)	A490	_____	_____	_____	_____
Was adequate consideration given to:					
The client's revenue recognition policy? (AC Sec. A10.105)	A491	_____	_____	_____	_____
Income recognition on transactions where the earnings process was not complete?	A492	_____	_____	_____	_____
Unusual sales transactions?	A493	_____	_____	_____	_____
Income recognition when the right of return exists? (AC Sec. R75.105-.109)	A494	_____	_____	_____	_____
Based on the assessment of inherent and control risks, did the substantive tests (analytical procedures and tests of details) of revenue and expenses appear adequate? (AU Sec. 319)	A495	_____	_____	_____	_____
Other					
Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for? (AC Sec. L10)	A496	_____	_____	_____	_____
Were appropriate procedures applied regarding supplementary information (AU Sec. 551.06 and .08) and/or "required supplementary information" (AU Sec. 558)?	A497	_____	_____	_____	_____
Review of Interim Financial Information:					
Were appropriate procedures performed? (AU Sec. 722.12-.19)	A498	_____	_____	_____	_____
If required by firm policy, was a checklist containing the procedures used?	A499	_____	_____	_____	_____
If consolidated statements are presented:					
Have intercompany balances and transactions been eliminated? (AC Sec. C51.109)	A500	_____	_____	_____	_____
If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effects of intervening events that materially affect financial position, results of operations or cash flows? (AC Sec. C51.107)	A501	_____	_____	_____	_____
Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion? (SOP 81-1, par. 78-.89; TPA Sec. 10,330.78-.89)	A502	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>If FAS No. 116 was applicable to this engagement (either as a result of the statement's effective date or the early adoption of the statement), did the auditor determine whether contributions made were recognized as expenses in the period made and measured at the fair values of the assets given, or if made in the form of a settlement or cancellation of a donee's liabilities, at the fair value of the liabilities cancelled? (AC Sec. C67.114)</p>	A503	_____	_____	_____	_____

IV. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? (ET Sec. 101)	A601	_____	_____	_____	_____
Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	A602	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A603	_____	_____	_____	_____
For non-SEC clients, were the fees (billed/unbilled) for prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A604	_____	_____	_____	_____
For SEC clients, if the fees (billed/unbilled) for prior years' services were not paid prior to the commencement of the current engagement, were the SEC's rules for unpaid professional fees adhered to?	A605	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A606	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A607	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A608	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A609	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?	A610	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?	A611	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A612	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Supervision (QC Sec. 10.07d)					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A613	_____	_____	_____	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A614	_____	_____	_____	_____
Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A615	_____	_____	_____	_____
Does it appear that the hours charged by the partner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A616	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A617	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A618	_____	_____	_____	_____
EDP system?	A619	_____	_____	_____	_____
Audit work programs?	A620	_____	_____	_____	_____
Financial statement disclosures?	A621	_____	_____	_____	_____
Working paper and financial statement reviews?	A622	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A623	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A624	_____	_____	_____	_____
If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A625	_____	_____	_____	_____
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?	A626	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A627	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A628	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)	A629	_____	_____	_____	_____

V. AUDITS OF SEC ENGAGEMENTS

(As defined in § 1000.38 of the *SECPS Reference Manual*)

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
If required by firm policy, was an SEC checklist or other specialized checklist used?	A701	_____	_____	_____	_____
Did the disclosures conform with SEC requirements?	A702	_____	_____	_____	_____
Did the auditor, prior to consenting to the inclusion of his or her report in a registration statement (including when a form 10-K is incorporated by reference into a previously filed registration statement):					
Read the entire prospectus and other pertinent portions of the registration statement? (AU Sec. 711)	A703	_____	_____	_____	_____
Inquire of and obtain written representations from management about whether any events had occurred that had material effect on the audited financial statements or that should have been disclosed to keep those financial statements from being misleading? (AU Sec. 711)	A704	_____	_____	_____	_____
Perform the procedures described in AU 560.12?	A705	_____	_____	_____	_____
Was a concurring review by an owner other than the audit partner in charge of the engagement conducted prior to the issuance of the report, in conformity with the firm's requirements? (SECPS Sec. 1000.08f)	A706	_____	_____	_____	_____
If a concurring partner review was performed:					
Was the review conducted by a partner with sufficient technical expertise and experience?	A707	_____	_____	_____	_____
Were the nature, extent, and timing of the review procedures adequate in the circumstances?	A708	_____	_____	_____	_____
Did the engagement files contain evidence that the firm's policies and procedures for the concurring review were complied with?	A709	_____	_____	_____	_____
Was the concurring partner review effective?	A710	_____	_____	_____	_____
If a comfort letter to an underwriter was issued, is it in accordance with professional standards? (AU Sec. 634 as amended by SAS No. 76 effective for letters issued after April 30, 1996)	A711	_____	_____	_____	_____
Have letters of comments or oral comments received from the SEC or other regulatory agencies been appropriately considered?	A712	_____	_____	_____	_____
Has there been rotation of the audit partner in charge of the engagement, if applicable, in conformity with the requirements of the SEC practice section? (SECPS Sec. 1000.08e)	A713	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If management consulting services were performed during the year under audit, was the firm in compliance with the Section's requirements:					
Proscribing the performance of certain management consulting services? (SECPS Sec. 1000.08h)	A714	_____	_____	_____	_____
Requiring an annual report to the audit committee or board of directors of the client, describing the types of such services rendered and the amount of the related fees received? (Such matters may be reported orally; if so, is the communication documented in the working papers?) (SECPS Sec. 1000.08i)	A715	_____	_____	_____	_____
If the client-auditor relationship with an SEC registrant subsequently ceased, was the Office of the Chief Accountant of the SEC notified within 5 business days, in conformity with the requirements of the SEC Practice Section? (SECPS Sec. 1000.08m)	A716	_____	_____	_____	_____
If the client-auditor relationship with an SEC registrant subsequently ceased, has the auditor sent a letter to the registrant agreeing or disagreeing with the former client's reasons for the change in auditors as stated on Form 8-K within the required timeframe? (See Regulation S-K, Item 304—Changes in and disagreements with accountants on accounting and financial disclosure.)	A717	_____	_____	_____	_____

VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated, or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

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Number

Explanatory Comments

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of Comments

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Explanatory Comments

Disposition
of Comments

VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. *BE SPECIFIC.*

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards? (AU 390 and ET 202) YES * _____ NO _____
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects, and the auditor's report was not appropriately modified? (AU 561 and ET 203) YES * _____ NO _____
- The auditor's report was not appropriate in the circumstances? YES * _____ NO _____
- The documentation on this engagement does not support the firm's opinion on the financial statements? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 5501.]

* If this question is answered "yes", see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Peer Reviews*.

PRP Section 5500

Governmental Audit Engagement Checklist

Instructions for Use of Checklist for Review of Audit Engagements of State or Local Governmental Entities, Including Those Receiving Federal Financial Assistance

This checklist was developed for use by reviewers of audits of state and local governments, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of state and local governmental units. This checklist can be used in reviewing the audit of the general purpose financial statements, the comprehensive annual financial report, or component unit financial statements. The reviewer, however, should recognize that this checklist does not address certain items contained in the comprehensive annual financial report, such as the introductory section and nonfinancial statistical information. Guidance regarding auditor's reports on such items may be found in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, Chapters 18 and 19, and Appendix A. Presentation guidance may be found in the GASB's Codification of Governmental Accounting and Financial Reporting Standards, sections 2200, 2700 and 2800.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the Governmental Accounting Standards Board, the U.S. General Accounting Office's *Government Auditing Standards* (1994 Revision) (The Yellow Book), the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* (1994 edition with conforming changes as of May 1, 1995), and SAS No. 74—*Compliance Auditing Considerations in Audits of Governmental Entities and Other Recipients of Governmental Financial Assistance*. The 1994 Revision of the GAO Governmental Auditing Standards is effective for financial audits of periods ending on or after January 1, 1995 and for performance audits beginning on or after January 1, 1995; early application is permissible. The guidance in the 1994 edition of the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units*, among other things, incorporated the information in SOP 92-7 and is effective for audits of financial statements for fiscal periods ending after September 15, 1994.

This checklist contains an appendix A, which is devoted solely to the unique requirements of *Government Auditing Standards*. This checklist also contains an appendix B devoted solely to the special requirements of the Single Audit Act of 1984 (the Single Audit Act) and is based on the requirements established in the Office of Management and Budget's Circular No. A-128 (OMB A-128). Appendix A should always be completed when Appendix B is completed because the Single Audit Act requires that the audit be conducted in accordance with *Government Auditing Standards*.

To assist the reviewer in summarizing "no" answers in the *Summary Checklist for Reviews of Audit Engagements*, a column has been added containing sequential numbers referring to each question. Question numbers prefixed with the letter "A," such as "A101," refer to questions so numbered in the *Checklist for Review of Audit Engagements*. Question numbers prefixed with the letter "G," such as "G101," refer to questions on matters unique to governmental entities. Reviewers should prepare a summary of "no" answers on engagements for each office reviewed. It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.

Reviewers may adapt this checklist to fit specific engagements. If a not-for-profit entity is required to submit reports prepared in accordance with OMB Circular A-133, the reviewer should complete the *Checklists for Review of Audit Engagements of Not-for-Profit Organizations* rather than this checklist. In addition, certain entities which

are neither governmental nor not-for-profit organizations may have to submit reports prepared in accordance with either the Single Audit Act or A-133. In reviewing those engagements, reviewers should select either appendix A or appendixes A and B of this checklist, or Section III of the not-for-profit checklists, as applicable.

Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1994 revision), referred to as the "Yellow Book." Reviewers of HUD engagements should use the general audit checklist and the *Supplemental Checklist for Review of Audits of HUD Engagements*.

Note: This checklist has been updated through SAS No. 74, SFAS No. 121, FASB Interpretation 41, GASB No. 29, and the GAO's *Government Auditing Standards* (1994 Revision) referred to as the "Yellow Book."

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
ASLGU	AICPA Audit and Accounting Guide <i>Audits of State and Local Governmental Units</i> (1994 edition with conforming changes as of May 1, 1995)
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force Abstracts
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
GA	Generally Accepted Accounting Practices
GAO	<i>Government Auditing Standards</i> (1994 Revision), United States General Accounting Office
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (as of June 30, 1995)
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2, pages 17001ff)
SECPS	SEC Practice Section Reference Manual
SOP	AICPA Statement of Position (SOPs may be found in AICPA Technical Practice Aids (TPA), vol. 2)

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner/Partner _____ Date of Financial Statement * _____
 Manager _____ Date of Report _____
 Concurring Reviewer ** _____ Date Report Released _____

This engagement involves reporting on:

- Comprehensive Annual Financial Report (CAFR)
- General Purpose Financial Statements (GPFS)
- Primary Government Only Financial Statements
- Component Unit Financial Statements (CUFS)
- Special Reports
- Other (e.g., Program Specific Audit Requirement) Explain: _____
- Internal Control and Compliance (pursuant to the Single Audit Act)

Was the work performed at the request of another office? Yes___ No___

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total combined governmental fund type revenues (Memorandum total) \$ _____
 Total combined proprietary fund type revenues (Memorandum total) \$ _____
 Total combined assets (Memorandum total) \$ _____
 Total amount of federal assistance received *** \$ _____

General description of audited entity: _____

Complex or troublesome audit areas: _____

List any management consulting services performed for the client during the period being reported upon and through the date of the auditor's report.

Personnel

<i>Personnel Continuity:</i>	<i>Owner or Partner</i>	<i>Manager or equivalent</i>
Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Owner/Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Concurring Reviewer **	_____	_____	_____	_____
Senior/Other professionals	_____	_____	_____	_____
Total this office	=====	_____	_____	_____

Total budgeted _____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
 ** Not applicable unless required by firm policy.
 *** This amount should include "pass through" federal assistance received indirectly from another state or local government.

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement, and if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, IV and VII should be answered in addition to the questions in Section III for the key areas identified and for Commitments and Contingencies, Revenues and Expenditures/Expenses, and Other.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed _____

Reviewer _____

Date Checklist Reviewed
by Team Captain _____

Signature _____

**Checklist for Review of Audit Engagements
of State or Local Governmental Entities**

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I. REPORT AND FINANCIAL STATEMENTS

NOTE: This checklist is derived from the pronouncements of the Governmental Accounting Standards Board (GASB), the U.S. General Accounting Office (GAO) and the AICPA. For detailed information concerning these requirements, the reviewer may wish to consult the authoritative literature of the above noted organizations as well as the AICPA financial reporting aid, *Disclosure Checklists and Illustrative Financial Statements for State and Local Governmental Units*. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	QUES.	N/A*	YES	NO	REF.**
Auditor's Reports					
Does (do) the auditor's report(s) on the general purpose or primary government only financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and cash flows of proprietary and nonexpendable trust funds? (ASLGU, Ch. 18)	G101	_____	_____	_____	_____
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08j, .46 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 508.08-.10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08 and .74)	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 for accompanying information and 558 for "required supplementary information")	A105	_____	_____	_____	_____
Financial Statements and Notes					
General					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24 and GASB Sec. 2200.109)	A112	_____	_____	_____	_____
Are the following general purpose or component unit financial statements presented:					
Combined balance sheet—all fund types and account groups? (GASB Sec. 2200.108b.(2)(a))	G102	_____	_____	_____	_____
Combined statement of revenues, expenditures, and changes in fund balances—all governmental fund types and expendable trust funds? (GASB Sec. 2200.108b.(2)(b))	G103	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	QUES.	N/A	YES	NO	REF.
Combined statement of revenues, expenditures, and changes in fund balances—budget and actual—general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted)? (GASB Sec. 2200.108b.(2)(c))	G104	_____	_____	_____	_____
Combined statement of revenues, expenses, and changes in retained earnings (or equity)—all proprietary fund types and similar trust funds? (GASB Sec. 2200.108b.(2)(d))	G105	_____	_____	_____	_____
Combined statement of cash flows—all proprietary fund types and nonexpendable trust funds? (GASB Sec. 2200.108b.(2)(e))	G106	_____	_____	_____	_____
Do the combined financial statements contain all funds and account groups that comprise the reporting entity, as defined in the notes? (GASB Sec. 2100)	G107	_____	_____	_____	_____
If totals by account are presented in the general purpose financial statements, are the totals noted as memorandum only? (GASB Sec. 2200.117)	G108	_____	_____	_____	_____
If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period’s information contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles? (AU Sec. 508.74 and ASLGU, Ch. 18)	G109	_____	_____	_____	_____
Do interfund receivables articulate with interfund payables? (GASB Secs. 1800.102-108 and 2600.120-121)	G110	_____	_____	_____	_____
Are Interfund operating transfers reported in the “Other Financing Sources” section in the Statement of Revenues and Expenditures and residual equity transfers reported as additions or deductions from beginning fund balances? (GASB Sec. 1800.107)	G111	_____	_____	_____	_____
Are special assessment receivables offset by deferred revenue when appropriate? (GASB Sec. S40.115)	G112	_____	_____	_____	_____
Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectible receivables? (GASB Sec. P70 and ASLGU, Ch. 8)	G113	_____	_____	_____	_____
For current and advance debt refundings of proprietary activities, has the difference between the reacquisition price and the net carrying amount of the old debt been deferred and amortized as a component of interest expense in a systematic and rational manner over the appropriate time period? (GASB Sec. D20.109).	G114	_____	_____	_____	_____
If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed? (GASB Sec. 2600.128)	G115	_____	_____	_____	_____
If a general fund is presented: Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G116	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are significant sources of general fund revenues disclosed? (GASB Secs. 1800.115 and 2200.114)	G117	_____	_____	_____	_____
Are expenditures classified by function? (GASB Sec. 1800.116-.117)	G118	_____	_____	_____	_____
If special revenue funds are presented:					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G119	_____	_____	_____	_____
Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.121)	G120	_____	_____	_____	_____
If debt service funds are presented:					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G121	_____	_____	_____	_____
Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.121)	G122	_____	_____	_____	_____
If capital project funds are presented:					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G123	_____	_____	_____	_____
Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.121)	G124	_____	_____	_____	_____
If enterprise funds are presented:					
Are the statements prepared on the accrual basis? (GASB Sec. 1600.126)	G125	_____	_____	_____	_____
Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements? (GASB Sec. S40.123)	G126	_____	_____	_____	_____
Are the restricted assets and liabilities payable from those restricted assets required to be segregated for debt service, separately disclosed? (ASLGU, Ch. 11, pars. 11.30-.11.31)	G127	_____	_____	_____	_____
Are operating and nonoperating revenues and expenses separately classified? (GASB Sec. 1800.122)	G128	_____	_____	_____	_____
Are property, plant and equipment properly reported on the balance sheet? (GASB Secs. 1400.102-.103)	G129	_____	_____	_____	_____
If internal service funds are presented:					
Are the statements prepared on the accrual basis? (GASB Sec. 1600.126)	G130	_____	_____	_____	_____
Do the financial statements present the net billings to other funds as revenues and the related costs as expenses? (GASB Sec. 1800.103-.104)	G131	_____	_____	_____	_____
Are long-term advances segregated from current amounts payable to other funds? (GA)	G132	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are property, plant and equipment properly reported on the balance sheet? (GASB Secs. 1400.102-.103)	G133	_____	_____	_____	_____
If nonexpendable and/or pension funds are presented:					
Are the statements prepared on the accrual basis? (GASB Secs. 1100.108(c) and 1600)	G134	_____	_____	_____	_____
Are the principal and income portions of trust fund equity classified in accordance with the trust document? (GA)	G135	_____	_____	_____	_____
If agency funds are presented:					
Are the balance sheets prepared on the modified accrual basis? (GASB Sec. 1100.108(c))	G136	_____	_____	_____	_____
If expendable trust funds are presented:					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1100.108(c))	G137	_____	_____	_____	_____
Do the financial statements disclose the significant revenues and expenditures of each fund? (GASB Sec. 1800.114-.121)	G138	_____	_____	_____	_____
If a general fixed assets account group is presented:					
Are land, buildings, equipment, and construction-in-progress separately classified? (ASLGU, Ch. 10, par. 10.20)	G139	_____	_____	_____	_____
Where general fixed assets are depreciated, does the statement show the accumulated depreciation? (GASB Sec. 1400.118)	G140	_____	_____	_____	_____
If a general long-term debt account group is presented:					
Are general obligation term bonds and serial bonds separately disclosed? (GASB Sec. 1500.105)	G141	_____	_____	_____	_____
Are other long-term liabilities (accrued vacation, leases, workers' compensation, landfill closure and postclosure care costs, etc.) separately disclosed? (GASB Sec. 1500.111-.124)	G142	_____	_____	_____	_____
Does the ending fund balance of the debt service fund agree with Amount Available for Debt Service in the General Long-Term Debt Account Group? (GASB Sec. 1500.105)	G143	_____	_____	_____	_____
Are component units properly reported as blended in (GASB Sec. 2600.115-.117) or discrete (GASB Sec. 2600.107-.114) in accordance with GASB 14?	G144	_____	_____	_____	_____
Have all discretely presented component units been reported in a separate column or columns to the right of all funds and account groups of the primary government? (GASB 2600.107, .108 and .111)	G145	_____	_____	_____	_____
Is the use of the term "reserve" limited to indicating that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use? (GASB 1800.123-.124)	G146	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are the governmental funds long-term loans receivable offset by a reserve of fund balance? (GASB Sec. 1800.123)	G147	_____	_____	_____	_____
Are amounts of any excesses of expenditures over appropriations at the legal level of budgetary control in individual funds disclosed? (GASB Sec. 2300.106n)	G148	_____	_____	_____	_____
Questions G148 through G175 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate if the fund statements were complete in presentation for each fund or account group. (GASB Sec. 2200)					
Are the following financial statements presented, if necessary:					
General fund:					
Balance sheet?	G149	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balance?	G150	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balance—budget vs. actual? ¹	G151	_____	_____	_____	_____
Special revenue funds:					
Balance sheet?	G152	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balance?	G153	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? ¹	G154	_____	_____	_____	_____
Debt service funds:					
Balance sheet?	G155	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances?	G156	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? ¹	G157	_____	_____	_____	_____
Capital project funds:					
Balance sheet?	G158	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances?	G159	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? ¹	G160	_____	_____	_____	_____
Enterprise funds:					
Balance sheet?	G161	_____	_____	_____	_____
Statement of revenues, expenses and changes in retained earnings?	G162	_____	_____	_____	_____
Statement of cash flows?	G163	_____	_____	_____	_____
Internal service funds:					
Balance sheet?	G164	_____	_____	_____	_____

¹ This question is applicable for those funds required to adopt an annual budget.

	QUES.	N/A	YES	NO	REF.
Statement of revenues, expenses and changes in retained earnings?	G165	_____	_____	_____	_____
Statement of cash flows?	G166	_____	_____	_____	_____
Nonexpendable and pension trust funds:					
Balance sheet?	G167	_____	_____	_____	_____
Statement of revenues, expenses and changes in fund balances?	G168	_____	_____	_____	_____
Statement of cash flows? ²	G169	_____	_____	_____	_____
Agency funds:					
Balance sheet?	G170	_____	_____	_____	_____
Combining statement of changes in assets and liabilities, if appropriate?	G171	_____	_____	_____	_____
Expendable trust funds:					
Balance sheet?	G172	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances?	G173	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? ³	G174	_____	_____	_____	_____
If required, is a statement of changes in general fixed assets presented? (GASB Sec. 2200.109b.(4)(a))	G175	_____	_____	_____	_____
If required, is a statement of changes in general long-term debt presented? (GASB Sec. 2200.109b.(4)(b))	G176	_____	_____	_____	_____
Other Note Disclosures					
Are the presentations appropriate and are the disclosures adequate regarding the following significant accounting policies:					
Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity, and specific reasons for excluding agencies? (GASB Sec. 2600.124)	G177	_____	_____	_____	_____
Policy regarding use of FASB pronouncements for proprietary activities? (GASB Secs. 2300.106a (7) and P80.105; and GASB Statement No. 29)	G178	_____	_____	_____	_____
Are individual component unit disclosures included within the General Purpose Financial Statements, as well as a brief description of the component units, their relationship to the primary government and how the separate financial statements for the individual component units may be obtained (GASB Secs. 2600.114 and .124)?	G179	_____	_____	_____	_____
Basis of accounting applied to each fund type? (GASB Sec. 1600)	G180	_____	_____	_____	_____
Revenue recognition policies, including:					
Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types? (GASB Secs. 1600.102-.105 and 2300.901)	G181	_____	_____	_____	_____

² GASB No. 9 does not require a statement of cash flows by pension trust funds.

³ This question is applicable for those funds required to adopt an annual budget.

	QUES.	N/A	YES	NO	REF.
Description of revenue sources that are treated as "susceptible to accrual" (e.g., property tax revenues and taxpayer assessed tax revenues) under the modified accrual basis and those that are not? (GASB Sec. 1600.106-.110 and 2300.106(2))	G182	_____	_____	_____	_____
Accounting for fixed assets concerning:					
Classification in proprietary funds or general fixed assets account group? (GASB Sec. 1400.106)	G183	_____	_____	_____	_____
Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets? (GASB Secs. 1400.109 and .111-.113 and 2300.107n)	G184	_____	_____	_____	_____
Depreciation methods and lives, including whether depreciation is reported on general fixed assets? (GASB Sec. 1400.114-.123)	G185	_____	_____	_____	_____
Capitalization of interest costs during construction? (GASB Sec. 2300.106a.(5) and ASLGU, Ch. 10, par. 10.21)	G186	_____	_____	_____	_____
Method of accounting and reporting for encumbrances? (GASB Sec. 2300.106a.(3))	G187	_____	_____	_____	_____
Claims and judgments? (GASB Sec. C50)	G188	_____	_____	_____	_____
Interfund eliminations not apparent? (GASB Sec. 2300.107(p))	G189	_____	_____	_____	_____
Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.) (GASB Sec. 1500)	G190	_____	_____	_____	_____
Do overall disclosures appear to reflect adequately circumstances and materiality thresholds? (GASB Sec. 2300.108)	G191	_____	_____	_____	_____
Significant accounting policies? (AC Sec. A10)	G192	_____	_____	_____	_____
Basis on which each budget is prepared, including:					
Treatment of encumbrances? (GASB Sec. 2300.106a.(3))	G193	_____	_____	_____	_____
Whether appropriations lapse at year end? (GASB Sec. 1700.129d-e)	G194	_____	_____	_____	_____
Explanation of the differences, if any, between the budgetary basis and the basis used for financial reporting of governmental funds? (GASB Secs. 2400.104 and 2300.107(e))	G195	_____	_____	_____	_____
Whether presented budgetary information has been amended? (GA)	G196	_____	_____	_____	_____
Separate summary of significant accounting policies for discrete presentations? (GASB, Secs. 2300.106a(1) and (7), and 2600.124-.126)	G197	_____	_____	_____	_____
Are the presentations appropriate and are disclosures adequate regarding the following:					
Classified balance sheets, where appropriate?(AC Sec. B05)	G198	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	A114	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Pension activities, employer reporting? (GASB Sec. 2300.106g and .107g, P20; or GASB Statement No 27 which is effective for periods beginning after June 15, 1997 with early implementation encouraged)	G199	_____	_____	_____	_____
Postemployment benefits other than pensions—employer reporting? (GASB Sec. P50.105-.107)	G200	_____	_____	_____	_____
Pension funds, reporting by plans? (GASB Sec 107q, Pe5 and Pe6; or GASB Statements No. 25 and 26 that are effective for periods beginning after June 15, 1996 with early implementation encouraged)	G201	_____	_____	_____	_____
Deferred compensation plans adopted under IRC 457? (GASB Sec. 2300.107(u) and D25, par. 113)	G202	_____	_____	_____	_____
Related party transactions? (GASB Sec. 2300.107(g))	A122	_____	_____	_____	_____
Nonmonetary transactions? (AC Secs. N35)	A126	_____	_____	_____	_____
Segment information for enterprise funds? (GASB Sec. 2500.105)	G203	_____	_____	_____	_____
Capital leases of lessees? (GASB Sec. 2300.107(i)g)	G204	_____	_____	_____	_____
Operating leases and rent expense of lessees? (GASB Sec. 2300.106j)	G205	_____	_____	_____	_____
Detail of the government’s property tax calendar, including the lien, levy, due and collection dates? (GASB Secs. 2300.107b and P70.109)	G206	_____	_____	_____	_____
Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations? (GASB Secs. 2300.106h and n and L20.119)	G207	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	A140	_____	_____	_____	_____
Restricted cash (e.g., compensating balances)? (ASLGU Ch. 7, par. 7.16 and AC Secs. B05.107 and C59.120)	A141	_____	_____	_____	_____
Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by professional standards? (GASB Sec. 2300.106b and c)	G208	_____	_____	_____	_____
Definition of cash and cash equivalents consistent with GASB Statement No. 9? (GASB Sec. 2450.106)	G209	_____	_____	_____	_____
The amount of total bank balance classified into the three categories of credit risk? (GASB Sec. C20.106)	G210	_____	_____	_____	_____
The carrying amount and market value of investments as of balance-sheet date by investment type and in total with types of investments classified into the three categories of credit risk? (GASB Sec. I50.164)	G211	_____	_____	_____	_____
For derivatives and similar debt and investment transactions, (i) discussion of the accounting policies and other relevant information, (ii) explanation of the nature of the transactions and (iii) the reasons for entering into them (GASB, Sec. 2300.601 re: GASTB 94-1)	G212	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Terms or circumstances concerning repurchase or reverse repurchase agreements? (GASB Secs. 2300.106c, 2300.107v, I50, and R10)	G213				
Receivables:					
Loans or advances to other funds of the governmental units? (GASB Sec. 1300.110)	G214				
Taxes receivable? (GASB Secs. P70.106-.107)	G215				
Grants entitlements and other receivables? (GASB Sec. G60.112)	G216				
Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)	A144				
Effects of troubled debt restructurings? (AC Sec. D22.121 and .136-.137)	A145				
Other receivables?	A146				
Inventories? (AC Secs. B05.105 and I78)	A148				
Joint ventures and other investments? (GASB Sec. 2300.107j)	G217				
Pooled cash and investment accounts? (GASB Sec. 2300.106b and c)	G218				
If this entity has public entity risk pools (cooperative group of governmental entities) did the entity:					
Recognize pool premiums as revenue over the contract period? (GASB Sec. Po 20.115-.117)	G219				
Recognize claims costs in the period in which the event triggers coverage under the policy? (GASB Sec. Po 20.118-.122)	G220				
Report the estimated loss of a claim if it is both probable and reasonably estimable? (GASB Sec. Po 20.123)	G221				
Fixed assets, including changes during the period and capitalized interest? (GASB Secs. 1400.111 and 2300.106i)	G222				
Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	A151				
Are the operating lease revenues for governmental and similar trust funds accounted for under the modified accrual basis and for proprietary and similar trust funds under the accrual basis? (GASB Sec. L20)	G223				
For leases entered into beginning June 30, 1990, are operating leases with scheduled rent increases accounted for in a systematic and rational manner? If terms are artificially low, has the entity used either the straightline or estimated fair value method? (GASB Sec. L20)	G224				
Other assets including intangible assets, unamortized computer software costs, and deferred charges and their impairment if applicable? (AC Secs. I08, I27.140, I60 and Co 2.106-.110)	A152				
Pledged assets? (AC Sec. C59.120)	A153				

	QUES.	N/A	YES	NO	REF.
Related assets and liabilities? [These may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law.] (AC Sec. B10.101A)	A154	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117, .138-.139)	A156	_____	_____	_____	_____
Notes payable, bond, tax, and revenue anticipation notes, and other debt:					
Maturities and rates? (AC Sec. C32.105)	A157	_____	_____	_____	_____
Other terms and covenants? (ASLGU, Ch. 11, par. 11.31 and AC Sec. C59.120)	A158	_____	_____	_____	_____
Special assessment debt and related activities? (GASB Sec. 2300.107w)	G225	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69)	A159	_____	_____	_____	_____
Effect of troubled debt restructurings? (AC Sec. D22.121)	A160	_____	_____	_____	_____
Effect of debt refundings? (GASB Sec. D20)	G226	_____	_____	_____	_____
Loans or advances from other funds of the governmental unit? (GASB Sec. 1300.110)	G227	_____	_____	_____	_____
Debt service requirements to maturity? (GASB Sec. 2300.106i)	G228	_____	_____	_____	_____
Changes during the period including advance refundings resulting in defeasance of debt? (GASB Sec. 2300.106m)	G229	_____	_____	_____	_____
Unpaid debt that has been fully defeased? (GASB Sec. D20.111-.114)	G230	_____	_____	_____	_____
Nature of any restrictions on assets related to debt? (ASLGU, Ch. 11, par. 11.31)	G231	_____	_____	_____	_____
Demand bonds? (GASB Sec. 2300.107x)	G232	_____	_____	_____	_____
Conduit debt obligations? (GASB Interpretation No. 2, effective for periods beginning after December 15, 1995 with earlier application encouraged.)	G233	_____	_____	_____	_____
Compensation for future absences and special termination benefits for employees? (GASB Sec. 2300.107k and GASB Sec. C60)	G234	_____	_____	_____	_____
Designation or reservations or other restrictions of fund balances or retained earnings? (GASB Secs. 1800.123-.127 and ASLGU, Ch. 12, par. 12.20)	G235	_____	_____	_____	_____
Revenues, expenses and expenditures:					
Grants and other financial assistance including entitlements, shared revenue, pass-through grants and food stamps? (GASB Sec. 2300.107m)	G236	_____	_____	_____	_____
On-behalf payments (eg. fringe benefits and salaries)? (GASB Sec. G60.125)	G237	_____	_____	_____	_____
Investment income?	G238	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Interest cost? (ASLGU Ch. 11, pars. 11.23-11.36)	G239	_____	_____	_____	_____
Depreciation? (ASLGU Ch. 10, par. 10.20)	G240	_____	_____	_____	_____
Discontinued operations? (AC Sec. I13)	A193	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies accrued and/or disclosed as appropriate? (GASB Sec. 2300.106d, C50.110-.115, and AC Sec. C59.104-.114)	A127	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (for example, construction commitments) (GASB Sec. C50.141 and AC Sec. C59.118-.120)	A128	_____	_____	_____	_____
Risk management and related financing activities? (GASB Secs. 2300.107a, C50.101 and .109-.140a)	G241	_____	_____	_____	_____
Deficit fund balances or retained earnings of individual funds? (GASB Sec. 2300.106o.)	G242	_____	_____	_____	_____
Interfund receivables and payables of individual funds? (GASB Sec. 2300.106p)	G243	_____	_____	_____	_____
Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed? (GASB Sec. 2300.107s)	G244	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (GASB Secs. 2300.106f and G50.140)	G245	_____	_____	_____	_____
Statement of Cash Flows					
For proprietary and similar fund types, is a statement of cash flows presented for each period as appropriate? (GASB Sec. 2450.103)	G246	_____	_____	_____	_____
Does it report cash flows classified as operating, noncapital financing, capital and related financing, and investing activities? (GASB Sec. 2450.104 and .112)	G247	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and did the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (GASB Sec. 2450.105)	G248	_____	_____	_____	_____
Does it provide a reconciliation between operating income and net cash flow from operating activities? (GASB Sec. 2450.130)	G249	_____	_____	_____	_____
Are noncash investing, capital and financing activities disclosed? (GASB Sec. 2450.134)	G250	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and the enterprise's policy for determining which items are treated as cash equivalents disclosed? (GASB Sec. 2450.106)	G251	_____	_____	_____	_____
Are the components of the cash flow statement shown at "gross" and not "net" amounts? (GASB Sec. 2450.109-.111)	G252	_____	_____	_____	_____

Governmental Audit Engagement Checklist

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	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are the statement presentations and disclosures generally consistent with GASB pronouncements and the AICPA's <i>Audits of State and Local Governmental Units</i> ?	G253	_____	_____	_____	_____

II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
In planning the audit engagement, did the auditor properly consider:					
What type of engagement is being performed and whether the engagement is intended to meet the governmental oversight agency's audit requirements? (AU Secs. 801.08 fn 8, .09 and .22-.23)	G254	_____	_____	_____	_____
The need for compliance auditing and if so, the applicability of SAS No. 74 or Statement on Standards for Attestation Engagements No. 3, Compliance Attestation [AU Sec. 801.01fn4 (SAS No. 74 as amended by SAS No. 75)].	G255	_____	_____	_____	_____
The firm's responsibility to conform with professional standards with respect to the detection of errors and irregularities? (AU Sec. 316 and GAO, Ch. 4, pars. 4.12-4.13)	G256	_____	_____	_____	_____
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, contractual obligations and technological changes? (AU Secs. 311.03 and 801.07 and GAO, Ch. 4, pars. 4.12-4.14)	A300	_____	_____	_____	_____
Definition of the reporting entity indicating the related organizations, functions, and activities that are either included or excluded from the financial statements in accordance with professional standards? (GASB Sec. 2100 and ASLGU, Chs. 2 and 3)	G257	_____	_____	_____	_____
Preliminary judgment (by fund type if opinion on general purpose financial statements) about materiality levels? (AU Secs. 311.03 and 312.08, ASLGU, Ch. 3 pars. 3.12-3.13 and GAO, Ch. 4, pars. 4.8-4.9)	A302	_____	_____	_____	_____
Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service? (AU Sec. 341 and ASLGU, Ch. 17, pars. 17.08-17.13)	G258	_____	_____	_____	_____
Did the auditor:					
Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05, and 317.05 and ASLGU, Ch. 3, pars. 3.12-3.18, and GAO, Ch. 4, pars. 4.14-4.15)	A303	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12 and ASLGU, Ch. 3, par. 3.17-3.18)	A304	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities and direct-effect illegal acts that could be material to the financial statements? (AU Sec. 316.05 and 317.05)	A305	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06 and ASLGU, Ch. 3, par. 3.27)	A306	_____	_____	_____	_____
If the auditor succeeded another auditor, did the auditor:					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A307	_____	_____	_____	_____
Obtain satisfaction as to the account balances at the beginning of the year and consistency of the application of accounting principles in the year being audited as compared with the preceding year? (AU Sec. 315.08)	A308	_____	_____	_____	_____
If consideration was given to the work of internal auditors in determining the scope of the audit, was it done in accordance with professional standards? (AU Sec. 322 and ASLGU, Ch. 4, pars. 4.33-4.35 and GAO, Ch. 3, pars. 3.19-3.22)	A309	_____	_____	_____	_____
Did the auditor:					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10)	A310	_____	_____	_____	_____
Document the understanding of the internal control structure? (AU Sec. 319.26)	A311	_____	_____	_____	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A312	_____	_____	_____	_____
Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A313	_____	_____	_____	_____
If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the control structure policies and procedures at the service organization that may affect the client's transactions and internal control structure? (AU Sec. 324.06-.10)	A314	_____	_____	_____	_____
If the auditor decided to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor's report that describes the results of the service auditor's tests of operating effectiveness obtained, were tests performed by the auditor at the service organization, or were tests of client's controls over the activities of the service organization performed by the auditor? (AU Sec. 324.14-.16)	A315	_____	_____	_____	_____
If the engagement included work performed by joint auditors or by another office, correspondent, or affiliate:					
Do the instructions to the other office or firm appear adequate? (AU Sec. 311)	A316	_____	_____	_____	_____
Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)	A317	_____	_____	_____	_____
Was there appropriate follow-up of open matters? (AU Sec. 311)	A318	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
In those cases where another firm was used, were appropriate inquiries made regarding its independence and professional reputation? (AU Sec. 543.10)	A319	_____	_____	_____	_____
For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity? (ASLGU, Ch. 18, par. 18.56)	G259	_____	_____	_____	_____
If the principal auditor did not refer to the other auditor in his or her report, did the principal auditor perform one or more of the additional procedures contained in AU 543.12 to assess the adequacy of the work performed by the other auditor? (AU Sec. 543.12-.13 and ASLGU, Ch. 18, par. 18.55)	G260	_____	_____	_____	_____
If a specialist was used (eg. actuary, appraiser, engineer, environmental consultant, or geologist):					
Were the appropriate considerations and evaluations made in accordance with professional standards? (AU Sec. 336.06-.11)	A320	_____	_____	_____	_____
Were appropriate procedures applied to the specialist's findings? (AU Sec. 336.12)	A321	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and ASLGU, Ch. 3, pars. 3.28-3.32)	A322	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement, and the understanding of internal control structure obtained, during the planning process? (AU Secs. 311.05 and 319.02 and .05)	A323	_____	_____	_____	_____
Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A324	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A325	_____	_____	_____	_____
Have all the procedures called for in the audit program been signed when completed? (AU Sec. 339 and ASLGU, Ch. 3, par. 3.34)	A326	_____	_____	_____	_____
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):					
Does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population when planning the sample? (AU Sec. 350.31)	A327	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A328	_____	_____	_____	_____
If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures reevaluated based on a revised consideration of the assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)	A329	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A330	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was the documentation of the foregoing considerations in accordance with firm policy?	A331	_____	_____	_____	_____
If statistical or nonstatistical sampling was used for substantive tests of details and tests of applicable laws and regulations, if appropriate:					
Does it appear the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population when planning the sample? (AU Sec. 350.16)	A332	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A333	_____	_____	_____	_____
Were the misstatements in the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A334	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed? (AU Sec. 350.25)	A335	_____	_____	_____	_____
In evaluating whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement resulting from all audit sampling applications and to known misstatements from non-sampling applications? (AU Sec. 350.30)	A336	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A337	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Consider the guidelines of professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A338	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A339	_____	_____	_____	_____
Has the auditor evaluated the reasonableness of significant accounting estimates made by management? (AU Secs. 326 and 342)	A340	_____	_____	_____	_____
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334 and ASLGU, Ch. 17, pars. 17.05 - 17.07)	A341	_____	_____	_____	_____
Did the auditor obtain written timely and appropriate representations from management (including, if applicable, industry specific and/or Single Audit Act representations as required by paragraphs 7c and/or 10 fn 9 of SAS 74) and was the representation letter properly dated? (AU Secs. 333 and 801.07c and .10 fn 9 and ASLGU, Ch. 17, pars. 17.02-17.04 and Ch. 23, pars. 28.82-28.83)	A342	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)	A343	_____	_____	_____	_____
Have all questions, exceptions, or notes, been followed up and resolved, (including consideration of views obtained from responsible officials of the entity concerning the auditor's findings)?	A344	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was appropriate consideration given to passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A345	_____	_____	_____	_____
If applicable, were adequate tests of compliance with applicable laws and regulations that have a direct and material effect on the financial statements performed and documented? (AU Sec. 801.12-.17)	G261	_____	_____	_____	_____
If applicable, did the auditor communicate to management about an audit requirement that may not be encompassed in the terms of the engagement, and that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing—if the communication is oral, the auditor should document the communication in the working papers) (AU Sec. 801.21-.23)	G262	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.29)	A346	_____	_____	_____	_____
Consider the implications for other aspects of the audit of an audit adjustment that the auditor has determined is, or may be, an irregularity and has either determined that the effect could be material or has been unable to evaluate the potential materiality? (AU Sec. 316.25)	A347	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A348	_____	_____	_____	_____
When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:					
Follow up in accordance with professional standards? (AU Secs. 317.10-.11)	A349	_____	_____	_____	_____
Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A350	_____	_____	_____	_____
Communicate directly with the audit committee if the illegal act(s) involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor's attention, except those that are clearly inconsequential, were adequately communicated? (AU Sec. 317.17)	A351	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (AU Sec. 341 and ASL GU, Ch. 17, pars. 17.08-17.11)	A352	_____	_____	_____	_____
If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans that are intended to mitigate the effect of such conditions or events, and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))	A353	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the auditor’s substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with mitigating factors? (AU Sec. 341.11)	A354	_____	_____	_____	_____
If the auditor’s substantial doubt was not alleviated, did the auditor’s report include an explanatory paragraph that adequately communicates the auditor’s substantial doubt (i.e., include the terms “substantial doubt” and “going concern”)? (AU Sec. 341.12-.13 and ASLGU, Ch. 17, par. 17.12)	A355	_____	_____	_____	_____
Were all reportable conditions and material weaknesses in internal controls and identified instances of noncompliance with applicable laws and regulations:					
Adequately evaluated and documented? (AU Sec. 339.05)	G263	_____	_____	_____	_____
Appropriately reported in accordance with applicable standards? (AU Sec. 325)	G264	_____	_____	_____	_____
Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report? (AU Sec. 560)	A363	_____	_____	_____	_____
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? ⁴ (AU Sec. 561)	A364	_____	_____	_____	_____
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)	A365	_____	_____	_____	_____
Where there is an audit committee or some other formal oversight group, did the auditor:					
Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)	A366	_____	_____	_____	_____
If the communication was in writing, include a statement that it was intended solely for the use of the audit committee or the board of directors, and if appropriate, management? (AU Sec. 380.03)	A367	_____	_____	_____	_____
If the communication was oral, document the information communicated by appropriate memoranda or notations in the working papers? (AU Sec. 380.03)	A368	_____	_____	_____	_____

⁴ This question also applies to circumstances when, subsequent to the date of the audit report on the general purpose financial statements, the auditor, while performing procedures to support the other reports required by the Single Audit Act, identifies additional information that existed at the report date.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Has the firm established reasonable procedures for retention of and access to working papers including consideration of the guidance in Interpretation No. 1 of SAS No. 41, "Providing Access to or Photocopies of Working Papers to a Regulator"? (AU Sec. 339.08, AU Sec. 9339, also at Appendix K in ASLGU)	G265	_____	_____	_____	_____

III. WORKING PAPER AREAS

NOTE: Complete only the sections on Commitments and Contingencies, Revenues and Expenditures/Expenses, and Other, and for the key areas selected for review. In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of such financial statement assertions. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box below the name of the working paper area. (As indicated on page 5504, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.)

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
Cash					
<input type="checkbox"/> Not a key area					
Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?	A401	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance-sheet date to determine whether they were recorded in the proper period?	A402	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Confirmation of cash balances?	A403	_____	_____	_____	_____
Restrictions on cash balances?	A404	_____	_____	_____	_____
Confirmation of bank credit arrangements such as compensating balances?	A405	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A406	_____	_____	_____	_____
Approval of interfund cash transactions?	G301	_____	_____	_____	_____
Pledging of collateral required of depository institutions for public funds? (ASLGU, Ch. 7, pars. 7.17-7.25 and GASB Sec. 150.107-.111)	G302	_____	_____	_____	_____
Compliance with the laws and regulations governing the deposit of public funds? (GASB Sec. C20)	G303	_____	_____	_____	_____
Determination that all cash accounts have been identified and appropriately recorded? (ASLGU, Ch. 7, pars. 6-16)	G304	_____	_____	_____	_____
Review of repurchase security transactions for consistency with the disclosures of their terms and conditions? (GASB Sec. 150.159-.160)	G305	_____	_____	_____	_____
Are cash overdrafts from pooled cash and investments accounted for as an interfund receivable or payable? (ASLGU, Ch. 7, pars. 7.06-7.09)	G306	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of cash appear adequate? (AU Secs. 312 and 319)	A407	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Receivables					
<input type="checkbox"/> Not a key area.					
Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330)	A408	_____	_____	_____	_____
If confirmation work was performed prior to year end, is there evidence that adequate substantive procedures were applied to the period from the confirmation date to the balance-sheet date?	A409	_____	_____	_____	_____
If a significant number and amount of the accounts receivable selected for positive confirmation did not respond, is there evidence that alternative auditing procedures were performed? (AU Sec. 330.31-.33)	A410	_____	_____	_____	_____
Were significant notes receivable confirmed as of a date consistent with the auditor's assessment of inherent, control and detection risks? (AU Sec. 313)?	A411	_____	_____	_____	_____
Were the results of confirmation and alternative procedures summarized, and were appropriate conclusions included in the working papers? (AU Sec. 330.33)	A412	_____	_____	_____	_____
Was collateral (if any) for receivables tested with respect to existence, ownership and value?	A413	_____	_____	_____	_____
Were procedures performed to provide evidence that receivables and the related revenues were recorded in the correct period? (ASLGU, Ch. 8, par. 8.04-8.07)	G307	_____	_____	_____	_____
Were adequate tests of discounts and allowances made?	A414	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectability of receivables (including interfund receivables) adequately considered? (AU Sec. 312.29)	A415	_____	_____	_____	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?	A416	_____	_____	_____	_____
Was receivable work coordinated with tests of revenues, including cut-off tests?	A417	_____	_____	_____	_____
For proprietary activities, were appropriate procedures applied to notes receivable regarding imputation of interest (if necessary), carrying amount, fair value (FAS No. 107) and recognition of related interest income? (AC Secs. I69 and F25.115A-.115K)	A418	_____	_____	_____	_____
If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)	A419	_____	_____	_____	_____
If FAS No. 114, as amended by FAS No. 118, was applicable to this engagement (either as a result of the statement's effective date or the early adoption of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loans' expected future cash flows discounted at the loans' effective interest rates or at the observable market prices or the fair value of the collateral if the loans are collateral dependent? (AC Sec. I08.111)	A420	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
In governmental funds, were revenues that were measurable but did not meet the available criteria properly recorded as deferred? (GASB Sec. P70.108)	G308	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of receivables appear adequate? (AU Secs. 312 and 319)	A421	_____	_____	_____	_____
Inventories					
<input type="checkbox"/> Not a key area					
Do the working papers indicate that there were adequate tests of:					
Physical observation, if material? (AU Sec. 331.09-.13)	G309	_____	_____	_____	_____
The clerical accuracy of the inventory?	A427	_____	_____	_____	_____
Costing methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?	A428	_____	_____	_____	_____
Were the results of inventory observations and other tests summarized, and were appropriate conclusions drawn?	A429	_____	_____	_____	_____
Do the working papers indicate that consideration was given to whether the inventory was carried at lower of cost or market (including consideration of obsolete or slow-moving inventory)?	A431	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of inventory appear adequate? (AU Secs. 312 and 319)	A435	_____	_____	_____	_____
Investments					
<input type="checkbox"/> Not a key area					
Was a summary schedule prepared and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc., of investments?	A436	_____	_____	_____	_____
Were securities either inspected or confirmed? (AU Sec. 332.04)	A437	_____	_____	_____	_____
Was the computation of realized and unrealized gains and losses tested by the auditor?	A438	_____	_____	_____	_____
Do the working papers reflect that consideration was given to the appropriateness of the carrying values of securities and their classification into categories in conformity with professional standards? (GASB Sec. I50 and ASLGU, Ch. 7, pars. 7.23-7.25)	A439	_____	_____	_____	_____
Was consideration given to the possible impairment of the carrying value of long-term investments? (AU Sec. 332.03 and EITF 85-39)	A440	_____	_____	_____	_____
Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on their marketability?	A441	_____	_____	_____	_____
For joint venture investments (accounted for under the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related disclosures? (GASB Sec. J50)	G310	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was a review made to determine whether the investments are of the types authorized by law or in compliance with the applicable statutes and investment policies? (ASLGU, Ch. 7, pars. 7.06-7.13 and 7.25)	G311	_____	_____	_____	_____
Were income, gains, and losses from investments tested for proper allocation to the individual funds? (GASB Sec. I50.104-.105 and ASLGU, Ch. 7, par. 7.08)	G312	_____	_____	_____	_____
For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of agreement and collateral, etc.)? (ASLGU, Ch. 7, pars. 7.23-7.25)	A443	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of investments appear adequate? (AU Secs. 312 and 319)	A444	_____	_____	_____	_____
Prepaid Expenses, Intangible Assets, Deferred Charges, etc.					
<input type="checkbox"/> Not a key area					
Were adequate tests made and/or confirmations received for all material:					
Prepaid expenses?	A445	_____	_____	_____	_____
Intangible assets?	A446	_____	_____	_____	_____
Deferred charges?	A447	_____	_____	_____	_____
Other?	A448	_____	_____	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A449	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Secs. 312 and 319)	A452	_____	_____	_____	_____
Property, Plant and Equipment					
<input type="checkbox"/> Not a key area.					
Was a summary schedule prepared to show beginning balances, changes during the period and ending balances for:					
Property, plant and equipment?	A453	_____	_____	_____	_____
Accumulated depreciation (where applicable)?	A454	_____	_____	_____	_____
Do tests appear adequate, and were proper conclusions drawn with respect to:					
Additions (e.g., by examining supporting documents and/or physical inspection)?	A455	_____	_____	_____	_____
Retirements, etc. (including examining miscellaneous income, scrap sales)?	A456	_____	_____	_____	_____
The adequacy of the current and accumulated provisions for depreciation?	A457	_____	_____	_____	_____
For proprietary activities, consideration of asset impairment including status of idle facilities? (AC Sec. J08.122-.130)	A458	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do working papers indicate that the auditor considered the possibility that property was subject to liens?	A459	_____	_____	_____	_____
Was a review made to determine that capital expenditures were classified in the proper fund accounts and made in accordance with budgetary requirements? (GASB Secs. 1700.118-.119 and 1800.116-.122)	G313	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of property, plant and equipment appear adequate? (AU Secs. 312 and 319)	A460	_____	_____	_____	_____
Liabilities					
<input type="checkbox"/> Not a key area					
Were accounts payable adequately tested for existence?	A461	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A462	_____	_____	_____	_____
Was the payables work coordinated with the testing of the purchases cutoff?	A463	_____	_____	_____	_____
Was consideration given to expenditures that might require accrual (e.g., pensions, compensated absences, or postemployment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated? (GASB Secs. C60, P20, P50)	A464	_____	_____	_____	_____
Were procedures performed to determine that municipal solid waste landfill closure and postclosure care costs were properly accounted for? (GASB Sec. L-10)	G314	_____	_____	_____	_____
Were procedures performed to determine whether deferred compensation plans had been appropriately accounted for? (GASB Sec. D25)	G315	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures applied?	A465	_____	_____	_____	_____
For proprietary activities were appropriate procedures applied to notes payable regarding imputation of interest (if necessary), carrying amount, fair value (FAS No. 107) and recognition of related interest expense? (AC Secs. I69 and F25.115A-.115K)	A466	_____	_____	_____	_____
Do the working papers indicate that the auditor received compliance with the covenants of the entity's debt obligations?	A467	_____	_____	_____	_____
Were procedures performed to determine that:					
New debt issues were properly authorized as required by the state constitution or state/local statutes and recorded in the correct fund and/or account group? (ASLGU, Ch. 11, par. 29)	G316	_____	_____	_____	_____
Debt restrictions, guarantees and other debt commitments were properly disclosed? (ASLGU, Ch. 11, pars. 26-28)	G317	_____	_____	_____	_____
Do the tests of interfund borrowings appear adequate with respect to:					
Legal restrictions, if any, on such borrowings? (GASB Sec. 1300.110)	G318	_____	_____	_____	_____
Authorization? (ASLGU, Ch. 12, par. 12.24)	G319	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Classification? (ASLGU, Ch. 12, par. 12.24)	G320	_____	_____	_____	_____
Appropriateness of interest accruals and payments? (ASLGU, Ch. 7, pars. 7.08 and 7.09)	G321	_____	_____	_____	_____
Do the working papers contain sufficient documentation of tests of liability recognized for claims incurred but not reported (IBNR) as of the balance-sheet date? (GASB Sec. C50.113-.114 and ASLGU, Ch. 9, pars. 9.13-9.14)	G322	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of liabilities appear adequate? (AU Secs. 312 and 319)	A468	_____	_____	_____	_____
Deferred Revenue					
<input type="checkbox"/> Not a key area					
Do the working papers reflect consideration of whether the basis of deferring revenue is reasonable and consistent with restrictions imposed by the grantor or by the special assessment? (GASB Sec. 1600.116 and S40)	G323	_____	_____	_____	_____
Where applicable, was consideration given to matching requirements, if any? (GASB, Sec. G60.109)	G324	_____	_____	_____	_____
If there were grants, entitlements or shared revenues received but not expended, where expenditure is the prime factor for determining eligibility, were the funds properly reported as deferred revenue? (GASB Sec. 60.109)	G325	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of deferred revenue appear adequate? (AU Secs. 312 and 319)	G326	_____	_____	_____	_____
Commitments and Contingencies					
Do the working papers contain evidence of the following:					
Inspection of minutes of meetings of the oversight unit, provisions of the governmental unit's charter, and applicable statutes and changes therein?	A476	_____	_____	_____	_____
Inspection of contracts, loan agreements, leases and correspondence from taxing and other governmental agencies, and similar documents?	A477	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A478	_____	_____	_____	_____
Inquiries of and discussions with management including management's written representations concerning liabilities, litigation, claims, assessments, and regulatory requirements as applicable? (AU Secs. 337.05 and 333)	A479	_____	_____	_____	_____
Consideration of prior audits of federal financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance? (ASLGU Ch. 5, par. 5.19 and Ch. 23, par. 23.09)	G327	_____	_____	_____	_____
Inspection of long-term contracts with nongovernmental entities, such as construction contractors?	G328	_____	_____	_____	_____
Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)	A481	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?	A482	_____	_____	_____	_____
Was appropriate consideration given to known environmental matters? (GASB Sec. C50 and ASLGU, Ch. 9, par. 9.25 and Ch. 17, pars. 17.14-17.22)	A483	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of commitments and contingencies appear adequate? (AU Secs. 312 and 319)	G329	_____	_____	_____	_____
Fund Equity					
<input type="checkbox"/> Not a key area					
Where applicable, were authorizations of changes in reserves and designated balances examined? (ASLGU, Ch. 12, pars. 12.07-12.14)	G330	_____	_____	_____	_____
Do the working papers indicate that there were appropriate inquiries as to proper classification, description and disclosures of components of fund equity? (ASLGU, Ch. 12, pars. 12.06 and 12.10)	G331	_____	_____	_____	_____
Do the working papers indicate that fund transfers were properly approved and recorded? (ASLGU, Ch. 12, par. 12.24)	G332	_____	_____	_____	_____
Have all entries to contributed capital been properly accounted for? (ASLGU, Ch. 12, pars. 12.25-12.27)	G333	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of fund equity appear adequate? (AU Secs. 312 and 319)	G334	_____	_____	_____	_____
Revenues and Expenditures/Expenses					
Were appropriate analytical procedures used in substantive tests of revenues and expenditures and/or expenses for the period? (e.g., comparison to the budget and the preceding period and review for reasonableness, with significant variances and fluctuations being investigated and resolved.) (AU Sec. 329)	A490	_____	_____	_____	_____
Was adequate consideration given to:					
The entity's revenue recognition policy? (ASLGU, Ch. 8 and GASB Sec. 1600.106-.116)	A491	_____	_____	_____	_____
Recognition of property tax revenues? (ASLGU Ch.8; and GASB Secs. 1600.109 and P70)	G335	_____	_____	_____	_____
Recognition of taxpayer-assessed tax revenues? (ASLGU, Ch. 8; and GASB Sec. 1600.110)	G336	_____	_____	_____	_____
Income recognition on transactions where the earnings process was not complete?	A492	_____	_____	_____	_____
Do the working papers indicate that revenues and interfund transactions were recognized in the accounting period in which they became available and measurable for fund types using the modified accrual basis of accounting? (GASB Sec. 1600.106-.116 and ASLGU, Ch. 8, par. 8.04)	G337	_____	_____	_____	_____
Do the working papers indicate that the auditor considered the effect of direct program income on federal grants? (ASLGU Appendix F.25(g))	G338	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Has it been determined that:					
Expenditures are in accordance with the approved budget as to amounts and purpose? (ASLGU, Ch. 6, pars. 6.24-6.30 and Ch. 10, par. 10.25)	G339	_____	_____	_____	_____
Encumbrances are properly identified, supported and recorded? (GASB Secs. 1700.129-.130 and 2400.106, and ASLGU, Ch. 6, pars. 6.22-6.23)	G340	_____	_____	_____	_____
Indirect cost allocations are in accordance with OMB A-87? (OMB Circular A-128, Questions and Answers, par. 17)	G341	_____	_____	_____	_____
Were tests of payrolls, including account distribution, made, where appropriate?	A488	_____	_____	_____	_____
Do the tests of pension expenses and liabilities appear adequate? (GASB Sec. P20 and ASLGU, Ch. 14)	A489	_____	_____	_____	_____
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:					
Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement? (ASLGU, Ch. 8, par. 8.30)	G342	_____	_____	_____	_____
Were cost reimbursement reports and the underlying support reviewed? (ASLGU, Ch. 8, par. 8.30)	G343	_____	_____	_____	_____
Were appropriate allocations made of indirect costs among the entity's programs? (ASLGU, Ch. 8, par. 8.30)	G344	_____	_____	_____	_____
Was the effect of audits, either required or performed by third party grantors, considered? (ASLGU, Ch. 20-24)	G345	_____	_____	_____	_____
If grants are awarded to other organizations, did the auditor review:					
The classification of the grants?	G346	_____	_____	_____	_____
The effects of the grantees' compliance or noncompliance with performance requirements? (ASLGU, Ch. 16, par. 16.18-16.20)	G347	_____	_____	_____	_____
Does the accounting and financial reporting for proprietary funds comply with GASB Sec. P80?	G348	_____	_____	_____	_____
Based on the assessment of inherent and control risks, did the substantive tests (analytical procedures and tests of details) of revenues and expenditures/expenses appear adequate? (AU Secs. 312 and 319)	A495	_____	_____	_____	_____
Other					
Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for? (GASB Sec. L20)	A496	_____	_____	_____	_____
Were appropriate procedures applied regarding accompanying information (AU Sec. 551.06 and .08) and "required supplementary information" (AU Sec. 558)?	A497	_____	_____	_____	_____

IV. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? (ET Sec. 101)	A601	_____	_____	_____	_____
Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	A602	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A603	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A604	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A606	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A607	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A608	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A609	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?	A610	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?	A611	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A612	_____	_____	_____	_____
Supervision (QC Sec. 10.07d)					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A613	_____	_____	_____	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A614	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the owner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A615	_____	_____	_____	_____
Does it appear that the hours charged by the owner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A616	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, <i>required by firm policy</i> for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A617	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A618	_____	_____	_____	_____
EDP system?	A619	_____	_____	_____	_____
Audit work programs?	A620	_____	_____	_____	_____
Financial statement disclosures?	A621	_____	_____	_____	_____
Working paper and financial statement reviews?	A622	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A623	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A624	_____	_____	_____	_____
If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A625	_____	_____	_____	_____
If required by firm policy, was an appropriate preissuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy, and was that review documented?	A626	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A627	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A628	_____	_____	_____	_____
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, etc.)? (QC Sec. 90.20)	A629	_____	_____	_____	_____

V. Appendix A—Questions for Use When the Engagement Is Subject to *Government Auditing Standards*

	QUES.	N/A *	YES	NO	REF. **
Does the auditor’s (firm’s) understanding with the client include:					
Providing the firm’s most recent external quality control review report to the client? (GAO, Ch. 3, par. 3.36)	G401	_____	_____	_____	_____
Arrangements for access to the working papers by other auditors and oversight officials as applicable? (GAO, Ch. 4, par. 4.36 and 4.38)	G402	_____	_____	_____	_____
Does the auditor’s report on the financial statements:					
Include reference to GAAS and to Government Auditing Standards issued by the Comptroller General of the United States? (ASLGU, Ch. 4, par. 24.02 and Appendix A, Example A.1, fn2, and GAO, Ch. 5, par. 5.11).	G403	_____	_____	_____	_____
Describe, or make reference to separate reports that describe, the scope of the auditor’s testing of compliance with laws and regulations, and of internal controls, and present the results of those tests? (GAO, Ch. 5, par. 5.15-5.17)	G404	_____	_____	_____	_____
Does the language in the auditor’s reports conform with professional standards, including references to GAAS and to <i>Government Auditing Standards</i> issued by the Comptroller General of the United States (GAO, Ch. 5, par. 5.11 and ASLGU, Ch. 5, par. 5.31b, Ch. 24, par. 24.07c, and Appendix A, Example A.1 fn 2) and appropriately cover the following for the entity as a whole:	G405	_____	_____	_____	_____
The internal control structure related matters based solely on the auditor’s understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (GAO, Ch. 5, pars. 5.15-5.17 and 5.26-5.28, and ASLGU, Ch. 24) that includes:	G406	_____	_____	_____	_____
The required elements? (ASLGU, Ch. 24, par. 24.04)	G407	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, Ch. 5, par. 5.28 and ASLGU, Ch. 4, pars. 4.18-4.19)	G408	_____	_____	_____	_____
Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, Ch. 5, par. 5.27 which makes reference to Ch. 7, pars. 7.34-7.37; and ASLGU, Ch. 4, par. 4.15)	G409	_____	_____	_____	_____
Appropriate language when no reportable conditions were noted? [ASLGU, Ch. 4, par. 4.20 and Appendix A, Example A.25(B) provide guidance on complying with both GAO, Ch. 5, par. 5.15 and the SAS No. 60 (AU Sec. 325.17) prohibition from issuing a written report stating that no reportable conditions were noted during an audit.]	G410	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All “no” answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance, and/or instances or indications of irregularities and illegal acts except those that are clearly inconsequential (GAO, Ch. 5, pars. 5.15-5.20) that includes:	G411	_____	_____	_____	_____
The basic elements? (ASLGU, Ch. 5, par. 5.31)	G412	_____	_____	_____	_____
Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding issuance of a report on compliance? (GAO, Ch. 5, pars. 5.15-5.16)	G413	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (GAO, Ch. 5, par. 5.20)	G414	_____	_____	_____	_____
When illegal acts involve funds received from other governmental entities, did the auditors assure themselves that the audited entity notified the proper official of those entities within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities, and to the appropriate oversight body? (GAO, Ch. 5, par. 5.23)	G415	_____	_____	_____	_____
If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore and the known effect of not following the standard on the audit results? (GAO, Ch. 5, par. 5.12)	G416	_____	_____	_____	_____
When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (GAO, Ch. 5, pars. 5.21-5.25 which make reference to Ch. 7, par. 7.30-7.33)	G417	_____	_____	_____	_____
Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (GAO, Ch. 4, par. 4.10)	G418	_____	_____	_____	_____
Did the auditor document communication of those nonreportable conditions in the internal control structure not included in the required reports? (GAO, Ch. 5, par. 5.20)	G419	_____	_____	_____	_____
Were findings presented in accordance with the guidance in the <i>Government Auditing Standards</i> ? (GAO, Ch. 5)	G420	_____	_____	_____	_____
Do the working papers contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgments? (GAO, Ch. 4, par. 4.35)	G421	_____	_____	_____	_____
Are appropriate personnel in compliance with the Yellow Book CPE requirements? (GAO, Ch. 3, par. 3.6)	G422	_____	_____	_____	_____
Was appropriate assurance of independence considered on three levels: personal, external and organizational, and did the auditor maintain an independent attitude and appearance? (GAO, Ch. 3, pars. 3.11-3.25)	G423	_____	_____	_____	_____
If the auditor (firm) is a CPA or PA, did he/she meet the licensing requirements of the jurisdiction where the auditee is located? (GAO, Ch. 3, par. 3.10)	G424	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does the client letter of representations include representations related to the matters set forth in SAS 74 paragraph 7c for GAAS and Yellow Book audits?	G425	_____	_____	_____	_____
<u>Program Specific Audits</u>					
Where an auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements of that particular program? (AU Sec. 801.14)	G426	_____	_____	_____	_____

VI. Appendix B—Questions for Use When the Engagement Is Subject to the Single Audit Act of 1984

NOTE: Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

The AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units (ASLGU)*, 1994 edition with conforming changes as of May 1, 1995, chapters 20-24 provides guidance for audits involving federal financial assistance under the requirements at the Single Audit Act of 1984..

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
Does the language in the auditor's reports conform with professional standards, including references to <i>Government Auditing Standards</i> and OMB Circular A-128?	G501	_____	_____	_____	_____
Do the Single Audit Act Reports also include:					
Auditor's report on the schedule of federal financial assistance? (ASLGU, Ch. 24, par. 24.06 and Appendix A, Example A.16)	G502	_____	_____	_____	_____
Auditor's report on internal controls over federal financial assistance program identifying the entity's internal control structure and those controls designed to provide reasonable assurance that federal programs are managed in compliance with laws and regulations, including [ASLGU, Ch. 24, pars. 24.07-24.08 and Appendix A, Examples A.26(A)-A.26(E)]:	G503	_____	_____	_____	_____
The controls that were evaluated (considered and tested)? (OMB Circular A-128 13a(2))	G504	_____	_____	_____	_____
The controls that were not evaluated (tested)? (OMB Circular A-128 13a(2))	G505	_____	_____	_____	_____
The material weaknesses identified as a result of the evaluation (considered and tested)? (OMB Circular A-128 13a(2))	G506	_____	_____	_____	_____
Major programs—Compliance report—Specific requirements:					
An opinion that the entity complied, in all material respects, with <u>specific</u> requirements that, if not complied with, could have a material effect to each program? [ASLGU, Ch. 24, pars. 24.11-24.16 and Appendix A, Example A.8(A)]	G507	_____	_____	_____	_____
Nonmajor programs—Compliance report—Specific requirements:					
A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (ASLGU, Ch. 24, pars. 24.17-24.18 and Appendix A, Example A.24)	G508	_____	_____	_____	_____
Major and nonmajor programs—Compliance auditing—General requirements:					
A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements? [ASLGU, Ch. 24, pars. 24.09-24.10 and Appendix A, Examples A23(B) and A23(C)]	G509	_____	_____	_____	_____
When appropriate, did the auditor properly modify the report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding reporting on performance audits? [ASLGU, Ch. 24, pars. 24.10 and Appendix A, Example A.17(B)]	G510	_____	_____	_____	_____

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	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (ASLGU, Ch. 23)	G511	_____	_____	_____	_____
Does the schedule of federal financial assistance program expenditures present the following (ASLGU, Ch. 22, par. 22.13):					
Identification of each program as indicated in the <i>Catalog of Federal Domestic Assistance</i> (CFDA) and an indication that the federal financial assistance is direct or pass-through?	G512	_____	_____	_____	_____
Other federal assistance from programs not included in the CFDA?	G513	_____	_____	_____	_____
Total expenditures for each federal financial assistance program classified by grantor, department, or agency?	G514	_____	_____	_____	_____
Identification of major programs?	G515	_____	_____	_____	_____
Total federal financial assistance?	G516	_____	_____	_____	_____
Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 (<i>Audits of State and Local Governments</i>), A-87 (<i>Cost Principles Applicable to Grants and Contracts</i>), and "common rule" under A-102 (<i>Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments</i>) (ASLGU, Appendixes D, E, and F)?	G517	_____	_____	_____	_____
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance (GAO, Ch. 4, par. 4.10)?	G518	_____	_____	_____	_____
Did the auditor perform and document the required level of internal control structure review, to include:					
The consideration and testing of those internal control structure policies and procedures, relating to both specific and general requirements, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level? (ASLGU, Ch. 23, par. 23.18)	G519	_____	_____	_____	_____
If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering non-major programs, to the same extent as in Question G518 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested? (ASLGU, Ch. 23, par. 23.19)	G520	_____	_____	_____	_____
A sufficient understanding of the internal control structure for the systems used in administering other nonmajor federal financial assistance programs? (ASLGU, Ch. 23, par. 23.20)	G521	_____	_____	_____	_____
For the categories of controls for which tests were performed:					
Do the working papers document the auditor's understanding of the structure?(ASLGU, Ch. 23, par. 23.24 and AU Sec. 319.26)	G522	_____	_____	_____	_____
In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described? (ASLGU, Ch. 23, par. 23.35-23.39 and AU Sec. 319)	G523	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports? (ASLGU, Ch. 23, pars. 23.25-23.34)	G524	_____	_____	_____	_____
Do the working papers adequately document the work performed and the conclusions reached? (GAO, Ch. 4, pars. 4.34-4.38, and ASLGU, Ch. 23, par. 23.24)	G525	_____	_____	_____	_____
In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:					
Identify all major programs as defined in the Single Audit Act of 1984?	G526	_____	_____	_____	_____
Consult appropriate sources, such as the OMB's <i>Compliance Supplement for Single Audits of State and Local Governments</i> , statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (ASLGU, Ch. 23, pars. 23.06-23.15)	G527	_____	_____	_____	_____
Consider materiality in relation to each major federal assistance program? (ASLGU, Ch. 23, par. 23.43)	G528	_____	_____	_____	_____
Select a representative number of charges from each major program? (ASLGU, Ch. 23, par. 23.16 and 23.50)	G529	_____	_____	_____	_____
Perform and document tests to determine whether (ASLGU, Ch. 23, par. 23.17):					
The amounts reported as expenditures were allowable under federal regulations and contracts? (ASLGU, Ch. 23, par. 23.40a)	G530	_____	_____	_____	_____
Only eligible persons or organizations received services or benefits? (ASLGU, Ch. 23, par. 23.40b)	G531	_____	_____	_____	_____
Matching, level of effort, or earmarking requirements were met? (ASLGU, Ch. 23, par. 23.40c)	G532	_____	_____	_____	_____
Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements? (ASLGU, Ch. 23, par. 23.40d)	G533	_____	_____	_____	_____
The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program? (ASLGU, Ch. 23, par. 23.40e)	G534	_____	_____	_____	_____
Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (ASLGU, Ch. 23, pars. 23.06b and 23.56):					
Political activity? (ASLGU, Ch. 23, par. 23.57)	G535	_____	_____	_____	_____
Civil rights? (ASLGU, Ch. 23, par. 23.39)	G536	_____	_____	_____	_____
Davis-Bacon Act? (ASLGU, Ch. 23, par. 23.58)	G537	_____	_____	_____	_____
Cash management? (ASLGU, Ch. 23, par. 23.60)	G538	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Relocation assistance and real property acquisition? (ASLGU, Ch. 23, par. 23.61)	G539	_____	_____	_____	_____
Federal financial reports? (ASLGU, Ch. 23, pars. 23.62-23.66)	G540	_____	_____	_____	_____
Allowable costs/cost principles? (ASLGU, Ch. 23, pars. 23.67-23.74)	G541	_____	_____	_____	_____
Drug-free workplace act? (ASLGU, Ch. 23, par. 23.75)	G542	_____	_____	_____	_____
Administrative requirements? (ASLGU, Ch. 23, pars. 23.76-23.78)	G543	_____	_____	_____	_____
Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (ASLGU, Ch. 23, par. 23.50-23.52)	G544	_____	_____	_____	_____
Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance? (ASLGU, Ch. 23)	G545	_____	_____	_____	_____
Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs? (ASLGU, Appendix E, OMB Cir. A-128, and Appendix D, Questions and Answers, par. 20)	G546	_____	_____	_____	_____
Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific federal laws, regulations or requirements? (ASLGU, Ch. 23, pars. 23.18-23.19 and Ch. 24, par. 24.18)	G547	_____	_____	_____	_____
If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (ASLGU, Ch. 21, par. 21.03)	G548	_____	_____	_____	_____
Does the client letter of representations include representations related to matters set forth for single audits? (ASLGU, Ch 23, par. 23.82)	G549	_____	_____	_____	_____
Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time? (OMB Cir. A-128, par. 13f, in ASLGU, Appendix E)	G550	_____	_____	_____	_____
Has the auditor (firm) established procedures for complying with the Single Audit Act requirements concerning retention of and access to working papers (OMB Cir. A-128, par. 15, in ASLGU, Appendix E):					
Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?	G551	_____	_____	_____	_____
Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?	G552	_____	_____	_____	_____

VII. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

*Page
Number*

*Question
Number*

Explanatory Comments

*Disposition
of Comments*

VIII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of *Government Auditing Standards* and the Single Audit Act? YES* _____ NO _____
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (see AU 561 and ET 203)? YES* _____ NO _____
- The auditor's reports, including all reports required under *Government Auditing Standards* or by the Single Audit Act, were not appropriate in the circumstances? YES* _____ NO _____
- The documentation on this engagement does not support the firm's opinion on the financial statements? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 5601.]

*If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Peer Reviews*.

PRP Section 5600

Not-for-Profit Audit Engagement Checklist

Instructions for Use of Checklist for Review of Audit Engagements of Not-for-Profit Organizations

This checklist was developed for use by reviewers of audits of not-for-profit organizations, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in the checklist are intended to emphasize the general procedures that an independent auditor would ordinarily perform in auditing and reporting on financial statements of not-for-profit organizations. (NFPOS) Accordingly, the matters covered in this checklist concentrate primarily on the accounting and auditing procedures that are unique to audits of NFPOS and that extend the auditor's responsibilities beyond compliance with the AICPA's GAAS.

Reviewers may adapt this checklist to fit specific engagements. If the not-for-profit entity is contractually required to submit reports prepared in accordance with OMB Circular A-133, the reviewer should complete Section III ("Audits of Governmental Grantees"). Likewise, individuals reviewing review or compilation engagements of not-for-profit organizations should combine Sections I ("Report and Financial Statements") and III ("Audits of Governmental Grantees") of this checklist with Sections II ("General Procedures"), III ("Functional Areas") and V and VI ("Conclusions") of the review and compilation checklists, respectively.

If the reviewer is reviewing an organization that follows the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*, the reviewer should complete this checklist and the supplemental checklist for review of voluntary health and welfare organizations. If applicable, the reviewer should also refer to the AICPA industry Audit Guide, *Audits of Providers of Health Care Services* and the the Supplemental Checklist for Review of Providers of Health Care Services.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, The Financial Accounting Standards Board and its predecessors, the AICPA's Statement of Position (SOP) 78-10 *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*; SOP 87-2 *Accounting for Joint Costs of Informational Materials and Activities for Not-for-Profit Organizations That Include Fund-Raising Appeal*; SOP 92-9 *Audit of Not-for-Profit Organizations Receiving Federal Awards*; SOP 94-2, *The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations*; and SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*; the AICPA Audit and Accounting Guide *Audits of Certain Nonprofit Organizations*, the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*, the AICPA financial reporting practice aid *Disclosure Checklists for Not-for-Profit Organizations*, OMB Circular A-133 *Audits of Institutions of Higher Education and Other Nonprofit Institutions* and the GAO'S 1994 Revision of *Government Auditing Standards* (Section III of this checklist).

FASB Statement No. 116 (FAS 116), "Accounting for Contributions Received and Contributions Trade," and FASB Statement No. 117 (FAS 117), "Financial Statements of Not-for-Profit Organizations," SOP 94-2 and SOP 94-3 are effective for financial statements issued for fiscal years beginning after December 15, 1994 except for those NFPOSⁿ with less than \$5 million in total assets and less than \$1 million in annual expenses. For those NFPOS the effective date is for fiscal years beginning after December 15, 1995. Early application of FASB Nos. 116 and 117 is "encouraged" and of SOPs 94-2 and 94-3 is "permitted." SOPs 94-2 and 94-3 are located in the loose leaf

service; AICPA Audit and Accounting Guides: Audits of Certain Nonprofit Organizations [sic] and in AICPA Technical Practice Aids (TPA) Vol. 2, sections 10,600 and 10,610.

GASB Statement No 29, "The use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities" (GASBS No. 20) poses the issue of whether an NFPO is deemed a governmental entity. If so, the entity is subject to the GASB hierarchy in GAAP. Among other things, GASBS No. 29 provides that an NFPO that is a "governmental entity" and has applied the "AICPA Not-for-Model" should not apply FAS 116 and 117. If such an entity has applied FAS 116 and 117, it is to change back to the "AICPA Not-for-Model." GASBS No. 29 is effective for periods beginning after December 15, 1994 with earlier application "encouraged." If the entity is a governmental entity as contemplated by GASBS No. 29, the reviewer may consider using the "Governmental Audit Engagement Checklist" (PRP Sec. 5500)

Reviewers also should be aware that SOP 78-10 has a unique position compared to other statements of position and audit guides as it does not have an effective date (paragraph 124). However, *FASB No. 32* indicates that the specialized accounting and reporting principles and practices contained in SOP 78-10 are preferable accounting principles for applying APB Opinion No. 20. The common interpretation of this situation is that an entity is not required to adopt the accounting principles advocated in SOP 78-10; however, if an organization were to change its accounting principles, it should adopt the principles enumerated in that document. By comparison, the AICPA Industry Audit Guides such as *Audits of Voluntary Health and Welfare Organizations* have effective dates and, as noted in their notices to readers, members are on notice that they may be called upon to justify departures from the accounting principles in the guides.

OMB Circular A-133 establishes audit requirements and defines Federal responsibilities for implementing and monitoring such requirements for institutions of higher education and other not-for-profit institutions receiving awards. The provisions of OMB Circular A-133 are effective for all audits of not-for-profit institutions for fiscal years that begin on or after January 1, 1990.

The Federal Office of Management and Budget issued a nonprofit compliance supplement to provide guidance for implementing OMB Circular A-133.

The GAO Yellow Book 1994 revision supersedes the 1988 revision, and is effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Earlier application is permissible.

Explanation of References:

AEBP	Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> (As of May 1, 1994)
AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
ACNO	AICPA Audit and Accounting Guide <i>Audits of Certain Nonprofit Organizations</i> with conforming changes
ASLGU	AICPA Audit and Accounting Guide <i>Audits of State and Local Governmental Units</i> (edition with conforming changes as of May 1, 1995)
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force abstracts
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
GA	Generally Accepted Accounting Practice
GAO	<i>Government Auditing Standards</i> (1994 Revision), United States General Accounting Office
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (As of June 30, 1995)
OMB	Office of Management and Budget Circular
SOP	AICPA Statement of Position [SOPs may be found in <i>AICPA Technical Practice Aids</i> (TPA), vol. 2]
QC	Quality Control Standards <i>AICPA Professional Standards</i> (vol. 2)
AVHW	AICPA Industry Audit Guide <i>Audits of Voluntary Health and Welfare Organizations</i> (As of May 1, 1994)

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner _____ Date of Financial Statements * _____
 Manager _____ Date of Report _____
 Concurring Reviewer ** _____ Date Report Released _____

This engagement involves reporting on:

- () Financial statements (single entity)
- () Combined financial statements of financially interrelated not-for-profit organizations
- () Consolidated or combined financial statements of voluntary health and welfare organizations
- () Financial statements of a component of the organization
- () Special Reports (SAS No. 62)
- () Internal Control and Compliance (pursuant to OMB Circular A-133)
- () Other (explain)

Was the work performed at the request of another office? Yes___ No___

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total revenues (memorandum total) \$ _____
 Total assets \$ _____
 Total fund balances \$ _____
 Total amount of federal assistance expended *** \$ _____

General description of audited entity (type of entity, services provided, etc.) _____

Complex or troublesome audit areas: _____

List any management consulting services performed for the client during the period of the financial statements being reported on and through the date of the auditor' report.

Personnel Continuity:

	<i>Owner or Partner</i>	<i>Manager or equivalent</i>
Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Owner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Concurring Reviewer **	_____	_____	_____	_____
Senior/other professionals	_____	_____	_____	_____
Total this office	=====			

Total budgeted. _____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

** Not applicable unless required by firm policy.

*** This amount should include "pass through" federal financial assistance received indirectly from a state or local government.

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement, and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, V and VII should be answered in addition to the questions in Section IV for the key areas identified, and for Commitments and Contingencies; Revenue, Expenses, Support, and Capital Additions; and Other.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed _____

Reviewer _____

Date Checklist Reviewed
by Team Captain _____

Signature _____

Checklist for Review of Audit Engagements of Not-for-Profit Organizations

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NOTE: This checklist has been updated through SAS No. 76, SFAS No. 124, FASB Interpretation No. 41, and the GAO's *Government Auditing Standards* (1994 Revision), referred to as the "Yellow Book." (The 1994 Revision of the Yellow Book is effective for financial audits of periods ending on or after January 1, 1995, with earlier application permitted.)

I. REPORT AND FINANCIAL STATEMENTS

NOTE: This condensed checklist has been extracted from the AICPA financial reporting aid, *Disclosure Checklists for Nonprofit Organizations*. Reviewers may wish to consult that checklist for detailed information about the applicable professional standards and related citations. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Auditor's Reports					
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08j, .46 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report in the circumstances described in such standards? (AU Secs. 508.08-.10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08 and .74)	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 for accompanying information and 558 for "required supplementary information")	A105	_____	_____	_____	_____
For special reports, have professional standards been complied with regarding:					
Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.01-.10)	A106	_____	_____	_____	_____
Specified elements, accounts or items of a financial statement? (AU Sec. 623.11-.18)	A107	_____	_____	_____	_____
Compliance with aspects of agreements or regulatory requirements related to audited financial statements? (AU Sec. 623.19-.21)	A108	_____	_____	_____	_____
Financial presentations to comply with agreements or regulatory provisions? (AU Sec. 623.22-.30)	A109	_____	_____	_____	_____
Financial information in prescribed forms or schedules? (AU Sec. 623.32-.33)	A110	_____	_____	_____	_____
For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards? (AU Sec. 534)	A111	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Financial Statements and Notes					
General					
If the entity is deemed to be a governmental entity, do the financial statements conform with the provisions of GASB Statement No 29?	N101	_____	_____	_____	_____
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	A112	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Significant accounting policies, including a description of the nature of each fund, if applicable (i.e., general, plant, endowment, unrestricted, temporarily restricted, permanently restricted)? (AC Sec. A10.105-.108; for OCBOA, AU Secs. 623.09-.10)	A113	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	A114	_____	_____	_____	_____
If SOP 78-10 (ACNO Appendix A and/or TPA Vol. 2, Sec. 10,250) was applicable:					
Do the basic financial statements, including related notes, consist of a balance sheet, statement of activity, and a statement of changes in financial position (or cash flows)? (SOP 78-10, par. 016 and AC Sec. C25.105 and FAS No. 117, pars. 30b and 31)	N102	_____	_____	_____	_____
If appropriate, are the financial statements prepared on a fund accounting basis (SOP 78-10, pars. 15 and 19-24) and adequate disclosures made of the following:					
Unrestricted resources? (SOP 78-10, par. 63)	N103	_____	_____	_____	_____
Resources restricted by the donor? (SOP 78-10, pars. 54-62)	N104	_____	_____	_____	_____
If FAS No. 117 <i>Financial Statements of Not-For-Profit Organizations</i> was applicable:					
Do the basic financial statements focus on the entity as a whole and consist of a statement of financial position, statement of activities in which the amount of the change in net assets articulates to the statement of financial position, and a statement of cash flows, and accompanying notes? (AC Sec. No5.104, .108 and .116)	N105	_____	_____	_____	_____
Are the net assets and changes in net assets classified as (i) permanently restricted, (ii) temporarily restricted, and/or (iii) unrestricted, based on donor imposed restrictions and/or relevant law? (AC Secs. No5.109 and .117).	N106	_____	_____	_____	_____
If FAS No. 116 <i>Accounting for Contributions Received and Contributions Made</i> was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the financial statements disclose:					
Are contributions received, including unconditional promises to give, recognized at their fair value as revenues in the period received? (AC Secs. C67.08 and No5.143-.145)	N107	_____	_____	_____	_____
Are contributions made, including unconditional promises to give, recognized as expenses in the period made, at their fair values? (AC Sec. C67.114)	N108	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are conditional promises to give, whether received or made, accounted for as refundable advances and recognized as contributions when they become unconditional (i.e. when the conditions are substantially met)? (AC Sec. C67.119)	N109	_____	_____	_____	_____
Are contributions received classified as permanently restricted, temporarily restricted, and unrestricted based upon donor-imposed restrictions? (AC Secs. No5.143-.145)	N110	_____	_____	_____	_____
Are unconditional promises to give with payments due in future years recognized as restricted unless circumstances make it clear the donor intended it to be used to support current activities? (AC Sec. No5.144)	N111	_____	_____	_____	_____
Are accounting policy disclosures made:					
If donor-restricted contributions whose restrictions are met in the same reporting period are consistently treated as unrestricted support? (AC Sec. No5.143)	N112	_____	_____	_____	_____
For contributions of long-lived assets whether the accounting policy is to imply or not imply a time restriction that expires over the estimated useful life of the respective assets? (AC Sec. No5.145)	N113	_____	_____	_____	_____
For financial instruments, is information about concentrations of credit risk and fair value (including the methods and significant assumptions used to estimate fair value) disclosed? (AC Sec. F25.105, .115, and .115A-.115K)	A119	_____	_____	_____	_____
For financial instruments with off-balance sheet risk, are the required disclosures made including distinguishing between instruments held or issued for trading purposes and held or issued for purposes other than trading? (AC Sec. F25.112-113)	A120	_____	_____	_____	_____
For derivative financial instruments, are the required distinctions made ("trading purposes" and "purposes other than trading") and the required disclosures made for each type? (AC Sec. F25.115L-115Q)	A121	_____	_____	_____	_____
Are required disclosures about risks and uncertainties made regarding the nature of operations, the use of estimates, certain significant estimates, and current vulnerabilities due to certain concentrations? (SOP 94-6; TPA Sec. 10.640)	A122	_____	_____	_____	_____
If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles? (AU Sec. 508.74, ftn. 27)	N114	_____	_____	_____	_____
Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)	A126	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)	A127	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	A128	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Secs. C59.105, and .112, and AU Secs. 560.03-.09 and 561)	A129	_____	_____	_____	_____
Have defined benefit pension plans been properly accounted for and disclosed? (AC Sec. P16.150)	A130	_____	_____	_____	_____
Have other pension plans been properly accounted for and disclosed? (AC Sec. P16)	A131	_____	_____	_____	_____
Have postretirement plans other than pensions been properly accounted for and disclosed? (AC Sec. P40.169)	A132	_____	_____	_____	_____
Have postemployment benefits (after employment but before retirement) been properly accounted for and disclosed? (AC Sec. P32 and P40)	A133	_____	_____	_____	_____
Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)	A137	_____	_____	_____	_____
If the financial statements represent a component, such as a branch of an existing organization, a separate operation, or a separate fund, do the financial statements or footnotes disclose the following (ACNO, Ch. 8, pars. 8.20-8.24):					
Existence and nature of affiliated or controlling entities?	N115	_____	_____	_____	_____
Nature and volume of material transactions (individually or in the aggregate) with related entities?	N116	_____	_____	_____	_____
Allocations of common expenses?	N117	_____	_____	_____	_____
Are related entities reported in conformity with SOP 94-3 (TPA Sec. 10,610) for (a) investments in for-profit majority-owned subsidiaries (consolidated in conformity with ARB 51 as amended by FAS No. 94); (b) investment in common stock of for-profit entities of 50% or less voting interest (equity method in conformity with APB Opinion No. 18); and (c) financially interrelated NFPOS (SOP 94-3, par. 08-.13)?	N118	_____	_____	_____	_____
Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed? (SOP 94-3, par. 12 and SOP 78-10, pars. 47-49)	N119	_____	_____	_____	_____
Statement of Financial Position/Balance Sheet					
If FAS No. 117 was applicable, does the statement of financial position:					
Report the amounts of the entity's total assets, liabilities, and net assets? (AC Sec. No5.108)	N120	_____	_____	_____	_____
Classify cash and other assets received with a donor imposed restriction separately from those assets that are unrestricted and available for current use? (AC Sec. No5.109)	N121	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Provide information about liquidity by one or more of the following: (i) sequencing assets according to their nearness to cash and liabilities according to their nearness to maturity, (ii) classifying assets and liabilities as current and noncurrent according to ARB No. 43, Chapter 3A as amended (AC Sec. B05), and/or (iii) footnote disclosure about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets? (AC Sec. No5.110)	N122	_____	_____	_____	_____
Disclose information about the nature and amounts of different types of permanent and/or temporary restrictions on the face of the statement or in notes to the financial statements? (AC Sec. No5.112)	N123	_____	_____	_____	_____
If FAS No. 116 was applicable:					
Are the following disclosed for unconditional promises receivable (AC Sec. C67.121):					
Amounts receivable in less than one year, in one to five years, and in more than five years?	N124	_____	_____	_____	_____
Amount of allowance for uncollectible accounts?	N125	_____	_____	_____	_____
Are the following disclosed for conditional promises (AC Sec. C67.122):					
The total amounts of the conditional promises?	N126	_____	_____	_____	_____
A description and the amount for each group of conditional promises having similar characteristics?	N127	_____	_____	_____	_____
If SOP 78-10 was applicable, are assets classified as current, fixed, and other long-term assets, and liabilities as current and long-term, unless there are both unrestricted and restricted funds and the fund classifications themselves adequately disclose the current and long-term nature of the assets and liabilities? (SOP 78-10, par. 23-24)					
	N128	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Valuation allowances? (AC Sec. V18)	A140	_____	_____	_____	_____
Restricted cash including compensating balances? (AC Secs. B05.107 and C59.120)	N129	_____	_____	_____	_____
Investments? (AC Secs. I82.109-.110, I80 and F25.115C-.115H)	A149	_____	_____	_____	_____
Terms or circumstances concerning repurchase or reverse repurchase agreements? (AC Sec. B10.106A and .106B)	N130	_____	_____	_____	_____
Accounts and Notes Receivable:					
Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)	A144	_____	_____	_____	_____
Legally enforceable pledges? (SOP 78-10, pars. 64-66; VHW 4.12-.13)	N131	_____	_____	_____	_____
Interfund borrowings? (AC Sec. N5.104 fn4 or, if applicable, SOP 78-10, pars. 118-119)	N132	_____	_____	_____	_____
Other receivables?	A146	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	A148	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Collections of works of art, historical treasures, or similar items? (AC Secs. C67.111-.112 and .123-.124 and D40.101-.101A or, if applicable, SOP 78-10, pars. 113-115)	N133	_____	_____	_____	_____
Fixed Assets (AC Sec. D40.101 fn [a] and .105):					
Purchased fixed assets? (SOP 78-10, par. 105 and VHW pars. 3.03-3.06)	N134	_____	_____	_____	_____
Donated fixed assets? (AC Sec. C67 or, if applicable, SOP 78-10, par. 105 and VHW pars. 3.03-3.06)	N135	_____	_____	_____	_____
Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets? (AC Sec. D40, SOP 78-10, pars. 106-112 and VHW pars. 3.07-3.12)	N136	_____	_____	_____	_____
Major classes of depreciable assets?	N137	_____	_____	_____	_____
Accumulated depreciation, as well as a general description of the method used in computing depreciation?	N138	_____	_____	_____	_____
Capitalized interest? (AC Sec. I67)	N139	_____	_____	_____	_____
Restrictions on use or disposal imposed by donor? (AC Secs. C67 and No. 5.111-.114, or if applicable, SOP 78-10, pars. 59-62)	N140	_____	_____	_____	_____
Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	A151	_____	_____	_____	_____
Other assets, including intangible assets, unamortized computer software costs, and deferred charges and their impairment, if applicable? (AC Secs. I08, I27.140, I60, Co2.102-.110 and I27.140)	A152	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	A153	_____	_____	_____	_____
Related assets and liabilities? [These may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to setoff is enforceable at law.] (AC Sec. B10.101A)	A154	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	A155	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117 and .138-.139)	A156	_____	_____	_____	_____
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	A157	_____	_____	_____	_____
Effect of interest rates that do not reflect market rates? (AC Sec. I69)	A159	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	A162	_____	_____	_____	_____
Interfund payables (SOP 78-10, pars. 118-119)	N141	_____	_____	_____	_____
Capital leases of lessees? (AC Sec. L10.106-.112)	A163	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Other liabilities and deferred credits, including employees' compensation for future absences, special termination benefits to employees, and deferred revenue and support? (AC Sec. C44.104 and .108)	A164	_____	_____	_____	_____
Statement of Activities					
If FAS No. 117 was applicable, does the statement of activities report:					
The amount of change in net assets for the period using a descriptive term such as "change in net assets" or "change in equity"? (AC Sec. No5.116)	N142	_____	_____	_____	_____
The amount of change in permanently restricted, temporarily restricted, and unrestricted net assets? (AC Sec. No5.117)	N143	_____	_____	_____	_____
Revenues as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions? (AC Sec. No5.118)	N144	_____	_____	_____	_____
Expenses as decreases in unrestricted net assets? (AC Sec. No5.118)	N145	_____	_____	_____	_____
Events (e.g. expiration of donor imposed restrictions) that simultaneously increase one class of net assets and decrease another (reclassifications) presented separately from revenues, expenses, gains, and losses? (AC Sec. No5.117)	N146	_____	_____	_____	_____
Gross amounts of revenues and expenses (including those for special events that are ongoing and major activities), and investment revenues as provided by FAS No. 117? (AC Secs. No5.121 and .122 fn9)	N147	_____	_____	_____	_____
For voluntary health and welfare organizations, expenses by both functional and natural classifications in a matrix format in a separate statement? (AC No5.123)	N148	_____	_____	_____	_____
Gross revenues and gross expenses for "special events" that are ongoing and major activities? (AC Sec. No5.122 fn 9)	N149	_____	_____	_____	_____
Gains and losses on investments as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law? (AC Sec. No5.119)	N150	_____	_____	_____	_____
Gains and losses on endowments in permanently restricted net assets if the governing board has determined relevant law requires they be retained permanently? (AC Sec. No5.119)	N151	_____	_____	_____	_____
If the statement of activities includes an intermediate measure of operations, do the statements, at minimum, also report the change in unrestricted net assets for the period? (AC Sec. No5.120)	N152	_____	_____	_____	_____
Are unrestricted revenues, expenses, and fund balances clearly distinguishable from restricted items? (SOP 78-10, pars. 20 and 63 and VHW pars. 1.03-1.06)	N150	_____	_____	_____	_____
If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and supporting activity)? (SOP 78-10, pars. 85-88 and VHW pars. 6.14-6.17)	N151	_____	_____	_____	_____
Does the statement Activity include all the funds of the organization? (SOP 78-10, pars. 26 and 87)	N152	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Is the accounting appropriate and are the disclosures adequate regarding:					
Subscription and membership income? (SOP 78-10, par. 84)	N153	_____	_____	_____	_____
Third-party reimbursements of costs for services provided? (ACNO, Ch. 3, pars. 3.14-3.18)	N154	_____	_____	_____	_____
Investment income and gains and losses? (AC Sec. No5.121-.122, or if applicable, SOP 78-10, pars. 72-76)	N155	_____	_____	_____	_____
Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any? (SOP 78-10, pars. 80-83)	N156	_____	_____	_____	_____
Contributions? (AC Sec. C67 or, if applicable, SOP 78-10, par. 28)	N157	_____	_____	_____	_____
Donated services, materials and facilities? (AC Sec. C67.109-.110 or, if applicable, SOP 78-10, pars. 67-71)	N158	_____	_____	_____	_____
Gifts of future interests? (ACNO, Ch. 4, par. 4.25 and AC Sec. C67.108 or, if applicable, SOP 78-10, par. 121)	N159	_____	_____	_____	_____
Other gifts, grants, pledges, etc.? (AC Sec. C67.108 or, if applicable, SOP 78-10, pars. 64-66 and 101-102)	N160	_____	_____	_____	_____
Interfund transfers? (ACNO, Ch. 6, pars. 6.04-6.08 and AC Sec. No5.117 or, if applicable, SOP 78-10, pars. 118-119)	N161	_____	_____	_____	_____
Revenue, support and capital additions? (ACNO, Ch. 4, pars. 4.01-4.05 and AC Sec. C67 or, if applicable, SOP 78-10, pars. 50-53)	N162	_____	_____	_____	_____
Allocation of functional expenses to programs and supporting services? (SOP 78-10, par. 100, VHW, Ch. 6 and SOP 87-2, par. 22)	N163	_____	_____	_____	_____
Allocation of fund raising expenses, including joint costs of informational materials and activities, between fund raising and other functional expense categories? (SOP 78-10, pars. 85-96, VHW, Ch. 6, and SOP 87-2)	N164	_____	_____	_____	_____
Advertising costs? (SOP 93-7, TPA 10,590)	A176	_____	_____	_____	_____
Depreciation? (AC Sec. D40)	A182	_____	_____	_____	_____
Deferred compensation agreements? (AC Sec. C38)	A184	_____	_____	_____	_____
Grants to other organizations? (SOP 78-10, pars. 101-102)	N164	_____	_____	_____	_____
Remittances to national organizations? (SOP 78-10, par. 90)	N165	_____	_____	_____	_____
Prior period adjustments? (AC Sec. A35.103)	N166	_____	_____	_____	_____
Operating leases and rent expense of lessees? (AC Sec. L10.111-.112)	A187	_____	_____	_____	_____
Extraordinary items? (AC Sec. I17)	A194	_____	_____	_____	_____
Unusual or infrequent items, but not both? (AC Sec. I22)	A195	_____	_____	_____	_____

Statement of Cash Flows

Does the statement of cash flows present:

Cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)

A197 _____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Amounts received with long-term donor stipulations in cash flows from financing activities? (AC Sec. F25.117C)	N196	_____	_____	_____	_____
The net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents; also, do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	A198	_____	_____	_____	_____
A reconciliation between excess of revenue over expenditures and net cash flow from operating activities? (AC Sec. C25.127)	A199	_____	_____	_____	_____
Related disclosure of noncash investing and financing activities? (AC Sec. C25.134)	A200	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.125)	A201	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and is the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)	A202	_____	_____	_____	_____
Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-111A)	A204	_____	_____	_____	_____
Other					
Are the statement formats and disclosures generally consistent with the appropriate AICPA industry audit guides and statements of position?	A205	_____	_____	_____	_____
If the organization's tax-exempt status is in question by the IRS, is the potential impact disclosed in a footnote? (AC Sec. C59.101 and .145)	N197	_____	_____	_____	_____

II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
In planning the audit engagement, did the auditor properly consider:					
Matters affecting the environment in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, and technological changes? (AU Secs. 311.03 and 801.07-.23)	A300	_____	_____	_____	_____
Matters affecting the entity's operations, such as legal organization and types of services and contractual obligations? (AU Sec. 311.03-.04)	A301	_____	_____	_____	_____
The entity' status as a nongovernmental NFPO or a governmental entity and the applicability of FASB GAAP for NFPOs or GASB Statement No. 29?	N201	_____	_____	_____	_____
If applicable, the need for compliance auditing and, if so, the applicability of SAS No. 74 or Statement on Standards for Attestation Engagements (SSAE) No. 3, Compliance Attestation? [AU Sec. 801.01 fn 4 (SAS No. 74 as amended by SAS No. 75)]	N202	_____	_____	_____	_____
Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08)	A302	_____	_____	_____	_____
Did the auditor consider the applicability of OMB Circular A-133?	N203	_____	_____	_____	_____
Did the auditor communicate to management (and the audit committee or others with equivalent authority) about an audit requirement that may not be encompassed in the terms of the engagement, and that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing. If the communication is oral, the auditor should document the communication in the working papers.) (AU Sec. 801.21-.23 and SOP 92-9, Ch. 1, par. 1.7, footnote 6)	G262	_____	_____	_____	_____
Did the auditor:					
Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts (also inadequate control of contributions and violations of laws and regulations) may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05 and 317.05)	A303	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)	A304	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities and direct effect illegal acts that could be material to the financial statements? (AU Secs. 316.05 and 317.05)	A305	_____	_____	_____	_____
Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures? (AU Sec. 329.01 and .06)	A306	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the auditor succeeded another auditor, did the auditor:					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A307	_____	_____	_____	_____
Obtain satisfaction as to the account balances at the beginning of the year and consistency of the application of accounting principles in the year being audited as compared with the preceding year? (AU Sec. 315.08)	A308	_____	_____	_____	_____
If consideration was given to the work of internal auditors in determining the scope of the audit, was it done in accordance with professional standards? (AU Sec. 322)	A309	_____	_____	_____	_____
Did the auditor:					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10)	A310	_____	_____	_____	_____
Document the understanding of the internal control structure? (AU Sec. 319.26)	A311	_____	_____	_____	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A312	_____	_____	_____	_____
Document the basis of the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A313	_____	_____	_____	_____
If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the control structure policies and procedures at the service organization that may affect the processing of the client's transactions and internal control structure? (AU Sec. 324.06-.10)	A314	_____	_____	_____	_____
If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor's report that describes the results of the service auditor's tests of operating effectiveness obtained, were tests performed by the auditor at the service organization, or were tests of the client's controls over the activities of the service organization performed by the auditor? (AU Sec. 324.14-.16)	A315	_____	_____	_____	_____
If a specialist was used (eg. actuary, appraiser, engineer, environmental consultant, or geologist):					
Were the appropriate considerations and evaluations made in accordance with professional standards? (AU Sec. 336)	A320	_____	_____	_____	_____
Were appropriate procedures applied to the specialist' findings? (AU Sec. 336.12)	A321	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA Industry Audit Guides)	A322	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained, during the planning process? (AU Secs. 311.05, 319.02 and .05)	A323	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A324	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A325	_____	_____	_____	_____
Have all the procedures called for in the audit program been signed when completed? (AU Sec. 339)	A326	_____	_____	_____	_____
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):					
Does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population when planning the sample? (AU Sec. 350.31)	A327	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A328	_____	_____	_____	_____
If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures reevaluated based on a revised consideration of the assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)	A329	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A330	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A331	_____	_____	_____	_____
If statistical or nonstatistical sampling was used for substantive tests of details (AU Sec. 350):					
Does it appear the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population when planning the sample? (AU Sec. 350.16)	A332	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A333	_____	_____	_____	_____
Were the misstatements in the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A334	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed? (AU Sec. 350.25)	A335	_____	_____	_____	_____
In evaluating whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements resulting from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)	A336	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A337	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
During the performance of the engagement, did the auditor:					
Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A338	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A339	_____	_____	_____	_____
Has the auditor evaluated the reasonableness of significant accounting estimates made by management? (AU Secs. 326 and 342)	A340	_____	_____	_____	_____
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)	A341	_____	_____	_____	_____
Did the auditor obtain written, timely and appropriate representations from management and was the representation letter properly dated? (AU Secs. 333, 801.07C and ACNO, Ch. 7, par. 7.05)	A342	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the entity's attorneys concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)	A343	_____	_____	_____	_____
Have all questions, exceptions, or notes been followed up and resolved, including consideration of the views obtained from responsible officials of the organization?	A344	_____	_____	_____	_____
Was appropriate consideration given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A345	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.29)	A346	_____	_____	_____	_____
Consider the implications for other aspects of the audit of an audit adjustment that the auditor has determined is, or may be, an irregularity and has either determined that the effect could be material or has been unable to evaluate the materiality? (AU Sec. 316.25)	A347	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A348	_____	_____	_____	_____
When the auditor's procedures disclosed instances or indications of illegal acts did the auditor (ACNO, Ch. 7, par. 7.03):					
Follow up on the illegal acts in accordance with professional standards? (AU Sec. 317.10-.11)	A349	_____	_____	_____	_____
Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A350	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Communicate directly with the audit committee if the illegal act involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor's attention except those that are clearly inconsequential were adequately communicated? (AU Sec. 317.17)	A351	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (AU Sec. 341.02)	A352	_____	_____	_____	_____
If the auditor believed that there was substantial doubt about the entity's ability to continue for a reasonable period of time, did the auditor obtain information about management's plans that are intended to mitigate the effect of such conditions or events, and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))	A353	_____	_____	_____	_____
If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with the mitigating factors? (AU Sec. 341.11)	A354	_____	_____	_____	_____
If the auditor's substantial doubt was not alleviated, did the auditor's report include an explanatory paragraph which adequately communicates the auditor's substantial doubt (e.g., include the terms "substantial doubt" and "going concern")? (AU Sec. 341.12-13)	A355	_____	_____	_____	_____
During the performance of the audit:					
If the auditor identified reportable conditions, were they communicated to the audit committee, management and others within the organization in a time frame influenced by the relative significance of the matters noted and urgency of corrective action? If the communication was oral, was it documented in the working papers? (AU Sec. 325.09 and .18)	A356	_____	_____	_____	_____
Do the auditor's conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)	A357	_____	_____	_____	_____
If a report was issued on reportable conditions, did it indicate that the purpose of the audit was to report on the financial statement and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and the restriction on distribution? (AU Sec. 325.11)	A358	_____	_____	_____	_____
Has the auditor complied with the requirement not to issue a written representation stating that no reportable conditions were noted during an audit? (AU Sec. 325.17)	A359	_____	_____	_____	_____
Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report? (AU Sec. 560)	A363	_____	_____	_____	_____
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)	A364	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)	A365	_____	_____	_____	_____
Where there is an audit committee or some other formal oversight group, did the auditor (ACNO, Ch. 7, pars. 7.07 and 7.08):					
Ensure that the appropriate matters were communicated to those who have responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)	A366	_____	_____	_____	_____
If the communication was in writing, include a statement that it is intended solely for the use of the audit committee or the board of directors and, if appropriate, management? (AU Sec. 380.03)	A367	_____	_____	_____	_____
If the communication was oral, document the information communicated by appropriate memoranda or notations in the working papers? (AU Sec. 380.03)	A368	_____	_____	_____	_____

III. AUDITS OF GOVERNMENTAL GRANTEEES

NOTE: These questions are derived from Statement on Auditing Standards No. 74, the U.S. General Accounting Office's *Government Auditing Standards* (1994 Revision), and the Office of Management and Budget (OMB) Circular A-133 for federal "awards" and AICPA's Statement of Position 92-9 *Audits of Not-for-Profit Organizations Receiving Federal Awards*. OMB Circular A-133 is included in SOP 92-9 at its Appendix A. SOP 92-9 is included in the AICPA Audit and Accounting Guide: *Audits of Certain Nonprofit Organizations* at its Appendix C, and also in AICPA Technical Practice Aids, Vol. 2, Sec. 11,260. Reviewers may wish to consult these documents for more detailed information on standards concerning the audits of governmental grantees. Accordingly, references to professional and governmental pronouncements have been provided in this section. The term "GAO" followed by the chapter and paragraph refers to *Government Auditing Standards* (1994 Revision).

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Does the firm's understanding with the client include:					
Providing the firm's most recent external quality control review report to the client? (GAO, Ch 3, par. 3.36)	N301	_____	_____	_____	_____
Arrangements for access to the working papers by other auditors and oversight officials as applicable? (GAO, Ch. 4, par. 4.36 and 4.38)	N302	_____	_____	_____	_____
Does the engagement letter, proposal or contract, if such documents were prepared, include a statement as to what type of engagement is being performed and whether the engagement is intended to meet a governmental oversight agency's audit requirements? (AU Sec. 801.03 and SOP 92-9, Ch. 3, par. 3.62)	N303	_____	_____	_____	_____
Does the auditor's report on the financial statements:					
Include reference to GAAS and to Government Auditing Standards issued by the Comptroller General of the United States? (ASLGU, appendix A, Example A.1, fn2, and GAO, Ch.5, par. 5.11)	N304	_____	_____	_____	_____
Describe or make reference to separate reports that describe the scope of the auditor's testing of compliance with laws and regulations, and of internal controls, and present the results of those tests? (GAO, Ch. 5, par 5.15-5.17)	N305	_____	_____	_____	_____
Does the language in the auditor's reports conform with professional standards, including references to GAAS and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States (GAO, Ch. 5, par. 5.11 and SOP 92-9, Appendix D, Exhibits D-1 through D-18 and Ch. 7, par. 7.40) and appropriately cover the following for the entity as a whole:	N306	_____	_____	_____	_____
The financial statements? (SOP 92-9, Ch. 2, par. 2.38)	N307	_____	_____	_____	_____
The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements: (GAO, Ch. 5, pars. 5.15-5.17 and 5.26-5.28, SOP 92-7, SOP 92-9, Ch. 5, par. 5.8 and Ch. 7, pars. 7.5 and 7.9) that includes:	N308	_____	_____	_____	_____
Scope? (SOP 92.7 and GAO, Ch. 5, par. 5.17)	N309	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, Ch. 5, par. 5.28)	N310	_____	_____	_____	_____
Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, Ch. 5, par. 5.27 which makes reference to Ch. 7, pars. 7.34-7.37)	N311	_____	_____	_____	_____
Appropriate language when no reportable conditions were noted? [SOP 92-9, Ch. 7, par. 7.12 (TPA Sec. 11,260.315) and Appendix D, exhibit D3 (TPA Sec. 11,260.364) provide guidance on how to comply with both GAO, Ch. 5, par. 5.15 and the SAS No. 60 (AU Sec. 525.17) prohibition from issuing a written report representing that no reportable conditions were noted during an audit.]	N312	_____	_____	_____	_____
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of irregularities and illegal acts except those that are clearly inconsequential (GAO, Ch. 5, pars. 5.15-5.16 and SOP 92-9, Ch. 7, par. 7.13) that includes:	N313	_____	_____	_____	_____
Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding issuance of a report on compliance? (GAO, Ch. 5, pars. 5.15-5.16 and SOP 92-9, Ch. 6, par. 6.71)	N314	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (GAO, Ch. 5, par. 5.20)	N315	_____	_____	_____	_____
When illegal acts involve funds received from other governmental entities, did the auditors assure themselves that the audited entity notified the proper officials of the entities within a reasonable time? If the entity did not, or was unable to do so because a top official was involved, has the auditor reported these acts to the appropriate oversight body and officials of those other governmental entities? (GAO, Ch. 5, par. 5.23 and SOP 92-9, Ch. 6, par. 6.15, Ch. 7, pars. 7.17-7.18)	N316	_____	_____	_____	_____
Do the OMB A-133 Reports also include:					
Auditor's report on the schedule of federal awards? (SOP 92-9, Ch. 4, and ACNO Appendix D, Exhibits D1 and D2)	N317	_____	_____	_____	_____
Auditor's report on the internal control structure used in administering federal awards in order to ensure that the entity's internal control structure was designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (SOP 92-7, and SOP 92-9, Appendix D, Exhibit D-8):	N318	_____	_____	_____	_____
The controls that were evaluated (considered and tested)? (SOP 92-9, par. 2.40)	N319	_____	_____	_____	_____
The controls that were not evaluated (tested)? (SOP 92-9, par. 2.40)	N320	_____	_____	_____	_____
The material weaknesses identified as a result of the evaluation (considered and tested)? (SOP 92-9, par. 2.40)	N321	_____	_____	_____	_____

Major programs—Compliance reports—Specific requirements

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
An opinion that the entity complied, in all material respects, with <u>specific</u> requirements that, if not complied with, could have a material effect? (SOP 92-9, Appendix D, Exhibit D-9)	N322	_____	_____	_____	_____
Nonmajor programs—Compliance reports—Specific requirements:					
A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (SOP 92-9, Appendix D, Exhibit D-18)	N323	_____	_____	_____	_____
Major and nonmajor programs—Compliance auditing—General requirements:					
A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements relating to major programs? (SOP 92-9, Appendix D, Exhibit D-15)	N324	_____	_____	_____	_____
When appropriate, did the auditor properly modify the report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding reporting on performance audits? (SOP 92-9, Appendix D, Exhibit D-15)	N325	_____	_____	_____	_____
If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and how not following the standard affected the results of the audit? (GAO, Ch. 5, par. 5.12)	N326	_____	_____	_____	_____
When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (GAO, Ch. 5, pars. 5.21-5.25 which make reference to Ch. 7, pars. 7.30-7.31 and SOP 92-9, Ch. 7, pars. 7.17-.18)	N327	_____	_____	_____	_____
Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (SOP 92-9, Ch. 3, pars. 3.47-3.48 and GAO, Ch. 4, par. 4.10)	N328	_____	_____	_____	_____
Did the auditor document communication of those nonreportable conditions in the internal control structure not included in the required reports? (GAO, Ch. 5, par. 5.20 and SOP 92-9, Ch. 5, par. 5.26)	N329	_____	_____	_____	_____
If the entity is subject to OMB Circular A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communication? (SOP 92-9, Ch. 6, par. 6.71)	N330	_____	_____	_____	_____
If a separate communication was prepared to report on instances of immaterial noncompliance, was the communication to the institution in writing? (SOP 92-9, Ch. 6, par. 6.71)	N331	_____	_____	_____	_____
If required by contractual obligations, were findings presented in accordance with the guidance in the <i>Government Auditing Standards</i> regarding reporting on performance audits? (GAO, Ch. 7)	N332	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (SOP 92-9, Ch. 6, par. 6.17)	N333	_____	_____	_____	_____
Does the schedule of federal financial assistance program expenditures present the following [SOP 92-9 Ch. 4, par. 4.8 and Appendix A, OMB Circular A-133, par. 15C (1)]:					
Identification of each program as identified in the <i>Catalog of Federal Domestic Assistance</i> (CFDA) and by Federal agency and CFDA number?	N334	_____	_____	_____	_____
Identification of totals for student financial aid and research and development?	N335	_____	_____	_____	_____
Other federal awards? (Those programs that have not been assigned a catalog number)	N336	_____	_____	_____	_____
Total expenditures for each federal award program classified by grantor, department, or agency?	N337	_____	_____	_____	_____
Total federal award expenditures?	N338	_____	_____	_____	_____
Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-133 (Audits of Institutions of Higher Education and Other Nonprofit Institutions), A-21 (Cost Principles for Educational Institutions) and A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Institutions)?	N339	_____	_____	_____	_____
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance? (GAO, Ch. 4, par. 4.10)	N340	_____	_____	_____	_____
Did the auditor perform the required level of internal control structure review, to include: (SOP 92-9, Ch. 5)					
The consideration and testing of those internal control structure policies and procedures, relating to both specific and general requirements, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level? [SOP 92-9, Ch. 5, pars. 5.16-5.22 (TPA Sec. 11,260.207-.213)]	N341	_____	_____	_____	_____
If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering nonmajor programs, to the same extent as in Question G518 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested? [SOP 92-9, Ch. 5, par. 5.23 (TPA Sec. 11,260.214)]	N342	_____	_____	_____	_____
A sufficient understanding of the internal control structure for the systems used in administering other nonmajor federal financial assistance programs? [SOP 92-9, Ch. 5, par. 5.24 (TPA Sec. 11,260.215)]	N343	_____	_____	_____	_____
For the categories of controls for which tests were performed:					
Do the working papers document the auditor's understanding of the structure? (AU Sec. 319.26)	N344	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described? (AU Sec. 319)	N345	_____	_____	_____	_____
Did the auditor include the recipient's system for ensuring subrecipients' compliance, and obtaining and acting on subrecipients' audit reports? [OMB Circular A-133, par. 13b (2) (B) in Appendix A of SOP 92-9 (TPA Sec. 11,260.361)]	N346	_____	_____	_____	_____
Do the working papers adequately document the work performed and the conclusions reached? (AU Sec. 319 and GAO Ch. 4, pars. 4.34-4.38)	N347	_____	_____	_____	_____
In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial awards program, did the auditor:					
Identify all major programs as defined in OMB Circular A-133?	N348	_____	_____	_____	_____
Consult appropriate sources, such as OMB's Compliance Supplement for Audits of Institutions and Other Non-Profit Organizations (revised October 1991), statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (SOP 92-9, Ch. 1, pars. 1.23-1.25 and Ch. 6, par. 6.36)	N349	_____	_____	_____	_____
Consider materiality in relation to each major federal awards program? (SOP 92-9, Ch. 6, pars. 6.21 and 6.30-6.35)	N350	_____	_____	_____	_____
Select a representative number of charges from each major program? (SOP 92-9, Ch. 6, pars. 6.26-6.29)	N351	_____	_____	_____	_____
Perform and document tests to determine whether (SOP 92-9, Ch. 6, par. 6.36):					
The amounts reported as expenditures were allowable under federal regulations and contracts? (SOP 92-9, Ch. 6, par. 6.36)	N352	_____	_____	_____	_____
Only eligible persons or organizations received services or benefits? (AU Sec. 801.58b)	N353	_____	_____	_____	_____
Matching requirements, levels-of-effort, and earmarking limitations were met?	N354	_____	_____	_____	_____
Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?	N355	_____	_____	_____	_____
The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program?	N356	_____	_____	_____	_____
Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (GAO, Ch. 4, and SOP 92-9, Ch. 1, pars. 1.26-1.28 and Ch. 6, pars. 6.53-6.61):					
Political activity?	N357	_____	_____	_____	_____
Civil rights?	N358	_____	_____	_____	_____
Davis-Bacon Act?	N359	_____	_____	_____	_____
Cash management?	N360	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Relocation assistance and real property acquisition?	N361	_____	_____	_____	_____
Federal financial reports?	N362	_____	_____	_____	_____
Allowable costs/cost principles?	N363	_____	_____	_____	_____
Drug-free workplace act?	N364	_____	_____	_____	_____
Administrative requirements?	N365	_____	_____	_____	_____
Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (GAO Ch. 5, par. 5.19 which makes reference to Ch. 7, par. 7.28)	N366	_____	_____	_____	_____
Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance? (SOP 92-9, Ch. 6, par. 6.16)	N367	_____	_____	_____	_____
Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs?	N368	_____	_____	_____	_____
Where transactions related to nonmajor federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific federal laws, regulations, or requirements? (SOP 92-9, Ch. 6, pars. 6.23-6.25)	N369	_____	_____	_____	_____
If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (SOP 92-9, Ch. 3, par. 3.12)	N370	_____	_____	_____	_____
Does the client letter of representations include specific representations about matters relating to federal financial assistance as part of the compliance audit? (AU Sec. 801.10d fn9 and SOP 92-9, Ch. 6, par. 6.84)	N371	_____	_____	_____	_____
Do the working papers contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgments? (GAO, Ch. 4, par. 4.35)	N372	_____	_____	_____	_____
Are appropriate personnel in compliance with the Yellow Book CPE requirements? (GAO Ch. 3, par. 3.6)	N373	_____	_____	_____	_____
Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance? (GAO, Ch. 3, pars. 3.11-3.25)	N374	_____	_____	_____	_____
Program Specific Audits (SOP 92-9, Ch. 2, pars. 2.28-2.35)					
Where the auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements for that particular program? (AU Sec. 801-14)	N375	_____	_____	_____	_____
Did the auditor submit the report(s) to the appropriate officials of the organization audited in a timely manner? (GAO, Ch. 5, par. 34)	N376	_____	_____	_____	_____

Not-for-Profit Audit Engagement Checklist

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	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Has the auditor's firm established procedures for retention of and access to working papers including consideration of Interpretation No. 1 of SAS No. 41 (AU Sec. 9339) and the requirements of OMB Circular A-133, paragraph 17 (SOP 92-9, Appendix A):					
Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?	N377	_____	_____	_____	_____
Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?	N378	_____	_____	_____	_____
If the auditor expressed a qualified opinion, did he/she disclose all of the substantive reasons for doing so? (AU Sec. 508.39)	N379	_____	_____	_____	_____

IV. WORKING PAPER AREAS

NOTE: Complete only the sections on Commitments and Contingencies; Revenues, Expenses, Support, and Capital Additions; and Other; and the key areas selected for review. In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key audit area for that engagement, the reviewer should place an "X" in the box below the name of the working paper area. (As indicated on page 5604, the reviewer should indicate the reason for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.)

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Cash					
<input type="checkbox"/> Not a key area					
Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?	A401	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period?	A402	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Confirmation of cash balances?	A403	_____	_____	_____	_____
Restrictions on cash balances?	A404	_____	_____	_____	_____
Confirmation of bank credit arrangements such as compensating balances?	A405	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A406	_____	_____	_____	_____
Authorization for interfund cash transactions?	N401	_____	_____	_____	_____
Determination that all interfund borrowings have been identified and appropriately recorded? (ACNO, Ch. 6, pars. 6.04-6.08)	N402	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of cash appear adequate? (AU Secs. 312 and 319)	A407	_____	_____	_____	_____
Receivables					
<input type="checkbox"/> Not a key area					
Were accounts, promises to give, and grant receivables confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330.24-.30)	A408	_____	_____	_____	_____
If confirmation work was performed prior to year-end, is there evidence that adequate substantive procedures were applied to the period from the confirmation date to the balance-sheet date?	A409	_____	_____	_____	_____
If a significant number and amount of accounts, promises to give and grant receivables selected for positive confirmation did not respond, is there evidence that alternative auditing procedures were performed? (AU Sec. 330.31-.35)	A410	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were significant notes receivable confirmed as of a date consistent with the auditor's assessment of inherent, control and detection risks? (AU Sec. 313)	A411	_____	_____	_____	_____
Were the results of confirmation and alternative procedures summarized, and were appropriate conclusions included in the working papers? (AU Sec. 330.33)	A412	_____	_____	_____	_____
Was collateral (if any) for receivables tested with respect to existence, ownership and value?	A413	_____	_____	_____	_____
Were procedures performed to provide evidence that receivables for promises to give were properly recorded in the appropriate funds? (ACNO, Ch. 5, par. 5.07)	N403	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)	A415	_____	_____	_____	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?	A416	_____	_____	_____	_____
Was receivable work coordinated with tests of support and revenue, including cutoff tests?	A417	_____	_____	_____	_____
Were appropriate procedures applied to notes receivable regarding imputation of interest (if necessary), carrying amount, fair value (FAS No. 107) and recognition of related interest income? (AC Secs. 169 and F25.115A-.115K)	A418	_____	_____	_____	_____
If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)	A419	_____	_____	_____	_____
For long-term promises to give, were appropriate auditing procedures applied with respect to the accounting for present value? (AC Sec. C67.116)	N404	_____	_____	_____	_____
If FAS No. 114 as amended by FAS No. 118, was applicable to this engagement (either as a result of the statement's effective date or an early adoption of the statement) are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans), carried at the present value of the loans' expected future cash flows discounted at the loans' effective interest rates or at the observable market prices or the fair value of the collateral if the loans are collateral dependent? (AC Sec. 108.111)	A420	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of receivables appear adequate? (AU Secs. 312 and 319)	A421	_____	_____	_____	_____
Inventories					
<input type="checkbox"/> Not a key area					
Do the working papers indicate that there were adequate tests of:					
Physical observation, if material? (AU Sec. 331.09-.13)	N405	_____	_____	_____	_____
The clerical accuracy of the inventory?	A427	_____	_____	_____	_____
Costing methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?	A428	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?	A429	_____	_____	_____	_____
Do the working papers indicate that consideration was given to whether the inventory was carried at a lower of cost or market (including consideration of obsolete or slow-moving inventory)?	A431	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of inventories appear adequate? (AU Secs. 312 and 319)	A435	_____	_____	_____	_____
Investments					
<input type="checkbox"/> Not a key area					
Was a summary schedule prepared and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc. of investments?	A436	_____	_____	_____	_____
Were securities either inspected or confirmed? (AU Sec. 332.04)	A437	_____	_____	_____	_____
When investments are held by an outside custodian, who is authorized by the client to execute transactions without specific authorization of individual transactions, did the auditor consider the guidance in professional standards? (AU Sec. 324.16 and .18)	N406	_____	_____	_____	_____
Do the working papers reflect consideration of changes in the carrying value of marketable securities and other investments, and were unrealized gains and losses appropriately recognized? (SOP 78-10, pars. 79-81)	N407	_____	_____	_____	_____
Was the computation of realized and unrealized gains and losses tested by the auditor?	A438	_____	_____	_____	_____
Do the working papers indicate tests of unit market value calculations of pooled investments funds, including the appropriate treatment of additions to and withdrawals from the pool? (SOP 78-10, pars. 116-117)	N408	_____	_____	_____	_____
Were income and realized and unrealized gains and losses from investments tested for proper allocation to the individual funds? (SOP 78-10, pars. 116-117)	N409	_____	_____	_____	_____
Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on marketability? (SOP 78-10, pars. 54-62, and VHW, Ch. 2)	N410	_____	_____	_____	_____
Do the working papers indicate that risk of loss on repurchase agreements was properly considered? (GASB Secs. 150 and R10.110-.112)	N411	_____	_____	_____	_____
Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions? (GASB Secs. 150 and R10.110-.112)	N412	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of investments appear adequate? (AU Secs. 312 and 319)	A444	_____	_____	_____	_____
Prepaid Expenses, Intangible Assets, Deferred Charges, etc.					
<input type="checkbox"/> Not a key area					

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were adequate tests made for all material:					
Prepaid expenses?	A445	_____	_____	_____	_____
Intangible assets? (AC Sec. I60)	A446	_____	_____	_____	_____
Deferred charges?	A447	_____	_____	_____	_____
Other?	A448	_____	_____	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A449	_____	_____	_____	_____
If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether the accounting for the related loans was appropriate?	A451	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Secs. 312 and 319)	A452	_____	_____	_____	_____
Collections of Works of Art and Similar Items (ACNO, Ch. 5, pars. 5.10-5.12)					
<input type="checkbox"/> Not a key area					
If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value?	N413	_____	_____	_____	_____
If a capitalized collection was considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?	N414	_____	_____	_____	_____
Whether or not a collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions?	N415	_____	_____	_____	_____
If the collection was capitalized:					
Were physical inventories observed at all locations where relatively large amounts were located?	N416	_____	_____	_____	_____
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)?	N417	_____	_____	_____	_____
If the collection was considered inexhaustible and was not capitalized, do the working papers indicate that the auditor:					
Obtained an understanding of and assessed control risk for the internal controls over the collection?	N418	_____	_____	_____	_____
Observed a physical inventory at all locations where relatively large amounts are located?	N419	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of collections of works of art and similar items appear adequate? (AU Secs. 312 and 319)	N420	_____	_____	_____	_____
Property and Equipment					
<input type="checkbox"/> Not a key area					
Was a summary schedule by source prepared to show beginning balances, changes during the period and ending balances for:					
Property and equipment?	A453	_____	_____	_____	_____
Accumulated depreciation?	A454	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the tests appear adequate and were proper conclusions drawn with respect to:					
Additions (e.g., by examining supporting documents and/or physical inspection)?	A455	_____	_____	_____	_____
Retirements, etc. (e.g., including examining miscellaneous income, scrap sales?)	A456	_____	_____	_____	_____
The adequacy of the current and accumulated provisions for depreciation and depletion?	A457	_____	_____	_____	_____
Valuation of assets not previously capitalized? (ACNO, Ch. 5, pars. 5.10-5.12)	N421	_____	_____	_____	_____
Do the working papers indicate that the auditor considered whether property was subject to liens?	A459	_____	_____	_____	_____
Was a review made to determine that capital expenditures were reported in the proper fund accounts? (ACNO, Ch. 6, pars. 6.14-6.17)	N422	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of property and equipment appear adequate? (AU Secs. 312 and 319)	A460	_____	_____	_____	_____
Liabilities					
<input type="checkbox"/> Not a key area					
Were accounts payable adequately tested for existence?	A461	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A462	_____	_____	_____	_____
Was consideration given to expenditures that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated? (AC Secs. P16, C44, P32, and P40)	A464	_____	_____	_____	_____
Were procedures performed to determine whether tax deferred annuity and life income plans were appropriately calculated to conform with GAAP and IRS regulations? (ACNO, Ch. 6, par. 6.03)	N423	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures applied?	A465	_____	_____	_____	_____
Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related funds? (ACNO, Ch. 6)	N424	_____	_____	_____	_____
Was there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?	N425	_____	_____	_____	_____
Were appropriate procedures applied to notes payable regarding imputation of interest (if necessary), carrying amount, fair value (FAS No. 107) and recognition of related interest expense? (AC Secs. I69 and F25.115A-.115K)	A466	_____	_____	_____	_____
Do the working papers indicate that the auditor reviewed compliance with the covenants of the entity's debt obligations?	A467	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was consideration given to any liabilities (including the effect of any temporary differences) resulting from the federal excise tax on investment income of private foundations, and any federal and state taxes on unrelated business income? (SOP 78-10, par. 103)	N426	_____	_____	_____	_____
Do the tests of interfund borrowings appear adequate with respect to (ACNO, Ch. 6, pars. 6.04-6.08 and SOP 78-10 pars. 118-119):					
Legal restrictions, if any, on such borrowings?	N427	_____	_____	_____	_____
Authorization?	N428	_____	_____	_____	_____
Classification?	N429	_____	_____	_____	_____
Collectibility of amounts due from other funds?	N430	_____	_____	_____	_____
Appropriateness of interest accruals and payments?	N431	_____	_____	_____	_____
Based on the assessment of inherent and control risks, do the substantive tests of liabilities appear adequate? (AU Secs. 312 and 319)	A468	_____	_____	_____	_____
Deferred Revenue and Support (ACNO, Ch. 6, pars. 6.09-6.13)					
<input type="checkbox"/> Not a key area					
Do the working papers indicate that consideration was given as to whether the basis for deferring revenue is reasonable and consistent with the donors' or grantors' restrictions?	N432	_____	_____	_____	_____
Was consideration given to matching requirements, if any?	N433	_____	_____	_____	_____
Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support?	N434	_____	_____	_____	_____
Commitments and Contingencies					
Do the working papers contain evidence of the following:					
Inspection of minutes of meetings of the governing board and other appropriate committees of the board?	A476	_____	_____	_____	_____
Inspection of contracts, loan agreements, leases, and correspondence from donors, grantors, and governmental agencies, and similar documents?	A477	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A478	_____	_____	_____	_____
Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments, and regulatory requirements as applicable? (AU Secs. 333 and 337.05)	A479	_____	_____	_____	_____
Did the auditor consider evidence of the entity's activities (such as lobbying or substantial unrelated business income activities) which might cause the entity to lose its tax exempt status or be subject to penalties or taxes? (ACNO, Ch. 2, pars. 2.07-2.08)	N435	_____	_____	_____	_____
If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income, and prohibited activities? (ACNO, Ch. 2, par. 2.08)	N436	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Has adequate consideration been given to contingencies in accordance with professional standards? (AC Sec. C59)	N437	_____	_____	_____	_____
Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers?	A482	_____	_____	_____	_____
Was appropriate consideration given to issues related to known environmental matters? (EITF 93-5)	A483	_____	_____	_____	_____
Fund Balance (ACNO, Ch. 6, pars. 6.14-6.17)					
<input type="checkbox"/> Not a key area					
Where applicable, were authorizations of changes in fund balances and designated balances examined?	N438	_____	_____	_____	_____
Do the working papers indicate that there were adequate inquiries, where applicable, as to proper classification, description and disclosure of components of the fund balance?	N439	_____	_____	_____	_____
Do the working papers indicate that fund transfers were properly approved and recorded?	N440	_____	_____	_____	_____
If an endowment fund was maintained, do the working papers indicate that fund income was distributed to unrestricted and restricted funds in accordance with donors' stipulations? (VHW, Ch. 1, par. 1.09, and SOP 78-10 par. 73)	N441	_____	_____	_____	_____
Revenues, Expenses, Support, and Capital Additions					
If FAS No. 116 <i>Accounting for Contributions Received and Contributions Made</i> (AC Sec. C67) was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the accountant consider whether:					
Contributions received/made, including promises to give, were recognized as revenue/expenses in the period received/made, at their fair values?	N442	_____	_____	_____	_____
Contributions that increase net assets were categorized between permanently restricted, temporarily restricted and unrestricted?	N443	_____	_____	_____	_____
Donor-imposed restrictions which expire were recognized in the period in which they expired?	N444	_____	_____	_____	_____
Contributions for services were recognized only if they created or enhanced nonfinancial assets or require specialized skills that would have typically been purchased if not provided by donation?	N445	_____	_____	_____	_____
Were appropriate analytical procedures used in substantive tests of revenues, expenses, support and capital additions for the period? (AU Sec. 329 and ACNO, Ch. 3))	A490	_____	_____	_____	_____
Was adequate consideration given to:					
The entity's revenue recognition policy? (AC Sec. A10.105)	A491	_____	_____	_____	_____
Income recognition on transactions where the earnings process was not complete?	A492	_____	_____	_____	_____
Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items? (ACNO, Ch. 3, par. 3.04)	N446	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others (ACNO, Ch. 3, par. 3.14-3.18):					
Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?	N447	_____	_____	_____	_____
Were cost reimbursement reports and the underlying support reviewed?	N448	_____	_____	_____	_____
Were appropriate allocations made of indirect costs among the entity's programs?	N449	_____	_____	_____	_____
Do the working papers indicate that the auditor considered actual receipt and propriety of valuation method used, and any restrictions placed on amounts received during the current period from:					
Cash contributions? (ACNO, Ch. 4, pars. 4.07-4.16)	N450	_____	_____	_____	_____
Donated and contributed services? (ACNO, Ch. 4, pars. 4.17-4.20)	N451	_____	_____	_____	_____
Gifts of securities, materials, facilities, and other non monetary items? (ACNO, Ch. 4, pars. 4.21-4.24)	N452	_____	_____	_____	_____
Future interests and interest free loans? (ACNO, Ch. 4, par. 4.25-4.29)	N453	_____	_____	_____	_____
If expenses are classified by function, did the auditor adequately test the classifications and allocations? (ACNO, Ch. 2, pars. 2.01-2.04 and SOP 78-10, pars. 85-88)	N454	_____	_____	_____	_____
If joint costs of multipurpose activities were incurred, were the requirements of SOP 87-2 appropriately considered?	N455	_____	_____	_____	_____
Were fundraising costs expensed in the proper period? (VHW, Ch. 6 pars. 6.14-6.16, and SOP 78-10, pars. 92-100)	N456	_____	_____	_____	_____
If grants were awarded to other organizations, did the auditor review (SOP 78-10, pars. 101-102 and ACNO, Ch. 2, par. 2.06):					
The classification of the grants?	N457	_____	_____	_____	_____
The effects of the grantees' compliance or noncompliance with performance requirements?	N458	_____	_____	_____	_____
Were tests of payrolls, including account distribution, made, where appropriate?	A488	_____	_____	_____	_____
With regard to pension plans, do the tests made of the expense and liabilities appear adequate?	N459	_____	_____	_____	_____
Based on the assessment of inherent and control risks, did the substantive tests (analytical procedures and test of details) of revenues and expenditures/expense appear adequate? (AU Sec. 319)	A495	_____	_____	_____	_____
Other					
Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for? (AC Sec. L10)	A496	_____	_____	_____	_____
Were appropriate procedures applied to accompanying information (AU Sec. 551.06 and .08) and "required supplementary information" (AU Sec. 558)?	A497	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship? (SOP 94-3, ACNO, Ch. 7 par. 7.02, and, if applicable, SOP 78-10 pars. 42-48)	N460	_____	_____	_____	_____

V. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? (ET Sec. 101)	A601	_____	_____	_____	_____
Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	A602	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A603	_____	_____	_____	_____
Were the fees (billed/unbilled) for prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A604	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A606	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A607	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A608	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A609	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?	A610	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?	A611	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A612	_____	_____	_____	_____
Supervision (QC Sec. 10.07d)					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A613	_____	_____	_____	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A614	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the owner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A615	_____	_____	_____	_____
Does it appear that hours charged by the owner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A616	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A617	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A618	_____	_____	_____	_____
EDP system?	A619	_____	_____	_____	_____
Audit work programs?	A620	_____	_____	_____	_____
Financial statement disclosures?	A621	_____	_____	_____	_____
Working paper and financial statement reviews?	A622	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A623	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A624	_____	_____	_____	_____
If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A625	_____	_____	_____	_____
If required by firm policy, was an appropriate preissuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?	A626	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A627	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A628	_____	_____	_____	_____
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.19-.20)	A629	_____	_____	_____	_____

VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

*Page
Number*

*Question
Number*

Explanatory Comments

*Disposition
of Comments*

Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

NOTE: Attach additional sheets if required.

VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards of *Government Auditing Standards* and OMB Circular A-133? YES* _____ NO _____
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES* _____ NO _____
- The auditor's reports, including all reports required by governmental agencies, were not appropriate in the circumstances? YES* _____ NO _____
- The documentation on this engagement does not support the firm's opinion on the financial statements? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 5701.]

*If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Peer Reviews*.

PRP Section 5700

Employee Benefit Plan Engagement Checklist

Instructions for Use of the Checklist for Review of Audits of Employee Benefit Plans

This checklist was developed for use by reviewers of audits of employee benefit plans. It should be used in conjunction with other guidance materials issued to implement the AICPA peer review program. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of employee benefit plans. All "No" answers must be thoroughly explained in Section V of this checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to employee benefit plans. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate employee benefit plan engagements. These additional materials include the AICPA Financial Reporting Practice Aid, *Checklist for Defined Benefit Pension Plans and Illustrative Financial Statements*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AEBP	Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> (as of May 1, 1995)
AU	Reference to section number of <i>AICPA Professional Standards</i> (vol. 1)
CFR	Code of Federal Regulations
EBPID	Employee Benefit Plans Industry Developments (1995)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct in <i>AICPA Professional Standards</i> (vol. 2)
FAS	Financial Accounting Standards Board Pronouncements
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SAS	<i>Statement on Auditing Standards</i>
SECPS	SEC Practice Section Reference Manual
SOP	AICPA Statement of Position

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Concurring Reviewer** _____ Date Report Released _____

This engagement involves reporting on:

- () Defined Benefit Plan
- () Defined Contribution Plan (including profit-sharing and stock bonus plans)
- () Plans requiring a Form 11K filing with the SEC***
- () Health and Welfare Plans
- () Limited Scope Audit
- () Other

Was the work performed at the request of another office? Yes ___ No ___

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total assets	\$ _____
Net assets	\$ _____
Total income and contributions	\$ _____
Net increase in net assets available for plan benefits	\$ _____

Complex or troublesome audit areas:

List any nonaudit services performed for the client during the period of the financial statements being reported on and through the date of the auditor's report:

Personnel Continuity:		<i>Partner</i>	<i>Manager (or equivalent)</i>
Number of years assigned to this job		_____	_____
Number of years in current position on the job		_____	_____

Audit hours on this engagement:

	<i>Total</i>	<i>Prior to Commencement of Field Work</i>	<i>During Field Work</i>	<i>After Completion of Field Work</i>
Owner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	=====	Total budgeted	=====	=====

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

** Not applicable unless required by firm policy.

*** Firms that file a Form 11K with the SEC should be a member of the SEC Practice Section of the AICPA Division for CPA Firms

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

Date Engagement Review Performed _____

Date Checklist Reviewed
by Team Captain _____

Reviewer _____

Signature _____

Checklist for Review of Audits of Employee Benefit Plans

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NOTE: This checklist has been updated through SAS No. 76, SFAS No. 122, and FASB Interpretation No. 41.

I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Checklists for Defined Benefit Pension Plans and Illustrative Financial Statements*. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Auditor's Report					
If subject to ERISA and DOL, is the plan required to have an audit? (Note: The audit requirement is applied to each separate plan and <u>not</u> each separate trust.) (AEBP, ch. 1, par. 1.14 and Appendix A)	BP101	_____	_____	_____	_____
If the plan is subject to ERISA and DOL regulations and is required to have an audit, is the auditor independent pursuant to DOL regulations? (29 CFR 2509.75-9)	BP102	_____	_____	_____	_____
Does the auditor's report conform to the Audit and Accounting Guide— <i>Audits of Employee Benefit Plans</i> ? (AEBP, ch. 13 and Appendix A)	BP103	_____	_____	_____	_____
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08 and .46 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 505.08-10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08)	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)	A105	_____	_____	_____	_____
If the audit was a limited scope audit permitted by DOL rules and regulations with respect to investment information, was this stated and a disclaimer issued? (AEBP, ch. 5, par. 5.02 and ch. 13, pars. 13.25-.28)	BP104	_____	_____	_____	_____
Does the report identify and include an appropriate opinion on supplemental schedules required by ERISA and DOL regulations? (AEBP, ch. 13, pars. 13.09-.18)	BP105	_____	_____	_____	_____
Is the report appropriately modified for financial statements presented on a basis other than GAAP that is acceptable under ERISA or DOL regulations? (AEBP, ch. 13, pars. 13.19-.22)	BP106	_____	_____	_____	_____
Is the auditor's report on financial statements of defined benefit plans appropriately worded assuming either an End-of-Year Benefit Information Date or Beginning-of-Year Benefit Information Date? (AEBP, ch. 13, pars. 13.04-.05)	BP107	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Financial Statements and Footnotes					
General					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24, AEBP, chs. 2 and 3, pars. 2.06-.08, 3.09-.11, and ch. 4, pars. 4.17-.22)	A112	_____	_____	_____	_____
Is the accounting appropriate and are the disclosures adequate regarding:					
Significant accounting policies? (AC Sec. A10.105-.108)	A113	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	A114	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43)	A115	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)	A127	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	A128	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.01-.09 and 561)	A129	_____	_____	_____	_____
Are adjustments of financial statements for prior periods adequate? (AC Sec. A35)	A137	_____	_____	_____	_____
Is the presentation appropriate and disclosure adequate regarding:					
Description of method and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? (AEBP, chs. 2 and 3, pars. 2.09-.13, 3.12-.16, and ch. 4, pars. 4.23-.25 and .50)	BP108	_____	_____	_____	_____
Description of method and significant assumptions used to determine the actuarial present value of accumulated plan benefits including any significant changes in the method of assumptions during the year? (AC Sec. Pe 5.126b)	BP109	_____	_____	_____	_____
Description of plan including its vesting and benefit provisions? (AEBP chs. 2 and 3, pars. 2.24a, 3.23a and ch. 4, par. 4.51)	BP110	_____	_____	_____	_____
Description of significant plan amendments adopted during the year? (AEBP, chs. 2 and 3, pars. 2.24b, 3.23b and ch. 4, par. 4.51)	BP111	_____	_____	_____	_____
Description of the benefit priority and Pension Benefit Guarantee Coverage in the event of plan termination? (AEBP, ch. 2, par. 2.24c and ch. 4, par. 4.51)	BP112	_____	_____	_____	_____
Description of funding policy? (AEBP, ch. 2, par. 2.24d and ch. 4, par. 4.51)	BP113	_____	_____	_____	_____
Federal income tax status of the plan, including IRS tax ruling or determination letter? (AEBP, chs. 2 and 3, pars. 2.24f, 3.23f, and ch. 4, par. 4.51)	BP114	_____	_____	_____	_____
Compliance with the ERISA requirement that reports under its jurisdiction must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," (which is more than is required by FASB Statement No. 35 as amended)? (AEBP, ch. 2, par. 2.24f)	BP115	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Identification of investments that represent 5% or more of total plan assets for health and welfare plans prior to adoption of SOP 92-6, or 5% or more of net assets available for benefits for health and welfare plans after adoption of SOP 92-6 and other defined contribution and defined benefit plans? (AEBP, chs. 2 and 3, pars. 2.24g, 3.23g, and ch. 4, par. 4.51)	BP116	_____	_____	_____	_____
Reporting significant real estate, or other transactions between related parties, or was the audit opinion appropriately modified? (AEBP, chs. 2 and 3, pars. 2.24h, 3.23h, ch. 4, par. 4.51 and ch. 11)	BP117	_____	_____	_____	_____
Prohibited transactions? (AEBP, ch. 11, par. 11.12)	BP118	_____	_____	_____	_____
Significant, unusual, or infrequent events of transactions occurring after the financial statement date but before issuance of the financial statements? (AEBP, chs. 2 and 3, pars. 2.24i, 3.23n, and ch. 4, par. 4.51)	BP119	_____	_____	_____	_____
The amount and disposition of forfeited nonvested accounts. Specifically, identification of those amounts that will be used to reduce future employer contributions? (AEBP, ch. 3, par. 3.23o and ch. 4, par. 4.51)	BP120	_____	_____	_____	_____
For master trusts, a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in the master trust as of the date of each statement of net assets available for benefits presented? (AEBP, ch. 2, par. 2.28 and ch. 3, par. 3.27)	BP121	_____	_____	_____	_____
Material lease commitments, other commitments, or contingent liabilities? (AEBP, ch. 4, par. 4.51)	BP122	_____	_____	_____	_____
The assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when that rate is expected to be achieved. (AEBP, ch. 4, par. 4.51)	BP123	_____	_____	_____	_____
For health and welfare benefit plans providing postretirement health care benefits, the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation. (AEBP, ch. 4, par. 4.51)	BP124	_____	_____	_____	_____
Any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan's financial statements. (AEBP, ch. 4, par. 4.51)	BP125	_____	_____	_____	_____
Termination provisions of the plan and priorities for distribution of assets, if applicable. (AEBP, ch. 4, par. 4.51)	BP126	_____	_____	_____	_____
Restrictions, if any, on plan assets (for example, legal restrictions on multiple trusts). (AEBP, ch. 4, par. 4.51)	BP127	_____	_____	_____	_____
If the plan is subject to ERISA reporting requirements are the following schedules attached, if applicable: assets held for investment transactions with parties-in-interest, loans or fixed income obligations due in default or uncollectible, leases in default or uncollectible, and reportable transactions? (AEBP, chs. 2 and 3, pars. 2.04, 3.06, Appendix A, par. A.51)	BP128	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Have the proper disclosures been made, and the liquidation basis of accounting used for plan terminations? (AEBP, chs. 2 and 3, pars. 2.31-.34, 3.30-.32 and ch. 4, pars. 4.59-.62)	BP129	_____	_____	_____	_____
Is there a description of the policy regarding the purchase of insurance contracts that are excluded from plan benefits? (AEBP, chs. 2 and 3 pars. 2.24e, 3.23e, and ch. 4, par. 4.51)	BP130	_____	_____	_____	_____
Is there a disclosure of amounts allocated to persons who have withdrawn from participation in the earnings and operations of the plan? Are such amounts excluded from liabilities on the financial statements? (AEBP, ch. 3, par. 3.23m)	BP131	_____	_____	_____	_____
Are the amounts of unallocated assets disclosed as well as the basis used to allocate asset values to participants accounts when the basis differs from the one used to record assets in the financial statements? (AEBP, ch. 3, par. 3.23c)	BP132	_____	_____	_____	_____
Is the basis for determining contributions by employers and the method of determining participant contributions disclosed? (AEBP, chs. 2 and 3, pars. 2.24d, 3.23d and ch. 4, par. 4.51)	BP133	_____	_____	_____	_____
Are investments pledged to secure debt disclosed? (AEBP, ch. 3, par. 3.23i)	BP134	_____	_____	_____	_____
Are guarantees by others of debt of the plan disclosed? (AEBP, ch. 3, par. 3.23j)	BP135	_____	_____	_____	_____
If the plan provides for participant-directed investment programs are the investment programs disclosed on a separate fund basis? (AEBP, ch. 3, par. 3.23k and Appendix J)	BP136	_____	_____	_____	_____
For plans that assign units to participants, is the proper unit information disclosed? (AEBP, ch. 3, par. 3.23l)	BP137	_____	_____	_____	_____
Are changes in the actuarial present value of accumulated plan benefits including amendments, changes in actuarial assumptions, and nature of the plan (mergers, spinoffs, etc.), disclosed? (AEBP, ch. 2, par. 2.22)	BP138	_____	_____	_____	_____
Is a prior-year statement of net assets and changes presented if beginning-of-year benefit information is used? (AC Sec. Pe 5.106)	BP139	_____	_____	_____	_____
Is the actuarial present value of accumulated plan benefits, including vested benefits of participants currently receiving payments, other vested benefits, and non-vested benefits presented? (AEBP, ch. 2, pars. 2.18-.21)	BP140	_____	_____	_____	_____
If subject to ERISA and DOL, is there a reconciliation between financial statements and form 5500 amounts, if applicable? (AEBP Appendix A, par. A.50a)	BP141	_____	_____	_____	_____
Are significant employer absorbed costs of plan administration disclosed? (AEBP, ch. 3, par. 3.23d ch. 4, par. 4.51, AC Sec. Pe5.127(d))	BP142	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Statement of Net Assets Available for Benefits					
Is the presentation appropriate and is the disclosure adequate regarding:					
Investments including those in master trust (identified by type and presented at fair value)? (AEBP, chs. 2 and 3, pars. 2.09-.13 and .28, 3.12-.16, .27 and .29, and ch. 4, pars. 4.23-.25)	BP143	_____	_____	_____	_____
If Statement of Position (SOP) 94-4 was applicable to this engagement (either as a result of the SOP's effective date or early application of the SOP): Investment contracts with fully benefit-responsive features or contracts that incorporate mortality or morbidity risks are reported at contract value (where the entire contractual amount is recoverable) and other investment contracts at fair value? (AEBP, Appendix I, pars. 1-4 and 17a-s)	BP144	_____	_____	_____	_____
Information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk? (AEBP, chs. 2 and 3, pars. 2.25-.27, 3.24-.26 and ch. 4, pars. 4.52-.56)	BP145	_____	_____	_____	_____
Information about derivative financial instruments - futures, forwards, swap and option contracts, and other financial instruments with similar characteristics? (AEBP, chs.2 and 3, pars. 2.32, 3.30-.31 and ch.4, pars. 4.57-.58)	BP146	_____	_____	_____	_____
Are unallocated insurance contracts reported on in accordance with ERISA and DOL? (AEBP, chs. 2 and 3 pars. 2.12, 3.15 and ch. 4, par. 4.24)	BP147	_____	_____	_____	_____
Contributions receivable? (AEBP, chs. 2 and 3, pars. 2.14-.15, 3.17 and ch. 4, par. 4.26)	BP148	_____	_____	_____	_____
Amounts receivable from brokers for securities sold?	BP149	_____	_____	_____	_____
Accrued interest and dividends?	BP150	_____	_____	_____	_____
Allowance for estimated uncollectible amounts? (AEBP, chs. 2 and 3, pars. 2.14-.15, 3.17 and ch. 4, par. 4.26)	BP151	_____	_____	_____	_____
Assets used in plan operations (e.g., buildings, equipment, furniture and fixtures and leasehold improvements) identified by type and presented at cost, less accumulated depreciation or amortization? (AEBP, ch. 3, par. 3.18 ch. 4, par. 4.30)	BP152	_____	_____	_____	_____
For health and welfare plans if significant: accrued experience—rating adjustments, insurance premiums payable, deposits with insurance companies and accumulated eligibility credits? (AEBP, ch. 4, pars. 4.34-.35 and .38-.41)	BP153	_____	_____	_____	_____
If Statement of Position (SOP) 92-6 was applicable to this engagement (either as a result of the SOP's effective date or early application of the SOP): Information regarding the plan's benefit obligation as of the end of the plan year and certain factors affecting the year-to-year change in the plan's benefit obligations (AEBP, ch. 4, pars. 4.17-.19 and .34-.49)	BP154	_____	_____	_____	_____
If the plan adopted SOP 92-6:					
Was it adopted in its entirety? (EPBID, p. 19)	BP155	_____	_____	_____	_____
Were accounting changes adopted to conform to the provisions of the SOP made retroactively? (EPBID, p. 19)	BP156	_____	_____	_____	_____
When there has been a change in accounting principles that has had a material effect on the comparability of the plan's financial					

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
statements, does the report refer to the change in an explanatory paragraph? (AU Sec. 508)	BP157	_____	_____	_____	_____
For an ERISA audit in the year of adoption, was the prior year's statement of net assets restated to comply with the revisions of the SOP? (EBPID, p. 19)	BP158	_____	_____	_____	_____
For insured health and welfare plans, are claims payable and currently due and claims incurred by eligible participants but not yet reported (IBNR) excluded from benefit obligations of the plan?(AEBP, ch. 4, par. 4.36)	BP159	_____	_____	_____	_____
For self-funded health and welfare plans, do the benefit obligations present the amount of claims payable and currently due for active and retired participants, dependents, and beneficiaries for active participants in the plan and IBNR for active participants and does the postretirement benefit obligation include IBNR for retired participants?(AEBP ch. 4, par. 4.36)	BP160	_____	_____	_____	_____
For self-funded health and welfare plans, is the cost of IBNR measured at the present value, as applicable, of the estimated ultimate cost to the plan settling the claims?(AEBP ch. 4, par. 4.37)	BP161	_____	_____	_____	_____
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	A157	_____	_____	_____	_____
Other terms and covenants? (AC Sec. C59.120)	A158	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. 32.105)	A162	_____	_____	_____	_____
Other liabilities, including amounts due to brokers for securities purchased, other accounts payable, and accrued expenses?	BP162	_____	_____	_____	_____
If subject to ERISA and DOL regulations, are comparative statements of net assets available for benefits presented? (AEBP, chs. 2 and 3, pars. 2.07a., 3.10 and ch. 4, par. 4.18 and Appendix A, par. A.50a)	BP163	_____	_____	_____	_____
Statement of Changes in Net Assets					
Are the presentations appropriate and disclosures adequate regarding:					
Net change in fair value for each significant class of investments? (AEBP, chs. 2 and 3, pars. 2.17a and .28, 3.20a and .27, and ch. 4, par. 4.32)	BP164	_____	_____	_____	_____
Contributions from employer(s), employees, and other identified sources separately stated? (AEBP, chs. 2 and 3, pars. 2.17c, d, e, 3.20c, d, e and ch. 4, par. 4.32)	BP165	_____	_____	_____	_____
Payments to insurance companies to purchase contracts? (AEBP, chs. 2 and 3 pars. 2.17g, 3.20g, and ch. 4, par. 4.32)	BP166	_____	_____	_____	_____
Investment income? (AEBP, chs. 2 and 3, pars. 2.17b, 3.20b and ch. 4, par. 4.32)	BP167	_____	_____	_____	_____
Benefits paid to participants? (AEBP, chs. 2 and 3, pars. 2.17f, 3.20f and ch. 4, par. 4.32)	BP168	_____	_____	_____	_____
Administrative expense? (AEBP, chs. 2 and 3, pars. 2.17h, 3.20h and ch. 4, par. 4.32)	BP169	_____	_____	_____	_____

II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
In planning the audit engagement, did the auditor properly consider:					
Matters affecting the plan, such as accounting practices, contractual obligations, economic conditions, and laws and government regulations? (AU Secs. 311.03-.04 and 801.11)	BP201	_____	_____	_____	_____
Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08)	A302	_____	_____	_____	_____
Did the auditor:					
Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05 and 317.05)	A303	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)	A304	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities and direct-effect of illegal acts that could be material to the financial statements? (AU Sec. 316.05 and 317.05)	A305	_____	_____	_____	_____
Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures? (AU Sec. 329.01 and .06)	A306	_____	_____	_____	_____
If the auditor succeeded another auditor, did the auditor:					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A307	_____	_____	_____	_____
Review the predecessor auditor's working papers, or obtain satisfaction by other means including inquiries on significant matters? (AU Sec. 315.08)	A308	_____	_____	_____	_____
If consideration was given to the work of internal auditors in determining the scope of the audit, was it done in accordance with professional standards? (AU Sec. 322)	A309	_____	_____	_____	_____
Did the auditor:					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10)	A310	_____	_____	_____	_____
Document the understanding of the internal control structure? (AU Sec. 319.26)	A311	_____	_____	_____	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A312	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A313	_____	_____	_____	_____
If the methods used by the client to process significant accounting information includes the use of a service organization, was consideration given to the control structure policies and procedures at the service organization that may affect the processing of the client's transactions and internal control structure? (AU Sec. 324.06-.10)	A314	_____	_____	_____	_____
If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor's report that describes the results of the service auditor's tests of operating effectiveness obtained; or were tests performed by the auditor at the service organization? (AU Sec. 324.14-.16)	A315	_____	_____	_____	_____
If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:					
Do the instructions to the other office or firm appear adequate? (AU Sec. 311)	A316	_____	_____	_____	_____
Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)	A317	_____	_____	_____	_____
Was there appropriate follow-up of open matters? (AU Sec. 311)	A318	_____	_____	_____	_____
In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation? (AU Sec. 543.10)	A319	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA industry audit guide)	A322	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained during the planning process? (AU Sec. 319.02 and .05)	A323	_____	_____	_____	_____
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A324	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A325	_____	_____	_____	_____
Have all procedures called for in the audit program been signed when completed? (AU Sec. 339)	A326	_____	_____	_____	_____
If statistical or nonstatistical sampling was used in test of controls (AU Secs. 319 and 350):					
In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population? (AU Sec. 350.31)	A327	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A328	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of the planned substantive procedures reevaluated based on a revised consideration of assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)	A329	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A330	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A331	_____	_____	_____	_____
If statistical or nonstatistical sampling was used for substantive tests of details:					
In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)	A332	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A333	_____	_____	_____	_____
Were the misstatements in the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A334	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed? (AU Sec. 350.25)	A335	_____	_____	_____	_____
In evaluating whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements resulting from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)	A336	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A337	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A338	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A339	_____	_____	_____	_____
Has the auditor evaluated the reasonableness of significant accounting estimates made by management? (AU Secs. 326 and 342)	A340	_____	_____	_____	_____
Did the auditor obtain written timely and appropriate representations from management and was the representation letter properly dated? (AU Sec. 333)	A342	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the entities' attorneys concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)	A343	_____	_____	_____	_____
Have all questions, exceptions, or notes been followed up and resolved?	A344	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was appropriate consideration given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A345	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.29)	A346	_____	_____	_____	_____
Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 316.25)	A347	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but the clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A348	_____	_____	_____	_____
When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:					
Follow up on the illegal acts in accordance with professional standards? (AU Sec. 317.10-.11)	A349	_____	_____	_____	_____
Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A350	_____	_____	_____	_____
Communicate directly with the audit committee if the illegal act(s) involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor's attention were adequately communicated? (AU Sec. 317.17)	A351	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (AU Sec. 341.02)	A352	_____	_____	_____	_____
If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))	A353	_____	_____	_____	_____
If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with mitigating factors? (AU Sec. 341.11)	A354	_____	_____	_____	_____
If the auditor's substantial doubt was not alleviated, did the auditor's report include an explanatory paragraph that adequately communicated the auditor's substantial doubt (e.g., include the terms "substantial doubt" and "going concern")? (AU Sec. 341.12-.13)	A355	_____	_____	_____	_____
During the performance of the audit:					
If there were reportable conditions identified were they communicated to the audit committee, management and others within the organization on a timely basis and if the communication was oral was it documented in the working papers? (AU Sec. 325.09)	A356	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does the auditor's conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)	A357	_____	_____	_____	_____
If the report was issued on reportable conditions, did it indicate the purpose of the audit, was to report on the financial statements and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and include the restriction on distribution? (AU Sec. 325.11)	A358	_____	_____	_____	_____
Has the auditor complied with the requirement not to issue a letter stating that there were no reportable conditions? (AU Sec. 325.17)	A359	_____	_____	_____	_____
Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date but prior to the date of the report? (AU Sec. 560)	A363	_____	_____	_____	_____
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, including performing audit procedures to determine if there are any such events affecting the financial statements, and does the matter appear to be properly resolved? (AU Sec. 561)	A364	_____	_____	_____	_____
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)	A365	_____	_____	_____	_____
Where there is an audit committee or some other formal oversight committee or the client is an SEC engagement, did the auditor:					
Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)	A366	_____	_____	_____	_____
If the communication was in writing, prepare a written report that included a statement that the communication was intended solely for the use of the audit committee or other appropriate parties? (AU Sec. 380.03)	A367	_____	_____	_____	_____
If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers? (AU Sec. 380.03)	A368	_____	_____	_____	_____

III. WORKING PAPER AREAS—EMPLOYEE BENEFIT PLANS ¹

Note: In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box above the name of the working paper area. [As indicated on page 5703, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" above the area.]

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
<input type="checkbox"/> Not a key area					
Cash					
Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?	A401	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?	A402	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Confirmation of cash balances?	BP301	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A406	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)	A407	_____	_____	_____	_____
<input type="checkbox"/> Not a key area					
Investments					
For trustee assets, did the audit procedures provide a reasonable basis for conclusions regarding:					
Analysis of changes in investments during the period? (AEBP, ch. 7, par. 7.12b)	BP302	_____	_____	_____	_____
Evidence regarding the existence and ownership of investments, such as direct confirmation (including securities in transit), and review for liens or other security interest? (AEBP, ch. 7, par. 7.12c, d, f)	BP303	_____	_____	_____	_____
Investment transactions, including accrued income? (AEBP, ch. 7, par. 7.12e, g)	BP304	_____	_____	_____	_____
Fair value of investments, including the net change in appreciation or depreciation? (AEBP, ch. 7, par. 7.12h, i)	BP305	_____	_____	_____	_____
Situations where the plan's investments might violate applicable laws or regulations? (AEBP, ch. 7, par. 7.12j)	BP306	_____	_____	_____	_____
Assets in a discretionary trust, an understanding of the related internal control structure sufficient to support transactions executed by the trust? (AEBP, ch. 7, pars. 7.13-.15)	BP307	_____	_____	_____	_____

¹ Complete only the sections for the key areas selected for review.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
For investments in a common or commingled trust, did the audit procedures consider or include:					
Confirming units of participation held by the plan? (AEBP, ch. 7, par. 7.18a)	BP308	_____	_____	_____	_____
Supporting documentation for unit value information? (AEBP, ch. 7, par. 7.18b, c)	BP309	_____	_____	_____	_____
For investment arrangements with insurance companies in insurance contracts did the audit procedures consider or include:					
Contracts between the contract holder and the insurance company? (AEBP, ch. 7, par. 7.39a)	BP310	_____	_____	_____	_____
Evidence regarding the existence and ownership of the contract, contributions, premium payments, income credits, etc., such as by direct confirmation and other means? (AEBP, ch. 7, par. 7.39b)	BP311	_____	_____	_____	_____
Unusual circumstances which may affect the market value of the contract? (AEBP, ch. 7, par. 7.39c)	BP312	_____	_____	_____	_____
Deposit Administration Contracts, interest credited in relation to minimum guaranteed interest? (AEBP, ch. 7, par. 7.40a)	BP313	_____	_____	_____	_____
Rate of return for Immediate Participation Guarantee Contracts? (AEBP, ch. 7, par. 7.40b)	BP314	_____	_____	_____	_____
Rates in annuity purchases consistent with contract stipulations? (AEBP, ch. 7, par. 7.40c)	BP315	_____	_____	_____	_____
Reading the financial statements of the insurance company? (AEBP, ch. 7, par. 7.40d)	BP316	_____	_____	_____	_____
Expenses charged to the contract in accordance with stipulations? (AEBP, ch. 7, par. 7.40e)	BP317	_____	_____	_____	_____
Investments made in separate, or pooled separate accounts? (AEBP, ch. 7, par. 7.41a, b)	BP318	_____	_____	_____	_____
Did the audit procedures applied to the other types of investments consider investments in real estate, loans, and mortgages? (AEBP, ch. 7, pars. 7.44-.46)	BP319	_____	_____	_____	_____
For limited-scope audits, did the audit procedures consider:					
Certified investment information? (AEBP, ch. 7, pars. 7.47-.48)	BP320	_____	_____	_____	_____
Were the audit procedures performed in all areas except investments? (AEBP, ch. 7, pars. 7.47-.48)	BP321	_____	_____	_____	_____
Was the investment information certified as to completeness and accuracy, prepared by a bank, similar institution, or insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency? (AEBP, ch. 13, pars. 13.25-.28)	BP322	_____	_____	_____	_____
<input type="checkbox"/> Not a key area					
Contributions Received and Related Receivables					
For contributions received and related receivables, did the audit procedures used provide a reasonable basis for conclusions regarding:					
Employers' and Employees' contributions? (AEBP, ch. 8, par. 8.3a-h)	BP323	_____	_____	_____	_____
Actuary reports for defined benefit plans? (AEBP, ch. 8, par. 8.5a-c)	BP324	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Contribution provisions of the plan instrument for defined contribution plans? (AEBP, ch. 8, par. 8.6a-c)	BP325	_____	_____	_____	_____
Did the audit procedures consider whether the companies' contributions to the plan were sufficient to meet the minimum funding standards set forth in ERISA? (AEBP, Appendix A, pars. A.10-.13)	BP326	_____	_____	_____	_____
<input type="checkbox"/> Not a key area					
Receivables					
Based on the assessment of control risk, do the substantive tests of contributions appear adequate? (AU Sec. 319)	BP327	_____	_____	_____	_____
Were amounts receivable from brokers for securities sold confirmed and appropriate follow-up steps taken, including second requests and alternate procedures? (AU Sec. 330.24-.30)	BP328	_____	_____	_____	_____
If a significant number and amount of receivables were not confirmed, is there evidence that alternative auditing procedures were performed? (AU Sec. 330.31-.32)	BP329	_____	_____	_____	_____
Were the results of confirmation and alternative procedures summarized and were appropriate conclusions included in the working papers? (AU Sec. 330.33)	A412	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)	A415	_____	_____	_____	_____
Was receivable work coordinated with the tests of revenue, including cut-off tests?	A417	_____	_____	_____	_____
If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)	A419	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)	A421	_____	_____	_____	_____
<input type="checkbox"/> Not a key area					
Property and Equipment Used in Plan Operations					
Was a summary schedule prepared to show beginning balances, changes during the period and ending balances for:					
Property and equipment used in plan operations?	A453	_____	_____	_____	_____
Accumulated depreciation?	A454	_____	_____	_____	_____
Do tests appear adequate and were proper conclusions drawn with respect to:					
Additions (e.g., by the examining supporting documents and/or physical inspection)?	A455	_____	_____	_____	_____
Retirements, etc.?	A456	_____	_____	_____	_____
The adequacy of the current and accumulated provisions for depreciation?	A457	_____	_____	_____	_____
Do the working papers indicate that the auditor considered the possibility that property was subject to liens?	A459	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of property and equipment appear adequate? (AU Sec. 319)	A460	_____	_____	_____	_____
<input type="checkbox"/> Not a key area					

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Liabilities					
Were other liabilities (including payables for securities purchased) adequately tested for existence?	A461	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A462	_____	_____	_____	_____
Was consideration given to expenditures and expenses that might require accrual (e.g., third-party administrator fees), and to whether accrued expenses were reasonably stated? (AC Secs. P16, C44 and P40)	A464	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed or, alternative procedures performed?	A465	_____	_____	_____	_____
Were procedures performed to determine whether the carrying value of notes payable reflects the present value of the consideration received at the appropriate interest rate?	A466	_____	_____	_____	_____
Do the working papers indicate that the auditor reviewed compliance with the covenants of the entity's debt obligations?	A467	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)	A468	_____	_____	_____	_____
<input type="checkbox"/>					
Benefit Payments and Claims Payable					
For selected participants receiving benefit payments, did the audit procedures consider or include:					
The propriety, required approvals, eligibility, cash disbursements, (including long outstanding benefit checks)? (AEBP, ch. 9, par. 9.3a-c)	BP330	_____	_____	_____	_____
Payments made by third parties? (AEBP, ch. 9, par. 9.4)	BP331	_____	_____	_____	_____
For defined contribution plans, did the audit procedures include or consider a comparison of disbursements to participants' records? (AEBP, ch. 9, par. 9.3d)	BP332	_____	_____	_____	_____
For health and welfare plans, did the audit procedures include accrued benefits payable? (AEBP, ch. 9, par. 9.3f, g)	BP333	_____	_____	_____	_____
<input type="checkbox"/> Not a key area					
Commitments and Contingencies					
Do the working papers contain evidence of the following:					
Inspection of minutes of meetings of relevant committees or boards?	A476	_____	_____	_____	_____
Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?	A477	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A478	_____	_____	_____	_____
Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 333 and 337.05)	A479	_____	_____	_____	_____
Other contingent liabilities or possible guarantees?	A480	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)	A481	_____	_____	_____	_____
Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?	A482	_____	_____	_____	_____
In limited-scope audits under DOL regulations, has the auditor ascertained that participant data was appropriately audited? (AEBP, ch. 13, par. 13.25)	BP334	_____	_____	_____	_____

□

Participant Data

For participant data, did the audit procedures consider or include:

Demographic data, payroll data, and benefits data? (AEBP, ch. 10, pars. 10.04-.05)

BP335 _____

For multi-employer plans, were employer contribution reports compared to participant data? (AEBP, ch. 10, par. 10.05)

BP336 _____

For multi-employer plans, if participant data cannot be reviewed, were other procedures performed? (AEBP, ch. 10, par. 10.06)

BP337 _____

For defined benefit plans, did the audit procedures consider or include:

Participant data compared with information given to the actuary? (AEBP, ch. 10, par. 10.08)

BP338 _____

Use of actuary's work? (AEBP, ch. 10, pars. 10.18-.23)

BP339 _____

For defined contribution plans, did the audit procedures consider or include:

Allocation of company and individual contributions, demographic data used to determine eligibility and vesting, and terminations? (AEBP, ch. 10, pars. 10.09-.11)

BP340 _____

Allocation of income or loss, forfeitures, etc.? (AEBP, ch. 10, par. 10.26a-e)

BP341 _____

For health and welfare benefit plans, did the audit procedures consider or include:

Claims information? (AEBP, ch. 10, pars. 10.12c and .29)

BP342 _____

Claims incurred but not paid? (AEBP, ch. 10, pars. 10.30 and .32)

BP343 _____

Premiums paid, and actuary's data? (AEBP, ch. 10, pars. 10.28 and .32)

BP344 _____

Based on the assessment of control risk, do the substantive tests of participant data appear adequate? (AU Sec. 319)

BP345 _____

□

Other Considerations

Did the audit procedures consider or include:

ERISA requirements, applicable sections of the Internal Revenue Code, related DOL and IRS regulations and the potential effect on the plan? (AEBP, ch. 5, par. 5.16)

BP346 _____

Risk areas, such as valuation of non-readily marketable securities or specialized investments? (AEBP, ch. 5, pars. 5.17-.20)

BP347 _____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Plan transactions with parties-in-interest including a basis for identification, understanding and evaluation of parties-in-interest? (AEBP, ch. 11)	BP348	_____	_____	_____	_____
If the auditor concluded that a party-in-interest transaction resulted in an illegal act, including in-kind contributions of property other than cash that reduce the sponsor's obligation to fund the plan in cash, did the audit procedures adequately consider the effect on the financial statements as well as other aspects of the audit? (AEBP, ch. 11, pars. 11.09-.13 and EPBID, p. 7)	BP349	_____	_____	_____	_____
Reviewing the tax status of the plan and IRS determination letters? (AEBP, ch. 12, pars. 12.01-.03)	BP350	_____	_____	_____	_____
Administrative expenses? (AEBP, ch. 12, pars. 12.08-.09)	BP351	_____	_____	_____	_____
Reading the other information contained in the Form 5500 and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements? (AEBP, ch. 12, pars. 12.12-.14)	BP352	_____	_____	_____	_____
Reading the actuary's report, and reviewing the actuarial assumptions? (AEBP, ch. 10, pars. 10.18-.23)	BP353	_____	_____	_____	_____
Comparing the plan provisions to the plan instrument and changes in provisions by the Internal Revenue Code in effect as of the plan year-end? (AEBP, chs. 1, 8, 10, 12, pars. 1.18, 8.06a-c, 10.25a, 10.26a, 12.03)	BP354	_____	_____	_____	_____
If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336)	BP355	_____	_____	_____	_____
If the firm issued an engagement letter on the audit engagement reviewed, did the language about the firm's responsibility with respect to the detection of errors and irregularities conform with the requirements of SAS No. 53? (AU Sec. 316, pars. 5-8)	BP356	_____	_____	_____	_____
If a third-party administrator was used, consideration of the effect of a service organization on the internal control structure of a user organization and the availability of audit evidence, including correct usage of a SAS No. 70 report if applicable? (AU Sec. 324, pars. 6-21)	BP357	_____	_____	_____	_____

IV. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm? (ET Sec. 101)	A601	_____	_____	_____	_____
Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	A602	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A603	_____	_____	_____	_____
For non-SEC clients, were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A604	_____	_____	_____	_____
For SEC clients, if the fees (billed/unbilled) for the prior years' services were not paid prior to the commencement of the current engagement, were the SEC's rules for unpaid professional fees adhered to?	A605	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A606	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A607	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A608	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A609	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?	A610	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?	A611	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A612	_____	_____	_____	_____
Supervision (QC Sec. 10.07d)					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A613	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A614	_____	_____	_____	_____
Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A615	_____	_____	_____	_____
Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A616	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A617	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A618	_____	_____	_____	_____
EDP system?	A619	_____	_____	_____	_____
Audit work programs?	A620	_____	_____	_____	_____
Financial statement disclosures?	A621	_____	_____	_____	_____
Working papers and financial statement reviews?	A622	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A623	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A624	_____	_____	_____	_____
If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A625	_____	_____	_____	_____
If required by firm policy, was an appropriate preissuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?	A626	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A627	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A628	_____	_____	_____	_____
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)	A629	_____	_____	_____	_____

V. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

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Question
Number

Explanatory Comments

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of Comments

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Explanatory Comments

Disposition
of Comments

VI. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. **BE SPECIFIC.**

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards? (See AU 390 and ET 202) YES * _____ NO _____
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified? (See AU 561 and ET 203) YES * _____ NO _____
- The auditor's report was not appropriate in the circumstances? YES * _____ NO _____
- The documentation on this engagement does not support the firm's opinion on the financial statements? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 5801.]

* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting On Peer Reviews*.

PRP Section 5800

Prospective Financial Statement Engagement Checklist

Instructions for Use of the Checklist for Review of Prospective Financial Statement Engagements

This checklist was developed for use by reviewers of prospective financial statement engagements. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in engagements involving prospective financial statements. All "No" answers must be thoroughly explained in Section IV of this checklist.

This checklist is not intended to be a document containing all disclosure and reporting procedures related to prospective financial statements. Rather, it is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate prospective financial engagements. These additional materials include the AICPA *Checklist Supplement and Illustrative Financial Statements for Prospective Financial Statements*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide *Guide for Prospective Financial Information*.

Explanation of References:

- AT Reference to section number in *AICPA Professional Standards* (vol. 1)
- APFI AICPA Audit and Accounting Guide *Guide for Prospective Financial Information*
- ET Code of Professional Conduct *AICPA Professional Standards* (vol. 2)
- SAS AICPA Statements on Auditing Standards
- SOP AICPA Statement of Position
- QC Quality Control Standards *AICPA Professional Standards* (vol. 2)

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____
 Owner _____ Date of Financial Statements * _____
 Manager _____ Date of Report _____
 Date Report Released _____

The responsibility of this engagement involves reporting on:

- 1. compiled forecast other prospective financial information
 compiled projection (describe) _____
 examination of a projection _____
 examination of a forecast SEC engagement
- 2. that (include) (omit) substantially all required disclosures and
- 3. that (include) (do not include) supplementary information.

The prospective financial statements are for an entity that is a (an):

- independent entity subsidiary, division or branch
- consolidated or combined group other (explain)

Date that the fee for the prior year's services was paid, if applicable: _____

Type of industry: _____ Complex or troublesome assumptions and key factors: _____

Hours on this engagement:

Owner	_____	
Manager (or equivalent)	_____	
Senior	_____	
Other	_____	
Total this office	_____	Total budgeted _____

* * * * *

Date Engagement Review Performed _____ Date Checklist Reviewed _____
 by Team Captain _____

Reviewer _____ Signature _____

* The effective date of all cross-referenced pronouncements should be considered in determining their applicability.

Checklist for Review of Prospective Financial Statement Engagements

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I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
Title					
For a forecast, does the title describe the nature of the presentation and include the word "forecast" or "forecasted"? (APFI Ch. 8, par. 05)	P101	_____	_____	_____	_____
For a projection, does the title not imply that the presentation is a forecast?	P102	_____	_____	_____	_____
For a projection, is the title descriptive of the presentation?	P103	_____	_____	_____	_____
For a projection, does the title describe or refer to any significant hypothetical assumptions?	P104	_____	_____	_____	_____
Presentation					
Are the following minimum financial statement items disclosed? (APFI Ch. 8, par. 06)					
(a) Sales or gross revenues?	P105	_____	_____	_____	_____
(b) Gross profit or cost of sales?	P106	_____	_____	_____	_____
(c) Unusual or infrequently occurring items?	P107	_____	_____	_____	_____
(d) Provision for income taxes?	P108	_____	_____	_____	_____
(e) Income from continuing operations?	P109	_____	_____	_____	_____
(f) Discontinued operations or extraordinary items?	P110	_____	_____	_____	_____
(g) Net income?	P111	_____	_____	_____	_____
(h) Primary and fully diluted earnings per share?	P112	_____	_____	_____	_____
(i) Significant changes in financial position?	P113	_____	_____	_____	_____
(j) A description of what the responsible party intends the financial forecast to present, a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared, and a caveat that the forecasted results may not be achieved? (APFI Ch. 8, par. 28)	P114	_____	_____	_____	_____
(k) Summary of significant assumptions?	P115	_____	_____	_____	_____
(l) Summary of significant accounting policies?	P116	_____	_____	_____	_____
If item j through l above is omitted, is the accountant's report modified to reflect this deficiency? (APFI Ch. 8, par. 08)	P117	_____	_____	_____	_____
If item k above is not included as an integral part of these financial statements, did the accountant consider withdrawing from the engagement? (APFI Ch. 10, pars. 11 and 11p)	P118	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If one or more of the omitted items (a through i, above) cannot be derived from the information presented, was guidance for partial presentations of prospective financial information followed? (APFI Ch. 23, SOP 90-1)	P119	_____	_____	_____	_____
If the size of the range is so wide that it is not meaningful, or if the range is biased, did the accountant consider withdrawing from the engagement? (APFI Ch. 10, par. 22)	P120	_____	_____	_____	_____
Is the number and/or significance of the hypothetical assumptions so large that it may be inappropriate for the responsible party to present a financial projection? (APFI, Ch. 28, par. 14p)	P121	_____	_____	_____	_____
If the presentation is other than a single-point estimate, is there a clear indication that the presentation does not necessarily represent the best or worst possible alternatives? (APFI Ch. 8, par. 21)	P122	_____	_____	_____	_____
If the forecast is supplemented by a financial projection, are both the forecast and projection clearly labeled? (APFI Ch. 8, par. 20)	P123	_____	_____	_____	_____
Does the responsible party appear to have a reasonably objective basis for presenting a financial forecast (APFI, Ch. 8, par. 04) and have the underlying assumptions and other issues affecting prospective financial statements been considered in accordance with SOP 92-2? (APFI, Ch. 7)	P124	_____	_____	_____	_____

Disclosure on the Face of Statements

Is each page of the prospective financials referenced to the summaries of significant assumptions and accounting policies? (APFI Ch. 8, par. 10)	P125	_____	_____	_____	_____
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Assumptions

Has an introduction preceding the summary of assumptions been provided? (APFI Ch. 8, par. 28)	P126	_____	_____	_____	_____
For a projection, is an introduction presented that clearly explains any special purpose and limitation of the usefulness of the prospective financial statements? (APFI Ch. 8, par. 29p)	P127	_____	_____	_____	_____
Does the introduction include:					
A description of what the responsible party intends the financial forecast to present? (APFI Ch. 8, par. 28)	P128	_____	_____	_____	_____
A statement that assumptions are not all-inclusive? (APFI Ch. 8, par. 28)	P129	_____	_____	_____	_____
If the presentation is a range, a statement that the responsible party expects the results to fall within a range although there can be no assurance that they will? (APFI Ch. 8, par. 30)	P130	_____	_____	_____	_____
A statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared? (APFI Ch. 8, par. 28)	P131	_____	_____	_____	_____
A caveat that the prospective results may not be attained? (APFI Ch. 8, par. 28)	P132	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was the date of preparation presented in the introduction or elsewhere in the prospective financial statements? (APFI Ch. 8, par. 11)	P133	_____	_____	_____	_____
Do the assumptions disclosed include (APFI Ch. 8, par. 23):					
Assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results (sensitive assumptions)?	P134	_____	_____	_____	_____
Assumptions about anticipated conditions expected to be significantly different from current conditions which are not otherwise reasonably apparent?	P135	_____	_____	_____	_____
Other matters deemed important to the prospective information or its interpretation?	P136	_____	_____	_____	_____
For a projection, did the responsible party identify which assumptions in the projection are hypothetical? (APFI Ch. 8, par. 23p)	P137	_____	_____	_____	_____
For a projection, if the hypothetical assumptions are improbable, is this disclosed? (APFI Ch. 8, par. 23p)	P138	_____	_____	_____	_____
Does the presentation indicate which assumptions disclosed appeared particularly sensitive at the time of preparation? (APFI Ch. 8, par. 24)	P139	_____	_____	_____	_____
If an updated prospective presentation is issued, is the reason for updating disclosed in the summary of significant assumptions? (APFI Ch. 8, par. 38)	P140	_____	_____	_____	_____
Accounting Principles and Policies					
Is the summary of significant accounting policies used in preparing the prospective financials disclosed or cross-referenced to a presentation elsewhere in the document that contains this information? (APFI Ch. 8, par. 12)	P141	_____	_____	_____	_____
If historical financial statements for prospective periods are expected to be prepared on a comprehensive basis of accounting other than generally accepted accounting principles, are the prospective financial statements prepared on same basis? (APFI Ch. 8, par. 14)	P142	_____	_____	_____	_____
Is the basis used disclosed (including statement titles) along with the fact that the disclosed basis is different from generally accepted accounting principles? (APFI Ch. 8, par. 14)	P143	_____	_____	_____	_____
If a different comprehensive basis of accounting is used for the prospective financial statements than is expected to be used for the historical financial statements for the prospective period, is the use of the different basis disclosed? (APFI Ch. 8, par. 15)	P144	_____	_____	_____	_____
If deemed appropriate, are differences in financial position and results of operations arising from the use of different accounting principles reconciled? (APFI Ch. 8, par. 15)	P145	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the prospective financial statements give effect to a change in accounting principle from one used in prior period historical financial statements, is the change reported in the prospective information in the same manner that would be used in the historical financial statements? (APFI Ch. 8, par. 16)	P146	_____	_____	_____	_____
Reports—Compilation					
Does the accountant's standard report on a compilation of prospective financial statements include (AT Sec. 200.16):					
An identification of the prospective financial statements presented by the responsible party?	P147	_____	_____	_____	_____
A statement that the accountant has compiled the prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants?	P148	_____	_____	_____	_____
A statement that a compilation is limited in scope and does not enable the accountant to express an opinion or any other form of assurance on the prospective financial statements or the assumptions?	P149	_____	_____	_____	_____
A caveat that the prospective results may not be achieved?	P150	_____	_____	_____	_____
A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?	P151	_____	_____	_____	_____
If a projection, does the accountant's report include a separate paragraph describing the limitations on the usefulness of the presentation? (AT Sec. 200.18)	P152	_____	_____	_____	_____
If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? (AT Sec. 200.19)	P153	_____	_____	_____	_____
Was the date of the completion of the compilation procedures used as date of the report? (AT Sec. 200.20)	P154	_____	_____	_____	_____
If the accountant was not independent, did he/she specifically disclose a lack of independence after the last paragraph of the standard compilation report? (AT Sec. 200.21)	P155	_____	_____	_____	_____
If the prospective financial statements were included in a document that also contains historical financial statements and the accountant's report thereon, was a reference to the accountant's report on the historical financial statements made? (AT Sec. 200.22)	P156	_____	_____	_____	_____
If the historical financial statements that appear in the document were summarized and presented with the prospective financial statements for comparative purposes, was a reference to the accountant's report on the historical financial statements made? (AT Sec. 200.22)	P157	_____	_____	_____	_____
If the accountant expands his/her report to emphasize a matter, was the information presented in a separate paragraph of the accountant's report? (AT Sec. 200.23)	P158	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
When emphasizing a matter, did the report not give the impression that assurance is being expressed or the degree of responsibility was being expanded concerning such information? (AT Sec. 200.23)	P159	_____	_____	_____	_____
If the accountant compiled prospective financial statements that contain presentation deficiencies or omit disclosures other than those relating to significant assumptions, is the deficiency or omission clearly indicated in the report? (AT Sec. 200.24-.26)	P160	_____	_____	_____	_____
If the prospective financial statements are presented on a comprehensive basis of accounting other than generally accepted accounting principles and do not include disclosure of the basis of accounting used, is the basis disclosed in the accountant's report? (AT Sec. 200.25)	P161	_____	_____	_____	_____
Reports—Examination					
Does the accountant's standard report on an examination of the prospective financial statements include (AT Sec. 200.31):					
An identification of the prospective financial statements presented?	P162	_____	_____	_____	_____
A statement that the examination was made in accordance with AICPA standards and a brief description of the nature of such an examination?	P163	_____	_____	_____	_____
The accountant's opinion that the prospective financial statements are presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions?	P164	_____	_____	_____	_____
A caveat that the prospective results may not be achieved?	P165	_____	_____	_____	_____
A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?	P166	_____	_____	_____	_____
In the examination of a projection, is the opinion regarding assumptions conditioned on the hypothetical assumptions? (AT Sec. 200.33)	P167	_____	_____	_____	_____
Does the report include a separate paragraph that describes the limitations on the usefulness of the presentation? (AT Sec. 200.33)	P168	_____	_____	_____	_____
If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? (AT Sec. 200.34)	P169	_____	_____	_____	_____
Is the date of completion of the accountant's examination procedures used as the date of the report? (AT Sec. 200.35)	P170	_____	_____	_____	_____
If, in the accountant's opinion, the prospective financial statements depart from AICPA presentation guidelines, was a qualified or adverse opinion expressed? (AT Sec. 200.36)	P171	_____	_____	_____	_____
If the presentation, including the summary of significant assumptions, fails to disclose any assumptions that, at the time, appear to be significant, did the accountant describe the assumptions in the report and issue an adverse opinion? (AT Sec. 200.40)	P172	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the accountant believes that one or more significant assumptions do not provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions, was an adverse opinion expressed? (AT Sec. 200.36)	P173	_____	_____	_____	_____
If the accountant's examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, was an opinion disclaimed and the scope limitation described? (AT Sec. 200.36)	P174	_____	_____	_____	_____
In a qualified opinion, did the accountant state all of the substantive reasons for the modification of the opinion and describe the departure from AICPA presentation guidelines in a separate paragraph of the report? (AT Sec. 200.37)	P175	_____	_____	_____	_____
For the accountant's report (AT Sec. 200.37-.39):					
Does the opinion that includes a qualified or adverse opinion include the words "except" or "exception" as the qualifying language?	P176	_____	_____	_____	_____
Does the opinion paragraph refer to the separate explanatory paragraph?	P177	_____	_____	_____	_____
If a measurement departure, an unreasonable assumption, or a limitation on the scope of the accountant's examination has led the accountant to conclude that an unqualified opinion cannot be expressed, did the report contain an adverse opinion, or a disclaimer of opinion based on the circumstances?	P178	_____	_____	_____	_____
If an adverse opinion was expressed, did the accountant state all of the substantive reasons for such an opinion in a separate paragraph?	P179	_____	_____	_____	_____
If applicable, does the opinion state that the presentation is not in conformity with presentation guidelines?	P180	_____	_____	_____	_____
When applicable, does the opinion paragraph state that, in the accountant's opinion, the assumptions do not provide a reasonable basis for the prospective financial statements?	P181	_____	_____	_____	_____
Reports—Examination of a Forecast—Public Offering					
Does the accountant have a reasonable basis to consent to the use of the report in a 1933 Act filing? (APFI Ch. 18, par. 04)	P182	_____	_____	_____	_____
Did the accountant perform the applicable steps below to determine that he/she had a reasonable basis for such consent (APFI Ch. 18, par. 04):					
Did the accountant perform procedures for the period from the date of examination up to the consent date and as is reasonable and practical in circumstances?	P183	_____	_____	_____	_____
Did the accountant read the latest interim financial statements, operating reports, and any relevant information such as budgets?	P184	_____	_____	_____	_____
Did the accountant consider prospective results in relation to actual results achieved in the interim period?	P185	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the accountant inquire whether or not accounting principles used are consistent with the principles used in preparing the forecast?	P186	_____	_____	_____	_____
Did the accountant read the prospectus and other pertinent portions of the registration statement and consider that information in relation to prospective results and summary of significant assumptions?	P187	_____	_____	_____	_____
Did the accountant inquire of and obtain written representations from the responsible party as to whether there are any events, plans, or expectations that may require the forecast to be modified, or that should be disclosed in order that the forecast reflect the responsible party's judgment based on present circumstances of the expected conditions and its expected course of action?	P188	_____	_____	_____	_____
Did the accountant read the minutes of the board of directors and related committees?	P189	_____	_____	_____	_____
Did the accountant make additional inquiries or perform such procedures as were considered necessary to dispose of questions that arose in carrying out the foregoing procedures?	P190	_____	_____	_____	_____
If the accountant believes that the forecast, including the summary of significant assumptions, should be revised, was the client requested to revise its forecast and, if engaged to do so, did the accountant examine the revised forecast? (APFI Ch. 18, par. 05)	P191	_____	_____	_____	_____
If the client does not make appropriate revisions to the forecast, did the accountant refuse his/her consent to the use of the report in the registration statement? (APFI Ch. 18, par. 05)	P192	_____	_____	_____	_____
Is the accountant's consent in writing? (APFI Ch. 18, par. 06)	P193	_____	_____	_____	_____
Is the consent for the 1933 Act filing manually signed and dated? (APFI Ch. 18, par. 06)	P194	_____	_____	_____	_____
Is the consent dated at or near the effective date of the registration statement? (APFI Ch. 18, par. 07)	P195	_____	_____	_____	_____
If the "experts" section of the registration statement is worded so that there is no implication that the forecast has been prepared by the accountant or that the forecast is not the direct responsibility of the responsible party, did the accountant request this language be changed? (APFI Ch. 18, par. 09)	P196	_____	_____	_____	_____

II. WORKING PAPERS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Are the accountant's working papers in connection with the compilation or examination of financial forecasts appropriate in the circumstances? (APFI Ch. 12, par. 11 and AT Sec. 200.15 for compilations and APFI Ch. 15, par. 41 and AT Sec. 200.30 for examinations)	P201	_____	_____	_____	_____
For compilations, do the working papers indicate that (APFI Ch. 12, par. 11 and AT Sec. 200.15):					
The work was adequately planned and supervised?	P202	_____	_____	_____	_____
The required compilation procedures were performed as a basis for the compilation report?	P203	_____	_____	_____	_____
For an examination, do the working papers indicate that (APFI Ch. 15, par. 41 and AT Sec. 200.30):					
The work was adequately planned and supervised?	P204	_____	_____	_____	_____
The process by which the entity develops its financial forecasts was considered in determining the scope of the examination?	P205	_____	_____	_____	_____
Sufficient evidence was obtained to provide a reasonable basis for the accountant's report?	P206	_____	_____	_____	_____
Did the accountant:					
Establish an understanding with the client, preferably in writing? (APFI Ch. 12, par. 10 for compilation and APFI Ch. 15, par. 12 for an examination)	P207	_____	_____	_____	_____
Obtain knowledge of the entity's business, accounting principles and key factors upon which its future financial results appear to depend? (APFI Ch. 12, par. 07 or Ch. 15, par. 10)	P208	_____	_____	_____	_____
Perform the appropriate procedures:					
For compilations, by listing or obtaining a list of the responsible party's significant assumptions, and consider whether there were any obvious omissions in light of the key factors on which the prospective results appear to depend? (APFI Ch. 12, par. 10)	P209	_____	_____	_____	_____
For examinations by performing those procedures the accountant considers necessary in the circumstances to report on whether the assumptions provide a reasonable basis for the financial forecast? (APFI Ch. 15, par. 20)	P210	_____	_____	_____	_____
Perform or test the mathematical accuracy of computations that translate the assumptions into the prospective amounts in the financial forecasts? (APFI Ch. 12, par. 10 and Ch. 15, par. 35)	P211	_____	_____	_____	_____
Obtain written representations from the responsible party acknowledging its responsibility for both the presentation and the underlying assumptions? (APFI Ch. 12, par. 10 or Ch. 15, par. 37)	P212	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the work of a specialist was used in an examination, was the guidance provided in SAS No. 73, "Using the Work of a Specialist" followed? (APFI Ch. 15, par. 39 and AT Sec. 100.10)	P213	_____	_____	_____	_____

III. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Independence (QC Sec. 10.07a)					
If anything has been noted during the review that may indicate a lack of independence (or a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? (ET Sec. 101)	P301	_____	_____	_____	_____
Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	P302	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to examine segments or component units of the entity? (QC Sec. 90.10)	P303	_____	_____	_____	_____
For non-SEC clients, were the fees (billed/unbilled) for the prior year's services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	P304	_____	_____	_____	_____
For SEC clients, if the fees (billed/unbilled) for the prior year's services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?	P305	_____	_____	_____	_____
Assigning Personnel to Engagements (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	P306	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided? (QC Sec. 90.12)	P307	_____	_____	_____	_____
Consultation (QC Sec. 10.07c)					
Was there appropriate consultation and documentation of complex or unusual situations specified by firm policy? (QC Sec. 90.14)	P308	_____	_____	_____	_____
Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?	P309	_____	_____	_____	_____
Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?	P310	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	P311	_____	_____	_____	_____
Supervision (QC Sec. 10.07d)					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (APFI Ch. 15, par. 06-07)	P312	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it appear that planning was adequately documented in the working papers, including any changes in the original plan? (AT Secs. 200.15 and 200.30)	P313	_____	_____	_____	_____
Did the partner (or manager) approve the overall plan as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	P314	_____	_____	_____	_____
Does it appear that hours charged by the partner and manager were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	P315	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	P316	_____	_____	_____	_____
Work programs?	P317	_____	_____	_____	_____
Prospective financial statement disclosures?	P318	_____	_____	_____	_____
Working papers and prospective financial statement reviews?	P319	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	P320	_____	_____	_____	_____
Were the firm's guidelines for the form and content of working papers complied with?	P321	_____	_____	_____	_____
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and prospective financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?	P322	_____	_____	_____	_____
Advancement (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	P323	_____	_____	_____	_____
Acceptance and Continuance of Clients (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	P324	_____	_____	_____	_____
Professional Development (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)	P325	_____	_____	_____	_____

IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

V. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with professional standards (see ET 202)? YES* _____ NO _____
- The prospective financial statements were not presented fairly in all material respects and the firm's report was not appropriately modified (see ET 203)? YES _____ NO _____
- The firm's report was not appropriate in the circumstances? YES _____ NO _____
- The documentation on this engagement does not support the firm's report on the prospective financial statements? YES _____ NO _____
- The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

[The next page is 6001.]

* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Peer Reviews*.

PRP Section 6000
ENGAGEMENT CHECKLIST SUPPLEMENTS

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Section

6010 Supplemental Checklist for Review of Banks and Savings Institutions Audit Engagements

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6060 Supplemental Checklist for Review of Common Interest Realty Associations

6070 Supplemental Checklist for Review of Providers of Health Care Services Engagements

6080 Supplemental Checklist for Review of Audits of HUD Engagements

[The next page is 6011.]

PRP Section 6010

Supplemental Checklist for Review of Banks and Savings Institutions Audit Engagements

Instructions for Use of the Supplemental Checklist for Review of Banks and Savings Institutions Audit Engagements

This supplemental checklist was developed for use by reviewers of banks and savings institutions audit engagements. It should be used in conjunction with the *General Audit Engagement Checklist* (audit checklist) and other guidance materials issued to implement the peer review program. The instructions to Sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of banks and savings institutions. All "No" answers must be thoroughly explained in Section VI of the audit checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to the financial statements of banks and savings institutions. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate banks and savings institutions engagements. These additional materials include the AICPA Financial Accounting and Reporting Practice Aids *Checklist and Illustrative Financial Statements for Banks*, *Checklist and Illustrative Financial Statements for Savings Institutions* or other similarly comprehensive disclosure materials, the AICPA Industry Audit Guide, *Audits of Banks*, the AICPA Audit and Accounting Guide *Audits of Savings Institutions* and the AICPA Auditing Procedure Study *Auditing the Allowance for Credit Losses of Banks*. In 1996, the AICPA plans to issue an Audit and Accounting Guide, *Banks and Savings Institutions*, which will supersede the two current guides and incorporate the Auditing Procedure Study. The new guide will be effective for years ending after June 15, 1996.

This is part of a series of supplemental checklists which the Institute has developed to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

AAGB	AICPA Industry Audit Guide <i>Audits of Banks</i> as of March 1, 1995 (for depository institutions insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation)
AAGS	AICPA Audit and Accounting Guide <i>Audits of Savings Institutions</i> as of March 1, 1995 (for depository institutions insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation)
AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AT	Reference to section number for Statement on Standards for Attestation Engagements <i>AICPA Professional Standards</i> (vol. 1)
AU	Reference to section number for Statement on Auditing Standards <i>AICPA Professional Standards</i> (vol. 1)
CFR	Code of Federal Regulations
EITF	Emerging Issues Task Force Consensus
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
FAS	Financial Accounting Standards Board Pronouncements
FDI ACT	Federal Deposit Insurance Act
SOP	AICPA Statement of Position
SX	Securities and Exchange Commission Regulation S-X

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¹ Refer to AICPA Financial Reporting Practice Aids *Checklists and Illustrative Financial Statements for Banks, Checklists and Illustrative Financial Statements for Savings Institutions* or other similarly comprehensive materials; the AICPA Industry Audit Guide *Audits of Banks* and the AICPA Audit and Accounting Guide *Audits of Savings Institutions* (see instructions on PRP § 6011).

² Reviewers should refer to the instructions for the applicable section included in the *General Audit Engagement Checklist*.

³ Refer to AICPA Industry Audit Guide *Audits of Banks*, the AICPA Audit and Accounting Guide *Audits of Savings Institutions* and the AICPA Auditing Procedure Study *Auditing the Allowance for Credit Losses of Banks* (see instructions on PRP § 6011).

I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Financial Statements and Notes					
Is the presentation appropriate and is the disclosure adequate regarding:					
Cash and Due from Banks? (AAGB Ch. 4, pars. 11 and 12)	B101	_____	_____	_____	_____
Loans by category (AAGB, Ch. 7, pars. 43-50 and AAGS, Ch. 6, pars. 72 and 73):					
Commercial?	B102	_____	_____	_____	_____
Real Estate?	B103	_____	_____	_____	_____
Consumer and other loans?	B104	_____	_____	_____	_____
Allowance for loan and credit losses (shown as a deduction from loans and lease receivables; disclose the method of providing reserves and a reconciliation of the balance)? (AAGB, Ch. 7 and Ch. 8, and AAGS, Ch. 6, pars. 72 and 73)	B105	_____	_____	_____	_____
Loans on nonaccrual basis, and the effect of such loans on income? (AAGB, Ch. 7, par. 45)	B106	_____	_____	_____	_____
Domestic and foreign deposits (separately shown and disclosing interest or non-interest-bearing portions, amounts and maturities of certificates of deposit of \$100,000 or greater, large concentrations and related parties)? (AAGB, Ch. 12, pars. 17-18 and AAGS, Ch. 13, par. 26)	B107	_____	_____	_____	_____
Federal fund purchases, securities sold under repurchase agreements and other short-term borrowings (presented at gross amounts)? (AAGB, Ch. 9, par. 9 and AAGS, Ch. 3, par. 23)	B108	_____	_____	_____	_____
Exclusion of trust assets? (AAGB, Ch. 18, par. 2)	B109	_____	_____	_____	_____
Material interest-bearing deposits in other depository institutions (separately disclosed)? (AAGB, Ch. 4, pars. 11 and 12 and AAGS, Ch. 10, par. 2)	B110	_____	_____	_____	_____
Are repurchase agreements presented gross, except where a right of offset exists and the conditions described in FASB Interpretation 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements, have been met? (AAGB, ch. 9, par. 9 and AAGS, ch. 3, par. 23)	B111	_____	_____	_____	_____
Trading assets and related futures contracts? (AAGB, Ch. 6, pars. 12 and 13 and AAGS, Ch. 16, pars. 81-84)	B112	_____	_____	_____	_____
Mortgage loans and mortgage-backed securities held for sale? (AC, Sec. Mo4.129-.134 and AAGS, Ch. 4, pars. 17-23)	B113	_____	_____	_____	_____
Investment securities (disclosed separately) at the aggregate carrying value, gross unrealized gains, gross unrealized losses and market value? (AAGB, Ch. 5, pars. 25-30 and Appendix I, and AAGS, Ch. 3, pars. 4-35)	B114	_____	_____	_____	_____
Loan commitments and unused lines of credit for short-term financing? (AAGB, Ch. 22, pars. 23-25 and AAGS, Ch. 6, pars. 53 and 54)	B115	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
“Other” assets or liabilities that individually exceed 30% of stockholders’ equity (separately stated), if applicable? (Reg. S-X 9-03.10)	B116	_____	_____	_____	_____
For financial instruments with off-balance-sheet risks of accounting loss and off-balance-sheet credit risk (i.e., outstanding loan commitments written, standby and commercial letters of credit written, financial guarantees written, recourse obligations on receivables sold, etc.) have the following been disclosed (AC Sec. F25.103):					
The face or contract amount? The nature and terms of the instrument (including credit and market risk)? (AC Sec. F25.112)	B117	_____	_____	_____	_____
For instruments with off-balance-sheet credit risk; the potential loss for failure to perform completely, and policies and information regarding collateral requirements? (AC Sec. F25.113)	B118	_____	_____	_____	_____
For group concentrations of credit risk of all financial instruments; information about the shared activity, region, or other characteristics; exposure to loss for the group; policies regarding the requirement and the nature of existing collateral for the group? (AC Sec. F25.115)	B119	_____	_____	_____	_____
Has the client disclosed all significant regulatory supervisory agreements, orders or other regulatory actions? (AC Sec. C59 and AU Sec. 341)	B120	_____	_____	_____	_____
Did the engagement team consider the adequacy of disclosure of related party transactions, including (AU Sec. 334 and AC Sec. R36):					
Loans to insiders and affiliates?	B121	_____	_____	_____	_____
Fees or commissions paid to officers and directors, or their affiliates?	B122	_____	_____	_____	_____
If applicable (institutions with \$150 million in assets), were financial instruments for which it is practicable to estimate a fair value disclosed (AC Sec. F25.115):					
Fair value of the financial instrument?	B123	_____	_____	_____	_____
Method(s) and significant assumptions used to estimate the fair value?	B124	_____	_____	_____	_____
If applicable (institutions with \$150 million in assets), were financial instruments for which it is not practicable to estimate a fair value disclosed (AC Sec. F25):					
Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	B125	_____	_____	_____	_____
The reasons why it is not practicable to estimate fair value?	B126	_____	_____	_____	_____
If FAS No. 119 was applicable to this engagement (either as a result of the statement’s effective date or an early application of the statement), have the following been disclosed regarding derivative financial instruments by category of financial instrument (i.e., futures, forward, swap, option contracts, etc.)? (AC Sec F25.115):					
Has the entity a) segregated the fair value of derivative financial instruments from the fair value of nonderivative financial instruments and b) not netted other derivative or nonderivative financial instruments except to the extent offsetting is permitted? (AC Sec F25.115l)	B127	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
The face or contract amount? Nature and terms of the instrument (including credit and market risk)? Cash requirements of those instruments? Related accounting policy? (AC Sec F25.115L)	B128	_____	_____	_____	_____
Purposes for which derivative financial instruments are held or issued (Trading versus Other)? (AC Sec F25.115M)	B129	_____	_____	_____	_____
If held or issued for trading, the average fair value and related end-of-period fair value? Net gains or losses disaggregated by class, business activity, risk, etc.)? (AC Sec F25.115N)	B130	_____	_____	_____	_____
For purposes other than trading, a description of the objectives and strategies for reaching the objectives? Description of how each class of derivative financial instrument is reported and related policies? (AC Sec F25.115O)	B131	_____	_____	_____	_____
Are required disclosures about risks and uncertainties made regarding the nature of operations, the use of estimates, certain significant estimates, and current vulnerabilities due to certain concentrations? (SOP 94-6, Pars 18 and 21; TPA Sec. 10,640)	B132	_____	_____	_____	_____
If applicable, has the institution complied with the reporting provisions of the Federal Deposit Insurance Act? (FDI Act Section 36 as Implemented by 12 CFR 363):					
Has an attestation report been issued on management’s assertion about the effectiveness of the institution’s internal control structure over financial reporting? (12 CFR 363.2(a))	B133	_____	_____	_____	_____
Has an agreed-upon procedures attestation report been issued relative to management’s assertion about the institution’s compliance with designated laws and regulations? (12 CFR 363.2(a))	B134	_____	_____	_____	_____
If FAS Nos. 114 and 118 were applicable to this engagement (either as a result of the statement’s effective date or an early application of the statement) have the following been disclosed:					
The recorded investment in impaired loans and the total allowance for credit losses related to impaired loans?	B135	_____	_____	_____	_____
The activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off?	B136	_____	_____	_____	_____
The appropriate income recognition policies and related disclosures?	B137	_____	_____	_____	_____
Were fair value disclosures appropriately presented for debt and equity securities? (SOP 90-11 and FAS No. 115)	B138	_____	_____	_____	_____
If FAS 121 was applicable to this engagement (either as a result of the statement’s effective date or an early application of the statement) have the following been disclosed regarding an impairment loss for assets to be held and used?:					
Description of the impaired assets, facts and circumstances leading to the impairment, including amount of loss and method of fair market value determination? (AC Sec I08 Par. 133)	B139	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>If FAS No. 122 was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) have the following been disclosed regarding a) mortgage loans held for sale and b) mortgage loans held for investment? (Mo.4 Pars. 129-134):</p>					
Method used in determining lower or cost of market?	B140	_____	_____	_____	_____
Amount capitalized, method of amortization and amount of amortization during the period with purchasing or originating the right to service mortgage loans?	B141	_____	_____	_____	_____
Fair value of capitalized mortgage rights, including methods and assumptions? Risk characteristics of the underlying loans used to stratify capitalized mortgage servicing rights?	B142	_____	_____	_____	_____
For each period results of operations are presented, the activity in the valuation allowance for capitalized mortgaged servicing rights?	B143	_____	_____	_____	_____

II. WORKING PAPER AREAS—BANKS AND SAVINGS INSTITUTIONS

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>	**
<input type="checkbox"/>						
General						
Do the engagement planning and audit working papers consider apparent fraud and insider abuse and the results of inquiries, readings, changes in the economy and concentration of risks, excerpts or other evidence of an understanding of regulatory examinations, their findings and actions? (AU Secs. 316 and 317)	B301	_____	_____	_____	_____	
Did the independent auditor consider matters affecting the industry, such as regulatory requirements, such as required capitalization? (AU 311)	B302	_____	_____	_____	_____	
Did the independent auditor review reports of significant examinations and related communications between examiners and the financial institution and, when appropriate, make inquiries of the examiners? (SOP 90-5 and AAGB, Ch. 2, pars. 31-33)	B303	_____	_____	_____	_____	
Did the independent auditor's evaluation of the client's ability to remain a going concern consider the effects of provisions of the FDI Act that affect the client's liquidity including limitations on:						
Acceptance of brokered deposits?	B304	_____	_____	_____	_____	
The availability of borrowings through the Federal Reserve discount window?	B305	_____	_____	_____	_____	
Exposure to the client posed by transactions with correspondent banks and related interbank liabilities?	B306	_____	_____	_____	_____	
Was the independent auditor aware that loans from the client would be in violation of ET Sec. 101-1A? (Note to reviewer: ET Sec. 101-1A does not permit exceptions based on materiality)	B307	_____	_____	_____	_____	
Do the working papers indicate that events of noncompliance or expected noncompliance with regulatory requirements—including capital standards—were considered in the auditor's evaluation of the client's ability to continue as a going concern? (AU Sec. 341)	B308	_____	_____	_____	_____	
If the client uses service bureaus for processing significant information (for example, mortgage servicing, general ledger and trial balances, loan deposit or credit card transactions or investment information), do the working papers indicate that the engagement team considered the effect on the internal control structure and the assessment of control risk? (AU Sec. 324)	B309	_____	_____	_____	_____	
Do the working papers indicate that the audit team considered the client's classification of investment securities according to the client's intent for those securities, and given any turnover in the investment portfolio? (AAGB, Ch. 5, par. 6 and AAGS, Ch. 3, par.28)	B310	_____	_____	_____	_____	
Do the working papers indicate that the practitioner considered the client's evaluation of impairments in the value of investment securities where such impairments are considered "other than temporary?" (SEC Staff Accounting Bulletin No. 59 for publicly-held depository institutions)	B311	_____	_____	_____	_____	

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was the agreed-upon procedures engagement, relative to management's assertion about the effectiveness of the institution's internal control structure over for financial reporting, conducted in accordance with Statements on Standards for Attestation Engagements?	B312	_____	_____	_____	_____
Were agreed-upon procedures relative to management's assertion about compliance with designated laws performed in accordance with Statements on Standards for Attestation Engagements and FDI Act guidelines relative to (Appendix A to 12 CFR 363):	B313	_____	_____	_____	_____
Loans to insiders?	B314	_____	_____	_____	_____
Dividend restrictions?	B315	_____	_____	_____	_____
If the client-auditor relationship with an FDIC insured depository institution has subsequently ceased, has a notice of termination been properly filed within 15 days with the FDIC? (Note to reviewer: This and other requirements of 12 CFR 363 generally apply to institutions with over \$500 million in assets.)	B316	_____	_____	_____	_____
<input type="checkbox"/>					
Loans (AAGB, Ch. 7 and Ch. 8 and AAGS, Ch. 6 and Ch. 7)					
Did the loan evaluation consider or include:					
Lending policies and procedures, including control over loan file documentation and maintenance?	B317	_____	_____	_____	_____
The qualifications of the loan officers?	B318	_____	_____	_____	_____
The effectiveness of the internal audit and loan review programs?	B319	_____	_____	_____	_____
The results of prior years' examinations and industry statistics?	B320	_____	_____	_____	_____
Loan loss experience and charge-off policy?	B321	_____	_____	_____	_____
The relative degrees of risk inherent by type of loan: considering, for example, if loans are unsecured, associated with depressed areas or industries, highly concentrated and exposed to political, geographic or economic risks?	B322	_____	_____	_____	_____
Participations purchased or sold?	B323	_____	_____	_____	_____
Overdrafts?	B324	_____	_____	_____	_____
Classification of loans as performing or nonperforming?	B325	_____	_____	_____	_____
Criteria for and controls over returning loans to accrual status?	B326	_____	_____	_____	_____
Application of cash payments from troubled loans?	B327	_____	_____	_____	_____
Related party transactions?	B328	_____	_____	_____	_____
The extent to which loan renewals and extensions are used to maintain loans on a current basis?	B329	_____	_____	_____	_____
Appraisals obtained on foreclosed real estate, including the qualifications, independence and findings of the appraisers?	B330	_____	_____	_____	_____
The use of watch lists, delinquency reports and other sources of potential problems including troubled debt restructurings and in-substance foreclosures?	B331	_____	_____	_____	_____
Did the work include the review of individual loan files including borrowers' financial statements, evidence of collateral and cash flow information?	B332	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the work include a determination of whether or not the entity had entered into acquisition, development or construction (ADC) arrangements and that such arrangements were appropriately accounted for? (Practice Bulletin 1 and EITF 86-21)	B333	_____	_____	_____	_____
In the loan area has the audit team given adequate consideration to:					
Testing executed notes, loan applications, financial statements of borrowers, chattels and recording of chattels, other credit information and approvals?	B334	_____	_____	_____	_____
Providing evidence of the institution's compliance with the requirements of AC Sec. L20 (FAS No. 91)—Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, in the engagement working papers?	B335	_____	_____	_____	_____
Confirmation with customers?	B336	_____	_____	_____	_____
Proper accounting recognition of unearned income, interest income, points, recognition of acquisition and other fees and requirements of AC Sec. L20 (FAS No. 91)?	B337	_____	_____	_____	_____
Were audit procedures performed to test accrued interest receivable, unearned discount and interest income on sample groups of loans? (AAGB, Ch. 7, par. 58)	B338	_____	_____	_____	_____
Were appropriate substantive procedures, or at a minimum analytical procedures, performed to test interest income overall for all major loan categories? (AAGB, Ch. 7, par. 58)	B339	_____	_____	_____	_____
If negative confirmation requests were used in confirmation of cash, accounts receivable, investments, loans, deposit account balances or other assets or liabilities, do the working papers indicate that (AU Sec. 330):					
The combined assessed level of inherent and control risk is low?	B340	_____	_____	_____	_____
A large number of small balances is involved?	B341	_____	_____	_____	_____
and,					
The practitioner has no reason to believe that the recipients of the requests are unlikely to give them consideration?	B342	_____	_____	_____	_____
Did the engagement team consider performing other substantive procedures to supplement the use of negative confirmations?	B343	_____	_____	_____	_____
Related to servicing rights, do the working papers document that the engagement team evaluated management's estimates of historical and future prepayments? (AU Sec. 342)	B344	_____	_____	_____	_____
If the client has transferred receivables with recourse, did the obligations recorded under the recourse provisions include all probable credit losses? (EITF 92-2)	B345	_____	_____	_____	_____
Was an appropriate evaluation of the adequacy of the allowance for loan losses and the selection of loans to be evaluated, documented and then performed?	B346	_____	_____	_____	_____

□

Real Estate and Other Assets

(AAGB, Ch. 11 and Appendix J and AAGS, Ch. 9)

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If real estate or other assets acquired through foreclosure are significant to the client, were:					
Carrying values properly recorded, classified, and disclosed in the financial statements? (SOP 92-3)	B347	_____	_____	_____	_____
Continuing carrying values assessed, including those for in-substance foreclosures?	B348	_____	_____	_____	_____
Loans restructured by the client properly recorded under the principles of AC Sec. D22? (FAS No. 15)	B349	_____	_____	_____	_____
Were sales of foreclosed real estate and other assets financed by the institution tested for proper accounting treatment? (SOP 92-3 and FAS No. 66)	B350	_____	_____	_____	_____
<input type="checkbox"/>					
Deposits (AAGB, Ch. 12)					
Were appropriate audit procedures performed to test the underlying balances of the subsidiary deposit records with the general ledger control accounts? (AAGB, Ch. 12, par. 21)	B351	_____	_____	_____	_____
Were deposit accounts confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330 and AAGB, Ch. 12, pars. 25-28)	B352	_____	_____	_____	_____
Was accrued interest payable, interest expense and service charge income tested in connection with the audit of deposits? (AAGB, Ch. 12, par. 29)	B353	_____	_____	_____	_____
Were appropriate substantive procedures, or at a minimum analytical procedures, performed to test interest expense overall for all major deposit categories? (AAGB, Ch. 12, par. 29)	B354	_____	_____	_____	_____
]Based on the assessment of control risk, do the substantive tests of deposit accounts appear reasonable? (AU Sec.319)	B355	_____	_____	_____	_____
<input type="checkbox"/>					
Directors' Examinations (AAGB, Appendix C)					
Procedures may be limited in a directors' examination; therefore, were the following considered:					
Clearly setting forth in the engagement letter the nature and extent of procedures?	B356	_____	_____	_____	_____
Federal and state regulations and requirements in the determination of the engagement scope?	B357	_____	_____	_____	_____
Compliance with the provisions of the following, if the engagement consisted of performing certain agreed-upon procedures:					
AU Sec. 622 for procedures on specified elements, accounts, or items of a financial statement?	B358	_____	_____	_____	_____
AT Sec. 400 for procedures related to internal controls over financial reporting?	B359	_____	_____	_____	_____
AT Sec. 500 for procedures related to compliance with laws and regulations?	B360	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<input type="checkbox"/>					
Bank Trust Operations (AAGB, Ch. 18)					
Were the audit procedures directed to uncover the existence of contingent liabilities arising from trust department operations and the bank's fiduciary responsibilities?	B361	_____	_____	_____	_____

[The next page is 6031.]

PRP Section 6030

Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements

Instructions for Use of the Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements

This supplemental checklist was developed for use by reviewers of Voluntary Health and Welfare Organizations engagements. It should be used in conjunction with the *Not-for-Profit Audit Engagement Checklist* (audit checklist) or, where appropriate, the *Governmental Audit Engagement Checklist, General Compilation Engagement Checklist* (compilation checklist) or the *General Review Engagement Checklist* (review checklist) and other guidance materials issued to implement the peer review program. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Voluntary Health and Welfare Organizations. However, when completing section II, "Working Paper Areas," some questions may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

The reviewer should also consider the applicability of GASB No. 29 ("The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities") after determining whether the not-for-profit organization is subject to government or non-government GAAP hierarchy (effective for financial statements for periods beginning after December 15, 1994).

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Voluntary Health and Welfare Organizations. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate voluntary health and welfare organization engagements. These additional materials include the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
FAS	Statement of Financial Accounting Standards
SOP	AICPA Statement of Position
VHW	AICPA Audit and Accounting Guide <i>Audits of Voluntary Health and Welfare Organizations</i> (as of March 1, 1995)
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (as of June 30, 1995)

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Voluntary Health and Welfare Organizations Engagements
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¹ Refer to the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* (see instructions on 6031).

² Reviewers should refer to the instructions for the applicable section included in the *Not-for-Profit Audit Engagement Checklist* or the appropriate section of the compilation or review checklist.

I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
Financial Statements and Notes					
Is the presentation appropriate and disclosure adequate in the following aspects of the engagement:					
Does the balance sheet show the unrestricted fund and the various types of restricted funds that have been established to comply with donor or grantor restrictions? (VHW, Ch. 1, par. 14) ³	VH101	_____	_____	_____	_____
Do the financial statements contain a statement of functional expenses in support of the total program and supporting services expenses for the period? (VHW, Ch. 1, par. 14) ³	VH102	_____	_____	_____	_____
Is there separate disclosure of the costs for program services, management and general activities and fund-raising efforts? (VHW, Ch. 6, par. 3)	VH103	_____	_____	_____	_____
Is there disclosure of the methods followed by the organization in evaluating, recording, and reporting donated services, and is the distinction made between donated services for which values have been recorded and those for which they have not been recorded? (VHW, Ch. 5, par. 5.07)	VH104	_____	_____	_____	_____
Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities? (VHW, Ch. 6, par. 17)	VH105	_____	_____	_____	_____
Is the total support from fund-raising efforts disclosed? (VHW, Ch. 6, par. 13)	VH106	_____	_____	_____	_____
Is the total cost of fund-raising activities disclosed? (VHW, Ch. 6, par. 13)	VH107	_____	_____	_____	_____

³ Not applicable if FAS No. 116 or FAS No. 117 has been adopted by the entity.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

II. WORKING PAPER AREAS—VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS ⁴

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
<input type="checkbox"/>					
General					
If reporting on consolidated financial statements, where one or more affiliated entities were examined by other independent auditors, was consideration given to AU Sec. 543, Part of Audit Performed by Other Auditors? (VHW, Ch. 7, par. 10)	VH301	_____	_____	_____	_____
<input type="checkbox"/>					
Fund Accounting					
Were the unrestricted resources of the organization used in accordance with its bylaws and stated purposes and actions of its governing board? (VHW, Ch. 1, par. 15)	VH302	_____	_____	_____	_____
Were restricted gifts or grants properly segregated and used in accordance with the restrictions imposed by the donor or grantor? (VHW, Ch. 1, par. 15) ³	VH303	_____	_____	_____	_____
<input type="checkbox"/>					
Investments					
Have investment gains (or losses) been recorded in the appropriate fund? (VHW, Ch. 2, par. 17)	VH304	_____	_____	_____	_____
If investments are carried at market value, is the unrealized appreciation or depreciation of investments included in revenues (or other expenses) of the appropriate fund? (VHW, Ch. 2, par. 4) ³	VH305	_____	_____	_____	_____
Were restrictions made by the donor or grantor regarding investment income complied with? (VHW, Ch. 2, par. 17)	VH306	_____	_____	_____	_____
If investments were pooled:					
Were tests performed on the calculations in determining equity percentages of the various funds used in making additions to or distributions from the pool, and in allocating income and realized gains and losses to the participating funds? (VHW, Ch. 2, par. 17)	VH307	_____	_____	_____	_____
Was consideration given to any legal instruments that prescribe the nature of the investment policy to be followed, or that restrict or prevent the assets of certain funds from being pooled for investment purposes? (VHW, Ch. 2, par. 17)	VH308	_____	_____	_____	_____
<input type="checkbox"/>					
Land, Building and Equipment					
Are fixed assets recorded in a separate land, buildings and equipment fund? (VHW, Ch. 3, par. 1) ³	VH309	_____	_____	_____	_____
Were donated fixed assets recorded at their fair value at the date of the gift? (VHW, Ch. 3, par. 3)	VH310	_____	_____	_____	_____
Has consideration been given to restrictions placed on donated assets by the organization? (VHW, Ch. 3, par. 4)	VH311	_____	_____	_____	_____
<input type="checkbox"/>					

⁴ Some questions in this section may not apply to compilation and review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Cash Donations and Pledges					
Have procedures been performed to obtain reasonable assurance that the amounts reported as contributions are not materially misstated? (VHW, Ch. 4, par. 14)	VH312	_____	_____	_____	_____
Has the auditor considered whether the internal control procedures relating to voluntary contributions are appropriate in the circumstances, and are operating effectively? (VHW, Ch. 4, par. 15)?	VH313	_____	_____	_____	_____
If the auditor was not satisfied that all contributions have been received and recorded, was the opinion on the financial statements appropriately qualified or disclaimed? (VHW, Ch. 4, par. 15)	VH314	_____	_____	_____	_____
Pledges receivable					
Have pledges receivable been reviewed for both age and collectibility? (VHW, Ch. 4, par. 16)	VH315	_____	_____	_____	_____
Was an allowance for uncollectible pledges considered? (VHW, Ch. 4, par. 16)	VH316	_____	_____	_____	_____
Were pledges confirmed? (VHW Ch. 4, par. 16)	VH317	_____	_____	_____	_____
<input type="checkbox"/>					
Donated Material					
Was the basis of valuation of donated material reviewed? (VHW, Ch. 5, par. 10)	VH318	_____	_____	_____	_____
Was a comparison of contributions and expenditures of materials made with the budget or with prior years? (VHW, Ch. 5, par. 10)	VH319	_____	_____	_____	_____
If significant donated materials are received from relatively few sources, was consideration given to confirming with the donors? (VHW, Ch. 5, par. 10)	VH320	_____	_____	_____	_____
<input type="checkbox"/>					
Donated Services					
Was a review on a test basis of the time records or other evidence performed? (VHW, Ch. 5, par. 12)	VH321	_____	_____	_____	_____
For non-FAS No. 116 not-for-profit organizations, was a reasonableness test performed on the valuation of such services in relation to the local labor market? (VHW, Ch. 5, par. 12)	VH322	_____	_____	_____	_____
<input type="checkbox"/>					
Program and Supporting Services					
Were expenditures tested (or was the system evaluated) to determine whether all expenditures are recorded in the proper period and program? (VHW, Ch. 6, par. 21)	VH323	_____	_____	_____	_____
Has the method of allocating expenses by function been reviewed for reasonableness? (VHW, Ch. 6, par. 21)	VH324	_____	_____	_____	_____

[The next page is 6041.]

PRP Section 6040

Supplemental Checklist for Review of Construction Contractor Engagements

Instructions for Use of the Supplemental Checklist for Review of Construction Contractor Engagements

This supplemental checklist was developed for use by reviewers of construction contractor engagements. It should be used in conjunction with the *General Audit Engagement Checklist* (audit checklist) or, where appropriate, the *General Compilation Engagement Checklist* (compilation checklist) or the *General Review Engagement Checklist* (review checklist) and other guidance materials issued to implement the peer review program. The instructions to sections I and III of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions, or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in an audit, review, or compilation of the financial statements of construction contractors. However, when completing section II, "Working Paper Areas", some questions may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in Section VI of the audit checklist or Section V of the compilation checklist, or Section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosures and audit procedures related to construction contractors. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure, and procedural issues in order to sufficiently evaluate construction contractor engagements. These additional materials include the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide *Construction Contractors*.

This is part of a series of supplemental checklists which the Institute is developing to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

CC	AICPA Audit and Accounting Guide <i>Construction Contractors</i> (as of May 1, 1995)
SOP	AICPA Statement of Position
TPA	Technical Practice Aid

Supplemental Checklist for Review of Construction Contractor Engagements

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¹ Refer to—the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive materials, and the AICPA Audit and Accounting Guide *Construction Contractors* (see instructions on 6041).

² Reviewers should refer to the instructions for the applicable section included in the *General Audit Engagement Checklist* or the appropriate section of the compilation or review checklist.

³ Refer to—the AICPA Audit and Accounting Guide *Construction Contractors* and AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (see instructions on 6041).

I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Financial Statements and Notes					
Is the presentation appropriate and is the disclosure adequate regarding the following:					
General					
The method of measuring extent of progress toward completion of contracts when the percentage-of-completion method is used? (SOP 81-1, par. 45)	CN101	_____	_____	_____	_____
The reasons for selecting the completed-contract method if that method is used? (CC, Ch. 6, par. 21c, 2)	CN102	_____	_____	_____	_____
The specific criteria used to determine when a contract is substantially complete when the completed-contract method is used? (SOP 81-1, par. 52)	CN103	_____	_____	_____	_____
Policies relating to combining and segmenting contracts, if applicable? (SOP 81-1, pars. 39-42)	CN104	_____	_____	_____	_____
Method of reporting affiliated entities? (CC, ch. 6, par. 21a)	CN105	_____	_____	_____	_____
The range of contract durations if the operating cycle exceeds one year? (CC, Ch. 6, par. 21b)	CN106	_____	_____	_____	_____
Method of reporting joint venture investments along with other joint venture disclosures? (CC, Ch. 6, par. 21d)	CN107	_____	_____	_____	_____
Unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization (CC, Ch. 6, par. 21e, 1):					
The aggregate amount included in contract costs?	CN108	_____	_____	_____	_____
A description of the nature and status of the principal items comprising such aggregate amounts?	CN109	_____	_____	_____	_____
The basis on which such items are recorded?	CN110	_____	_____	_____	_____
The policy of deferral and the amounts involved for costs deferred either in anticipation of future sales (precontract costs) or as a result of an unapproved change order? (CC, Ch. 6, par. 21(f))	CN111	_____	_____	_____	_____
The amount of progress payments netted against contract costs at the date of the balance sheet? (CC, Ch. 6, par. 21(e, 2))	CN112	_____	_____	_____	_____
The effect of significant revisions of estimates where the effect is material? (SOP 81-1, par. 84)	CN113	_____	_____	_____	_____
Disclosure, if the contractor elects to present backlog information, or supplemental information accompanying the basic financial statements such as contracts in progress and/or completed contracts? (CC, Ch. 6, par. 23 and Appendix G)	CN114	_____	_____	_____	_____
Consideration of any state statutes and government prequalification reporting requirements affecting construction contractors? (CC, Ch. 11, pars. 14 and 15)	CN115	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Provision for losses on a contract where it is material in amount, or unusual or infrequent in nature. Are such losses shown separately as a component of cost included in the computation of gross profit? (SOP 81-1, par. 88)	CN116	_____	_____	_____	_____
Balance Sheet					
Was a classified balance sheet properly considered and, if so, were the appropriate contract-related items correctly classified? (CC, Ch. 6, pars. 1-28)	CN117	_____	_____	_____	_____
Disclosure of information on revenue and costs arising from claims? (SOP 81-1, pars. 65-67)	CN118	_____	_____	_____	_____
For unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization whether billed or unbilled (CC, Ch. 6, par. 24):					
The amount included in receivables?	CN119	_____	_____	_____	_____
A description of the nature and status of the principal items comprising such amounts?	CN120	_____	_____	_____	_____
Amounts expected to be collected after one year?	CN121	_____	_____	_____	_____
Has disclosure been made of the prerequisites for billings, of amounts representing the recognized sales value of performance under contracts in which the amounts had not been billed and were not billable to customers at the balance sheet date, including amounts to be collected after one year? (CC, Ch. 6, par. 25)	CN122	_____	_____	_____	_____
If receivables include amounts maturing after one year, has the following been disclosed (CC, Ch. 6, par. 27):					
The amount maturing after one year and, if practicable, the amounts maturing in each year?	CN123	_____	_____	_____	_____
Interest rates on major receivable items, or on classes of receivables maturing after one year, or an indication of the average interest rate or the range of rates on all receivables?	CN124	_____	_____	_____	_____
Are amounts billed but not paid by customers under retainage provisions in contracts included in receivables properly classified? (CC, Ch. 6, par. 28)	CN125	_____	_____	_____	_____
If costs and estimated earnings exceed billings in some contracts, and billings exceed costs and estimated earnings on others, are the contracts segregated so that figures on the asset side include only those on which costs and estimated earnings exceed billings, and those on the liability side include only those on which billings exceed costs and estimated earnings? (CC, Ch. 6, par. 18)	CN126	_____	_____	_____	_____
Are billings and related costs and estimated earnings presented separately either by short extension of the amounts on the balance sheet or in the notes to the financial statements? (CC, Ch. 6, par. 18)	CN127	_____	_____	_____	_____
Are billings in excess of costs and estimated earnings classified as a current liability, except to the extent billings exceed total estimated costs at completion of the contract plus contract profits earned to date, in which case are they classified as deferred income? (CC, Ch. 6, par. 13)	CN128	_____	_____	_____	_____

II. WORKING PAPER AREAS—CONSTRUCTION CONTRACTORS ⁴

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
<input type="checkbox"/>					
Contract Costs, Revenues, and Income					
Is each contract a profit center for revenue recognition, cost accumulation, and income measurement, or are contracts properly combined or segmented? (SOP 81-1, pars. 34-42)	CN301	_____	_____	_____	_____
When accounting for contract costs and revenues, have the appropriate procedures been performed regarding (SOP 81-1, pars. 68-81; CC, Ch. 10, pars. 29-49):					
Proper accounting recognition of accumulated contract costs?	CN302	_____	_____	_____	_____
Back charges?	CN303	_____	_____	_____	_____
Estimated costs to complete?	CN304	_____	_____	_____	_____
Proper evaluation of the acceptability of the method of income recognition?	CN305	_____	_____	_____	_____
Reasonableness of the amount and timing of income recognized?	CN306	_____	_____	_____	_____
Did the work include examining a representative sample of the contractor's outstanding contracts and evaluating the contractor's internal accounting control? (CC, ch. 9, pars. 2-13)	CN307	_____	_____	_____	_____
<input type="checkbox"/>					
Contracts Receivable					
Did the contracts receivable evaluation consider or include (CC, ch. 10, par. 7):					
Unbilled receivables?	CN308	_____	_____	_____	_____
Retentions?	CN309	_____	_____	_____	_____
Unapproved change orders, extras, and claims?	CN310	_____	_____	_____	_____
Contract scope changes?	CN311	_____	_____	_____	_____
Contract guarantees and cancellation or postponement provisions?	CN312	_____	_____	_____	_____
Collectibility?	CN313	_____	_____	_____	_____
<input type="checkbox"/>					
Other					
Was an appropriate evaluation of the provision for anticipated losses on contracts made? (SOP 81-1, pars. 85-89)	CN314	_____	_____	_____	_____
Did the work include an analysis of gross profit margins? (CC, Ch. 10, pars. 54-55)	CN315	_____	_____	_____	_____
Has the proper accounting recognition for change orders and claims been followed? (SOP 81-1, pars. 61-63, 65-67)	CN316	_____	_____	_____	_____

⁴ Some questions in this section may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Has the proper accounting recognition for investments in construction joint ventures been followed? (CC, Ch. 3, pars. 1-27)	CN317	_____	_____	_____	_____
Have revisions, if any, in revenue, cost or profit estimates been properly accounted for? (SOP 81-1, par. 83)	CN318	_____	_____	_____	_____
Is the distinction between long-term and short-term construction contracts appropriate? (TPA 6700.01)	CN319	_____	_____	_____	_____

[The next page is 6061.]

PRP Section 6060

Supplemental Checklist for Review of Common Interest Realty Associations

Instructions for Use of the Supplemental Checklist for Review of Common Interest Realty Associations

This supplemental checklist was developed for use by reviewers of Common Interest Realty Associations (CIRAs) audit engagements. It should be used in conjunction with either the *Not-for-Profit Audit Engagement Checklist* or, if the entity does not use fund reporting, the *General Audit Engagement Checklist* (audit checklists) and other guidance materials issued to implement the peer review program. The instructions to sections I and III of the audit checklists should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of CIRAs.⁽¹⁾ It is not intended to be an all-inclusive document containing all disclosure and audit procedures related to CIRAs. It is a summarization of commonly addressed key areas and related concepts or procedures. All "No" answers must be thoroughly explained in Section VI of the audit checklists.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

- AU References to section number in *AICPA Professional Standards* (vol. 1)
- CIRA AICPA Audit and Accounting Guide *Audits of Common Interest Realty Associations* (as of March 1, 1995)
- SOP AICPA Statement of Position

⁽¹⁾ Reviewers of CIRA review and compilation engagements may find section I of this supplemental checklist useful in addition to the *General Compilation Engagement Checklist*, and the *General Review Checklist*. Reviewers should also refer to Chapter 8 on Review and Compilation Engagements in the AICPA Audit and Accounting Guide *Audits of Common Interest Realty Associations* and SOP 93-5 *Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations*.

**Supplemental Checklist for Review of Common Interest
Realty Associations Audit Engagements**

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⁽¹⁾ Reviewers should refer to the instructions for the applicable section included in the *Not-for-Profit Audit Engagement Checklist* or the *General Audit Engagement Checklist*.

⁽²⁾ Refer to the AICPA Audit and Accounting Guide *Audits of Common Interest Realty Associations* (see instructions on 6061).

I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
Auditor's Report					
Does the audit report disclaim an opinion on required supplemental information when presented with audited financial statements in auditor-submitted documents, unless the auditor has been engaged to examine and express an opinion on it? (AU Sec. 551.15 and CIRA, Ch. 7, par. 38)	CR101	_____	_____	_____	_____
Does the audit report include an explanatory paragraph if the required supplementary information is omitted, the auditor was unable to complete certain stated procedures, the auditor is unable to remove substantial doubts about whether the supplementary information conforms to prescribed guidelines, or the auditor has concluded that the measurement or presentation of the supplementary information departs materially from prescribed guidelines? (CIRA, Ch. 7, par. 39)	CR102	_____	_____	_____	_____
Does the report disclaim an opinion on expired budget information accompanying the financial statements in auditor-submitted documents? (AU Sec. 551.11 and CIRA, Ch. 7, par. 22)	CR103	_____	_____	_____	_____
If the financial statements include budget information for prospective periods, does the report indicate the auditors' responsibilities in accordance with the Statement on Standards for Accountants' Services on Prospective Financial Information, <i>Financial Forecasts and Projections</i> ? (CIRA, Ch.7, par. 22)	CR104	_____	_____	_____	_____
If the disclosure about a CIRA's funding for major repairs and replacements is absent or inadequate, did the auditor modify or consider modifying the report? (CIRA, Ch. 4, par. 27 and Ch. 7, pars. 34-37)	CR105	_____	_____	_____	_____
Financial Statements and Notes					
Is the presentation appropriate and are the disclosures adequate regarding:					
General					
In the CIRA's use of fund reporting, are resources for particular purposes (major repairs and replacements for CIRAs) classified into funds associated with specified activities or objectives? (CIRA, Ch. 4, par. 01)	CR201	_____	_____	_____	_____
Is a statement of cash flows presented when a balance sheet and a statement of revenues and expenses are presented? (CIRA, Ch. 4, par. 18)	CR202	_____	_____	_____	_____
If the CIRA does not use fund reporting and assesses for major repairs and replacements, is there an appropriation of retained earnings for such assessments? (CIRA, Ch. 4, FN. 6 and Ch. 9, par. 12)	CR203	_____	_____	_____	_____
Are periodic assessments for funding major repairs and replacements in the replacement fund presented in the periods in which they are assessed? (CIRA, Ch. 4, par. 13)	CR204	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Is the CIRA's legal form disclosed and that of the entity for which it provides services and areas it controls? (CIRA, Ch. 4, par. 22)	CR205	_____	_____	_____	_____
Are the number of units disclosed, including units owned by the developer? (CIRA, Ch. 4, par. 22)	CR206	_____	_____	_____	_____
Are services disclosed and subsidiaries provided by the developer? (CIRA, Ch. 4, par. 22)	CR207	_____	_____	_____	_____
Is the CIRA's income tax filing status disclosed and its liability for income taxes? (CIRA, Ch. 4, par. 22, Ch. 6, Ch. 9, par. 9.18-.24)	CR208	_____	_____	_____	_____
Are tax credits and carryovers disclosed, including phase-out rules in future reporting periods? (CIRA, Ch. 4, par. 22)	CR209	_____	_____	_____	_____
Is the proposed and actual use for funds collected in special assessments disclosed? (CIRA, Ch. 4, par. 22)	CR210	_____	_____	_____	_____

Future Major Repairs and Replacements

(CIRA, Ch. 4, par. 26)

Are the requirements to accumulate funds for future major repairs and replacements disclosed?	CR211	_____	_____	_____	_____
Is a description of the CIRA's funding policy and compliance with that policy provided?	CR212	_____	_____	_____	_____
Do the notes include a statement that funds are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material?	CR213	_____	_____	_____	_____
Do the financial statements or notes disclose the amounts assessed for major repairs and replacements in the current period?	CR214	_____	_____	_____	_____
Do the notes include a statement indicating whether a study was conducted to estimate the remaining useful lives and the costs of future major repairs and replacements?	CR215	_____	_____	_____	_____
If the CIRA's policy is to fund future major repairs and replacements by special assessments or borrowings, is there a statement disclosing such policy?	CR216	_____	_____	_____	_____

Common Property (CIRA, Ch. 2, par. 13)

The accounting policy for recognition and measurement of common property?	CR217	_____	_____	_____	_____
A description of the common property capitalized in the CIRA's balance sheet?	CR218	_____	_____	_____	_____
A description of the common property to which the CIRA has title, or other evidence of ownership, that is not capitalized in the CIRA's balance sheet?	CR219	_____	_____	_____	_____
The CIRA's responsibility to preserve and maintain the common property?	CR220	_____	_____	_____	_____
Terms and conditions of existing land or recreation leases?	CR221	_____	_____	_____	_____
Restrictions on the use or disposition of common property?	CR222	_____	_____	_____	_____

Related Parties

Do notes include disclosures about: Revenue from each source if 10% or more of revenues are derived from any one source? (CIRA, Ch. 4, par. 24)	CR223	_____	_____	_____	_____
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	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Services provided by board members, officers, or developers? (CIRA, Ch. 4, par. 23)	CR224	_____	_____	_____	_____
Supplementary Information on Future Major Repairs and Replacements (CIRA, Ch. 4, par. 30)					
Are the specific components of common property identified, and are the remaining useful lives presented?	CR225	_____	_____	_____	_____
Is the estimated annual funding requirement presented?	CR226	_____	_____	_____	_____
Are estimated current or future replacement costs presented?	CR227	_____	_____	_____	_____
Are the methods used to determine the estimated costs described?	CR228	_____	_____	_____	_____
Is the basis for the calculations disclosed, including assumptions about interest and inflation rates?	CR229	_____	_____	_____	_____
Are the dates and sources of studies disclosed?	CR230	_____	_____	_____	_____
Is the amount of fund balance for each component presented?	CR231	_____	_____	_____	_____

II. WORKING PAPER AREAS—CIRAs

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
<input type="checkbox"/>					
General					
Did the auditor consider the effects if a managing agent provides the CIRA with bookkeeping and accounting services? (CIRA, Ch. 7, par. 8 and AU Sec. 324)	CR300	_____	_____	_____	_____
If the audit is for the CIRA's first period of operations, did the auditor:					
Review closing documents to evaluate the recording of initial capital contributions collected from unit owners by the developer on behalf of the CIRA? (CIRA, Ch. 7, par. 19)	CR301	_____	_____	_____	_____
Consider whether the developer has fulfilled its obligation to pay assessments on unsold units or to fund operating deficits? (CIRA, Ch. 7, par. 19)	CR302	_____	_____	_____	_____
Consider whether or not the CIRA has been paying for developer related expenses? (CIRA, Ch. 7, par. 19)	CR303	_____	_____	_____	_____
Determine that assets received from the developer are reported in accordance with the capitalization policy for common property? (CIRA, Ch. 7, par. 19)	CR304	_____	_____	_____	_____
Consider the CIRA's budgeting procedures in obtaining an understanding of the internal control structure and assessing control risk? (CIRA, Ch. 7, par. 21)	CR305	_____	_____	_____	_____
Did the auditor consider any special or legal reporting requirements by the state? (CIRA, Ch. 1, par. 11)	CR306	_____	_____	_____	_____
<input type="checkbox"/>					
Assessments (CIRA, Ch. 7, par. 24)					
Did the auditor compare reported assessments with budgeted amounts and test whether amounts assessed to owners were consistent with the budget?	CR307	_____	_____	_____	_____
<input type="checkbox"/>					
Investments (CIRA, Ch. 7, par. 26)					
Did the auditor verify that investments conform to the CIRA's legal requirements and its governing documents?	CR308	_____	_____	_____	_____
<input type="checkbox"/>					
Insurance (CIRA, Ch. 7, par. 28)					
Did the auditor consider whether a CIRA's insurance coverage complies with requirements of state statutes on the governing documents?	CR309	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p><input type="checkbox"/> Future Major Repairs and Replacements</p> <p>Did the auditor review the CIRA's governing documents and relevant state statutes to determine whether the CIRA is required to have a funding policy for future major repairs and replacements? (CIRA, Ch. 7, par. 29)</p>	CR310	_____	_____	_____	_____
<p>Did the auditor apply appropriate procedures to the required supplementary information about future major repairs and replacements? (CIRA, Ch. 7, par. 31)</p>	CR311	_____	_____	_____	_____

[The next page is 6071.]

PRP Section 6070

Supplemental Checklist for Review of Providers of Health Care Services Engagements

Instructions for Use of the Supplemental Checklist for Review of Providers of Health Care Services Engagements

This supplemental checklist was developed for use by reviewers of Providers of Health Care Services engagements. It should be used in conjunction with the *Not-for-Profit Audit Engagement Checklist* or, where appropriate, the *General Audit Engagement Checklist* if the entity is a for-profit health care provider, the *Governmental Audit Engagement Checklist* for governmental health care providers, the *General Review Engagement Checklist* or *General Compilation Engagement Checklist* if applicable. In addition, the reviewer should complete section III of the *Not-for-Profit Audit Engagement Checklist* if the entity is contractually required to submit reports prepared in accordance with OMB Circular A-133. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Providers of Health Care Services. Some of the questions are example presentation and disclosures or auditing procedures contained in the AICPA Audit and Accounting Guide *Audits of Providers of Health Care Services* (the Guide). It is not expected that all of the questions in this checklist will be applicable to every engagement. In some instances, the audit objectives described in the Guide may be accomplished by the performance of procedures not included in this checklist. Therefore, reviewers should use judgment and refer to the Guide as necessary when responding to questions. Also, section II, "Working Paper Areas," contains questions that may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

The reviewer should also consider the applicability of GASB No. 29 ("The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities") after determining whether the not-for-profit organization is subject to government or non-government GAAP hierarchy (effective for financial statements for periods beginning after December 15, 1994).

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Providers of Health Care Services. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate Providers of Health Care Services engagements. These additional materials include the Guide.

This is part of a series of supplemental checklists which the Institute develops to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

FAS	Statement of Financial Accounting Standards
GASB	Codification of Governmental Accounting and Financial Reporting Standards (as of June 30, 1995)
HCS	AICPA Audit and Accounting Guide <i>Audits of Providers of Health Care Services</i> (as of March 1, 1995)
SOP	AICPA Statement of Position

Supplemental Checklist for Review of Providers of Health Care Services Engagements

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¹ Refer to the AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services*.

² Reviewers should refer to the instructions for the applicable section included in the *Not-for-Profit Audit Engagement Checklist* or the appropriate section of the compilation or review checklist.

I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES.</u>	<u>NO</u>	<u>REF.**</u>
Financial Statements and Notes					
Are the presentations appropriate and disclosures adequate regarding:					
Donor-imposed restrictions on investment principal and income? (HCS, ch. 6, par. 6.17)	HC101	_____	_____	_____	_____
Involvement in any investment pools? (HCS, ch. 6, par. 6.17)	HC102	_____	_____	_____	_____
Management's policy for providing charity care and the level of charity care provided? (HCS, ch. 2, par. 2.04)	HC103	_____	_____	_____	_____
Significant contractual arrangements with third party payors? (HCS, ch. 7, par. 7.22)	HC104	_____	_____	_____	_____
Pending claims, appeals or settlements regarding third-party payors? (HCS, ch. 7, par. 7.22)	HC105	_____	_____	_____	_____
Contracts with physicians, specialists, related parties, and others? (HCS, ch. 9, par. 9.35)	HC106	_____	_____	_____	_____
The nature of any relationship between the entity and lessors, bailors or other owners of property? (HCS, ch. 8, par. 8.12)	HC107	_____	_____	_____	_____
The receipt of donated property and equipment, both restricted and unrestricted? (HCS, ch. 8, par. 8.15)	HC108	_____	_____	_____	_____
Separately reporting property and equipment not used for health care operations? (HCS, ch. 8, par. 8.15)	HC109	_____	_____	_____	_____
The tax-exempt status, if applicable, and tax contingencies? (HCS, ch. 9, par. 9.35)	HC110	_____	_____	_____	_____
Liabilities relating to refundable fee arrangements? (HCS, ch. 9, par. 9.35)	HC111	_____	_____	_____	_____
Medical malpractice insurance? (HCS, ch. 10, par. 10.51)	HC112	_____	_____	_____	_____
The method of revenue recognition and recording unrestricted and restricted donations and investment income of both general and restricted funds? (HCS, ch. 12, par. 12.13)	HC113	_____	_____	_____	_____
The identification and explanation of the estimated amounts that are payable or receivable regarding contractual adjustments and third-party settlements? (HCS, ch. 12, par. 12.13)	HC114	_____	_____	_____	_____
Separately disclosing expenses incurred in soliciting contributions? (HCS, ch. 12, par. 12.16)	HC115	_____	_____	_____	_____
Related entities, investees and affiliates? (HCS, ch. 13, par. 13.09)	HC116	_____	_____	_____	_____
The basis for accruing health care costs and significant business and contractual arrangements with hospitals, physicians, and other associated entities? (SOP 89-5, par. 32)	HC117	_____	_____	_____	_____
Classification of revenue, expenses, and gains and losses? (HCS, ch. 12, par. 12.02)	HC118	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

II. WORKING PAPER AREAS—PROVIDERS OF HEALTH CARE SERVICES³

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
<input type="checkbox"/>	Cash and Cash Equivalents				
<input type="checkbox"/>	Investments				
Did the auditor review board, investment committee or other committee minutes for evidence of donated securities? (HCS, ch. 6, par. 6.17)	HC301	_____	_____	_____	_____
Do the working papers indicate that donated securities were properly reported at fair market value at the date of the gift and in the proper fund? (HCS, ch. 6, par. 6.17)	HC302	_____	_____	_____	_____
Did the auditor review documentation related to donor restrictions and that compliance was tested for such restrictions? (HCS, ch. 6, par. 6.17)	HC303	_____	_____	_____	_____
Do the working papers indicate that restricted funds are pooled only in accordance with donor, grantor, or other restrictions? (HCS, ch. 6, par. 6.17)	HC304	_____	_____	_____	_____
Did the auditor verify that income and gains or losses from investment pools are distributed equitably among the participating funds? (HCS, ch. 6, par. 6.17)	HC305	_____	_____	_____	_____
<input type="checkbox"/>	Receivables				
Did the auditor verify that the entity has a policy to distinguish bad-debt expense from charity care? (HCS, ch. 7, par. 7.02)	HC306	_____	_____	_____	_____
If the entity was reimbursed under the Medicare case payment system, did the auditor verify that regulatory denials and the costs of providing services for patient stays longer than permitted, were appropriately considered in determining contractual allowances to related receivables? (HCS, ch. 7, par. 7.05)	HC307	_____	_____	_____	_____
If third-party programs have provisions limiting the amounts of reimbursable costs, did the auditor consider their effect on third-party accruals? (HCS, ch. 7, par. 7.22)	HC308	_____	_____	_____	_____
Did the auditor verify that there is appropriate information and analysis to support each significant third-party payment settlement, and collectibility? (HCS, ch. 7, par. 7.22)	HC309	_____	_____	_____	_____
Was a determination made with respect to uncollectible accounts, including reviews of such accounts and appropriate aging by major payor? (HCS, ch. 7, par. 7.22)	HC310	_____	_____	_____	_____
Did the auditor obtain a general understanding of the various contractual arrangements with third-party payors? (HCS, ch. 7, par. 7.22)	HC311	_____	_____	_____	_____

³ Some questions in this section may not apply to compilation and review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor give consideration to changes in the reimbursement program provisions (such as limits on increases in reimbursable costs and the implementation of prospective payment systems) in the recovery of deferred debits and the realization of deferred credits recorded for reimbursement timing differences? (HCS, ch. 3, par. 3.18)	HC312	_____	_____	_____	_____
Did the auditor verify that receivables reported in the financial statements are at net realizable value? (HCS, ch. 7, par. 7.22)	HC313	_____	_____	_____	_____
Are interfund receivables properly reported at net realizable amounts? (HCS, Ch. 7, par. 7.22)	HC314	_____	_____	_____	_____
Did the auditor review supporting documentation authorizing interfund loans, and assess collectibility? (HCS, Ch. 7, par. 7.22)	HC315	_____	_____	_____	_____
If the entity was reimbursed under capitation arrangements, did the auditor verify that patient accounts receivable relating to services rendered under these agreements have been eliminated?	HC316	_____	_____	_____	_____
<input type="checkbox"/>					
Property and Equipment, Supplies and Other Assets					
Was donated property reported at fair market value at the date of donation? (HCS, ch. 8, par. 8.15)	HC317	_____	_____	_____	_____
For purposes of cost reimbursement and revenue recognition, did the auditor verify that the entity received appropriate health care planning agency or other regulatory agency approvals, if required, for property and equipment additions? (HCS, ch. 8, par. 8.15)	HC318	_____	_____	_____	_____
<input type="checkbox"/>					
Current Liabilities and Long-Term Obligations					
Did the auditor verify that health care costs are accrued as the services are rendered, including estimates of the costs of services rendered but not yet reported? (SOP 89-5, par. 30)	HC319	_____	_____	_____	_____
If the provider of prepaid health care services is obligated to render services to specific members beyond the premium period due to provisions in the contract or regulatory requirements, did the auditor verify that those costs were accrued currently? (SOP 89-5, par. 30)	HC320	_____	_____	_____	_____
Did the auditor review if amounts payable to hospitals, physicians, or other health care providers under risk retention, bonus, or similar programs are accrued during the contract period? (SOP 89-5, par. 31)	HC321	_____	_____	_____	_____
Are all liabilities related to contracts with physicians, specialists, related parties and others properly reported? (HCS, ch. 9, par. 9.35)	HC322	_____	_____	_____	_____
Did the auditor perform any procedures to verify that third-party advances are properly reported? (HCS, ch. 9, par. 9.35)	HC323	_____	_____	_____	_____
Were deferred debits or credits that relate to third-party timing differences properly reported? (HCS, ch. 9, par. 9.35)	HC324	_____	_____	_____	_____
Did the auditor verify that deferred revenue and the obligation to provide future services to, and use of facilities by, current residents of continuing care retirement communities are recognized and properly reported? (HCS, ch. 9, par. 9.35)	HC325	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor verify that the not-for-profit entity obtained a qualifying income tax exemption from the government authority? (HCS, ch. 9, par. 9.35)	HC326	_____	_____	_____	_____
Was a determination made regarding possible transactions that would affect both the entity's tax status and tax liability? (HCS, ch. 9, par. 9.35)	HC327	_____	_____	_____	_____
<input type="checkbox"/>					
Commitments and Contingencies					
Was a review of the amount of insurance coverage, type of coverage and deductible provisions performed to determine the level of risk that is retained by the entity? (HCS, ch. 10, par. 10.51)	HC328	_____	_____	_____	_____
Did the auditor obtain an understanding on the accuracy and completeness of the incident reporting and monitoring system? (HCS, ch. 10, par. 10.32)	HC329	_____	_____	_____	_____
Did the auditor send letters of inquiry to malpractice insurance carriers and legal counsel? (HCS, ch. 10, par. 10.51)	HC330	_____	_____	_____	_____
Did the auditor review estimates and historical loss experience? (HCS, ch. 10, par. 10.51)	HC331	_____	_____	_____	_____
<input type="checkbox"/>					
Net Assets (Equity or Fund Balance)					
Did the auditor examine documentation of contributions of assets for evidence of restrictions? (HCS, ch. 11, par. 11.03)	HC332	_____	_____	_____	_____
Did the auditor verify that each fund is in balance? (HCS, ch. 11, par. 11.03)	HC333	_____	_____	_____	_____
<input type="checkbox"/>					
Revenue, Expenses, Gains, and Losses					
Was current period revenue and expenses compared with prior period and budgets, and were any unusual variances investigated? (HCS, ch. 12, par. 12.17)	HC334	_____	_____	_____	_____
Did the auditor perform procedures to verify the accuracy and completeness of medical records information for DRG assignment? (HCS, ch. 12, par. 12.17)	HC335	_____	_____	_____	_____
Was the accuracy of revenue compared to the results of the peer review organization's DRG validation audits, PRO reviews of the appropriateness of admissions and related denials, and PRO reviews of the medical necessity of outlier services, including days and costs? (HCS, ch. 12, par. 12.17)	HC336	_____	_____	_____	_____
Did the auditor verify that revenue from health care services is reported net of contractual adjustments and other adjustments? (HCS, ch. 12, par. 12.17)	HC337	_____	_____	_____	_____
Did the auditor give adequate consideration to revenue cutoff? (HCS, ch. 12, par. 12.17)	HC338	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor verify that unrestricted gifts, donations, and bequests were properly reported? (HCS, ch. 12, par. 12.17)	HC339	_____	_____	_____	_____
Did the auditor review donor correspondence (and/or board meeting minutes) to determine the presence or absence of donor restrictions? (HCS, ch. 5, par. 5.07)	HC340	_____	_____	_____	_____
<input type="checkbox"/>					
Reporting Entity and Related Organizations					
Did the auditor perform procedures to ensure that the reporting entity is appropriately accounting for transactions with investees, affiliates, and other related entities? (HCS, ch. 13, par. 13.09)	HC341	_____	_____	_____	_____
<input type="checkbox"/>					
Continuing Care Retirement Communities					
Did the auditor verify that the estimated amount of advance fees expected to be refunded to current residents under the terms of the contracts was accounted for as a liability? (SOP 90-8, par. 22)	HC342	_____	_____	_____	_____
Did the auditor verify that the fees that will be paid to current residents or their designees, only to the extent of the proceeds of reoccupancy of a contract holder's unit, are accounted for as deferred revenue? (SOP 90-8, par. 31)	HC343	_____	_____	_____	_____
Were nonrefundable advance fees accounted for as deferred revenue? (SOP, 90-8, par. 43)	HC344	_____	_____	_____	_____
Was an annual calculation made regarding the obligation to provide future services and use of facilities to current residents? (SOP 90-8, par. 53)	HC345	_____	_____	_____	_____
Did the auditor verify that the costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues were capitalized? (SOP 90-8, par. 63)	HC346	_____	_____	_____	_____

[The next page is 6081.]

PRP Section 6080

Supplemental Checklist for Review of Audits of HUD Engagements

Instructions for Use of the Supplemental Checklist for Review of Audits of HUD Engagements

This supplemental checklist was developed for use by reviewers of HUD engagements performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist) (PRP Sec. 5400), the Governmental Audit Engagement Checklist (PRP Sec. 5500) or the Not-for-Profit Audit Engagement Checklist (PRP Sec. 5600), as applicable. The Consolidated Audit Guide for Audits of HUD Programs Handbook IG 2000.04 REV-1 (July 15, 1993) is effective for audits of fiscal years ending on or after September 30, 1993. The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of HUD Programs. All "No" answers must be thoroughly explained in Section provided in the applicable audit checklist.

This checklist reflects guidance issued by HUD through July 1993 and is not intended to be an all-inclusive document containing all disclosures and audit procedures related to HUD Programs. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedures issues in order to sufficiently evaluate HUD engagements. These additional materials include the Consolidated Audit Guide for Audits of HUD Programs IG 2000.04 Rev-1 (the HUD Audit Guide). Peer reviewers may wish to consider the guidance in SOP 92-9 "Audits of Not-for-Profit Organizations Receiving Federal Awards" for illustrations of departures/modifications from standard audit reports.

Reviewers should recognize that the 1994 Revision of Government Auditing Standards (the Yellow Book) affects the illustrative auditor's reports in the HUD July 1993 edition of its Consolidated Audit Guide for Audits of HUD Programs based on the effective date of the 1994 Revision. The Yellow Book 1994 Revision supersedes the 1988 Revision and is effective for financial audits of periods ending on or after January 1, 1995; earlier application is permissible.

Note: Use of the HUD Audit Guide is mandatory for audits of all participants in the HUD programs identified in Ch. 1, par. 1-4. In accordance with HUD regulations implementing OMB Circular A-133, effective August 26, 1992, nonprofit organizations receiving HUD assistance under any of the housing programs listed in Ch. 1, par. 1-4 are required to complete project-specific audits because each project is deemed to be a separate entity. Audits conducted under the HUD Audit Guide shall serve as the organization-wide audit required by Circular A-133. Nonprofit institutions having outstanding HUD direct, guaranteed, or insured loans that were made/guaranteed/insured prior to the effective date of the regulation are also required to have audits performed in accordance with the HUD Audit Guide.

Explanation of References:

- AU *AICPA Professional Standards* Volume 1
- CFR Code of Federal Regulations
- GAAP Generally Accepted Accounting Principles
- GAAS Generally Accepted Auditing Standards
- GAO *Government Auditing Standards* (1994 Revision), United States General Accounting Office (The Yellow Book)
- GNMA Government National Mortgage Association
- HUD Handbook IG 2000.04 Rev-1—Consolidated Audit Guide for Audits of HUD Programs (1993)
- OMB The Office of Management and Budget
- SOP AICPA Statement of Position [may be found in AICPA Technical Practice Aids (TPA), Vol. 2]
- ASLGU AICPA Audit and Accounting Guide: Audits of State and Local Governmental Units (1994 edition with conforming changes as of May 1, 1995)

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E. Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance—Working Paper Areas		6092
F. Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Working Paper Areas		6093

⁽¹⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements*, *Governmental Audit Engagement Checklist*, or the *Not-for-Profit Audit Engagement Checklist*, as applicable.

I. REPORTS AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
General					
The auditor's report on compliance should include an opinion on the auditee's compliance with specific requirements applicable to each of its major programs. The term "major programs" as defined by the Consolidated Audit Guide for Audits of HUD Programs means an individual assistance program or a group of programs in a category of Federal Financial Assistance which exceeds \$300,000 during the applicable year. A project which has an outstanding HUD-insured, guaranteed or direct loan balance exceeding \$300,000 as of the reporting date shall be considered a major program. A mortgagee or loan correspondent which originates and/or services an aggregate of FHA-insured loans exceeding \$300,000 during the period under audit is considered a major program. In addition, a Government National Mortgage Association (GNMA) Issuer with a remaining principal balance exceeding \$300,000 as of the reporting date is considered a major program. (HUD, Ch. 1, par. 1-3)					
Does the audit report cover clearly indicate the HUD-assisted activities and period(s) which was (were) audited? (HUD, Ch. 2, par. 2-1)	H101	_____	_____	_____	_____
Did the auditor include in the audit report or an accompanying transmittal letter:					
A Federal Employer ID Number?	H102	_____	_____	_____	_____
Identification of the Audit Partner?	H103	_____	_____	_____	_____
Does the auditor's report on the financial statements:					
Include reference to GAAS and to Government Auditing Standards issued by the Comptroller General of the United States? (ASLGU, Appendix A, Example A-1 fn2, and GAO, Ch. 5, par. 5.11)	H104	_____	_____	_____	_____
Describe or make reference to separate reports that describe the scope of the auditor's testing of compliance with laws and regulations, and of internal controls, and present the results of those tests? (GAO, Ch. 5, pars. 5.15-5.17)	H105	_____	_____	_____	_____
Include a separate paragraph or a separate report on accompanying supplemental information required by HUD? (AU Secs. 551 and 558, and HUD)	H106	_____	_____	_____	_____
Do the auditor's reports use language that conforms with professional standards including reference to GAAS, Government Auditing Standards issued by the Comptroller General of the United States, and the Consolidated Audit Guide for Audits of HUD Programs (the HUD Audit Guide), issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General in July 1993? [GAO, Ch. 5, par. 5.11 and HUD, Ch. 2. (The illustrative auditor's reports in the HUD Audit Guide contemplate audits of periods ending before the effective date of the 1994 Revision of the Yellow Book)]	H107	_____	_____	_____	_____
Does the auditor's report on the internal control structure include, as appropriate:					
Scope? (GAO, Ch. 5, par. 5.27; HUD, Ch. 2, par. 2-1B)	H108	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, Ch. 5, par. 5.27)	H109	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, Ch. 5, par. 5.28)	H110	_____	_____	_____	_____
Appropriate language when no reportable conditions were noted? [Guidance on how to comply with both (i) the reporting required by HUD and GAO, Ch. 5, par. 5.15, and (ii) the SAS No. 60 (AU Sec. 325.17) prohibition from issuing a written report stating that no reportable conditions were noted during an audit, may be found in ASLGU, Ch. 4, par. 4-20 and Appendix A, Example A.25(B), and/or SOP 92-9, Ch. 7, par. 7.12 and appendix D, Exhibit D-3 (TPA vol. 2, Sec. 11,260)]	H111	_____	_____	_____	_____
Do the auditor’s reports on compliance with applicable laws and regulations include, as applicable:					
Presentation of all instances of noncompliance and/or instances or indications of illegal acts that are required to be reported by GAO, Ch. 5, pars. 5.15 - 5.20?	H112	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (GAO, Ch. 5, par. 5.20)	H113	_____	_____	_____	_____
Did the auditor promptly prepare a separate written report concerning illegal acts or indications of such acts and include all questioned costs as the result of the acts? (HUD, Ch. 1, par. 1-5 and GAO, Ch. 5, pars. 5.21-5.25)	H115	_____	_____	_____	_____
If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the results of the audit? (GAO, Ch. 5, par. 5.12)	H116	_____	_____	_____	_____
For some engagements more than one chapter may apply, in particular Chapters 3 and 4, with results reported in a single audit report.					
<i>Program Specific Requirements</i>					
<input type="checkbox"/>					
<u>A. Chapter 3, Section 8 Audit Guidance—Reporting Requirements</u>					
Did the auditor’s report on Section 8 programs include the following reports and were the reports worded in accordance with professional standards (HUD Ch. 3, par. 3-4 and Ch. 2, Examples A through E as revised to conform with the 1994 Revision of the Yellow Book):					
Report on Audited Financial Statements and Supplemental Data? (HUD, Ch. 2, Example A)	H117	_____	_____	_____	_____
Combined report on Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)	H118	_____	_____	_____	_____
Opinion on compliance with specific requirements applicable to each major HUD program? (HUD, Ch. 2, Example C)	H119	_____	_____	_____	_____
Report on Compliance with Specific Requirements applicable to nonmajor HUD program transactions? (HUD, Ch. 2, Example D)	H120	_____	_____	_____	_____
A report on Compliance with Specific Requirements applicable to Affirmative Fair Housing? (HUD, Ch. 2, Example E)	H121	_____	_____	_____	_____
Report on Compliance with Laws and Regulations, based upon an audit of the financial statements performed in accordance with Government Auditing Standards? (HUD, Ch. 2, par. 2-1)	H122	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>Note: It is expected that specific compliance requirements identified in the HUD Audit Guide will cover those laws and regulations that, if not complied with, could have a direct and material effect on the financial statements. In such cases, the compliance reports listed in Ch. 2 of the guide are the only reports necessary for reporting on the auditee's compliance with laws and regulations. However, if the auditor, as part of the audit of the financial statements, considered laws and regulations in addition to those noted in the guide, for which noncompliance could have a direct and material effect on the financial statements, as required by SAS No. 54, the auditor should also issue the compliance report in accordance with Government Auditing Standards (1994 Revision) Ch. 5, pars. 5.15 and 5.18-5.25.</p>					
Schedule of Findings and Questioned Costs? (HUD, Ch. 2, Example F as revised to conform with the 1994 Revision of the Yellow Book.)	H123	_____	_____	_____	_____
The Auditor's Comments on Audit Resolution Matters relating to HUD Programs? (HUD, Ch. 2, Example G as revised to conform with the 1994 Revision of the Yellow Book.)	H124	_____	_____	_____	_____
<p><u>B. Chapter 4, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 236 Subsidized Projects, Section 202 Direct Loans, and Section 811 Capital Advances,</u></p>					
<p><input type="checkbox"/> <u>Audit Guidance and Sample Financial Statements—Reporting Requirements</u></p>					
<p>Note: Any unallowable distribution from a project with an insured, coinsured, or HUD-held multi-family mortgage must be noted as an instance of noncompliance regardless of materiality.</p>					
<p>Did the auditor's report on Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 236 Subsidized Projects, Section 202 Direct Loans, and Section 811 Capital Advances, include the following reports, and were the reports worded in accordance with professional standards (HUD Ch. 4, pars. 4-4 A and 4 B and Ch. 2, Examples A through E as revised to conform with the 1994 Revision of the Yellow Book.):</p>					
Report on Audited Financial Statements and Supplemental Data? (HUD, Ch. 2, Example A)	H125	_____	_____	_____	_____
Combined report on Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)	H126	_____	_____	_____	_____
Opinion on compliance with specific requirements applicable to each major HUD programs? (HUD, Ch. 2, Example C)	H127	_____	_____	_____	_____
A Report on Compliance with Specific Requirements applicable to nonmajor HUD program transactions? (HUD, Ch. 2, Example D)	H128	_____	_____	_____	_____
A report on Compliance with Specific Requirements applicable to Affirmative Fair Housing? (HUD, Ch. 2, Example E)	H129	_____	_____	_____	_____
Report on Compliance with Laws and Regulations, based upon an audit of the financial statements performed in accordance with Government Auditing Standards? (HUD, Ch. 2, par. 2-1)	H130	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>Note: It is expected that specific compliance requirements identified in the HUD Audit Guide will cover those laws and regulations that, if not complied with, could have a direct and material effect on the financial statements. In such cases, the compliance reports listed in Ch. 2 of the guide are the only reports necessary for reporting on the auditee's compliance with laws and regulations. However, if the auditor, as part of the audit of the financial statements, considered laws and regulations in addition to those noted in the guide, for which noncompliance could have a direct and material effect on the financial statements, as required by SAS No. 54, the auditor should also issue the compliance report in accordance with Government Auditing Standards (1994 Revision), Ch. 5, pars. 5.15 and 5.18-5.25.</p>					
Schedule of Findings and Questioned Costs? (HUD, Ch. 2, Example F as revised to conform with the 1994 Revision of the Yellow Book.)	H131	_____	_____	_____	_____
The Auditor's Comments on Audit Resolution Matters relating to the HUD Programs? (HUD, Ch. 2, Example G as revised to conform with the 1994 Revision of The Yellow Book.)	H132	_____	_____	_____	_____
<p><input type="checkbox"/> <u>C. Chapter 5, Insured Development Cost Certification Audit</u> <u>Guidance—Reporting Requirements</u></p>					
<p>Did the auditor's report on Insured Development Cost Certification include the following reports, worded in accordance with professional standards (HUD Ch. 5, par. 5-4):</p>					
A Report on the Balance Sheet and Operating Statement and the Mortgagors Certificate of Actual Cost (Form HUD 92330)?	H133	_____	_____	_____	_____
A Report on the Consideration of the Mortgagor's Internal Control Structure?	H134	_____	_____	_____	_____
A Report on the Mortgagor's Compliance with Specific Requirements?	H135	_____	_____	_____	_____
<p><input type="checkbox"/> <u>D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities—</u> <u>Reporting Requirements</u></p>					
<p>Did the auditor's report on GNMA issuers of mortgage-backed securities include the following reports, worded in accordance with professional standards (HUD Ch. 6, par. 6-4 and Ch. 2, Examples A through D as revised to conform with the 1994 Revision of The Yellow Book.):</p>					
Report on Audited Financial Statements and Supplemental Data? (HUD, Ch. 2, Example A)	H136	_____	_____	_____	_____
Combined report on the Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)	H137	_____	_____	_____	_____
Opinion on compliance with specific requirements applicable to each major HUD programs? (HUD, Ch. 2, Example C)	H138	_____	_____	_____	_____
A Report on Compliance with Specific Requirements applicable to nonmajor HUD program transactions? (HUD, Ch. 2, Example D)	H139	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<input type="checkbox"/> <p style="text-align: center;"><u>E. Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance—Reporting Requirements</u></p>					

Note: Entities subject to Ch. 7 of the HUD Audit Guide must note all instances of noncompliance.

Did the auditor’s report on Title II nonsupervised mortgagees and loan correspondents include the following reports, worded in accordance with professional standards (HUD, Ch. 7, par. 7-4):

A Report on the basic financial statements?	H140	_____	_____	_____	_____
A Report on the Internal Control Structure with specific requirements that have a direct and material effect on HUD-insured loans?	H141	_____	_____	_____	_____
An opinion on the Compliance with Specific Requirements applicable to each major HUD-assisted programs or a Report on Compliance with Specific Requirements applicable to nonmajor HUD-assisted program transactions?	H142	_____	_____	_____	_____

<input type="checkbox"/> <p style="text-align: center;"><u>F. Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Reporting Requirements</u></p>					
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Did the auditor’s report for Title I lenders and loan correspondents include the following reports, worded in accordance with professional standards (HUD, Ch. 8, par 8-4):

A Report on the basic financial statements?	H143	_____	_____	_____	_____
A Report on the Internal Control Structure and Compliance with specific requirements that have a direct and material effect on HUD-insured loans?	H144	_____	_____	_____	_____
An opinion on the Compliance with Specific Requirements applicable to each major HUD-assisted programs, or a Report on Compliance with Specific Requirements applicable to nonmajor HUD-assisted program transactions?	H145	_____	_____	_____	_____

II. WORKING PAPER AREAS—HUD ENGAGEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
General					
Were appropriate personnel in compliance with the 1994 Yellow Book CPE requirements and related interpretations?	H201	_____	_____	_____	_____
Did the firm meet the independence and quality control requirements of the 1994 Yellow Book?	H202	_____	_____	_____	_____
Did the firm provide a copy of its most recent external quality control review report to the client? (GAO, Ch. 3, par. 3.36)	H203	_____	_____	_____	_____
Does the engagement letter required by HUD specify the following:					
● that the audit was to be performed in accordance with GAAS, the <i>Government Auditing Standards</i> , and the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)	H204	_____	_____	_____	_____
● that the scope of the audit and contents of the financial report to be issued will meet the requirements of the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)	H205	_____	_____	_____	_____
● that the Secretary of HUD, the HUD Inspector General and GAO or their representatives have access to the working papers? (HUD, Ch. 1, par. 1-6)	H206	_____	_____	_____	_____
For <u>multifamily mortgagors only</u> , that the auditor considered whether the firm performs manual or automated bookkeeping services and/or maintains official accounting records? If the auditor was not independent because of the above, did the auditor resign from the engagement? (HUD, Ch. 1, par. 1-2)	H207	_____	_____	_____	_____
If the auditee is subject to <u>OMB Circular A-133</u> (Non-Profit Organizations) and owns a HUD-assisted project subject to the HUD Audit Guide, were procedures and reports relating to the specific HUD engagement performed and reported on in accordance with the HUD Audit Guide? (HUD, Ch. 1, pars. 1-1 and 1-4)	H208	_____	_____	_____	_____
Did the auditor’s working papers:					
Contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor’s significant conclusions and judgements? (GAO, Ch. 4, par. 4.35)	H209	_____	_____	_____	_____
Contain documentation of <u>meeting out of state licensing requirements</u> , if necessary? (HUD Ch. 1, par. 1-2)	H210	_____	_____	_____	_____
Indicate that the client considered and identified all major and nonmajor programs?	H211	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All “no” answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Note: The working papers should clearly demonstrate the auditor's understanding and assessment of control risks related to the internal control policies and procedures established for HUD-assisted activities. Tests of controls may be omitted only in areas when the internal control policies and procedures are likely to be ineffective in preventing or detecting noncompliance, in which case a reportable condition or material weakness should be reported.					
In the event that the auditor decided to omit the test of controls, did he/she document the reasons for this omission? (HUD Ch. 1, par. 1-6)	H212	_____	_____	_____	_____
Tests of controls were performed to evaluate effectiveness of design and operation of internal control structure policies and procedures in preventing or detecting material noncompliance with the requirements of HUD programs <u>regardless</u> of whether the auditor assesses internal control risk below the maximum? In instances where controls were not tested, was the report properly modified? (HUD, Ch. 1, par. 1-7)	H213	_____	_____	_____	_____
Did the auditor obtain a representation letter from management that (AU Sec. 801.07c):					
● represented that they identified all laws and regulations that have a direct and material effect on the determination of financial statement amounts and the requirements of each HUD program? (HUD, Ch. 1, par. 1-6)	H214	_____	_____	_____	_____
● represented that management is responsible for the company's compliance with the laws and regulations applicable to the organization and the requirements of each HUD program and that they have complied with them? (HUD, Ch. 1, par. 1-6)	H215	_____	_____	_____	_____

Program Specific Requirements

The specific requirements for the following programs are contained in separate chapters of the HUD Audit Guide IG 2000.04 Rev-1:

- Chapter 3, Section 8 Audit Guidance
- Chapter 4, Insured and Coinsured Multi-family Projects, HUD-Held Mortgages, Section 236 Subsidized Projects, Section 202 Direct Loans, and Section 811 Capital Advances Audit Guidance, and Sample Financial Statements
- Chapter 5, Insured Development Cost Certification Audit Guidance
- Chapter 6, GNMA Issuers of Mortgage-Backed Securities Audit Guidance
- Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance
- Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<p>Note: The HUD Audit Guide (the “guide”) is not intended to be a complete manual of procedures, nor is the guide intended to supplant the auditor’s judgment of audit work required. Suggested audit procedures contained in the guide may not cover all circumstances or conditions encountered in a particular audit. The auditor should use professional judgment to tailor the procedures so that the audit objective may be achieved. However, all applicable compliance requirements in the guide must be addressed by the auditor.</p>					
<p>Do the working papers indicate that all appropriate procedures have been performed, and that appropriate conclusions have been drawn? (The auditor should justify why he/she did not test a particular compliance requirement)</p>					
<input type="checkbox"/>	H216	_____	_____	_____	_____
<p><u>A. Chapter 3, Section 8 Audit Guidance—Working Paper Areas</u></p>					
<p>Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:</p>					
	Affirmative Fair Housing?	H217	_____	_____	_____
	Federal Financial Reports?	H218	_____	_____	_____
	Management, Maintenance and Replacement Reserve of Capital Items?	H219	_____	_____	_____
	Application, Eligibility, and Reexamination of Tenants?	H220	_____	_____	_____
	Security Deposits?	H221	_____	_____	_____
<p><input type="checkbox"/></p>					
<p><u>B. Chapter 4, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 202 Direct Loans, Section 811 Capital Advances, Section 236 Subsidized Projects, Audit Guidance and Sample Financial Statements—Working Paper Areas</u></p>					
<p>Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:</p>					
	Affirmative Fair Housing?	H222	_____	_____	_____
	Federal Financial Reports?	H223	_____	_____	_____
	Mortgage Status?	H224	_____	_____	_____
	Replacement Reserve?	H225	_____	_____	_____
	Residual Receipts?	H226	_____	_____	_____
	Security Deposits?	H227	_____	_____	_____
	Cash Receipts and Disbursements?	H228	_____	_____	_____
	Distributions to Owners?	H229	_____	_____	_____
	Tenant Application, Eligibility, and Recertification?	H230	_____	_____	_____
	Management Functions?	H231	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<input type="checkbox"/>	<u>C. Chapter 5, Insured Development Cost Certification Audit</u>				
	<u>Guidance—Working Paper Areas</u>				
	Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:				
Federal Financial Reports?	H232	_____	_____	_____	_____
Accounting System?	H233	_____	_____	_____	_____
Cut-Off Timing and Eligibility of Costs?	H234	_____	_____	_____	_____
Identity of Interest?	H235	_____	_____	_____	_____
<input type="checkbox"/>	<u>D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities Audit</u>				
	<u>Guidance—Working Paper Areas</u>				
	Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:				
Federal Financial Reports?	H236	_____	_____	_____	_____
Eligibility to Issue Mortgage-Backed Securities?	H237	_____	_____	_____	_____
Review of Custodial Documents?	H238	_____	_____	_____	_____
Issuer's Administration of Pooled Mortgages?	H239	_____	_____	_____	_____
Review of Monthly Accounting Reports and Quarterly Submissions?	H240	_____	_____	_____	_____
Securities Marketing and Trading Practices?	H241	_____	_____	_____	_____
GNMA Adjusted Net Worth?	H242	_____	_____	_____	_____
<input type="checkbox"/>	<u>E. Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance Working Paper Areas</u>				
	Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:				
Federal Financial and Activity Reports?	H243	_____	_____	_____	_____
Quality Control Plan?	H244	_____	_____	_____	_____
Branch Office Operations?	H245	_____	_____	_____	_____
Loan Origination?	H246	_____	_____	_____	_____
Loan Settlement?	H247	_____	_____	_____	_____
Loan Servicing?	H248	_____	_____	_____	_____
Escrow Accounts?	H249	_____	_____	_____	_____
Section 235 Assistance Payments?	H250	_____	_____	_____	_____
Kickbacks?	H251	_____	_____	_____	_____
Mortgage Approval Requirements?	H252	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
□ <u>F. Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Working Paper Areas</u>					
Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:					
Federal Financial Reports?	H253	_____	_____	_____	_____
Branch Office Operations?	H254	_____	_____	_____	_____
Loan Origination?	H255	_____	_____	_____	_____
Loan Disbursement?	H256	_____	_____	_____	_____
Loan Servicing?	H257	_____	_____	_____	_____
Eligible Fees and Charges?	H258	_____	_____	_____	_____
Financial Approval Requirements?	H259	_____	_____	_____	_____
Did the auditor address the required supplemental data as listed in the HUD Audit Guide, Ch. 4, par. 4-3B; Ch. 6, par. 6-4; Ch. 7, par. 7-4 (analysis of net worth); and Ch. 8, par. 8-4 (analysis of net worth)?	H260	_____	_____	_____	_____
Has the statement of cash flows been presented using the direct method (HUD Handbook 4370.2, pars. 3-4 and HUD Handbook 4370.6, pars. 2-6)?	H261	_____	_____	_____	_____

PRP Section 8000**OFF-SITE PEER REVIEWS FOR FIRMS THAT
PERFORM NO AUDITS**

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- 8200 Instructions to Reviewers Performing Off-Site Peer Reviews
- 8300 Reviewer's Engagement Checklists—Off-Site Peer Reviews
 Off-Site Peer Reviews—General
 Off-Site Peer Reviews—Compilations That Omit Substantially All Disclosures
- 8400 Reviewer's Checklist for Review of Compliance With the PCPS
 Membership Requirements
- 8500 Instructions for Use of Matter for Further Consideration Forms—Off-Site
 Peer Reviews
- 8600 Engagement Statistics Data Sheet—Off-Site Peer Reviews
-

[The next page is 8101.]

PRP Section 8100

Instructions to Firms Having an Off-Site Peer Review

.01 An off-site peer review is available to firms that do not perform audits of historical or prospective financial statements but that do provide compilation and/or review services to certain of their clients. Off-site quality reviews are administered by state CPA societies that elect to participate in the program. One of those entities, as appropriate (the *administering entity*) will contact your firm at the appropriate time to make arrangements for the conduct of the review. In preparation for the review, you should read the applicable sections of *Standards for Performing and Reporting on Peer Reviews* issued by the AICPA Peer Review Board (at least the sections headed Introduction, General Considerations, Performing Off-Site Peer Reviews, Reporting on Reviews, and Acceptance of Reviews).

.02 Prior to the review, the administering entity or the assigned reviewer will ask you to provide summarized information showing the number of review and compilation clients and the level of service provided to those clients, classified into major industry categories and broken down by each owner of the firm who is responsible for the issuance of review or compilation reports. The form that will be used for this purpose is reproduced in Appendix A to these instructions.

.03 Discuss with the reviewer the twelve-month period to be covered by the review. That period should end within six months of the performance of the review.

.04 Based on that information, the administering entity or the assigned reviewer will advise you of the types of engagements to be selected for review. (For example, you may have reported that Owner A issues review reports on four construction contractors, two retailers, and ten manufacturers, while Owner B issues compilation reports on thirty doctors and review reports on five restaurants. You may be asked to submit one of Owner A's review reports on a construction contractor and one of Owner B's compilation reports on a doctor. You will select the specific engagements following those instructions.)

.05 The number of engagements selected ordinarily will adhere to the following guidelines:

- a. Select one review or compilation engagement involving a report on a complete set of financial statements (full disclosure engagement)—as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting—for each owner responsible for the issuance of reports. However, at least two engagements must be selected for the firm.
- b. In addition to the selection made in .05a above, select for the firm as a whole, one compilation engagement involving a set of financial statements that omits substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting. However, if the firm's accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, select two of these types of engagements.

.06 Within thirty days of being notified by the reviewer or the administering entity of the type of engagements selected for review, the firm should submit the following information for each engagement selected—

- a. A copy of the financial statements and accountant's report. The client's name may be deleted and, if that is done, the engagement should be assigned a code number by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer in the course of the review.

b. A completed "engagement questionnaire" (see Appendix B).

.07 The engagements selected should have been performed within the agreed-upon review year. However, if a more recent report has been issued that falls outside of the review year, that more recent report should be selected.

.08 A firm may be dropped from the peer review program or the private companies practice section, as applicable, if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .06 in sufficient time to enable the reviewer to perform the off-site peer review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

.09 During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

.10 Upon receipt of the report and letter of comments, if any, on the review, the firm should prepare a letter of response to any deficiencies noted in the report and letter of comments. The report, letter of comments, if any, and the letter of response should be submitted to the administering entity within thirty days of the date the report was received from the reviewer.

.11 The administering entity will *not* make the report on the firm's off-site peer review available to the public. The report should not be distributed by the firm to its personnel, clients or others until the firm has received a formal notification that it has been accepted by the administering entity.

.12

Appendix A
AICPA Peer Review Program
INFORMATION NEEDED TO ASSIGN AN OFF-SITE REVIEWER

1. Firm Name _____

2. Did your firm perform any audits during the last twelve months? Yes No If yes, please indicate the date that you issued your last audit report / / and the date of the client's year end / / .

3. Does your firm plan to perform any audit engagements during the next twelve months? Yes No

4. Whenever possible, we select a reviewer who practices in the state in which your firm's main office is located unless you object. However, we will not select a reviewer located in the immediate geographic area of that office or such other geographic areas specified by you because, for example, you have a significant office or client in that area. We use the first three digits of the postal zip code to define a geographic area.
 - a. Do you object to a reviewer being selected from other areas in the state in which your main office is located? Yes No If yes, the reviewer will be selected from a state other than the state in which your main office is located.
 - b. If the answer to 4.a. is no, please indicate the first three digits of the zip codes of those areas within your state—other than the area in which your main office is located—from which you would *not like* a reviewer to be selected.¹

--	--	--	--	--	--	--	--

5. Please provide the information on page 8104 concerning the number of review and compilation clients and the nature of the level of service provided to those clients during the last twelve months. This information should be classified into major categories and broken down by each owner of the firm (proprietor, partner, or shareholder) who is responsible for the issuance of review or compilation reports.

6. Indicate the date on which you would like the review to commence / / .

¹ To determine whether there are zip code areas which you would like excluded, you may wish to refer to your local phone book(s), client lists, or mailing lists, if any.

OFF-SITE PEER REVIEW ENGAGEMENT SUMMARY FORM ***

For the Twelve Month Period Ended / /

Number of Engagements Performed ⁴

Industry of the Client ²	Level of Service Provided ³	Owner 1	Owner 2	Owner 3
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____

Signature _____

Date _____

Title _____

*** Please refer to par. .02 on page 8101 for instructions in completing this form.

² Please use the industry codes on page 8105.

³ Please use the level of service codes on page 8105.

⁴ Each monthly compilation engagement counts as one engagement.

Level of Service Codes

Please use the following codes to reflect the level of service provided:

- R Review of historical or personal financial statements
- C Compilation of historical or personal financial statements with disclosures
- CO Compilation of historical or personal financial statements that omits substantially all disclosures
- CP Compilation of prospective financial information

Industry Codes

105 Advertising	240 Life Insurance Companies
110 Agricultural, Livestock, Forestry & Fishing	245 Manufacturing
115 Airlines	250 Mortgage Banking
120 Auto Dealerships	255 Motor Carriers
125 Banking	260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)
130 Broadcasting and Entertainment	265 Employee Benefit Plans (including ERISA audits)
135 Brokers and Dealers in Securities	268 Personal Financial Statements
140 Brokers and Dealers in Commodities	270 Professional Services (Doctors, Lawyers, Architects, etc.)
145 Casinos	275 Publishing
150 Colleges and Universities	280 Real Estate Brokerage
155 Common Interest Realty Associations	285 Real Estate Development
160 Computer Software Development and Sales	290 Real Estate Management
165 Construction Contractors	295 Real Estate Investment Trusts
170 Continuing Care Retirement Communities	300 Reinsurance Companies
175 Credit Unions	305 Retail Trade
180 Extractive Industries—Oil and Gas	310 Savings and Loan Associations
185 Extractive Industries—Mining	315 Small Loan Companies
190 Finance Companies	320 School Districts
195 Franchisors	325 State and Local Government
200 Fire and Casualty Insurance Companies	330 Telephone Companies
205 Government Contractors	335 Utilities
210 Health Maintenance Organizations	340 Wholesale Distributors
215 Hospitals and Nursing Homes	999 Other (describe)
220 Hotels and Restaurants	
222 HUD	
225 Insurance Agents and Brokers	
230 Investment Companies and Mutual Funds	
235 Leasing Companies	

Appendix B
AICPA Peer Review Program
ENGAGEMENT QUESTIONNAIRE—OFF-SITE PEER REVIEWS
 (To Be Completed by Reviewed Firm)

FIRM NAME _____

General Data

Engagement Name or Code No. _____ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

Period covered by financial statements _____	Total assets	\$ _____
Date of report _____	Long-term debt	\$ _____
Date report released _____	Equity	\$ _____
	Net sales	\$ _____
	Net income	\$ _____

Major lines of business _____

	<i>Name</i>	<i>Hours on Engagement</i>	<i>Number of Years on Job</i>
Accountant with final responsibility for the engagement (for example, sole practitioner or engagement owner)			
Accountant in charge of field work (for example, manager, supervisor, or senior accountant)			
Other personnel (number only)			

Nature of Entity:

- () Independent entity
- () Consolidated or combined group
- () Subsidiary, division or branch
- () Other (explain) _____

Nature of Service:

- () Review engagement
- () Compilation engagement
- () Compilation engagement—substantially all required disclosures omitted
- () Other (explain) _____

Financial Statements Included:

- () Balance sheet
- () Income statement
- () Statement of cash flows
- () Statement of retained earnings
- () Supplementary information (describe) _____

() Other (explain) _____

Accounting Basis for Financial Statements:

- () Generally accepted accounting principles
- () Cash basis
- () Income tax basis
- () Other (explain) _____

YES NO REF.

Specific Engagement Questions

- | | | | |
|---|-------|-------|-------|
| <p>A. Is the firm independent with respect to this entity? (Explain a "no" answer in the "commentary" section of this questionnaire.)</p> | _____ | _____ | _____ |
| <p>B. Did the entity have any balances, transactions, events, or agreements of the following types during the year covered by the financial statements? If the answer is "yes," please indicate in the third column entitled "Ref." where the matter is disclosed—using the codes "R" for the accountant's report, "F" for financial statements, or "FN" for footnotes. If the answer is "yes" but the matter is not disclosed, please provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed. (Do not answer this question for engagements to compile financial statements that omit substantially all disclosures.)</p> | | | |
| 1. Accounting changes. (AC Sec. A06) | _____ | _____ | _____ |
| 2. Business combinations. (AC Sec. B50) | _____ | _____ | _____ |
| 3. Related party transactions (including receivables and payables from officers, employees and affiliates). (AC Sec. R36) | _____ | _____ | _____ |
| 4. Leasing arrangements. (AC Sec. L10.106, .112, .119 and .143-.149) | _____ | _____ | _____ |
| 5. Pension plans. (AC Sec. P16) | _____ | _____ | _____ |
| 6. Postemployment and postretirement plans other than pensions. (AC Secs. P32 and P40) | _____ | _____ | _____ |
| 7. Stock option or purchase plans. (AC Sec. C47) | _____ | _____ | _____ |
| 8. Contingencies. (AC Secs. C59.104-.114, C32.102-.105 and C59.118-.120) | _____ | _____ | _____ |

	<u>YES</u>	<u>NO</u>	<u>REF.</u>
9. Commitments. (AC Secs. C59.104-.114, C32.102-.105 and C59.118-.120)	_____	_____	_____
10. Significant events between the balance sheet and report dates. (AC Sec. C59)	_____	_____	_____
11. Pledging of assets. (AC Sec. C59.120)	_____	_____	_____
12. Loan agreements or covenants imposing significant restrictions. (AC Secs. C32.105 and C59.120)	_____	_____	_____
13. Capital stock with significant rights or preferences. (AC Sec. C16)	_____	_____	_____
14. Treasury stock. (AC Sec. C23)	_____	_____	_____
15. Discontinued operations. (AC Sec. I 13)	_____	_____	_____
16. Extraordinary items. (AC Sec. I 17)	_____	_____	_____
17. Unusual or infrequent items. (AC Sec. I 22)	_____	_____	_____
18. Restrictions on cash balances. (AC Secs. B05.107 and C59.120)	_____	_____	_____
19. Allowance for doubtful accounts. (AC Sec. V18)	_____	_____	_____
20. Non-cash transactions. (AC Sec. C25.134)	_____	_____	_____
21. Investments in debt or equity securities. (AC Secs. I 80 and I 82)	_____	_____	_____
22. Financial instruments with concentrations of credit risk. (AC Sec. F25.115)	_____	_____	_____
23. Financial instruments with off-balance sheet risk. (AC Sec. F25.112)	_____	_____	_____
24. Other valuation accounts. (AC Sec. V18)	_____	_____	_____
25. Income tax expense, benefits, temporary differences, investment tax credits and other information on the effect of income taxes. (AC Sec. I27)	_____	_____	_____
26. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate. (AC Sec. I69)	_____	_____	_____
27. Economic dependence on customers. (AC Sec. R36.406)	_____	_____	_____
28. Troubled debt restructurings. (AC Sec. D22.121-.122)	_____	_____	_____
29. Unusual or specialized accounting policies. (AC Sec. A10.105-.108)	_____	_____	_____
30. Research and development costs. (AC Sec. R50)	_____	_____	_____
31. Computer software costs. (AC Sec. Co2.110)	_____	_____	_____
32. Product financing arrangements. (AC Sec. D18.106-.107)	_____	_____	_____
33. Foreign operations. (AC Sec. F65)	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>REF.</u>
34. Foreign currency transactions. (AC Sec. F60)	_____	_____	_____
35. Nonmonetary transactions. (AC Sec. N35)	_____	_____	_____
36. Going-concern considerations. (AU Sec. 341.10-11)	_____	_____	_____
C. Were there any disagreements with the client on this engagement that, if not resolved to the firm's satisfaction, would have caused the firm to modify its report or to withdraw from the engagement? If the answer is "yes," provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.			
D. If this engagement was a review, did the accountant (firm) obtain a representation letter from members of management whom the accountant (firm) believes are responsible for and knowledgeable directly or through others in the organization, about the matters covered in the representation letter? (AR Sec. 100.28)	_____	_____	_____

Engagement Owner's Signature _____

Date _____

Explanation of References:

- AC Reference to section number in *FASB Accounting Standards Current Text*
- AU Reference to section number for Statement on Auditing Standards *AICPA Professional Standards* (vol. 1)
- AR Reference to section number in *AICPA Professional Standards* (vol. 2)

COMMENTARY ON ENGAGEMENT QUESTIONS

*Question
Number*

Commentary

Note: Attach additional sheets if required.

[The next page is 8201.]

PRP Section 8200

Instructions to Reviewers Performing Off-Site Peer Reviews

Guidance on Performing Off-Site Peer Reviews

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Instructions to Reviewers on Performing Off-Site Peer Reviews

Introduction

.01 These materials have been developed based on the *Standards for Performing and Reporting on Peer Reviews* and materials contained in the *Peer Review Program Manual* related to off-site reviews.

.02 A firm that issues only compilation or review reports can have an off-site peer review of the reports and the related historical or prospective financial statements. (Those firms may also elect to have an on-site peer review.) Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with this requirement.

.03 Information concerning the reviewed firm or any of its clients or personnel is confidential and cannot be disclosed to anyone not involved in carrying out the review or administering the peer review program.

.04 The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing *limited* assurance that the compilation and review engagements submitted for review do not depart in a material respect from the requirements of professional standards.

.05 An off-site peer review consists *only* of reading the accountant's compilation or review report and the related historical or prospective financial statements submitted by the firm, together with certain background information and representations about the engagements provided by the reviewed firm.

.06 An off-site peer review does *not* include a review of the working papers prepared on the selected compilation or review engagements, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site peer review.

Engagement Selection Guidelines

.07 Prior to the review, the administering entity or the assigned reviewer will ask the reviewed firm to provide summarized client information showing the number of review and compilation clients and the nature of the highest level of service provided to those clients, classified into major industry categories and broken down by each owner of the firm responsible for the issuance of review or compilation reports. The form that will be used for this purpose is reproduced in Exhibit 1 to these materials.

.08 Either the reviewer or the administering entity should discuss with the reviewed firm the twelve month period to be covered by the review. That period should end within six months of the performance of the review and all reports selected should have been performed within the period.

.09 Based on the summarized client information, the administering entity or the reviewer will select the number and types of engagements to be reviewed.

.10 Ordinarily, the number of engagements selected should adhere to the following guidelines:

- a. Select one review or compilation engagement involving a report on a complete set of financial statements (full disclosure engagement)—as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting—for each owner responsible for the issuance of reports. However, at least two engagements must be selected for the firm.
- b. In addition to the selections made in .10a above, select for the firm as a whole, one compilation engagement involving a set of financial statements that omits substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting. However, if the firm's accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, select two of these types of engagements.

.11 Exhibit 2 shows how the guidelines in this section can be applied to five sample firms.

.12 The types of engagements selected should also adhere to the following guidelines:

- a. Include both review and compilation engagements, if both levels of service are provided.
- b. Attempt to include clients operating in different industries (especially high risk industries).
- c. Consider engagements involving prospective financial information as well as those involving historical financial statements.

.13 The AICPA and many state societies administering off-site peer reviews advise reviewers they appoint of the number of engagements to be selected. The reviewer should consult with the entity that made the appointment:

- a. If the reviewer finds that the number of engagements he/she has been instructed to select does not conform with the stated guidelines.
- b. If the reviewer has reason to believe that he/she should select more than the number of engagements specified by the administering entity.

.14 Within 30 days after the reviewer or the administering entity provides the firm with a description of the number and types of engagements to be reviewed, the firm should select the engagements in accordance with those specifications and submit the following information to the reviewer or the administering entity (as applicable) for each engagement:

- a. A copy of the most recent financial statements and the accountant's report. The client's identity may be masked and assigned a code number. The reviewed firm should keep a record of those code numbers to be able to respond to any questions by the reviewer.
- b. A completed Engagement Questionnaire.

.15 The engagements selected should have been performed within the agreed-upon review year. However, if a more recent report has been issued that falls outside of the review year, that more recent report should be selected.

.16 A firm may be dropped from the peer review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .14 in sufficient time to enable the reviewer to perform the off-site peer review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

Performing the Review

.17 Off-site peer reviews must be documented using the programs and checklists issued by the AICPA Peer Review Board. These materials include a Reviewer's Checklist (Appendix A) which includes an overview of the way in which an off-site peer review is to be conducted.

.18 Reviewers should review the engagements submitted along with the background information provided by the firm. Questions and possible deficiencies noted during the review should be documented on Matter for Further Consideration (MFC) forms and discussed with the reviewed firm. The reviewer may obtain the firm's response to the matters noted on the MFC forms by telephone or in writing.

.19 After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (Section 8600) should be completed. The information included on this sheet should be consistent with the information included in the report issued on the review. Exhibit 3 includes some further guidance on completing this sheet.

.20 *Guidance for Writing Peer Review Reports* (section 3300) and Appendix G and H in the *Standards for Performing and Reporting on Peer Reviews* provide guidance on the considerations governing the type of report to issue and includes illustrations of the standard form for an unqualified report and other types of reports. Appendix J includes guidelines for and an illustration of a letter of comments.

.21 The presence of one engagement that does not comply with professional standards in all material respects on an off-site peer review automatically results in a qualified report, because the finding that one of the engagements submitted does not comply with professional standards in all material respects must be reported as an exception to the reviewer's statement of limited assurance on the engagements submitted for review.

.22 If two of three engagements are substandard, an adverse report will ordinarily be issued; especially when there are deficiencies noted on the third engagement. If two of three engagements are substandard and the third has minor departures, the reviewer can reasonably conclude that the firm does not have reasonable assurance of complying with the requirements of professional standards.

After the Review

.23 Within thirty days of the completion of an off-site review, the reviewer should furnish the reviewed firm with a written report and letter of comments, if applicable, and remind the reviewed firm that:

- a. The report and letter of comments should be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report.
- b. The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report and letter of comments.
- c. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

.24 Within thirty days of the completion of the off-site review, the reviewer should also submit a copy of the report, letter of comments, the review completion form, the working papers, and the engagement statistics data sheet on the review to the state CPA society administering the review. Exhibit 4 includes a list of the documents that should be included in the submitted working papers. Copies of the financial statements that were reviewed should not be included in the working papers; they should either be destroyed or returned to the reviewed firm.

.25

Exhibit 1

OFF-SITE PEER REVIEW ENGAGEMENT SUMMARY FORM ***

For the Twelve Month Period Ended ___/___/___

Industry of the Client ²	Level of Service Provided ³	Number of Engagements Performed ⁴		
		Owner 1	Owner 2	Owner 3
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____

Signature _____

Date _____

Title _____

*** Please refer to par. .07 on page 8202 for instructions in completing this form.

² Please use the industry codes on page 8206.

³ Please use the service codes on page 8206.

⁴ Each monthly compilation engagement counts as one engagement.

Exhibit 1

(Continued)

Level of Service Codes

Please use the following codes to reflect the level of service provided:

- R Review of historical or personal financial statements
- C Compilation of historical or personal financial statements with disclosures
- CO Compilation of historical or personal financial statements that omits substantially all disclosures
- CP Compilation of prospective financial information

Industry Codes

105 Advertising	240 Life Insurance Companies
110 Agricultural, Livestock, Forestry & Fishing	245 Manufacturing
115 Airlines	250 Mortgage Banking
120 Auto Dealerships	255 Motor Carriers
125 Banking	260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)
130 Broadcasting and Entertainment	265 Employee Benefit Plans (including ERISA audits)
135 Brokers and Dealers in Securities	268 Personal Financial Statements
140 Brokers and Dealers in Commodities	270 Professional Services (Doctors, Lawyers, Architects, etc.)
145 Casinos	275 Publishing
150 Colleges and Universities	280 Real Estate Brokerage
155 Common Interest Realty Associations	285 Real Estate Development
160 Computer Software Development and Sales	290 Real Estate Management
165 Construction Contractors	295 Real Estate Investment Trusts
170 Continuing Care Retirement Communities	300 Reinsurance Companies
175 Credit Unions	305 Retail Trade
180 Extractive Industries—Oil and Gas	310 Savings and Loan Associations
185 Extractive Industries—Mining	315 Small Loan Companies
190 Finance Companies	320 School Districts
195 Franchisors	325 State and Local Government
200 Fire and Casualty Insurance Companies	330 Telephone Companies
205 Government Contractors	335 Utilities
210 Health Maintenance Organizations	340 Wholesale Distributors
215 Hospitals and Nursing Homes	999 Other (describe)
220 Hotels and Restaurants	
222 HUD	
225 Insurance Agents and Brokers	
230 Investment Companies and Mutual Funds	
235 Leasing Companies	

Exhibit 2

APPLICATIONS OF THE OFF-SITE PEER REVIEW ENGAGEMENT SELECTION GUIDELINES

Guidelines

The *Standards for Performing and Reporting on Peer Reviews* require a review to:

- **Category 1—Reviews and Full Disclosure Compilations:** Select one review engagement or one compilation engagement involving a report on a complete set of financial statements for each owner responsible for the issuance of such reports. However, a minimum of two engagements with disclosures must be selected from this category.
- **Category 2—Compilations That Omit Disclosures:** Select one set of financial statements that omit substantially all disclosures required under generally accepted accounting principles or an other comprehensive basis of accounting. However, two engagements of this type must be selected if the firm issues no reports with full disclosures.

Example 1

FACTS: A sole practitioner performs three review engagements, two full disclosure compilations and forty compilations that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

ANSWER: Three engagements should be selected for review: one review engagement; one full disclosure compilation engagement; and one compilation engagement that omits substantially all disclosures. One review engagement and one full disclosure compilation engagement should be selected because the firm performs both types of engagements and there must be a minimum of two from Category 1. Only one compilation engagement that omits substantially all disclosures should be selected because the firm performs full disclosure engagements.

Example 2

FACTS: A sole practitioner performs one full disclosure compilation and fifteen compilations that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

ANSWER: Two engagements should be selected for review: one full disclosure compilation engagement and one compilation engagement that omits substantially all disclosures. The one full disclosure compilation engagement should be selected because the firm performs this type of engagement. Only one compilation engagement that omits substantially all disclosures should be selected because the firm performs at least one full disclosure engagement.

Example 3

FACTS: A sole practitioner performs five compilations that omit substantially all disclosures. The sole practitioner performs no review or full disclosure compilation engagements.

QUESTION: How many and what types of engagements should be selected for review?

ANSWER: Two compilation engagements that omit substantially all disclosures should be selected for review since the firm performs no review or compilation engagements with full disclosures.

Exhibit 2

(Continued)

Example 4

FACTS: The firm has three owners and performs three review engagements, three full disclosure compilation engagements, and forty compilations that omit substantially all disclosures.

- Owner No. 1 is responsible for two review engagements, one full disclosure compilation engagement, and twenty compilations that omit substantially all disclosures.
- Owner No. 2 is responsible for one full disclosure compilation engagement and thirteen compilations that omit substantially all disclosures.
- Owner No. 3 is responsible for one review engagement, one full disclosure compilation engagement and seven compilations that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

ANSWER: Four engagements should be selected for review as follows:

- Three full disclosure engagements, one for each owner, since each of the three owners has responsibility for issuing reports on full disclosure engagements. These three engagements should include at least one review engagement and one compilation engagement with full disclosure since the firm provides both levels of service.
- One compilation engagement that omits substantially all disclosures.
- In making the engagement selections, attempt to cover different industries to the extent possible.

Example 5

FACTS: The firm has three owners and performs only thirty compilations that omit substantially all disclosures.

- Owner No. 1 is responsible for eight compilations that omit substantially all disclosures.
- Owner No. 2 is responsible for fifteen compilations that omit substantially all disclosures.
- Owner No. 3 is responsible for seven compilations that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

Answer: Two compilation engagements that omit substantially all disclosures should be selected for review since the firm performs no review or compilation engagements with full disclosure. The two engagements selected should be performed by a different owner.

.27

Exhibit 3

COMPLETING THE OFF-SITE PEER REVIEW ENGAGEMENT STATISTICS DATA SHEET

After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (Section 8600) should be completed. That form should be completed based on the following guidance.

Section I

Section I asks for information concerning the number of engagements reviewed and the number of engagements deemed substandard. The term “substandard engagements” cannot be found in any formal accounting, auditing, or practice-monitoring program literature. However, it is used by most parties involved in the administration of the practice-monitoring programs to refer generically to situations in which a firm has not complied in all material respects with professional standards.

An engagement is deemed to be “substandard” when—

- One or more procedures considered necessary at the time of an engagement were omitted.
- Subsequent to the date of an issued report, the firm becomes aware that facts may have existed at that date which might have affected its report had it then been aware of such facts. This includes reporting, disclosure, and measurement errors. (See paragraph .27 for some examples.)

Reference should be made to AR Sections 100.42, 9100.13, and 9100.14 of *AICPA Professional Standards* when “substandard engagements” are encountered on a review. These sections also suggest that the guidance in the following sections be considered in these circumstances:

- AU Section 390 of *AICPA Professional Standards*—Consideration of Omitted Procedures After the Report Date
- AU Section 561 of *AICPA Professional Standards*—Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report

An engagement is not generally called substandard when—

- Minor disclosure deficiencies are omitted and the omissions do not cause the financial statements to be misleading.
- An error has been made in accounting for a transaction and the error is immaterial.
- The accountants’ report does not cover all periods covered by the financial statements.
- The accountants’ report does not cover the supplemental information that was issued along with the financial statements.
- The titles on the financial statements are not consistent with the report issued.

Section II

Section II asks the reviewer to describe the reasons why he/she concluded that one or more engagements were substandard. If the reviewer indicates in Section I that three engagements were substandard, then Section II should describe why the three engagements were deemed substandard.

To assist the reviewer in noting why an engagement is substandard, two Reason Codes have been provided:

Exhibit 3

(Continued)

- GAP should be used to indicate that the financial statements and/or footnotes are not in accordance with generally accepted accounting principles.
- SAR should be used to indicate that the report was not in accordance with the *Standards for Accounting and Review Services*.

After entering the Reason Code, the reviewer should provide a brief description of the deficiency noted.

Some examples of comments that might be written when a GAP Reason Code is noted are:

- No footnotes on the review engagements.
- No footnotes on the compilation engagement and the report is not appropriately modified.
- One or more significant footnotes omitted. Also, indicate the nature of the footnote (i.e., leases, related parties, pensions, accruals, etc.).
- A statement of changes in financial position has been issued rather than a statement of cash flows.

Some examples of comments that might be written when a SAR Reason Code is noted are:

- No compilation report issued.
- The compilation report does not indicate that substantially all disclosures have been omitted.
- The compilation report does not indicate that a statement of cash flows has been omitted.
- A standard report on financial statements prepared under generally accepted accounting principles was issued rather than a report indicating that the financial statements have been prepared under an other comprehensive basis of accounting.

Section III

Section III asks the reviewer to indicate the actions that the reviewed firm has taken or plans to take with respect to each substandard engagement. If the reviewer indicates in Sections I and II that three engagements were substandard, then Section III should include a description of the actions taken or to be taken on each of three substandard engagements.

To assist the reviewer in noting the actions taken or to be taken by the reviewed firm and to reduce the amount of writing, six Action Codes are set forth on the data sheet. A comment field has been provided in the event that the reviewer wishes to provide additional information or to describe an Action which is not covered by the six Action Codes provided. If a reviewer can use one of the six Action Codes provided and has no other comments, the Comments section does not have to be completed.

Under the professional standards cited under the explanation of Section I, the major factor to be considered when evaluating what actions should be taken on substandard engagements is whether or not there are persons currently relying or likely to rely on the report and financial statements that have been issued. When persons are currently relying or likely to rely on the report and financial statements that have been issued, professional standards suggest that—

- The firm promptly undertake to apply the omitted procedure or alternative procedures that would provide a satisfactory basis for its report.

Exhibit 3

(Continued)

- The firm should issue a revised report and financial statements as soon as practicable; ordinarily, the reason for the revision should be described in a note to the financial statements and referred to in the report.

If the issuance of financial statements of the subsequent period is imminent, so that disclosure of the information is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements. Before any action is taken on the part of the reviewed firm with respect to substandard engagements, the professional standards suggest that an attorney be consulted.

Section IV

Section IV asks for a list of any engagement(s) that the reviewed firm asked the reviewer not to review and the reasons why the reviewed firm made such a request. On an off-site peer review, such requests will be rare.

Exhibit 4**DOCUMENTS TO BE SUBMITTED TO THE ADMINISTERING ENTITY BY
INDIVIDUALS PERFORMING OFF-SITE PEER REVIEWS**

The following is a list of the documents that should be submitted by the reviewer to the administering entity:

	<u>Page(s)</u>
1. Report and Letter of Comments (if applicable)	—
2. Off-Site Peer Review Engagement Summary Form	8205
3. One Engagement Questionnaire for Each Selected Engagement	8106-8109
4. Reviewer's Checklist	8213-8215
5. Off-Site Peer Review Completion Form	8216
6. One Reviewer's Engagement Checklist for Each Full Disclosure Engagement Selected for Review	8302-8310
7. One Reviewer's Engagement Checklist for Each Compilation Engagement Selected for Review That Omits Substantially All Disclosures	8311-8316
8. Reviewer's Checklist for Review of Compliance with the PCPS Membership Requirements	8402
9. Matter for Further Consideration Forms—Off-Site Peer Reviews	8502
10. Engagement Statistics Data Sheet	8602

Appendix A

REVIEWER'S CHECKLIST—OFF-SITE PEER REVIEWS

This checklist must be completed on all off-site peer reviews of firms enrolled in the AICPA Peer Review Program or members of the private companies practice section.

Off-site peer reviews are administered by state CPA societies participating in the program. Those entities are referred to collectively as the *administering entity*.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

	<u>Initial</u>	<u>Date</u>
1. If the firm is a member of the private companies practice section, complete " <i>Checklist for Review of a Firm's Compliance With the Membership Requirements of the Private Companies Practice Section</i> ".	_____	_____
2. If the firm was previously reviewed, read the report and letter of comments, if any, on the prior review and the firm's response thereto and make note of deficiencies discussed in the report, all of which should be emphasized in the current review: _____ _____ _____	_____	_____
3. Determine that the reviewed firm has submitted engagements for review in accordance with instructions previously provided to it by the administering entity or by you as the reviewer and indicate the number of engagements selected. _____	_____	_____
4. Perform the procedures outlined in the "Reviewer's Engagement Checklist for Off-Site Peer Reviews." Make any oral inquiries deemed necessary to consider whether the financial statements and accountant's reports submitted by the reviewed firm appear to conform with the requirements of professional standards. Requests for working papers should not be necessary. An off-site peer review does not include a review of the working papers prepared on the compilation and review engagements submitted for review. (See the <i>Standards</i> for guidance on the objective of and basic requirements for an off-site peer review.)	_____	_____
5. During the review discuss and make note of—		
(i) the number of owners. _____	_____	_____
(ii) the number of owners with responsibility for issuing reports on a complete set of financial statements. _____	_____	_____
(iii) whether you found it necessary to increase the scope of the review beyond the minimum required under the <i>Standards</i> and, if so, describe the extent and reasons for the increase. (Ordinarily, the scope of the review should not be expanded beyond the minimum unless authorized by the administering entity.) _____ _____ _____ _____	_____	_____

- | | Initial | Date |
|---|---------|-------|
| 6. Prepare a matter for consideration form (MFC) to document all significant matters that require additional information or explanation of facts from the reviewed firm. | _____ | _____ |
| 7. Obtain the firm’s response to all significant deficiencies by telephone or in writing on a “Matter for Further Consideration” form. | _____ | _____ |
| 8. Consult with the administering entity (a) whenever the reviewer and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, whether action should be taken to prevent future reliance on a previously issued report, and whether a report issued by the firm was not in conformity with professional standards, and (b) whenever the firm does not respond promptly to oral or written inquiries, which may constitute a failure to cooperate. | _____ | _____ |
| 9. At the conclusion of the review: review all matters, including the firm’s response, on MFC forms, and document your reasons for including or not including such matters in the report on the review. | _____ | _____ |
| 10. If the report to be issued is other than unqualified, communicate that fact to the appropriate individual in the reviewed firm. As previously noted, consult with the administering entity if there is an unresolved disagreement with the firm as to the report to be issued or the findings on the review. | _____ | _____ |
| 11. If a letter of comments was issued, did any matters in the letter cause you to consider issuing a qualified or adverse report but not result in such a report being issued? Yes ____ No _____. If “yes,” describe such matter fully, indicating the basis for the conclusion. _____

_____ | _____ | _____ |
| 12. Describe below the nature and extent of each matter discussed with the owner(s) of the firm that was not deemed of sufficient significance to include in the letter of comments. _____

_____ | _____ | _____ |
| 13. Prepare a report and letter of comments, if applicable, on the review following the guidance in the <i>Standards</i> , and— | | |
| a. Submit the original of the report and letter of comments to the reviewed firm within thirty days of the date of the completion of the off-site peer review. Ordinarily, those off-site review procedures should be completed within thirty days of the date the reviewer receives the materials to be reviewed. | _____ | _____ |
| b. Submit a copy of the report, letter of comments, the review completion form (see Appendix B), the engagement statistics data sheet (see PRP section 8600), and the working papers on the review to the administering entity by an insured carrier. | _____ | _____ |

	<u>Initial</u>	<u>Date</u>
c. Remind the firm that:		
(i) The report and letter of comments should be sent along with an appropriate response by the reviewed firm to the administering entity within thirty days of the date it receives the report.	_____	_____
(ii) The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report and letter of comments.	_____	_____
(iii) The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.	_____	_____
14. For reviews conducted by committee-appointed reviewers, submit your bill to the administering entity. Make sure the bill includes the Federal employer identification number for Form 1099 purposes, when applicable.	_____	_____
15. After the report on the review has been accepted, return the financial statements to the firm or shred the financial statements received.	_____	_____

.30

Appendix B

OFF-SITE PEER REVIEW COMPLETION FORM

Date: _____

To: _____

From: _____
(Name of the Reviewer)

Re: Review of _____
Firm Number _____ Review Number _____

- 1. On what date was the off-site peer review completed? _____
- 2. When was the report and letter of comments, if any, mailed to the reviewed firm? _____
- 3. What was the general nature of the report? * _____
- 4. If the report is qualified for PCPS membership requirements what are the reasons? ** _____
- 5. Where will the working papers be shipped? _____

- 6. When will the working papers be shipped to the entity noted in (4) above? _____

* * * * *

Reviewer's Signature _____

Date: _____

[The next page is 8301.]

* Please use the following codes:

- 1. Unqualified—No letter of comments
- 2. Unqualified—With letter of comments
- 3. Qualified—Report comments on "Significant Departures" and has an "Except for" opinion
- 4. Qualified—Membership Requirements of the PCPS
- 5. N/A
- 6. Qualified—Significant Departures and Membership Requirements of the PCPS
- 7. Adverse

** Reasons for membership qualification

- 401—For CPE requirements
- 499—Other

PRP Section 8300

Reviewer's Engagement Checklists—Off-Site Peer Reviews

.01 This section of the manual contains a reviewer's engagement checklist for off-site peer reviews. This section also contains a checklist for compilations that omit substantially all disclosures. A checklist should be completed for each engagement reviewed.

.02 The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing limited assurance that the compilation and review engagements submitted for review do not depart in a material respect from the requirements of professional standards.

.03 An off-site peer review consists *only* of reading the accountant's compilation or review report and the related historical or prospective financial statements submitted by the firm, together with certain background information and representations provided by the reviewed firm.

.04 The objective of the review of these engagements is to consider whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with professional standards.

.05 An off-site peer review does *not* include a review of the working papers prepared on the selected compilation or review engagements, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site peer review.

.06

AICPA Peer Review Program

OFF-SITE PEER REVIEWS—GENERAL*

Engagement Code No. _____ Reviewer _____ Date _____

N/A** YES NO REF.***

A. Accountant's Report

- 1. Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15 for compilations and AR 100.33 for reviews) _____
- 2. Does the report contain all of the elements required by professional standards including appropriate language describing any departures from the basis of accounting used? (AR Sec. 100.9-.21 for compilations, AR 100.38-.41 for reviews, and AR 100.39-.41 for departures from the basis of accounting used) _____
- 3. Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02) _____
- 4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 9100.41-.45) _____
- 5. If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43) _____
- 6. Does each page of financial statements that have been compiled or reviewed include a reference to the accountant's report? (AR Sec. 100.16 and .34, and AR 200.06) _____

B. Financial Statements and Footnotes

General

- 1. Are the financial statements suitably titled? (AU Sec. 623.07 and .24) _____
- 2. Do the financial statements appear to be free of material error? (AR Sec. 100.13) _____
- 3. Is the accounting appropriate and are the disclosures adequate regarding:
 - a) Significant accounting policies? [AC Sec. A10.105-.108; for an other comprehensive basis of accounting (OCBOA) AR 100.04 fn 4] _____

* Explanation of References:

- AC Reference to section number in FASB Accounting Standards Current Text
- AR Reference to section number in AICPA Professional Standards (vol. 2)
- AU Reference to section number in AICPA Professional Standards (vol. 1)
- SOP AICPA Statement of Position [included in AICPA Technical Practice Aids (TPA) vol. 2]

** The N/A column should be used when the item either does not exist or is not material.

*** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
b) Accounting changes? (AC Sec. A06)	_____	_____	_____	_____
c) Comparative financial statements? (AC Sec. F43)	_____	_____	_____	_____
d) Business combinations? (AC Sec. B50)	_____	_____	_____	_____
4. Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)	_____	_____	_____	_____
5. If an individual or entity controls a group of related entities, did the accountant consider whether combined statements may be more meaningful? (AC Sec. C51.121-122)	_____	_____	_____	_____
6. Regarding financial instruments:				
a) For financial instruments, is information about concentrations of credit risk and fair value (including the methods and significant assumptions used to estimate fair value) disclosed? (AC Sec. F25.105, .115, and .115A-.115K)	_____	_____	_____	_____
b) For financial instruments with off-balance sheet risk, are the required disclosures made including distinguishing between instruments held or issued for trading purposes and held or issued for purposes other than trading? (AC Sec.F25.112-.113)	_____	_____	_____	_____
7. For derivative financial instruments, are the required distinctions made ("trading purposes" and "purposes other than trading") and the required disclosures made for each type? (AC Sec. F25.115L-.115O)	_____	_____	_____	_____
8. Are required disclosures made concerning related party transactions? (AC Sec. R36)	_____	_____	_____	_____
9. Are required disclosures about risks and uncertainties made regarding the nature of operations, the use of estimates, certain significant estimates, and current vulnerabilities due to certain concentrations? (SOP 94-6; TPA Sec. 10,640)	_____	_____	_____	_____
10. Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed? (AC Sec. F60)	_____	_____	_____	_____
11. Are foreign operations and export sales adequately accounted for? (AC Sec. F65)	_____	_____	_____	_____
12. Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)	_____	_____	_____	_____
13. With respect to contingencies and commitments—				
a) Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)	_____	_____	_____	_____
b) Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	_____	_____	_____	_____
14. Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Secs. C59.105 and .112)	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material

*** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
15. Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AR Sec. 100.40 fn 18 which makes reference to AU Sec. 341.10-.11)	_____	_____	_____	_____
16. Is the required information on pension plans adequately disclosed? (AC Sec. P16.150)	_____	_____	_____	_____
17. Are all other pension plans adequately disclosed? (AC Sec. P16)	_____	_____	_____	_____
18. Is the required information on defined benefit post-retirement plans, other than pensions, adequately disclosed? (AC Sec. P40.169)	_____	_____	_____	_____
19. Have postemployment benefits (after employment but before retirement), been properly disclosed? (AC Sec. P32 and P40)	_____	_____	_____	_____
20. Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)	_____	_____	_____	_____
21. If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated? (AC Sec. Q15)	_____	_____	_____	_____
22. If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)	_____	_____	_____	_____
23. Do the financial statements, where required, include appropriate presentations of:	_____	_____	_____	_____
a) futures contracts? (AC Sec. F80)?	_____	_____	_____	_____
b) Employee stock ownership plans? [SOP 93-6 (TPA Sec. 10,580)]	_____	_____	_____	_____

Balance Sheet

24. Is the accounting appropriate and are the disclosures adequate regarding:				
a) Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	_____	_____	_____	_____
b) Valuation allowances? (AC Sec. V18)	_____	_____	_____	_____
c) Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)	_____	_____	_____	_____
d) Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity? (AC Sec. I 80.103-.110)	_____	_____	_____	_____
e) Accounts and Notes Receivable—				
(i) Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	_____	_____	_____	_____
(ii) Effective interest rates which do not reflect market rates? (AC Sec. I 69.109)	_____	_____	_____	_____
(iii) Effects of troubled debt restructurings? (AC Sec. D22.108, .121, and .136-.137)	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material.

*** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.***</u>
(iv) Other receivables?	_____	_____	_____	_____
f) If FAS No. 114 as amended by FAS No. 118 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed? (AC Sec. I 08.118)	_____	_____	_____	_____
g) Inventories? (AC Secs. B05.105 and I 78)	_____	_____	_____	_____
h) Investments accounted for under the equity method? (AC Secs. I 82.109-.110)	_____	_____	_____	_____
i) Property and equipment, including accounting for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of, assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I 08.122-.138, I 13.108, I 27 and I 67)	_____	_____	_____	_____
j) Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	_____	_____	_____	_____
k) Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges, and their impairment, if applicable? (AC Secs. I 08, I 27.140, I 60, Co 2.102-.110, and I 27.140 and .142-.143)	_____	_____	_____	_____
l) Pledged assets? (AC Sec. C59.120)	_____	_____	_____	_____
m) Related assets and liabilities? [These may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law.] (AC Sec. B10 and .101A)	_____	_____	_____	_____
n) Current liabilities? (AC Sec. B0 5.108-.109 and .118)	_____	_____	_____	_____
o) Short-term liabilities expected to be refinanced? (AC Sec. B0 5.117 and .138-.139)	_____	_____	_____	_____
p) Notes payable and other debt—				
(i) Maturities and rates? (AC Sec. C32.105)	_____	_____	_____	_____
(ii) Other terms and covenants? (AC Sec. C59.120)	_____	_____	_____	_____
(iii) Effect of interest rates that do not reflect market rates? (AC Sec. I 69)	_____	_____	_____	_____
(iv) Effect of troubled debt restructurings? (AC Sec. D22.121)	_____	_____	_____	_____
(v) Effect of early extinguishment of debt? (AC Sec. D14 and I 17.104)	_____	_____	_____	_____
(vi) Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	_____	_____	_____	_____
q) Capital leases of lessees? (AC Sec. L10.106 and .112)	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material.

*** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.***</u>
r) Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, and special termination benefits to employees and deferred revenue? (AC Secs. C44.104 and .108, and I 27.104)	_____	_____	_____	_____
s) Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	_____	_____	_____	_____
t) Treasury stock? (AC Sec. C23)	_____	_____	_____	_____
u) Stock option and stock purchase plans? (AC Sec. C47)	_____	_____	_____	_____
v) Stock subscriptions receivable? (EITF 85-1)	_____	_____	_____	_____
w) Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)	_____	_____	_____	_____
x) Changes in stockholders' equity? (AC Secs. C0 8.112, A35.103 and .105-.107)	_____	_____	_____	_____
y) Redemption requirements on capital stock for the next five years? (AC C32.105; for redemption requirements outside of the issuer's control, e.g. mandatory redeemable preferred stock, TPA Sec. 4110.08)	_____	_____	_____	_____
Income Statement				
25. Are the important components of the income statement separately disclosed?	_____	_____	_____	_____
26. Is the accounting appropriate and are the disclosures adequate regarding:				
a) Method of income recognition; for example: long-term contracts and real estate transactions? (AC Secs. R10, Co4.110 and Co5)	_____	_____	_____	_____
b) Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses? (AC Sec. I 80)	_____	_____	_____	_____
c) Application of the equity method? (AC Sec. I 82.109)	_____	_____	_____	_____
d) Advertising costs? (SOP 93-7; TPA Sec. 10,590)	_____	_____	_____	_____
e) Research and development costs? (AC Sec. R50)	_____	_____	_____	_____
f) Computer software costs? (AC Sec. Co2.110)	_____	_____	_____	_____
g) Capitalization of interest costs? (AC Sec. I 67)	_____	_____	_____	_____
h) Discount or premium on notes receivable or payable? (AC Sec. I 69.108-.109)	_____	_____	_____	_____
i) Recognition of impairment of long-lived assets? (AC Sec. I08.122-.138)	_____	_____	_____	_____
j) Depreciation? (AC Sec. D40.105)	_____	_____	_____	_____
k) Compensatory stock issuance plan? (AC Sec. C47)	_____	_____	_____	_____
l) Deferred compensation agreements? (AC Sec. C38)	_____	_____	_____	_____
m) Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material.

*** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.***</u>
n) Product financing arrangements? (AC Sec. D18.106-.107)	_____	_____	_____	_____
o) Operating leases and rent expense of lessees? (AC Sec. L10.111-.112)	_____	_____	_____	_____
p) Income taxes:				
(i) The types of temporary differences that cause significant portions of a deferred tax liability or asset? (AC Sec. I 27.140-.142)	_____	_____	_____	_____
(ii) Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I 27.144)	_____	_____	_____	_____
(iii) Components of the net deferred tax liability or asset including, if present, the total of all deferred tax liabilities, total of all deferred tax assets, the total valuation allowance, and the net change in the valuation allowance? (AC Sec. I27.142)	_____	_____	_____	_____
(iv) Significant reconciling items between GAAP income tax expense or benefit attributable to continuing operations and the amount of income tax expense that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (A nonpublic company needs to disclose the nature of such items; a public company also needs to include a reconciliation using percents or amounts) (AC Sec. I27.146)	_____	_____	_____	_____
(v) Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes? (AC Sec. I 27.146)	_____	_____	_____	_____
q) Discontinued operations? (AC Sec. I 13)	_____	_____	_____	_____
r) Extraordinary items? (AC Sec. I 17)	_____	_____	_____	_____
s) Unusual or infrequent items, but not both? (AC Sec. I 22)	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material.

*** All “no” answers must be explained on the pages provided at the end of this checklist.

	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.***</u>
Statement of Cash Flows				
27. Is a statement of cash flows presented for each period for which results of operations are provided (or is the report appropriately modified?) (AC Sec. C25.101)	_____	_____	_____	_____
28. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)	_____	_____	_____	_____
29. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amount of cash and cash equivalent agree with the amounts on the balance sheet? (AC Sec. C25.124)	_____	_____	_____	_____
30. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.127)	_____	_____	_____	_____
31. Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	_____	_____	_____	_____
32. If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.127)	_____	_____	_____	_____
33. Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and is the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)	_____	_____	_____	_____
34. Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)	_____	_____	_____	_____
35. Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I 80.117)	_____	_____	_____	_____
Other				
36. If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements, and disclosures consistent with the guide? (AR Sec. 100.04 fn 4)	_____	_____	_____	_____
Summary				
37. Does it appear that disclosures in the financial statements are reasonably adequate?	_____	_____	_____	_____

** The N/A column should be used when the item either does not exist or is not material.

*** All "no" answers must be explained on the pages provided at the end of this checklist.

EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<i>Page Number</i>	<i>Question Number</i>	<i>Explanatory Comments</i>	<i>Disposition of Comments*</i>
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* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

REVIEWER'S CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:
 - a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects? YES _____ NO _____
 - b. The report issued by the firm did not conform with professional standards? YES _____ NO _____

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTION 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the off-site peer review or that should be communicated to the reviewed firm as a matter that may require corrective action? YES _____ NO _____

.07

AICPA PEER REVIEW PROGRAM

OFF-SITE PEER REVIEWS—COMPILATIONS THAT OMIT SUBSTANTIALLY ALL DISCLOSURES

Engagement Code No.: _____ Reviewer: _____ Date: _____

N/A* YES NO REF.**

A. Accountant's Report

- | | | | | |
|--|-------|-------|-------|-------|
| 1. Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15) | _____ | _____ | _____ | _____ |
| 2. Does the report contain all of the elements required by professional standards, including appropriate language describing any departures from the basis of accounting used? (AR Sec. 100.14-.18 and .39-.41) | _____ | _____ | _____ | _____ |
| 3. Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02) | _____ | _____ | _____ | _____ |
| 4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 9100.41-.45) | _____ | _____ | _____ | _____ |
| 5. If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43) | _____ | _____ | _____ | _____ |
| 6. Does each page of financial statements that have been compiled include a reference to the accountants' report? (AR Sec. 100.16) | _____ | _____ | _____ | _____ |

B. Financial Statements

General

- | | | | | |
|--|-------|-------|-------|-------|
| 1. Are the financial statements suitably titled? (AU Sec. 623.07) | _____ | _____ | _____ | _____ |
| 2. Do the financial statements appear to be free of material error? (AR Sec. 100.13) | _____ | _____ | _____ | _____ |
| 3. Is the accounting appropriate for accounting changes? (AC Sec. A06) | _____ | _____ | _____ | _____ |
| 4. Are loss contingencies accrued as appropriate? (AC Sec. C59) | _____ | _____ | _____ | _____ |
| 5. Are the financial statements adjusted for significant subsequent events? (AU Sec. 560) | _____ | _____ | _____ | _____ |
| 6. Have postemployment and postretirement benefits, other than pensions, been properly accounted for? (AC Secs. P32 and P40) | _____ | _____ | _____ | _____ |
| 7. Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35) | _____ | _____ | _____ | _____ |

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Balance Sheet				
8. Is the presentation appropriate regarding:				
(a) Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	_____	_____	_____	_____
(b) Valuation allowances? (AC Sec. V18)	_____	_____	_____	_____
(c) Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholder's equity? (AC Sec. I 80.103-.110)	_____	_____	_____	_____
(d) Effects of troubled debt restructurings? (AC Sec. D22)	_____	_____	_____	_____
(e) Are operating and capital leases properly accounted for? (AC Sec. L 10)	_____	_____	_____	_____
(f) Other assets, including deferred charges?	_____	_____	_____	_____
(g) Presentation of notes payable and other debt?	_____	_____	_____	_____
(h) Other liabilities including compensation for future absences? (AC Sec. C44.104-.108)	_____	_____	_____	_____
(i) Treasury stock? (AC Sec. C23)	_____	_____	_____	_____
Income Statement				
9. Are the important components of the income statement separately stated?	_____	_____	_____	_____
10. Is the presentation appropriate regarding:				
(a) Method of income recognition, for example: long-term contracts and real estate transactions? (AC Sec. R10, Co4 and Co5)	_____	_____	_____	_____
(b) Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented in accordance with the statement? (AC Sec. I 80)	_____	_____	_____	_____
(c) Application of the equity method? (AC Sec. I82.109)	_____	_____	_____	_____
(d) Depreciation? (AC Sec. D40)	_____	_____	_____	_____
(e) Deferred compensation agreements? (AC Sec. C38)	_____	_____	_____	_____
(f) Accounting for income taxes? (AC Sec. 127)	_____	_____	_____	_____
(g) Discontinued operations? (AC Sec. I13)	_____	_____	_____	_____
(h) Extraordinary items? (AC Sec. I17)	_____	_____	_____	_____
(i) Unusual or infrequent items, but not both? (AC Sec. I22)	_____	_____	_____	_____
Statement of Cash Flows				
11. Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	_____	_____	_____	_____
12. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)	_____	_____	_____	_____

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
13. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with amounts on the balance sheet? (AC Sec. C25.124)	_____	_____	_____	_____
14. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)	_____	_____	_____	_____
15. Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-111A)	_____	_____	_____	_____
16. Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I 80.117)	_____	_____	_____	_____
17. Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (I80.117)	_____	_____	_____	_____
Other				
18. If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format and statements consistent with the guide?	_____	_____	_____	_____
19. If the statements include only a few disclosures in the form of notes, are they labeled as "Selected Information - Substantially All Disclosures Required By Generally Accepted Accounting Principles Are Not Included," as required by SSARS? (AR Sec. 100.19)	_____	_____	_____	_____

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** All "no" answers must be explained on the pages provided at the end of this checklist.

EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<i>Page Number</i>	<i>Question Number</i>	<i>Explanatory Comments</i>	<i>Disposition of Comments*</i>
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* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
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Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

REVIEWER'S CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:
 - a. The financial statements did not appear to be appropriate in form and free from obvious material errors in application of accounting principles? YES _____ NO _____
 - b. The report issued by the firm did not conform with professional standards? YES _____ NO _____

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTION 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the off-site peer review or that should be communicated to the reviewed firm as a matter that may require corrective action? ¹ YES _____ NO _____
- _____

[The next page is 8401.]

¹ Answer "yes" to this question if no MFCs were deemed necessary.

PRP Section 8400

Reviewer's Checklist for Review of Compliance With the PCPS Membership Requirements

.01 Members of the private companies practice section of the AICPA Division for CPA Firms (PCPS) are required to comply with certain membership requirements.

.02 This section of the manual contains a checklist for testing a firm's compliance with the PCPS membership requirements. Testing of compliance with the membership requirements is required on off-site peer reviews of members of the PCPS. An additional statement is included in the off-site peer review report expressing limited assurance that the firm is in compliance with the membership requirements in all material respects and, if not, a description of the reasons.

.03

Off-Site Peer Review

Checklist for Review of a Firm's Compliance With the Membership Requirements of the Private Companies Practice Section

Firm

Period Ending

Procedures

		<u>Findings</u>		<u>Comments</u>
<u>Yes</u>	<u>No</u>			

1. Has the requirement as to hours of continuing professional education been met by all professional staff based upon copies of records submitted for the firm's three most recent educational years?
2. Has the firm paid its dues to the Section for the current year?
3. Has the firm filed its most recent annual report?
4. Does the firm's form or organization and name comply with Rule 505 of the Code of Professional Conduct?
5. Are all of the owners of the firm that are eligible for AICPA membership members of the AICPA?

_____	_____		
_____	_____		
_____	_____		
_____	_____		
_____	_____		

Signature _____

Date _____

[The next page is 8501.]

PRP Section 8500

Instructions for Use of Matter for Further Consideration Forms—Off-Site Peer Reviews

.01 The reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of facts from the reviewed firm.

.02 Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm's explanations.

.03 The reviewer may wish to obtain the engagement owner's signature on matters that will be the subject of a qualified report.

.04

MATTER FOR FURTHER CONSIDERATION—OFF-SITE PEER REVIEWS

Engagement

MFC No. _____

No. _____

Checklist page _____

Question _____

REVIEWER'S DESCRIPTION OF MATTER

REVIEWED FIRM AGREES WITH THE REVIEWER'S DESCRIPTION? YES ____ NO ____
REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS

INCLUDED IN LETTER OF COMMENTS? YES ____ NO ____

If "No," explain:

Signatures

Dates

Engagement Owner _____

Reviewer _____

[The next page is 8601.]

PRP Section 8600

Engagement Statistics Data Sheet—Off-Site Peer Reviews

.01 The reviewer should prepare an off-site engagement statistics data sheet for the reviewed firm.

OFF-SITE ENGAGEMENT STATISTICS DATA SHEET

(To Be Completed On All Reviews)

I. Engagement Statistics

<i>Type of Engagement</i>	<i>Total No. Reviewed</i>	<i>Total No. Substandard</i>
Reviews	_____	_____
Compilations	_____	_____
Total	=====	=====

REASON CODES
Substandard Engagement Reason Codes
GAP Non-GAAP
SAR Non-SSARS

ACTION CODES
Substandard Engagement Action Codes
1. Report and/or financial statements recalled, revised and reissued
2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)
3. Omitted procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)
4. Cause of independence impairment eliminated
5. Unable to apply omitted procedures
6. Notified parties that no reliance should be placed on the report issued

II. Reasons for Substandard Engagements

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

III. Actions To Be Taken on Substandard Engagements

<i>Type of Engagement Reviewed</i>	<i>Action Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

IV. Engagements Excluded from Review

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

EXCLUDED ENGAGEMENT REASON CODES
1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

PRP Section 9100

Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program

General

.01 An association of CPA firms may assist its members in arranging and carrying out peer reviews of firms enrolled in the AICPA peer review program, and of members of the private companies practice section, provided it receives the approval of the AICPA Peer Review Board.

.02 Reviews arranged by an association of CPA firms may be conducted by a team appointed by the association (an "association review") or by a reviewing firm that is a member of the same association as the reviewed firm (a "firm-on-firm review").

.03 A majority of the review team members on an association review, including the team captain, must be from association member firms.

.04 Associations of CPA firms wanting to arrange peer reviews of their members must establish policies and procedures to ensure that the reviews are carried out in a manner that is consistent with the administrative policies established and the *Standards for Performing and Reporting on Peer Reviews*.

.05 An association may not form teams to perform peer reviews of non-association members.

.06 Results of reviews arranged by associations of CPA firms will be evaluated by the state CPA society administering the review.

.07 Formation of associations of CPA firms for the express purpose of arranging peer reviews is discouraged.

Independence Requirements

.08 An association and its member firms must meet the following independence criteria:

- a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms. (For purposes of this requirement "professional services" include accounting, tax, personal financial planning, litigation support services and the professional services for which standards are promulgated by bodies designated by AICPA Council, such as Statements on Auditing Standards and Statement on Standards for Accountants' Services on Prospective Financial Information.)
- b. The association does not engage in any of the advertising or solicitation activities that are permitted with respect to member firms except that an association may respond to inquiries and may prepare brochures that firms may use to obtain professional engagements. (Member firms may solicit or advertise to obtain professional engagements in accordance with Rule 502 of the AICPA Code of Professional Conduct.)
- c. The association shall not warrant or make public representations regarding the quality of professional services performed by its member firms. However, member firms may independently publicize their membership in the association.
- d. The association shall have an independent, triennial review of its association quality control materials. (See Appendix A for the definition and examples of such materials.) The initial review of association quality control materials should be performed prior to the association carrying out any reviews (whether on-site or off-site) of its member firms. See PRP § 12,100, *Standards for Performing and Reporting on*

Reviews of Quality Control Materials, or in the case of other types of materials, PRP § 12,200, *Guidelines for Review of Continuing Professional Education Programs*.

- e. Member firms of the association shall not share directly or indirectly, or participate in, the profits of each other. (Correspondent fees are considered revenue, not profit participation.)
- f. Referral or participating work among member firms shall be arranged directly by the firms involved.
- g. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

.09 The association should confirm that it conforms with the aforementioned independence criteria prior to commencing peer reviews and at the beginning of each subsequent year in which the association desires to be authorized to administer peer reviews.

Plans of Administration

.10 The association may ask for authorization to arrange and carry out the reviews of its members, under the supervision of the participating state CPA society, by submitting an administrative plan to the AICPA Peer Review Board which covers such matters as the following:

- a. Developing and maintaining a pool of qualified reviewers in the AICPA reviewers' data bank.
- b. Selecting the reviewers.
- c. Training and evaluating reviewers.
- d. Determining that reviews are conducted in accordance with AICPA Standards for Performing and Reporting on Peer Reviews.
- e. Handling of questions raised by reviewers and firms.
- f. Resolving disputes that may arise between a reviewed firm and the association reviewers, and reporting unresolved disputes to the entity administering the review.

.11 To satisfy the above requirement, an association of CPA firms may either submit (a) a brief questionnaire developed by the AICPA Peer Review Board or (b) a more detailed plan of administration which, at minimum, should address each of the items discussed in the questionnaire. Appendix B includes a copy of the association questionnaire developed for arranging and carrying out peer reviews in 1995.

.12 The degree of involvement and the scope of activity of an association of CPA firms may be changed annually by the AICPA or the association of CPA firms.

Administrative Reviews

.13 An association of CPA firms that is authorized to arrange peer reviews shall submit triennially to an independent review of its administrative procedures and to a review of any association quality control materials.

.14 These reviews may be performed concurrently; however, separate reports should be issued. The reviewer shall possess the same qualifications as those required of team captains on on-site peer reviews.

.15 The initial administrative review should be performed during the third year that the association is involved in arranging and carrying out peer reviews under the peer review program. See PRP § 9200, *Guidelines for Performing Administrative Reviews of Associations of CPA Firms* for suggested review procedures for administrative reviews of authorized associations. These procedures are general in nature and may not be appropriate for certain associations. Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.

.16 Appendix A**Examples of Association Quality Control Materials****Definition**

1. Association quality control materials are quality control materials that are expected to be used as an integral part of the quality control system of a firm that is a member of the association and that are either—

- a. Prepared by the association or a member firm(s) for use by its member firms.
- b. Composed of materials or programs provided by a third party and tailored for or developed for the association or its member firms.

Examples

Example 1—The XYZ Company is contracted to present to member firms of an association a course on EDP auditing that is tailored to the needs of its members. Such a course would constitute an association quality control material because the course was tailored to the individual association needs.

Example 2—The XYZ Company is contracted to present to newly hired assistants of association member firms a course on working paper techniques. This course is identical to the course presented to other groups and is not modified or tailored for the association. Such a course would not be considered an association quality control material.

Example 3—An accounting firm that is not a member of the association has agreed to supply its own accounting and auditing manual to all the association member firms. Such a manual, since it was not tailored or developed for the association and its member firms, would not constitute an association quality control material.

**AICPA Peer Review Programs
Association of CPA Firms Questionnaire for the
Arrangement of On-Site and Off-Site Peer Reviews in 1995**

INFORMATION TO BE PROVIDED BY ALL ASSOCIATIONS WISHING TO ARRANGE PEER REVIEWS

General Information

1. Name and address of the association of CPA firms

2. Name and telephone number of the executive director

Name _____

Telephone Number _____

3. Name and telephone number of the person who will arrange peer reviews at the association's office

Name _____

Telephone Number _____

4. Name and telephone number of the person(s), if any, who will perform the "technical review" of the peer review materials.

Name _____

Telephone Number _____

5. Does the association agree to comply with the standards for performing and reporting on peer reviews established by the SECPS Peer Review Committee and/or the AICPA Peer Review Board, as applicable, and with the related administrative procedures? Yes No

6. Has the association established a peer review committee to oversee the administration of the peer reviews of its member firms? Yes No If yes, please attach a listing of the individuals appointed to that committee and the charge of that committee.

7. What types of reviews does the association wish to arrange under the peer review program:

	<u>On-site</u>		<u>Off-site</u>
	<u>SECPS</u>	<u>PRP*</u>	<u>PRP</u>
a. Team appointed reviews	_____	_____	_____
b. Firm-on-firm reviews	_____	_____	_____

8. Approximately how many firms in the association plan to have a peer review during the year? On-site ____ Off-site ____

9. How does the association plan to deal with questions concerning the following types of matters (please place an "x" under the body that reviewers and firms should use as their primary source):

	<u>Association Personnel</u>	<u>Association Committee Members</u>	<u>AICPA</u>	<u>Applicable State CPA Society</u>
a. Technical accounting and auditing matters?	_____	_____	_____	_____
b. Ethics matters?	_____	_____	_____	_____
c. Peer review matters?	_____	_____	_____	_____

*PRP = AICPA Peer Review Program SECPS = SECPS Peer Review Program

10. How will disagreements that arise between a reviewed firm and the association reviewers be resolved? _____

11. Does the association agree to promptly report any unresolved disputes to the entity administering the review?
 Yes No

12. Does the association agree to retain the records on reviews that must be maintained by the association, including the working papers on reviews performed by review teams appointed by the association, as long as required under the rules established by the applicable peer review program? Yes No If these records will not be kept at the association's main office, please indicate where they will be kept. _____

13. Does the association agree to submit the peer review working papers to the entity administering the review and to appropriate oversight bodies? Yes No

Independence Requirements

14. Does the association, as distinct from its member firms, perform any professional services other than those it provides to its member firms? Yes No

15. Does the association engage in any advertising or solicitation activities with respect to its member firms other than preparing general brochures that firms may use to obtain professional engagements? Yes No

16. Does the association warrant or make public representations regarding the quality of professional services performed by its member firms? Yes No [However, member firms may independently publicize their membership in the association.]

17. Do the member firms of the association share directly or indirectly, or participate in, the profits of each other?
 Yes No (Correspondent fees are considered revenue, not profit participation.)

18. Does the association arrange referral or participating work among member firms? Yes No

19. Does the association exercise any direct or indirect management control over the professional or administrative functions of its member firms? Yes No

20. If the answer was "yes" to questions 14, 15, 16, 17, 18, or 19, please briefly explain. _____

21. Does the association obtain annual written confirmations regarding correspondent fees from its member firms?
 Yes No If the answer is no, please explain how the association monitors correspondent fees. _____

Association Quality Control Materials

- 22. Does the association have any materials that could be considered association quality control materials? Yes No
If no, please skip to Question 24.
- 23. If the answer to 22 is yes, has the association had an independent review of those association quality control materials? Yes No
 - a. If the answer is yes, please indicate the date of the last review and attach a copy of the report issued. _____
 - b. If the answer is no, please indicate when the review will take place. _____

Association Administrative Review

- 24. Associations forming review teams and/or having association quality control materials are required to have an independent review of their administrative procedures once every three years. Has the association had such a review? Yes No
 - a. If the answer is yes, please indicate the date of the last review and attach a copy of the report issued. _____
 - b. If the answer is no, please indicate why such a review has not taken place. _____

INFORMATION TO BE PROVIDED BY ASSOCIATIONS THAT WISH TO SELECT A REVIEW TEAM TO PERFORM A PEER REVIEW. IF YOUR ASSOCIATION ONLY WISHES TO ARRANGE FOR AN ASSOCIATION MEMBER FIRM TO REVIEW ANOTHER ASSOCIATION MEMBER FIRM, PLEASE SKIP TO QUESTION 31.

- 25. Since the resumes of all individuals expected to serve on a peer review team must be included in the AICPA master bank of reviewers, will the association agree to submit copies of the reviewer resume forms for each individual that it may assign to a peer review team to the AICPA for inclusion in the AICPA master bank of reviewers? Yes No
- 26. Will the association verify that any correspondent work is not material to a reviewed firm or a firm with whom a member of the review team is associated? Yes No
- 27. Will the association verify that the reviewers possess the appropriate qualifications for service on the review team for which they have been selected? Yes No
- 28. Does the association agree to ensure that the applicable administering entities—the AICPA Peer Review Division or participating state CPA societies—are advised of the arrangements made for peer reviews prior to the commencement of the reviews, including the names of the reviewers and the dates the reviews will take place, and not to change those arrangements unless authorized by the administering entity? Yes No
- 29. Has the association established procedures for assuring that reviews performed by association formed review teams are performed and reported on in accordance with the applicable peer review programs' standards and guidelines? Yes No
If the answer is yes, do these procedures include:
 - a. Pre-issuance review of the peer review working papers? Yes No
 - b. Pre-issuance review of the report and letter of comments? Yes No
 - c. Review of the documentation of any consultation matters raised during the review? Yes No
- 30. Will the association monitor the reviews to ensure the peer review working papers and peer review documents are submitted to the administering entities in accordance with the timing guidelines established by the applicable peer review program? Yes No

INFORMATION TO BE PROVIDED BY ASSOCIATIONS THAT WISH TO ARRANGE FOR AN ASSOCIATION MEMBER FIRM TO REVIEW ANOTHER ASSOCIATION MEMBER FIRM. IF YOUR ASSOCIATION DOES NOT WISH TO ARRANGE FOR SUCH REVIEWS, PLEASE SKIP TO QUESTION 32.

31. Will the association verify that any correspondent work is not material to the reviewed firm or the reviewing firm?
Yes No

★ ★ ★ ★ ★ ★ ★ ★ ★ ★

32. Signature _____ Date _____

Title _____

★ ★ ★

Please return this form to:

Dale R. Atherton
American Institute of Certified Public Accountants
Peer Review Division
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

[The next page is 9201.]

PRP Section 9200

Guidelines for Performing Administrative Reviews of Associations of CPA Firms

Introduction

.01 An association of CPA firms that is authorized to arrange and carry out on-site and/or off-site reviews under the AICPA peer review program is required to submit triennially to an independent review of its procedures for administering peer reviews and to a review of any association quality control materials. These reviews may be performed concurrently; however, separate reports should be issued.

.02 The objectives of the triennial administrative reviews are to evaluate—

- a. Whether the procedures established by the association as outlined in its plan of administration are properly designed and suitably comprehensive to provide the association with reasonable assurance of conforming with the guidelines for involvement by associations of CPA firms.
- b. Whether the association's procedures are consistent with the current peer review standards and program guidelines.
- c. Whether the association is complying with and appropriately documenting its compliance with those administrative procedures during the period under review.

.03 If an association is authorized to arrange and carry out peer reviews of members of the SEC practice section of the AICPA Division for CPA Firms and is required to undergo a triennial review of its administrative procedures in connection with that program, the administrative review performed for that section can satisfy the requirements for an administrative review under the AICPA peer review program, provided the review under the SECPS includes testing of administrative procedures pertaining to peer reviews under the AICPA peer review program.

Qualifications of Reviewers

.04 An association administrative review may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association administrative procedures may not be performed by a member of the association whose procedures are being reviewed. Furthermore, a review may not be performed by a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the review.

.05 A review team shall possess the same qualifications for on-site review teams as set forth in the paragraphs 3100.15-.21 of the *Standards for Performing and Reporting on Peer Reviews* sections entitled "Organization of the Review Team" and "Qualifications for Service as a Reviewer." In addition, associations requested to perform association administrative reviews must adhere to the guidelines contained in PRP §9100, *Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program*.

Suggested Review Procedures

.06 Appendix A to this section, PRP §9200.19, includes suggested review procedures for performing administrative reviews of associations of CPA firms. These procedures are general in nature and may not be appropriate for certain associations, such as those associations that do not use materials that constitute "association quality control materials." Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.

Reporting on Association Administrative Reviews

The Review Team's Report

.07 Within thirty days of the date of the exit conference, the association administrative review team should furnish the association with a written report and, if applicable, a letter of comments.

Unqualified Report

.08 An unqualified report issued by an association administrative review team shall contain the following:

- a. A statement of the scope of the review
- b. A statement that the review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Arrange On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program developed by the Peer Review Board of the American Institute of Certified Public Accountants and the AICPA peer review program's *Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program*.
- c. An opinion (without qualification) that the association has complied during the year reviewed with the guidelines established by the Board for associations authorized to arrange and carry out on-site and off-site peer reviews.

.09 An example of an unqualified report is included in Appendix B, PRP § 9200.20.

Other Types of Reports

.10 The following circumstances ordinarily would require the issuance of a qualified report, an adverse report, or a disclaimer:

- a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.
- b. The degree of compliance with the association's policies and procedures were not sufficient to provide reasonable assurance that the association would conform with the *Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program*.

.11 In those instances in which the review team determines that a qualified or adverse report is required, all the reasons should be disclosed in the report and the review team should consult with the AICPA Peer Review Board or its designee prior to the issuance of that report.

Letter of Comments

.12 A letter of comments should be issued in conjunction with the administrative review to report matters that—

- a. Resulted in a qualified or adverse report.
- b. Would result in substantial improvement in the association's compliance with the guidelines for involvement by associations of CPA firms in the AICPA peer review program.

.13 The letter of comments should include—

- a. A reference to the report and, if applicable, an indication that the report was qualified or adverse.
- b. A description of the purpose of the association administrative review.

- c. A statement that the review was conducted in accordance with procedures established by the Peer Review Board of the American Institute of Certified Public Accountants.
- d. A description of the limitations of the procedures used to arrange and carry out peer reviews.
- e. The reviewer's findings, including sufficient detail with respect to the findings so that the association can determine the actions it needs to take, if any, to correct the deficiencies noted.
- f. A statement that the matters discussed in the letter were considered in determining the opinion expressed on the administrative review of the association.

.14 If any of the matters to be included in the letter were included in the letter issued in connection with the association's previous administrative review, that fact ordinarily should be noted in the description of the matter. In addition, although not required, the review team may indicate how corrective action might be implemented. The letter may also include comments concerning actions taken, in process, or to be taken by the provider.

.15 If a qualified report is issued, the letter must include a separate section on the matters that resulted in the qualification. This section would include an elaboration of the findings discussed in the qualifying paragraph of the report.

.16 Appendix C, PRP § 9200.21, illustrates how some of the foregoing matters may be covered in a letter of comments.

Letter of Response

.17 The association is required to respond in writing to the letter of comments. The response should be addressed to the Board and should describe the action(s) taken or planned with respect to each matter in the letter. If the association disagrees with one or more of the comments, its response should describe the reasons for such disagreement.

.18 When a letter of comments is issued along with a qualified or adverse report, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unqualified report.

.19 Appendix A

Program for Monitoring Associations of CPA Firms Authorized to Arrange and Carry Out On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program

This program includes suggested review procedures for performing administrative reviews of associations of CPA firms. These procedures are general in nature and may not be appropriate for certain associations, such as those associations that do not use materials that constitute "association quality control materials." Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.

SUGGESTED REVIEW PROCEDURES

	<i>Initial</i>	<i>Date</i>
I. PLANNING		
Obtain the following documents from the AICPA Peer Review Division Staff.		
a) The association's most recent plan of administration.	_____	_____
b) The Peer Review Board's letter accepting the association's plan of administration.	_____	_____
c) The latest report on the review of the association's quality control materials, the letter of comments, if any, and the association's response thereto.	_____	_____
d) Summary information on peer reviews administered by the association, including number of reviews conducted and types of reports issued.	_____	_____
e) Any questions raised by the staff concerning the association's compliance with the peer review standards.	_____	_____
II. TESTING		
A. Independence		
1. Based on reading the association's charter, bylaws, publications, and independence confirmations on behalf of the association or its members, and on inquiry of the association's executive director, determine that the association and its member firms are complying with the following criteria for independence:		
● The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms.	_____	_____
● The association does not obtain or attempt to obtain professional engagements for its member firms. (This includes advertising for the purpose, expressed or implied, of obtaining professional engagements for its member firms. However, the association may respond to inquiries and prepare brochures that individual firms, not the association, may use to obtain professional engagements.)	_____	_____
● The association does not warrant or make public representations regarding the quality of professional services performed by its member firms. (However, member firms may independently publicize their membership in the association.)	_____	_____
● Member firms of the association do not share directly or indirectly, or participate in, the profits of each other. (Correspondent fees are considered revenue, not profit participation.)	_____	_____
● Referral or participation work among member firms is arranged directly by the firms involved.	_____	_____
● The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.	_____	_____

SUGGESTED REVIEW PROCEDURES

	<u>Initial</u>	<u>Date</u>
2. Evaluate whether the results of the above tests or inquiries are consistent with the information contained in the plan of administration submitted to the Peer Review Board.	_____	_____
B. Association Quality Control Materials		
1. Inquire whether the association has identified any materials that constitute association quality control materials as defined in PRP § 9100.16 of the <i>AICPA Peer Review Program Manual</i> .	_____	_____
2. Determine whether:		
a) A review of the system of quality control for the materials in B.1. above was conducted by an individual possessing the prerequisite qualifications.	_____	_____
b) The report on the review identifies all the types of materials that comprise the association’s quality control materials.	_____	_____
c) The report has been made available to member firms and their reviewers and relied upon during the performance of association-administered peer reviews.	_____	_____
3. If a letter of comments was issued in connection with the latest review, determine whether appropriate corrective action(s) have been taken.	_____	_____
4. Inquire whether <i>significant</i> changes have been made in the system for developing quality control materials since the last review. If so:	_____	_____
a) Inquire whether the changes have been independently evaluated for appropriateness on a timely basis, whether there has been a test of the documentation evidencing compliance with the system, and whether a report has been issued.	_____	_____
b) If the answer to 4a is “no,” evaluate the appropriateness of the reasons.	_____	_____
c) Determine whether the changes in the quality control system have been reported in the updated plan(s) filed with the Board.	_____	_____
C. Plan of Administration and Its Annual Renewal		
1. Determine whether all the amendments requested by the Board in its acceptance of the association’s most recent plan have been adopted.	_____	_____
2. Determine whether the plan and the association’s procedures have been appropriately amended on a timely basis to reflect any new requirements resulting from revisions in the peer review standards and guidelines since the most recent plan was filed.	_____	_____
3. Determine whether any new procedures adopted by the association since the Board’s acceptance of the current plan are consistent with the peer review standards and guidelines.	_____	_____
4. Determine whether the association has obtained confirmations from member firms concerning fees for correspondent work.	_____	_____
D. Qualifications for a Reviewer or a Reviewing Firm		
Determine whether the qualifications for the reviewers or outlined in paragraphs 3100.15-3100.21 of the peer review standards have been met and whether appropriate procedures have been followed by the association to ensure that sufficient attention was given to the following requirements.	_____	_____
1. Establishing and maintaining a pool of qualified and trained reviewers.	_____	_____
2. Assigning competent and appropriate reviewers in relation to the specific needs of reviewed firms.	_____	_____
3. Assigning a majority of the review team members, including the team captain, from association member firms.	_____	_____

SUGGESTED REVIEW PROCEDURES

- | | <u>Initial</u> | <u>Date</u> |
|---|----------------|-------------|
| 4. Evaluating the performance of the reviewers. | _____ | _____ |
| 5. Maintaining the reviewers' independence considering: | | |
| a) The prohibition against reciprocal reviews. | _____ | _____ |
| b) The prohibition against material amounts of fees for correspondent work. | _____ | _____ |
| c) The independence and conflict of interest interpretations. | _____ | _____ |

<u>Yes</u>	<u>No</u>
------------	-----------

III. CONCLUSIONS

- | | | |
|--|-------|-------|
| 1. Based on the procedures performed: | | |
| a) Are the administrative procedures appropriately designed and suitably comprehensive to provide the association with reasonable assurance of conforming with the guidelines? | _____ | _____ |
| b) Are the procedures established by the association for administering peer reviews in conformity with the latest peer review standards and guidelines for involvement by associations of CPA firms? | _____ | _____ |
| c) Has the association complied with and appropriately documented its compliance with its procedures for administering the AICPA's peer review program during the period under review? | _____ | _____ |

<u>Initial</u>	<u>Date</u>
----------------	-------------

- | | | |
|---|-------|-------|
| 2. Discuss your findings and conclusions with the officials of the association. (There is no need to prepare a formal memorandum unless there is a significant weakness.) | _____ | _____ |
| 3. Issue the report and letter of comments, if any, on the results of the review, to the association. | _____ | _____ |
| 4. Submit a copy of the report and letter of comments to the AICPA Peer Review Division along with all of the working papers on the review. | _____ | _____ |

.20 Appendix B

Sample Unqualified Report

[AICPA, state CPA society, or firm letterhead]

May 15, 19__

Executive Committee
XYZ Association

We have reviewed the procedures followed by XYZ Association during the year ended December 31, 19__, in arranging and carrying out [on-site and off-site]* peer reviews under the authorization of the Peer Review Board of the American Institute of Certified Public Accountants. Our review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Arrange On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program and included tests of the association's compliance with the "Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program."

In our opinion, the XYZ Association has complied during the year ended December 31, 19__, with the guidelines established by the Board for associations authorized to arrange and carry out [on-site and off-site]* peer reviews.

John Doe, Team Captain
[or Name of Reviewing Firm]

* Tailor as applicable.

.21 Appendix C

Sample Letter of Comments

[AICPA, state CPA society, or firm letterhead]

May 15, 19__

[Date Should Correspond With the Date of the Report]

Executive Committee
XYZ Association

We have reviewed the procedures followed by XYZ Association during the year ended December 31, 19__, in arranging and carrying out [on-site and off-site] * peer reviews under the authorization of the Peer Review Board of the American Institute of Certified Public Accountants and have issued our report thereon dated May 15, 19__. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting on your administrative procedures and your compliance with them. Our review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Arrange On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program developed by the Peer Review Board. Our review would not necessarily disclose all weaknesses in your procedures or instances of noncompliance with them because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of the procedures used to arrange and carry out peer reviews. In the performance of most procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of these administrative procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. As a result of our review, we have the following comments:

[Following would be a description of—

- *Matters that resulted in a qualified or adverse report.*
- *Matters that would result in substantial improvement in the association's compliance with the guidelines for involvement by associations of CPA firms in the AICPA Peer Review Program.]*

The foregoing matters were considered in determining our opinion set forth in our report dated May 15, 19__ and this letter does not change that report.

John Doe, Team Captain
[or Name of Reviewing Firm]

[The next page is 10,001.]

* Tailor as applicable.

PRP Section 10,000

INSPECTION GUIDANCE

This guide has been developed by the AICPA Peer Review Board in cooperation with the private companies and SEC practice sections to assist firms in achieving the benefits to be derived from an effective inspection program. It is not intended to, and does not, establish standards for the performance of an inspection.

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PRP Section 10,000

Inspection Guidance

Introduction

.01 Statement on Quality Control Standards No.1, *System of Quality Control for a CPA Firm*, (SQCS No. 1) requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The statement and related interpretations can be found in the *AICPA Professional Standards*, Vol. 2, QC section 10.

.02 SQCS No. 1 identifies nine elements of quality control and states that a firm shall consider each of these elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. The statement recognizes that the nature and extent of a firm's quality control polices and procedures depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice and its organization, and appropriate cost-benefit considerations.

.03 One of the nine elements of quality control is inspection. This guide has been developed to assist firms in achieving the benefits to be derived from an effective inspection, especially small firms and sole practitioners. It is not intended to, and does not, establish standards for performance of an inspection.

Objectives of an Inspection

.04 The objectives of an inspection are to determine if a firm is complying with its quality control policies and procedures and conforming with professional standards during a specified period of time, and to identify on a timely basis areas where improvements may be necessary.

.05 When performing its inspection, a firm may wish to expand its testing to accomplish additional objectives, such as evaluating engagement efficiency, training supervisory staff to effectively review engagements, or testing compliance with requirements of membership organizations or regulatory bodies.

.06 An inspection includes the following basic procedures:

- a. Reviewing and testing the firm's compliance with the quality control policies and procedures that make up the firm's quality control system (compliance testing).
- b. Reviewing selected engagements of the firm, including relevant working papers and reports (engagement testing).
- c. Summarizing the findings from the review of engagements and tests of compliance with quality control policies and procedures.
- d. Determining any corrective actions to be taken and improvements to be made with respect to the specific engagements reviewed or quality control system as a whole.
- e. Communicating the inspection findings and the planned corrective actions to appropriate firm personnel.
- f. Following up to make sure that the planned corrective actions were taken.

.07 The nature, extent, and timing of an inspection will be largely influenced by environmental factors such as the following:

- a. Size of the firm
- b. Style of management and methods of internal communication.

- c. Level of involvement of senior firm personnel in decision making
- d. The types and mix of accounting, auditing, tax, and other services provided
- e. Industry concentrations and specializations
- f. Background and experience of professional personnel
- g. Extent of appropriate continuing professional education taken by professional personnel
- h. Extent to which others outside the firm are consulted
- i. The results of the firm's last peer review, quality review, or inspection.

Determining Who Should Perform the Inspection

.08 The assignment of individuals to perform an inspection should be made with the same due care that would be used in assigning personnel to an engagement. In making such assignments, the firm should emphasize the productive nature of the assignment. The importance placed on an inspection will determine how productive it is and the benefits the firm derives.

.09 Depending on the size of a firm, the nature of its practice, and other environmental factors, an inspection may be performed by one individual or by a group of individuals. In either case, the primary responsibility for the inspection should be assigned to an owner of the firm. This person may delegate part or all of the testing procedures to qualified assistants.

.10 In assigning assistants to a task, consideration should be given to the degree of technical training and proficiency required in the circumstances. Some tests of administrative procedures can be performed by nonprofessional staff, but only qualified professional personnel who are knowledgeable in accounting and auditing matters should be involved in the review of engagements. Inspection of engagements, therefore, should be carried out or, at a minimum, carefully supervised by persons who would qualify as reviewers under the standards governing the practice-monitoring program in which the firm is enrolled.

.11 Individuals assigned to the inspection team should be objective when performing their tasks. Although not a requirement, it is desirable, whenever possible, to assign individuals who were not otherwise involved in the performance of the engagements they are to inspect. A checklist that may be used when coordinating an inspection program is included in Appendix A.

.12 Depending on the size of a firm and the environmental factors previously discussed, a firm may wish to consider having someone from outside the firm perform the inspection rather than using internal personnel. Some firms have found this advantageous because the outsider can provide a fresh perspective and may be more objective when performing the various procedures. Unlike peer reviews, inspections may be performed on a reciprocal basis because independence is not an issue that must be considered.

.13 If a firm decides to use inspectors from outside the firm, it should consider the qualifications for inspectors discussed above in making the selection of the individual(s). In such circumstances, an owner of the firm should be given responsibility for coordinating the inspection efforts and ensuring that all appropriate steps are taken, including determining whether necessary corrective actions are taken.

Timing of the Inspection Program

.14 The inspection program should be timely and it should cover each year between peer reviews. (A firm may elect to have its peer review substitute for an inspection for the year covered by the review.) Timeliness is important so that any necessary corrective action, especially actions that affect the performance of a subsequent audit, review or compilation, can be implemented before a deficiency, if one took place, is repeated.

.15 Most firms carry out an inspection as if it were a mini-peer review. The review of the firm's compliance with its quality control policies and procedures and review on a post-issuance basis of selected engagements are performed at a fixed time during the year. Some firms, however, prefer to coordinate the review of engagements more closely with other procedures they might have established. Flexibility in timing is entirely appropriate, subject to these two guidelines:

- a. The supervisory review of the working papers, files and reports carried out by the engagement partner before an audit, review or compilation report is issued never qualifies as an inspection procedure.
- b. A firm needs to summarize and take action on inspection findings on engagements on a timely basis. Therefore, if a firm reviews selected or all engagements over a period of time findings should be summarized periodically, not just once a year. This summarization should be based on review notes or point sheets prepared for that purpose, not just on memory.

.16 Firms that inspect engagements at other than one time during the year often do so as part of an ongoing procedure for carrying out an additional preissuance review of the report, financial statements, and working papers by someone not associated with the engagement, such as a second partner or a report review department. (See *AICPA Professional Standards*, Vol. 2, QC Section 10-1.18.)

.17 Some firms may choose to perform an inspection of selected engagements prior to beginning engagement planning. It is particularly important to be certain that the review of the engagement is the equivalent to the review that would have been performed as an inspection procedure after issuance of the report, not just the review that is made under SAS No. 22, "Planning and Supervision," and that the inspection findings are taken into account in planning and carrying out the subsequent engagement.

How to Perform the Inspection

.18 The scope of an inspection should be similar to that of a peer review. Sufficient testing should be performed to allow the inspectors to evaluate whether the firm is effectively applying its procedures as they relate to the other eight elements of quality control.

Review of Compliance with Policies and Procedures

.19 An inspection should address, to the extent applicable, each of the other eight elements of quality control. Firms may choose to address many of the policies and procedures relating to elements such as supervision, consultation, professional development, advancement, assigning personnel to engagements, acceptance and continuance of clients, and hiring during the review of engagements.

.20 Appendix B includes suggested procedures to test compliance with the firm's quality control policies and procedures.

- .21 The general procedures to be performed for each of the applicable elements of quality control include:
- a. A review of the firm's policies and procedures and an evaluation of their continuing appropriateness.
 - b. A review of the administrative files and interviews of appropriate individuals to verify compliance with and understanding of the firm's policies and procedures.
 - c. Testing of compliance with the policies and procedures within the firm's system and/or on selected engagements.

Review of Engagements

.22 Firms ordinarily place considerable emphasis during an inspection on the review of engagements. In selecting engagements, a firm may find it helpful to consider the guidelines contained in the standards governing

the practice monitoring program in which it is enrolled. These standards provide that the selection should include a reasonable cross section of the firm's auditing and accounting practice.

.23 An inspection should include work performed by a cross section of the firm's personnel involved in the accounting and auditing function. In addition, the selection of engagements to be reviewed should take into consideration—

- a. Industry concentrations
- b. Large, complex, and high risk engagements
- c. Governmental engagements
- d. Initial engagements
- e. Engagements with a significant public interest (such as SEC engagements and audits conducted pursuant to the Employee Retirement Income Security Act)
- f. Engagements that have not previously been inspected or reviewed.

.24 As a general rule, at least 5 to 10% of the firm's accounting and auditing hours should be reviewed during the inspection. The engagements subject to review will be those with years ending during the period under review. However, if a more recent engagement has been performed, that engagement should be reviewed.

.25 The objectives of the review of engagements are to evaluate whether the firm is complying with its quality control policies and procedures and conforming with professional standards, including generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS), standards for accounting and review services (SSARS), standards for financial forecasts and projections, and standards for financial and compliance audits contained in governmental auditing standards (the "yellow book"). To achieve these objectives, the review should include a review of reports, financial statements, accompanying footnotes, related working papers, correspondence and, where appropriate, discussions with professional staff.

.26 The depth of review of working papers should be left to the judgment of the inspector(s). However, the review of working papers ordinarily should include a review of all "key areas" on an engagement. It does not need to be a review of every working paper. The key areas are the most critical sections in an engagement. Examples of some of the key areas for a manufacturing engagement would be inventory, accounts receivable, accounts payable, sales and cost of sales.

.27 In reviewing engagements, many people find it useful to use engagement review checklists, such as the ones developed by the AICPA for use on peer reviews. However, any other comprehensive reporting, disclosure, and working paper review checklists can be used. (See the section on "Alternative Approaches to Documenting an Inspection.")

.28 Under the AICPA practice monitoring programs, checklists and supplements have been developed specifically for general audits, audits of governmental, not-for-profit, and banking entities, and compilation and review engagements. The engagement checklists may require modification for engagements involving other specialized industries, such as construction and insurance. Checklists and quality control system questionnaires are available in the AICPA *Peer Review Program Manual* and the SECPS peer review program manual.

.29 For each engagement reviewed, the inspector should evaluate whether anything came to the individual's attention that caused the inspector to believe that—

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles or another comprehensive basis of accounting, if applicable, or the report was appropriately modified.

- b. The firm did not have a reasonable basis under the applicable standards (GAAS, SSARS, or governmental auditing standards) for the report issued.
- c. The report was not appropriate in the circumstances.
- d. The documentation does not support the report issued.
- e. The firm did not comply with its quality control policies and procedures.

.30 Should an inspector believe that the firm may have issued an inappropriate report on a client's financial statements or omitted necessary procedures, the firm should investigate the matter and determine what action, if any, should be taken pursuant to AU sections 561 and 390 and AR Sections 9100.13-15 of the AICPA's *Professional Standards*.

Other Review Procedures

.31 During an inspection, many firms test compliance with the membership requirements of the various organizations to which they or their members belong—the AICPA, state CPA societies, PCPS, and SECPS—even though this is not required by quality control standards. As a practical matter, many of these membership requirements are covered by the firm's quality control policies and procedures and are tested during other phases of the inspection. For example, compliance with the AICPA's and the Division for CPA Firms' continuing professional education requirements (CPE) may be tested when the firm's policies and procedures for professional development are inspected. Appendix C includes a program for testing compliance with certain of the Division for CPA Firms' membership requirements.

Summarizing Inspection Findings

.32 At the conclusion of the various inspection procedures, each finding should be evaluated in conjunction with the other findings noted during the inspection for the implications to the firm's quality control system as a whole. For example, on one engagement a minor disclosure may have been omitted that results in a note to the file reminding the engagement personnel to make sure that the disclosure is made in next year's financial statements. If the deficiency is noted on several engagements, corrective action also may be needed on a firm-wide basis to prevent the recurrence of these deficiencies.

.33 Regardless of when engagements are inspected, inspection findings should be summarized in a manner that enables a firm to best determine the necessary corrective actions. Some firms use the summary review engagement checklists from the peer review manual for summarizing engagement related inspection findings. Other firms scan the findings and summarize them informally; this is common when the number of engagements reviewed is small and/or the number of findings is minimal.

Reporting on Inspection Findings

.34 Appropriate documentation requirements should be established by each firm to demonstrate compliance with its policies and procedures for inspection (see the next section on "Alternative Approaches to Documenting an Inspection"). At a minimum, a report or memorandum should be prepared on the scope of the inspection, the inspection findings, and the recommendations of the inspectors. A sample report that a firm may use for this purpose has been developed and is included in Appendix D, or the firm may develop its own reporting format. For multi-office firms, consideration should be given to preparing a separate report for each office inspected.

Determining Necessary Corrective Actions

.35 Upon receipt of the inspection report, the owner(s) of the firm should evaluate what corrective actions, if any, should be taken in connection with the recommendations of the inspector(s). Corrective actions can include—

- a. Additional staff training in specific areas or industries.
- b. Changes in quality control policies and procedures.
- c. Updates or additions to technical manuals and practice aids.
- d. More careful monitoring of compliance with the policies and procedures.
- e. Appropriate corrective actions on specific engagement deficiencies.

.36 There should be a record of the corrective actions and improvements planned by the firm to address the findings and appropriate assignment of responsibility for implementing the recommendations.

Communicating Inspection Findings and Corrective Actions

.37 After the necessary corrective actions have been decided, the inspection findings and the changes being made as a result of those findings should be communicated orally or in writing to the owners and employees of the firm (if any).

Following Up on Planned Corrective Actions

.38 Timely and effective follow-up on the steps taken to implement planned corrective actions is critical to an effective inspection program. Within a reasonable period of time after the firm was scheduled to take the planned corrective actions, steps should be taken to determine whether the planned corrective actions have been acted upon and whether they have achieved the objectives for which they were designed.

Retention of Inspection Documents

.39 Firms should determine the period that detailed inspection working papers are to be retained. Retention may be necessary if the firm intends for the peer reviewer to place reliance on the inspection. (Typically, reviewers of smaller firms will place little or no reliance on the inspection due to scope requirements and cost/benefit considerations. If that is expected to be the case, it is recommended that detailed working papers be discarded after a summary or report has been prepared.) The inspection summary or report should be retained and available to the peer reviewers.

Alternative Approaches to Documenting an Inspection

.40 The size and nature of a firm and the environment in which it practices will affect the extent of documentation prepared regarding the inspection procedures, findings, and corrective actions. A formal or an informal documentation approach can be used.

.41 Under the *formal approach* to inspection documentation, inspector(s) will—

- a. Complete the quality control compliance program in Appendix B or develop and complete other comprehensive program(s).
- b. Complete comprehensive engagement review checklists, such as those used by peer reviewers while performing the review of reports, financial statements, footnotes and working papers on selected engagements.
- c. Prepare summaries of findings on compliance tests and reviews of engagements.
- d. Prepare an inspection report such as the one in Appendix D.

.42 Generally, the *formal approach* is preferable for all CPA firms regardless of size.

.43 Under the *informal approach* to inspection documentation, inspector(s) will—

- a. Review compliance with its quality control policies and procedures without preparing or completing a quality control compliance program.
- b. Review selected reports, financial statements, and working papers without formally completing comprehensive engagement review checklists such as those used by peer reviewers. (In these cases, the firm will usually make reference to such a checklist to make sure that all appropriate matters are considered.)
- c. Keep notes (or summaries) reflecting the deficiencies noted during the performance of inspection procedures.
- d. Prepare an inspection report such as the one in Appendix D.

.44 The *informal approach* has only been found to be effective for sole practitioners without professional staff and firms with very small accounting or auditing practices.

.45 Examples of the application of the approaches to the inspection and the documentation thereof are included in Examples 1 through 3 at the end of this document along with a description of the environmental factors influencing the inspection program.

Relationship of Consulting Reviews to Inspections

.46 Some firms may have a consulting review before their initial peer review. Consulting reviews are confidential, “trial-run” reviews during which a reviewer, who has experience relevant to the firm undergoing the review, will visit the firm, usually for one day, to identify strengths and/or weaknesses and give the firm advice on how to prepare for the review. The review includes a cursory review of the working papers, financial statements, and reports prepared by the firm.

.47 A firm planning to have a consulting review may wish to consider whether the consulting review it plans to have should be expanded to satisfy the firm’s annual inspection requirement for the year. Depending on the size of the firm, an inspection may be performed instead of a consulting review for only a little more money.

Benefits of an Inspection

.48 An inspection can assure a firm that it has an effective quality control system in place and that the firm’s quality control system is being complied with. It also ensures that the firm will have the chance to make improvements or changes in its quality control system on a timely basis. Oftentimes, the professionals know the strengths and weaknesses of their firm. However, time does not always permit the firm to focus on these areas and make necessary changes. An inspection allows the firm to allocate time at least once a year to focus on its strengths and weaknesses with the intent of improving the overall quality of the firm and the services it provides.

Appendix A
**Checklist for Coordinating
an Inspection Program**

	<i>Initial</i>	<i>Date</i>
1. Determine who will coordinate the inspection program for the firm.	_____	_____
2. Determine who will perform the inspection.	_____	_____
3. Establish the approach and timetable for performing the inspection procedures.	_____	_____
4. Determine forms and checklists to be used during the inspection and the extent of documentation required.	_____	_____
5. Make a selection of engagements for review.	_____	_____
6. Review administrative files for compliance with the firm's quality control policies and procedures.	_____	_____
7. Review the selected engagements.	_____	_____
8. Summarize the inspection findings and determine what corrective actions should be taken.	_____	_____
9. Prepare an inspection report covering the scope of the inspection, the inspection findings, and the recommended corrective actions.	_____	_____
10. Decide how long to retain detailed inspection working papers.	_____	_____
11. Review the recommended corrective actions and reach final conclusions on the actions to be taken.	_____	_____
12. Communicate the inspection findings and the planned corrective actions to the other members of the firm (if any).	_____	_____
13. Follow-up on planned corrective actions to determine whether the actions were taken as planned and whether they achieve the objective(s) for which they were planned.	_____	_____

Appendix B
Program for Inspection of Compliance With Policies and
Procedures Related to the Elements of Quality Control

Period Covered _____

*Findings, Including
Extent of Testing* *Done By*

Independence

1. Identify a sample of situations in which independence questions arose during the period being inspected and consider whether the resolution of such questions appears appropriate.
2. Review the written independence confirmations obtained by the firm for a sample of professional personnel, if required by firm policy.
3. Determine by review of appropriate documentation and by discussions with selected staff that the firm has advised all professional personnel on a timely basis of entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.
4. Determine by a review of selected engagements whether fees were paid for the prior year's services prior to the issuance of the current year's report.

Consultation

1. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis.
2. On the engagements reviewed, determine whether consultation took place and was documented in accordance with the firm's policies.
3. If sufficient testing of consultation policies and procedures was not performed in (2) above, determine through inquiry or review of subject files whether consultations took place and were correctly applied.

Supervision

1. On the engagements reviewed:
 - a. Determine whether the technical materials (audit manuals, standardized forms, checklists, and questionnaires) that are required by firm policy were used.

	<i>Findings, Including Extent of Testing</i>	<i>Done By</i>
<p>Independence</p> <ol style="list-style-type: none"> 1. Identify a sample of situations in which independence questions arose during the period being inspected and consider whether the resolution of such questions appears appropriate. 2. Review the written independence confirmations obtained by the firm for a sample of professional personnel, if required by firm policy. 3. Determine by review of appropriate documentation and by discussions with selected staff that the firm has advised all professional personnel on a timely basis of entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures. 4. Determine by a review of selected engagements whether fees were paid for the prior year's services prior to the issuance of the current year's report. <p>Consultation</p> <ol style="list-style-type: none"> 1. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis. 2. On the engagements reviewed, determine whether consultation took place and was documented in accordance with the firm's policies. 3. If sufficient testing of consultation policies and procedures was not performed in (2) above, determine through inquiry or review of subject files whether consultations took place and were correctly applied. <p>Supervision</p> <ol style="list-style-type: none"> 1. On the engagements reviewed: <ol style="list-style-type: none"> a. Determine whether the technical materials (audit manuals, standardized forms, checklists, and questionnaires) that are required by firm policy were used. 		

*Findings, Including
Extent of Testing* *Done By*

- b. Evaluate whether the technical materials are sufficiently comprehensive and up-to-date.
- c. Determine whether the firm complied with its policies and procedures for the review of engagement working papers, reports and financial statements.
- d. Determine whether the firm’s procedures for resolving differences of opinions among members of the engagement team were followed and are appropriate.

Professional Development

- 1. Review the firm’s CPE records on a test basis and consider whether:
 - a. They appear adequate to demonstrate compliance with AICPA, state board, and state society requirements and whether they indicate that the firm’s plans for CPE were carried out.
 - b. Professional personnel have complied with the CPE requirements set forth in *Government Audit Standards* (if applicable).
 - c. Professional personnel have complied with the Section’s requirements (if the firm is a member of either the PCPS or the SECPS).

Assigning Personnel to Engagements

- 1. Determine whether staffing and scheduling requirements were identified on a timely basis and approved by appropriate personnel.
- 2. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate.

Hiring

- 1. Determine by reviewing personnel files of recently hired employees whether:
 - a. The background information and other documentation required by firm policy were obtained.
 - b. The individuals possessed the desired attributes, achievements, and experience and, if not, why an exception was made.

Advancement

- 1. Determine by reviewing personnel files whether personnel have been evaluated and promoted in accordance with the firm’s policies and procedures.

2. If the answer to (1) is "no," briefly describe the procedures the firm performs in planning audit and accounting engagements in practice, including the information obtained and considered and the nature, timing and extent of partner involvement in the planning process. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.
3. Is a written audit program used on all audit engagements? If "yes," who is required to review and approve the audit program, and how is this approval documented?
4. Does the firm have written guidance materials regarding the following matters? If so, indicate where the material is found and whether it was developed internally or was obtained from an outside source, and name the source.
 - a. Consideration of internal control structure in planning and performing an audit?
 - b. Assessment of control risk?
 - c. Consideration of audit risk and materiality when planning and performing an audit?
 - d. Audit sampling techniques?
 - e. Degree of reliance to be placed on analytical procedures?
 - f. Form and content of working papers?
 - g. Other audit and accounting matters, in the form of an audit and accounting manual?
5. Does the firm use any standardized forms, checklists, or questionnaires? If so, attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.)
6. Has the firm established procedures to be followed when differences of opinion exist among firm personnel on an audit (see AICPA *Professional Standards*, AU section 311.14)?
 - a. Are those procedures documented? Where?
 - b. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?
7. Does the firm use other offices or correspondents for audit or accounting engagements? If "yes," describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm's procedures for the supervision and control of that work are found.

Appendix C

Optional Program for Review of Compliance With the Division for CPA Firms' Membership Requirements

Period Covered _____

	<i>Findings, Including Extent of Testing</i>	<i>Done By</i>
I. Requirements for Members of the PCPS and SECPS		
1. Determine whether each owner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA.		
2. Determine whether the firm's form of organization and name comply with Rule 505 of the <i>Code of Professional Conduct</i> .		
3. Determine whether the firm filed its most recent annual report with the section.		
II. Additional Requirements for Members of SECPS		
1. Determine whether the firm has complied with the requirements for rotation of partners on SEC engagements. (SECPS § 1000.08(e))		
2. Determine whether a concurring review was performed, prior to the issuance of any audit report on the financial statements of SEC clients, of the audit reports, financial statements and selected working papers by a partner qualified to do such review, who is other than the audit partner in charge of the engagement. (SECPS § 1000.08(f))		
3. Determine whether the firm has refrained from performing those management advisory services that are proscribed by the section. (SECPS § 1000.08(h))		
4. Determine whether the firm maintains documentation in the working papers of its annual report to the audit committee or board of directors of each SEC audit client on the total fees received from the client for management advisory services during the year and a description of the types of services rendered. (SECPS § 1000.08(i))		
5. Determine whether the firm has reported to the Quality Control Inquiry Committee on a timely basis litigation or other actions against it or its personnel in situations required by the section. (SECPS § 1000.08(k))		
6. Determine whether the firm communicated in writing on a timely basis to a SEC registrant and the Office of the Chief Accountant of the SEC when the client-auditor relationship with the SEC registrant ceased. (SECPS § 1000.08(m))		
7. Determine whether the firm has developed a statement of firm philosophy and communicated that statement to professional personnel on a periodic basis. (SECPS § 1000.08(l))		

Appendix D

Sample Inspection Report

Inspection period from _____ to _____

Names of inspectors _____

Timing of Inspection _____

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). _____

Scope of engagements reviewed:

	<i>Firm Totals*</i>		<i>Engs. Reviewed*</i>	
	<i>Hrs.</i>	<i>No. of Engs.</i>	<i>Hrs.</i>	<i>No. of Engs.</i>
Audits				
Reviews				
Compilations				
Other Accounting Services	_____	_____	_____	_____
Total	=====	=====	=====	=====
Percentage of A&A Practice Reviewed			=====	=====

Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? If yes, describe the situation and the action taken by the firm. _____

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached.

Inspection Coordinator Signature _____ Date _____
Approved _____ Date _____

* Approximate totals may be used.

.53

Example 1
of the Application of the Inspection Guidelines *

DESCRIPTION OF THE FIRM

Size of Firm	2 Partners 6 Professional staff other than the partners 1 Office								
Background	Each of the partners has 15 years of public accounting experience; the last 5 years have been spent as partners.								
Nature of Practice	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">8 Audits</td> <td style="text-align: right;">1500 hours</td> </tr> <tr> <td>20 Reviews</td> <td style="text-align: right;">800 hours</td> </tr> <tr> <td>40 Compilations with disclosures</td> <td style="text-align: right;">600 hours</td> </tr> <tr> <td>90 Compilations omitting substantially all disclosures</td> <td style="text-align: right;">600 hours</td> </tr> </table> <p>Tax and management advisory service engagements make up the remainder of the practice.</p>	8 Audits	1500 hours	20 Reviews	800 hours	40 Compilations with disclosures	600 hours	90 Compilations omitting substantially all disclosures	600 hours
8 Audits	1500 hours								
20 Reviews	800 hours								
40 Compilations with disclosures	600 hours								
90 Compilations omitting substantially all disclosures	600 hours								
Industry Concentrations	The major concentrations are construction, not-for-profit organizations, and school districts. The firm also has clients in: manufacturing, retail, and professional services. The firm does no audits of SEC clients.								
Environment	<ul style="list-style-type: none"> • While each partner has auditing and accounting clients, one partner performs the majority of the auditing and accounting engagements. • On certain larger engagements, one partner will review the financial statements prepared in connection with the other partners' clients. • The partner responsible for the 4 school district audits is responsible for ensuring that he and the primary staff on those audits have the necessary CPE under <i>Government Auditing Standards</i>. • The firm periodically holds in-house CPE for the staff which is taught by one of the partners. 								

INSPECTION PROCEDURES

Timing of Inspection	All inspection procedures will be performed during November since the 4 school district audits are not completed until September. This timing is believed to be the most effective and efficient. (The partners recognized that they could expand their preissuance review procedures if they so desired.)
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* This is an example of the application of the inspection guidance contained in this document. Practitioners should not assume that following this example or the other examples in this document will automatically satisfy the objectives of an inspection. Careful attention must be given to making sure that these objectives are achieved.

Documentation Approach	<p>The partners have agreed that the formal documentation approach should be adopted since the committees governing the AICPA peer review programs believe that the formal documentation approach is more effective. The formal approach will include the completion of—</p> <ul style="list-style-type: none">• Appendix B of this document when testing the applicable elements of quality control.• The engagement review checklists used in performing peer reviews. The partners believe that these checklists act as good “memory joggers” for accounting issues that they encounter on an infrequent basis.
Summarization	<p>After the sample of engagements is inspected and the applicable elements of quality control have been tested, the deficiencies will be summarized and the coordinating partner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.</p>
Reporting	<p>After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.</p>
Retention Policy	<p>After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.</p>
Follow-Up	<p>Four months after the inspection report is prepared and the planned corrective actions are identified, the coordinating partner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.</p>

**Example 2
of the Application of the Inspection Guidelines**

DESCRIPTION OF THE FIRM

Size of Firm	Sole practitioner without staff	
Background	The sole practitioner has 15 years of public accounting experience of which the last 5 have been spent as a sole practitioner.	
Nature of Practice	2 Audits	300 hours
	5 Reviews	200 hours
	10 Compilations with disclosures	200 hours
	44 Compilations omitting substantially all disclosures (generated by a computer)	220 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	None. However, the firm does have clients in the following areas: manufacturing, wholesale distribution and professional services. The firm does no audits of SEC or governmental clients.	
Environment	<ul style="list-style-type: none"> • The sole practitioner is a member of an informal group of sole practitioners that meets twice a month to discuss issues of common interest and concern (including accounting, auditing, tax, and management topics). • The practitioner is active in state CPA society activities and frequently attends CPE sessions held by the society. • The practitioner consults with others when unsure about the approach to be taken on an accounting, auditing, or tax issue. 	

INSPECTION PROCEDURES

Timing of Inspection	The practitioner believes that he can be more efficient by performing an inspection of engagements immediately before he plans the next year's engagements.	
Documentation Approach	<p>A combination of the two approaches has been chosen as described below:</p> <ul style="list-style-type: none"> • Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each November immediately before the practitioner's busy season. • A preplanning engagement checklist has been developed that addresses the objectives of inspection. Inspection procedures will include a review of the report, financial statements, and working papers on last year's engagement to determine whether — <ul style="list-style-type: none"> a. The report and financial statements conform with applicable professional standards. b. The engagement was performed in accordance with applicable professional standards (statements on auditing standards, statements on accounting and review services, etc.). 	

Documentation Approach (cont'd)	<p>c. The engagement has been performed in accordance with the firm's policies and procedures.</p> <p>Although comprehensive engagement review checklists—such as those used by peer reviewers—will not be completed, the practitioner plans to periodically make reference to those checklists while performing the inspection procedures.</p>
Summarization	<p>While any deficiencies noted on engagements are corrected when the next year's engagement is performed, summaries of the findings are kept in an Inspection Finding Folder. (The names of the clients are not retained on the summaries.) Each May and November, the practitioner summarizes the findings and evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.</p>
Reporting	<p>In May and November, the inspection report contained in Appendix D of this document will be completed.</p>
Retention Policy	<p>After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.</p>
Follow-Up	<p>5 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions indicated in the inspection report have been taken and whether they have achieved their objectives.</p>

Example 3
of the Application of the Inspection Guidelines

DESCRIPTION OF THE FIRM

Size of Firm	Sole practitioner with one part-time professional staff person	
Background	The sole practitioner has 25 years of public accounting experience of which the last 15 have been spent as a sole practitioner.	
Nature of Practice	2 Audits 2 Reviews 2 Compilations with disclosures 11 Compilations omitting substantially all disclosures	250 hours 75 hours 40 hours 60 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	None. However, the firm does have clients in the following areas: manufacturing, construction, and not-for-profit organizations. The firm does no audits of SEC or governmental clients.	
Environment	<ul style="list-style-type: none"> ● The practitioner takes various continuing professional education (CPE) courses offered by the state CPA society, primarily in the tax area; the practitioner takes very few CPE courses on accounting or auditing topics except for an annual auditing and accounting update course. ● The practitioner takes a majority of his courses in a self-study format. ● The practitioner rarely finds the need to consult with individuals outside his firm on accounting or auditing issues. 	

INSPECTION PROCEDURES

Timing of Inspection	Because of the practitioner’s focus on tax practice, he believes that more can be gained by performing a detailed review of engagements at one time during the year; this also will allow him to more readily focus on the objectives of an inspection. The practitioner believes that he can perform his own inspection since his auditing and accounting practice is not very complex. However, he recognizes that he could use someone from outside the firm (perhaps on a reciprocal basis) if he so desires.	
Documentation Approach	Due to the practitioner’s limited accounting and auditing related CPE, the formal approach will be chosen as described below: <ul style="list-style-type: none"> ● Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each July. ● The engagement review checklists used in performing peer reviews will be completed to document the review of the selected engagements. 	

Summarization	After the sample of engagements is inspected, the deficiencies will be summarized and the practitioner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.
Reporting	After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.
Retention Policy	After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.
Follow-Up	6 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.

**Exhibit 1
Sample Completed Inspection Report**

Inspection period from October 1, 19XX to September 30, 19X1

Name of inspectors John Smith
James Doe

Timing of Inspection—November 19X1

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). Appendix B of the Inspection Guidance was used to test compliance with our quality control policies and procedures and the engagement review checklists contained in the Peer Review Program Manual were used when reviewing engagements. A representative sample of engagements was selected, including audit, review, and compilation engagements. The engagements covered our major industry concentrations (school districts, not-for-profit organizations, construction).

Scope of engagements reviewed:

	<i>Firm Totals*</i>		<i>Engs. Reviewed*</i>	
	<u>Hrs.</u>	<u>No. of Engs.</u>	<u>Hrs.</u>	<u>No. of Engs.</u>
Audits	1500	8	350	2
Reviews	800	20	80	2
Compilations	1200	130	80	4
Other Accounting Services	—	—	—	—
Total	<u>3500</u>	<u>158</u>	<u>510</u>	<u>8</u>
Percentage of A&A Practice Reviewed			<u>14.6%</u>	<u>5%</u>

Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? Yes x, No . If yes, describe the situation and the action taken by the firm. In error, a management representation letter was not obtained from an audit client. This letter has now been obtained.

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached. SEE ATTACHED.

Inspection Coordinator Signature _____ Date _____
Approved _____ Date _____

* Approximate totals may be used.

Inspection Findings and Recommendations

Finding: On some of the engagements reviewed, we noted a few disclosure deficiencies that would have been caught if the firm had required the completion of a comprehensive reporting and disclosure checklist.

Recommendation: The firm should adopt a policy requiring that a comprehensive reporting and disclosure checklist be completed on all engagements on which the firm reports on year-end financial statements.

Finding: On several engagements reviewed, we noted that the working papers did not document the extent of testing of related party transactions and review of subsequent events. However, we are satisfied that the necessary procedures were performed on each engagement.

Recommendation: The firm should expand its standard audit program to include procedures for testing related party transactions and reviewing subsequent events.

Finding: On one audit engagement, the firm failed to obtain a management representation letter even though such letters are required under auditing standards. Our testing was expanded to cover all of the firm's audit clients to ensure that this was an isolated occurrence.

Recommendation: The firm should develop a final report routing sheet that documents all procedures that have not been performed at the time that a report is submitted for typing. The firm should establish procedures to ensure that all of the procedures outlined on the routing sheet are performed before the report is issued.

Finding: While the firm circularizes independence confirmations among its staff on an annual basis, two individuals failed to sign the confirmations.

Recommendation: The partner-in-charge of obtaining the independence confirmations should monitor receipt of the confirmations and report to the other partners when they have all been returned.

PRP Section 11,000

CONSULTING REVIEW PROGRAM GUIDELINES**CONSULTING REVIEW PROGRAM FOR CPA FIRMS IN PUBLIC PRACTICE**

The Consulting Review Program was originally conceived and developed by the private companies practice section of the AICPA Division for CPA Firms in 1985 to help CPA firms evaluate their quality controls and prepare for an independent review of their quality control system. The program is available to all interested CPA firms.

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PRP Section 11,000

Consulting Review Program Guidelines

Overview

.01 The purpose of a consulting review is to help a firm evaluate and improve its quality controls and to prepare for an independent peer review of its quality control system.

.02 The consulting review program was originally conceived and developed by the private companies practice section of the AICPA Division for CPA Firms. The review is now carried out using guidelines, programs, and checklists developed by the AICPA Peer Review Division. These materials are included in this section.

.03 Arrangements for consulting reviews can be made by contacting—

- a. Participating state CPA societies.
- b. The AICPA Peer Review Division.

.04 During a visit to the firm, the consulting reviewer obtains a general understanding of the firm's system of quality control by interviewing appropriate firm personnel and by reviewing a brief quality control questionnaire completed by the firm.

.05 The reviewer discusses the firm's responses to his questions and deals with specific quality control questions raised by the firm.

.06 The reviewer also performs a limited review of selected reports, the related financial statements, and working papers for each type of service (audit, review, and compilation) the firm provides.

.07 The results of the review, including related suggestions, are discussed orally at the completion of the review. No written notes pertaining to the review of the firm's records are retained by the reviewer.

.08 For firms with generally up to twenty professionals, the review involves one reviewer for one day. For larger firms, the review may take two days or more depending on the circumstances.

.09 For further information about the Consulting Review Program, call your state CPA society or the AICPA at (201) 938-3035.

Description of Program

.10 The review is conducted at the reviewed firm's office and is usually completed in one day. Consulting reviewers are selected from a master reviewer bank maintained by the AICPA. These reviewers are experienced practitioners who are well-versed in the design and implementation of a quality control system and in accounting and auditing matters relevant to the industries in which the firm's clients practice. No written report is issued, and the results are discussed only with the firm. Therefore, confidentiality is assured. Firms being reviewed can choose to have a reviewer from the same geographic area or from another region.

.11 During a visit to the firm, the consulting reviewer obtains an understanding of the firm's system of quality control by interviewing appropriate firm personnel and by reviewing a brief quality control questionnaire completed by the firm. The reviewer discusses the firm's responses to his questions and deals with specific quality control questions raised by the firm. The reviewer also performs a limited review of selected reports, accompanying financial statements, and working papers for each type of service (audit, review and compilation) the firm performs.

.12 The results of the review, including related suggestions, are discussed orally at the completion of the review. No written notes pertaining to the review of the firm's records are retained by the reviewer. The results of the review are not provided to the AICPA, state CPA societies, the Division for CPA Firms, the AICPA Peer Review Board, or any other party.

.13 For firms with generally up to twenty professionals, the review involves one reviewer for one day. For larger firms, the review may take two days or more depending on the circumstances. The fee for the review is presently \$700 per day plus travel and out-of-pocket expenses incurred by the reviewer.

.14 The intent of the consulting review program is to provide a firm with assistance in those quality control areas in which it believes that it may need the most guidance. Therefore, the firm should communicate to the reviewer those quality control areas that the firm wishes to be emphasized. For example, one firm may want a reviewer to provide guidance on how to establish a quality control system whereas another firm may want the reviewer to evaluate an existing system.

.15 The private companies practice section may subsidize a portion of the cost of a consulting review for firms that choose to be PCPS members. Half the fee (not including expenses), up to \$350, will be refunded to the firm or applied against the cost of the firm's first PCPS peer review provided the firm's membership is continuous from the date of the consulting review until that firm's first peer review. Firms that are not members of the section will be given a similar refund or credit if the firm joins the section within one year of the date of the consulting review.

.16 A consulting review does not constitute an inspection, as that term is used in Statement on Quality Control Standards 1, nor does the review qualify as meeting the AICPA membership requirement for participation in an "Institute-approved practice-monitoring program." That is, it is not a substitute for a peer review. In addition, due to the substantially limited scope of the consulting review, the results of subsequent peer reviews may possibly differ significantly in one or more aspects from those of the consulting review.

.17 Comments provided by the reviewer are offered for the firm's consideration subject to its professional judgment and evaluation in making use of them. Comments expressed by the reviewer are not official opinions of the Institute or of any participating state CPA society, or any of their committees, but are the views of the individual who offers them. Accordingly, such comments are not binding upon a review team conducting a peer review.

Timing

.18 A consulting review should ordinarily be completed sufficiently in advance of the firm's peer review to allow the reviewed firm to appropriately consider and implement any recommendations made by the consulting reviewer.

.19 Consulting Review Program Instructions to Firms

Notes

1. Complete the Consulting Review Program General Scheduling Information form and submit it to the AICPA or the state CPA society arranging the review.
2. The terms and conditions of the consulting review will be summarized in an engagement letter that will be forwarded to the firm along with information about the individual who has been selected to perform your consulting review.
3. A copy of the engagement letter should be signed and returned to the AICPA or the state CPA society arranging the review.
4. Complete the "Consulting Review Program Quality Control Questionnaire" to the extent possible (see Appendix A).
5. Prior to the review, send the reviewer a copy of the following documents:
 - a. Consulting Review Program General Scheduling Information form.
 - b. Consulting Review Program Quality Control Questionnaire.
6. Prior to the review, select two of each type of engagement (audit, review, and compilation) that the firm performs. Engagements selected by the firm should include work performed by different supervisory personnel and be representative of the major industries serviced by the firm. Reports, the related financial statements, and working papers for the selected engagements should be assembled and readily accessible to the reviewer. The reviewer will attempt to review at least one engagement for each type of service provided. However, a limited review of certain portions of your other selected engagements may be performed by the reviewer if time permits or if the reviewer wishes further information about a particular aspect of your practice.
7. If the firm has specific goals that it wishes to accomplish during the consulting review, discuss these goals with the reviewer.
8. Key firm personnel and persons with significant responsibility for the selected engagements should be advised to be available to the reviewer.
9. Upon completion of the review, the reviewer will communicate his or her findings at an exit conference, which should be attended by appropriate firm personnel. All written materials (questionnaires, checklists, comment sheets, etc.) developed by the reviewer in connection with the consulting review will be given to the reviewed firm.
10. Complete "Reviewed Firm's Evaluation of Consulting Review Program" (Appendix B) and submit it directly to the AICPA Peer Review Division.

.20 Consulting Review Program Suggested Review Procedures

The procedures that follow are intended as a general guide for a reviewer conducting a consulting review. The reviewer's professional judgment is essential in applying or modifying the procedures to suit the needs of a particular review. It is recommended that reviewers have available and be familiar with the contents of the *AICPA MAP Handbook* and the *AICPA Accounting and Auditing Manual*, which contain many examples of procedures and forms that may be useful to the reviewed firm. In addition, reviewers should be familiar with (a) the quality control standards and the typical quality control policies and procedures that may be applicable to the reviewed firm's practice and (b) standards for performing and reporting on peer reviews. Areas in which the reviewer feels there may be a need for significant improvement should ordinarily be noted on separate comment sheets which should be given to the firm.

Notes

General Procedures

1. Review the background information supplied by the reviewed firm.
2. Discuss the specific goals that the firm wishes to accomplish during the review with the firm.
3. Obtain a general understanding of the firm's quality control system by interviewing appropriate personnel and reviewing the "Quality Control Questionnaire" completed by the firm. If the firm being reviewed has documented quality control policies and procedures (for example, a quality control document or a completed quality control policies and procedures questionnaire), it may provide that documentation to the reviewer in lieu of this questionnaire.
4. Review sample forms, checklists, questionnaires, etc., for appropriateness and comprehensiveness. Consider whether such materials—
 - a. Meet the objectives for which they were designed.
 - b. Have been updated for recent technical pronouncements where appropriate.
 - c. Provide the firm with reasonable assurance of conforming with professional standards.
5. From the engagements selected by the firm for review, choose a sample of engagements and review each engagement using the "Engagement Questionnaire" contained in Appendix D. In choosing the sample, you should attempt to review at least one engagement for each type of service (audit, review and compilation) the firm provides. If time permits or if you wish further information about a particular aspect of the firm's practice, you may also want to perform a limited review of certain portions of the other engagements selected by the firm.
6. Based on a reading of the financial statements and report for each engagement, together with the information contained in the "Engagement Questionnaire" consider whether—
 - a. The financial statements appear to conform with generally accepted accounting principles (or, if applicable, with an other comprehensive basis of accounting) in all material respects.
 - b. The report issued by the firm appears to conform with professional standards.

7. Review selected working papers for compliance with professional standards and with the firm's policies and procedures. Note that many firms need guidance as to the extent to which working papers should document the procedures performed and some need consultation on the application of professional standards.
8. Hold an exit conference to discuss points accumulated during the review. Sufficient time should be reserved. Advise the firm as to your evaluation of the firm's quality control system and any suggestions for improvement. Keep in mind that the purpose of the consulting review is to help firms to improve the quality of their practices and to prepare them for peer review. Remind the firm that the consulting review, because of its limited nature, does not constitute an inspection of either functional areas of quality control or engagements nor does the review substitute for any part of a peer review. Consequently, such reviewers may disclose additional areas for which the firm may require substantial improvement in or modification of its quality control system. Finally, remind the firm that the consulting review program was established by the PCPS in 1985 as a service to CPA firms. Leave the flyer "Why You Should Join the Division for CPA Firms" with the firm.
9. All questionnaires, checklists, comment sheets, etc., developed in connection with the review (except for the "Reviewer's Completion Notification" form) *must remain with the reviewed firm.*
10. Remind the firm to submit "Reviewed Firm's Evaluation of Consulting Review Program" directly to the AICPA Peer Review Division, even when a state CPA society arranged the review.
11. Complete "Reviewer's Completion Notification" form (Appendix E) and submit it directly to the AICPA Peer Review Division or to the state CPA society that arranged the review along with your bill for fees of \$700 per day and out-of-pocket expenses. Please use the form included in Appendix F and make sure the bill includes the federal employer identification number for Form 1099 purposes.

.21 Appendix A

**Consulting Review Program
QUALITY CONTROL QUESTIONNAIRE**

This questionnaire is designed to provide an overview of the firm’s quality control policies and procedures and to describe the documentation evidencing compliance with the system. The firm should fill out this questionnaire, to the extent possible, prior to the arrival of the consulting reviewer and send a copy to the consultant for review along with a copy of the Consulting Review Program General Scheduling Information form.*

The reviewer will review the responses made by the firm to the questions asked on this questionnaire. Based on these responses, the reviewer will consider whether changes to the system may be appropriate or whether further clarification of the objective of a quality control element or procedure is necessary. At the completion of the review, the reviewer will return this questionnaire to the firm along with a brief description of any changes that are recommended.

Response and Comments **

General

1. Does your firm have documented quality control policies and procedures (for example, a quality control document or a summary statement of the firm’s procedures with references to supporting information)?

2. Does your firm use any externally developed quality control materials (for example, auditing and accounting manuals, checklists, questionnaires, work programs, etc.)? If “yes,” please indicate the publisher of the materials.

A. Independence

1. Does the firm, including all its professional personnel, adhere to the independence rules, regulations, interpretations, and rulings of the—
 - a. AICPA?
 - b. State CPA society?
 - c. State board of accountancy?
 - d. State accountancy laws?
 - e. SEC and other regulatory agencies?

2. Describe how the firm informs its professional personnel of the applicable independence requirements (for example, through its personnel manual, audit and accounting manual, training meetings, memoranda).

* If the firm being reviewed has documented quality control policies and procedures (for example, a quality control document or a summary statement of the firm’s procedures with references to supporting information), the firm may wish to send a copy of such documentation to the reviewer in lieu of completing this questionnaire.

** Attach additional sheets if necessary.

3. How does the firm inform its professional personnel of the new clients to which independence requirements apply? for example, does the firm—
 - a. Circulate new client lists to all personnel?
 - b. Post new clients on a staff bulletin board?
 - c. Report new clients at staff meetings?
 - d. Use other (describe) means?

4. Does the firm obtain at least annually written representations from all professional personnel concerning their compliance with applicable independence requirements? If not, how does the firm monitor compliance with its independence policies? If yes, do these representations affirm that—
 - a. The individual is familiar with the firm's independence policies and procedures?
 - b. Prohibited investments are not held and were not held during the period?
 - c. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?

5. Who is responsible for resolving independence questions?
 - a. The engagement partner?
 - b. The managing partner?
 - c. Someone else (identify individual)?

6. In connection with the resolution of independence questions—
 - a. In what circumstances must the question and its resolution be documented?
 - b. Where is the documentation maintained (for example, the working paper files or other specific firm or client files)?
 - c. What sources are or would be consulted?
 - d. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence matters?

7. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?

8. If the answer to (7) above is "yes"—
 - a. Does the firm confirm the independence of such other firm(s)?
 - b. Does it do so in writing?
 - c. Does it do so annually?

9. Does the firm review accounts receivable from clients to ascertain whether any outstanding amounts have taken on some of the characteristics of loans and, therefore, may impair the firm's independence?
 - a. Who does this?
 - b. How often is it done?
 - c. Have there been any such situations during the year under review?

B. Assigning Personnel to Engagements

1. Describe the method the firm uses to assign professional personnel to engagements. In that description, include—
 - a. The basis on which assignments are made. For example, some firms make assignments on an engagement-by-engagement basis; others assign personnel to specific clients and hold them accountable for all services to those clients.
 - b. How staff are advised of their assignments. For example, some firms do this orally; others issue memoranda or copies of scheduling forms; others post assignments to a staff bulletin board.
 - c. Who is responsible for making staff assignments on a day-to-day basis.
 - d. How that person is informed of estimated time requirements and of any special skills or experience that a given assignment might demand.
 - e. How far in advance assignments are typically made.

2. Does the firm require the following to have experience appropriate to the engagement:
 - a. Staff?
 - b. Owner-in-charge of the engagement?
 - c. Concurring reviewer (if applicable)?

C. Consultation

1. Have certain areas or specialized situations been identified as requiring consultation? If "yes," attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).
2. Does the firm designate any individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their specialties are and indicate how personnel have been made aware of this information.
3. How are differences of opinion between personnel and specialists resolved?
4. During the year under review, did the firm seek consultation from internal or external sources?
5. How does the firm determine when to consult with outside parties and with whom to consult?
6. Describe the extent to which the firm expects consultations with outside parties to be documented. Where is such documentation maintained?
7. Does the firm's library include current editions of—
 - a. AICPA *Professional Standards*?
 - b. AICPA industry audit guides relevant to the firm's practice?
 - c. FASB pronouncements?
 - d. GASB pronouncements, *Government Auditing Standards* (the "Yellow Book") and other government audit guides relevant to the firm's practice?
8. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS No. 50. If "yes," indicate where such guidance can be found. Also, indicate whether the firm issued any such reports during the year under review.

D. Supervision

1. Does the firm follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (e.g., in an audit and accounting manual)?

*Findings, Including
Extent of Testing*

Done By

<i>Findings, Including Extent of Testing</i>	<i>Done By</i>

Acceptance and Continuance of Clients

1. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its policies and procedures and with professional standards.

Inspection

1. Determine whether appropriate corrective actions were taken, including effective follow-up, with respect to the prior period's inspection findings.

8. Does the firm have documented procedures for review by supervisors and partners of the reports, financial statements, and working papers for—
 - a. Audits?
 - b. Reviews?
 - c. Compilations?
9. If the answer to (8) is "yes," indicate where those procedures are found. If the answer is "no," briefly describe the procedures that are followed, including how the review process is documented.
10. Does the firm require that an individual having no other significant responsibility for the engagement perform a preissuance review of some or all engagements? If "yes," indicate who performs such preissuance reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable. Alternatively, indicate where these procedures are found.
11. Has the firm merged with any other firm since the date of its last quality review or in the last three years? If "yes"—
 - a. How did the firm evaluate the quality of a potential merger candidate?
 - b. Did the firm acquire any professional personnel in the merger?
 - c. Did the firm acquire and retain any new office or offices in the merger (indicate the locations of any such offices)?
 - d. Have the personnel of the merged firm adopted the firm's quality control policies and procedures?

E. Hiring

1. Briefly describe how the firm identifies its professional personnel needs, how it goes about recruiting such personnel, and who makes the decision to hire an applicant.
2. Briefly describe the personal, educational, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.
3. Identify the types of background information the firm requires for new hires, such as resumes, transcripts, and personal or employment references.

4. Briefly describe how new professional personnel are informed about the policies and procedures that are applicable to them. Also, attach a list of the manuals, professional publications, and other documents relevant to their professional assignments that are provided to them individually.

F. Professional Development

1. Are all professional personnel in compliance with the continuing professional education requirements of —
 - a. Board(s) of accountancy in state(s) where they are licensed?
 - b. The AICPA (if applicable)?
 - c. The state CPA society (if applicable)?
 - d. The private companies practice section (if applicable)?
 - e. *Government Auditing Standards*—the “Yellow Book” (if applicable)?
2. If the answer is “no” to any of the above, attach a list of those personnel who are not in compliance and indicate the firm’s plan for correcting the situation.
3. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
4. Provide an approximation of the nature of the CPE taken by professional personnel assigned to audit and accounting engagements:

a. Self-study courses	_____ %
b. In-house training programs—	
(i) Developed by the firm	_____ %
(ii) Obtained from outside vendors	_____ %
c. State society or AICPA programs	_____ %
d. Other programs	_____ %
5. Who maintains CPE records and course materials?
6. How are professional personnel made aware of changes in accounting and auditing standards and in the firm’s technical policies and procedures (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?

G. Advancement

1. What levels of responsibility exist within the firm (e.g., partner, manager, senior)?
2. Are personnel at all levels aware of the responsibilities of each of these positions? How is this accomplished? Are those responsibilities documented in, for example, a personnel manual?
3. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?
 - a. When are these evaluations performed?
 - b. Are they documented?
 - c. Are standard evaluation forms used?
4. Are partners periodically evaluated, and by what means (e.g., peer evaluation, self-appraisal, counseling)?
5. Briefly describe how advancement decisions are made (a) within the professional staff and (b) to the partnership.

H. Acceptance and Continuance of Clients

1. Briefly describe the procedures followed by the firm, including any documents generally obtained and reviewed and any inquiries generally made of third parties, before accepting a client for whom the firm will provide audit or accounting services in order to provide the firm with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate the firm's ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.
2. Indicate when or under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.
3. Were any audit or accounting client relationships terminated by the firm during the year under review?

I. Inspection

Response and Comments **

1. Has the firm performed a timely, formal, documented inspection of its quality control policies and procedures for each year since its last peer review (or for the year preceding the review year if the firm has not previously had a review)? If "yes," briefly describe—
 - a. The scope of the program, including who carries it out.
 - b. The materials used, such as questionnaires, programs, and checklists.
 - c. The documentation of the work performed and conclusions reached and the period of time such documentation and conclusions are retained.

2. Has the firm taken appropriate corrective action in response to the findings on its most recent peer review?

.22 Appendix B

Consulting Review Program

REVIEWED FIRM'S EVALUATION OF CONSULTING REVIEW PROGRAM

Consulting Reviewer _____

Reviewer's Firm _____

Reviewed Firm _____

Date of Review _____

On a scale of 5 to 1, please circle the best expression of your feelings on each statement. 5=Strongly Agree, 4=Agree, 3=Undecided, 2=Disagree, 1=Strongly Disagree.

- 1. The reviewer provided useful suggestions for improving the quality of the firm's practice. 5 4 3 2 1
- 2. The reviewer showed good judgment in distinguishing between important and unimportant matters. 5 4 3 2 1
- 3. As a result of this review, the firm is better prepared to undergo a peer review or a quality review. 5 4 3 2 1
- 4. The reviewer(s) is (are) recommended for other firms. 5 4 3 2 1

Additional comments concerning the consulting review program or the reviewer:

Is the firm a PCPS member?_____. If not, does it plan to join PCPS? If "no," please indicate why.

Date

Managing Owner or Proprietor

Managing Owner's or Proprietor's Signature

This form should be filled in after the review is completed and sent directly to:

Peer Review Division
American Institute of CPAs
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

.23 Appendix C

CONSULTING REVIEWER'S COMMENTS*

- 1. Comments on the appropriateness of sample forms, checklists, and questionnaires. _____

- 2. General comments and suggestions concerning the firm's quality control system. _____

* Attach additional sheets if necessary.

.24 Appendix D

Consulting Review Program

ENGAGEMENT QUESTIONNAIRE

A. General Data:

Engagement Name or Code No. _____

Period covered by financial statements _____

Major lines of business _____

Date of report _____

Date report released _____

Complex or troublesome areas _____

B. Nature of Entity:

- Independent entity
- Consolidated or combined group
- Subsidiary, division or branch
- Other (explain) _____

C. Nature of Service:

- Audit engagement
- Review engagement
- Compilation engagement
- Compilation engagement—substantially all required disclosures omitted
- Other (explain) _____

D. Financial Statements Included:

- Balance sheet
- Income statement
- Statement of cash flows
- Supplementary information (describe) _____
- Other (explain) _____

E. Accounting Basis for Financial Statements:

- Generally accepted accounting principles
- Cash basis
- Income tax basis
- Other (explain) _____

F. Specific Engagement Questions:

The objectives of the review of engagements are to evaluate (1) whether the firm appears to be complying with professional standards, including GAAP, GAAS, GAGAS and SSARS, and (2) whether the firm might benefit from suggestions the reviewer may have concerning efficiency or economy in performing the engagement or documenting the results thereof. To the extent necessary to achieve these objectives, the review of engagements should include a review of financial statements, accountants' reports, and selected working papers and may include a discussion with key personnel assigned to the engagement.

The attached questionnaire is divided into two sections. The first section is intended to highlight the types of transactions, events or agreements for which disclosure may be required in the financial statements. This section is applicable to all types of engagements, including review and compilation engagements. The list was developed for use in reviewing engagements of "for profit" companies and will require extensive modification for other types of entities. The reviewer is urged to refer directly to the applicable authoritative pronouncements when appropriate. The second section contains certain areas of documentation that would normally be prepared for engagements.

In conjunction with the review of each engagement, the reviewer should—

- Review the items in Section 1 and consider whether they have been disclosed in accordance with generally accepted accounting principles.
- Review selected working papers, including the items listed in Section 2, and consider whether sufficient documentation exists in the working papers evidencing compliance with the applicable professional standards (GAAS or SSARS).

If there are areas in which the reviewer feels there may be a need for improvement, these should be noted on the separate comment sheets attached to this program. The comments should be clear and concise and should describe specific recommendations for improvements. At the completion of the review, these comments should be given to the firm.

1. Disclosures (Applicable to all engagements except for engagements to compile financial statements that omit substantially all required disclosures)
 - a. Accounting changes
 - b. Business combinations
 - c. Investments in debt or equity securities
 - d. Related party transactions (including receivables and payables from officers, employees and affiliates)
 - e. Inventory valuation method(s)
 - f. Leasing arrangements, including operating, direct financing, leveraged, and capital leases
 - g. Other fixed assets
 - h. Retirement plans, including pension and profit sharing plans
 - i. Postemployment and postretirement plans other than pension plans
 - j. Stock option or purchase plans
 - k. Commitments and contingencies
 - l. Compensated absences
 - m. Significant events between the balance sheet and report dates
 - n. Pledging of assets
 - o. Loan agreements or covenants imposing significant restrictions
 - p. Changes in capital accounts
 - q. Capital stock with significant rights or preferences
 - r. Discontinued operations
 - s. Extraordinary items
 - t. Unusual or infrequent items
 - u. Other valuation allowances
 - v. Investment tax expenses, benefits, temporary differences, investment tax credits and other information on the effect of income taxes
 - w. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate
 - x. Troubled debt restructurings
 - y. Unusual or specialized accounting policies
 - z. Research and development costs

- aa. Computer and software costs
- bb. Interest costs, including any capitalized interest
- cc. Maturities and sinking fund requirements for the next five years with respect to long-term debt
- dd. Restrictions on cash balances
- ee. Non-cash transactions
- ff. Financial instruments with concentrations of credit risk
- gg. Financial instruments with off-balance sheet risk
- hh. Product financing arrangements
 - ii. Foreign operations
 - jj. Foreign currency transactions
- kk. Nonmonetary transactions
- ll. Going concern considerations

2. Working Paper Areas

Audit Engagements

- a. Engagement letter (if required by firm policy)
- b. Study and evaluation of internal control structure and assessment of control risk
- c. Planning
- d. Audit risk and materiality
- e. Audit sampling techniques
- f. Degree of reliance placed on analytical procedures
- g. Communication of material weaknesses in internal control structure to senior management
- h. Audit programs
 - Scan the audit programs for comprehensiveness
 - Review working papers evidencing work performed in significant areas
- i. Management representation letter
- j. Legal letter
- k. Summary of passed adjustments

Review Engagements

- a. Engagement letter or memorandum of oral understanding
- b. Information about the accounting principles and practices of the industry in which the entity operates and about the entity's business
- c. Work programs
- d. Management representation letter
- e. Summary of passed adjustments
- f. Accountants' inquiries
- g. Accountants' analytical procedures and related documentation
- h. Unusual matters considered during the engagement

Compilation Engagements

- a. Engagement letter or memorandum of oral understanding.
- b. Information about the accounting principles and practices of the industry in which the entity operates and about the entity's business
- c. Accountants' inquiries (if required by firm policy)
- d. Unusual matters considered during the engagement
- e. Evidence that the accountant read the financial statements

.25 Appendix E

Consulting Review Program
REVIEWER'S COMPLETION NOTIFICATION

Date _____

To: Peer Review Division
American Institute of CPAs
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

From: _____
Reviewer

Re: _____
Review Number Firm Number

The consulting review of _____ has been completed.

The exit held on _____. An invoice for my services and out-of-pocket expenses is attached.

Reviewer's Signature

Note: If the review was arranged by a state CPA society, send this form and your invoice to that state.

.26 Appendix F

Consulting Review Program

BILLING FORM

Name and Address of the Reviewed Firm:

Reviewed Firm's AICPA Number: _____

Consulting Review Number: _____

Name and Address of the Reviewer:

AICPA Member Number: _____

Billing Information

Gross Fees:

Rate \$ _____/day
Number of days _____

Gross Fees \$ _____

Expenses:

Airfare \$ _____
Hotel _____
Meals _____
Other (identify) _____

Total Expenses _____

Total Fees and Expenses \$ _____

Reviewer's Firm's Federal Identification Number _____

Submitted by: _____ Date: _____

PRP Section 12,000

PERFORMING AND REPORTING ON REVIEWS OF QUALITY CONTROL MATERIALS

The guidance on performing and reporting on reviews of quality control materials included in this section was originally conceived and developed by the SEC practice section and the private companies practice section of the AICPA Division for CPA Firms to provide a uniform framework around which the reviews of quality control materials could be performed.

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PRP Section 12,100

Standards for Performing and Reporting on Reviews of Quality Control Materials

Introduction

.01 Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm's quality control system.¹ Such materials provide guidance on conforming with professional standards and may include, but are not limited to, such items as—

- a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams
- b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms

.02 Occasionally, organizations (hereinafter referred to as "providers") may sell or otherwise distribute quality control materials that they have developed to CPA firms (hereinafter referred to as "user firms").

.03 Providers may elect voluntarily or be required to have an independent review of their system of quality control for the development and maintenance of the quality control materials they have developed and of the materials themselves.² The reasons for having such a review are—

- a. To provide assurance to user firms that the quality control materials they have acquired are reliable aids to assist them in conforming with the professional standards the materials purport to encompass.
- b. To provide more cost-effective peer reviews for firms that have acquired such materials.
- c. To assure that independence and objectivity on peer reviews of user firms are maintained when such reviews are performed by providers.

Objectives of a Review of Quality Control Materials (QCM)

.04 The objectives of a review of quality control materials developed by a provider are—

- a. To determine whether the provider's system for the development and maintenance of the quality control materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- b. To determine whether the resultant materials are reliable aids.

Applicability

.05 An independent review of the system for the development and maintenance of quality control materials and the resultant materials (the "QCM review") is required for the following classes of providers:

- a. A member firm providing quality control materials to another member firm for which the provider firm will perform the peer review

¹ Continuing professional education programs are not included in the definition of quality control materials for purposes of this section. Reviews of continuing professional education programs that an organization may develop and sell or otherwise distribute to CPA firms are described briefly in PRP § 12,200, *Guidelines for Review of Continuing Professional Education Programs*.

² See Appendix C, PRP § 12,100.28 for a discussion of the elements that a provider's system for the development and maintenance of quality control materials should include.

- b. An association of CPA firms providing quality control materials, that meet the definition of association quality control materials, to its member firms when the peer reviews of those firms are to be administered by the association³

.06 A provider of quality control materials falling into either of these categories should have a QCM review once every three years. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the AICPA Peer Review Board ("the Board") or its designee to determine whether an accelerated review is warranted.

.07 Any other provider of quality control materials that voluntarily has a QCM review also will be subject to the standards in this section. A provider may have a review voluntarily so that peer reviewers of user firms can place reliance on the QCM review rather than having to review the quality control materials in detail.

.08 All providers of quality control materials that have a QCM review must notify the Board or its staff in advance of that review in order to permit oversight. Providers must also notify the Board or its staff should the QCM review be discontinued.

Standards for Performing QCM Reviews

Qualifications for Serving as QCM Reviewers

.09 A QCM review may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association quality control materials may not be performed by a member of the association whose materials are being reviewed. Furthermore, a QCM may not be performed by a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the QCM review, such as a person who assisted in the development or review of such materials or a firm that uses the materials as an integral part of its quality control system.

.10 A QCM review team shall possess the same qualifications for on-site review teams as set forth in the paragraphs 3100.15-.21 of the *Standards for Performing and Reporting on Peer Reviews* sections entitled "Organization of the Review Team" and "Qualifications for Service as a Reviewer." In addition, associations requested to perform QCM reviews must adhere to the guidelines contained in PPR § 9100, *Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program*.

Procedures for Performing QCM Reviews

.11 The provider should identify the materials to be reviewed and on which an opinion is to be expressed. A QCM review should include a study and evaluation of the system for the development and maintenance of the quality control materials that have been identified and a review of the materials themselves.

.12 A study and evaluation of the system for the development and maintenance of quality control materials normally should include the following procedures:

- a. Reviewing and evaluating the procedures established for developing quality control materials
- b. Reviewing and evaluating the procedures established for updating (including distributing) the quality control materials to assure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials
- c. Reviewing the technical competence of the developer(s)/ updater(s) of the quality control materials

³ See Appendix A, PRP § 9100.16, "Examples of Association Quality Control Materials."

- d. Obtaining evidence that the quality control materials were reviewed for technical accuracy by qualified person(s) other than the developer(s)/updater(s)
- e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's intention to update the materials
- f. Reviewing the system developed for soliciting and evaluating feedback from users of the quality control materials

.13 A QCM review team should review the resultant quality control materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids in conforming with those professional standards the materials purport to encompass.

Standards for Reporting on QCM Reviews

The Review Team's Report

.14 Within thirty days of the date of the exit conference, the QCM review team should furnish the provider with a written report and, if applicable, a letter of comments.⁴

Unqualified Report

.15 An unqualified report issued by a QCM review team shall contain the following:

- a. A statement of the scope of the review
- b. An identification of the quality control materials reviewed
- c. A statement that the review was conducted in accordance with standards promulgated by the Peer Review Board of the American Institute of Certified Public Accountants
- d. A description of the general characteristics of a system of quality control
- e. A disclaimer regarding the application of the materials by user firms
- f. An opinion (without qualification) that the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass
- g. An opinion (without qualification) that the identified quality control materials are reliable aids

.16 An example of an unqualified report is included in Appendix A, PRP § 12,100.26.

Other Types of Reports

.17 The following circumstances ordinarily would require the issuance of a qualified report, an adverse report, or a disclaimer:

- a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary
- b. The provider's system of quality control for the development and maintenance of quality control materials, as designed, did not provide user firms with reasonable assurance that reliable aids had been

⁴ A QCM review team should communicate its findings to the provider organization at an exit conference. For guidance on preparing for and holding an exit conference, see PRP § 3100.48 *Standards for Performing and Reporting on Peer Reviews*.

developed to assist them in conforming with those professional standards the materials purport to encompass

- c. The degree of compliance with the provider's system of quality control for the development and maintenance of quality control materials was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass
- d. The resultant quality control materials are not reliable aids to assist user firms in conforming with those professional standards the materials purport to encompass

.18 In those instances in which the QCM review team determines that a qualified or adverse report is required, all the reasons should be disclosed and the QCM review team should consult with the Board or its designee prior to the issuance of the report.

Letter of Comments

.19 A letter of comments issued by a QCM review team should include the following:

- a. A reference to the report and, if applicable, an indication that the report was qualified or adverse
- b. A description of the purpose of the QCM review
- c. A statement that the review was conducted in accordance with standards promulgated by the Peer Review Board of the American Institute of Certified Public Accountants
- d. A description of the limitations of a system for the development and maintenance of quality control materials and of the materials themselves
- e. The reviewer's findings, including sufficient detail with respect to the quality control materials so that user firms can determine the actions they need to take, if any, to overcome the effects of the deficiencies noted
- f. A statement that the matters discussed in the letter were considered in determining the opinion on the system for the development and maintenance of the quality control materials and the resultant materials

.20 If any of the matters to be included in the letter were included in the letter issued in connection with the provider's previous QCM review, that fact ordinarily should be noted in the description of the matter. In addition, although not required, the QCM review team may indicate how corrective action might be implemented. The letter may also include comments concerning actions taken, in process, or to be taken by the provider.

.21 The letter of comments should include appropriate comments regarding the design of the provider's system of quality control for the development and maintenance of the quality control materials, or its compliance with that system, or deficiencies noted in the resultant quality control materials.⁵

.22 Appendix B, PRP § 12,100.27, illustrates how some of the foregoing matters may be covered in a letter of comments.

.23 If a qualified report is issued, the letter must include a separate section on the matters that resulted in the qualification. This section would include an elaboration of the findings discussed in the qualifying paragraph of the report.

⁵ For guidance on evaluating whether a matter should be included in a letter of comments on a QCM review, see PRP § 3100.64 of the *Standards for Performing and Reporting on Peer Reviews*.

Letter of Response

.24 The provider is required to respond in writing to the letter of comments. The response should be addressed to the Board and should describe the action(s) taken or planned with respect to each matter in the letter. If the provider disagrees with one or more of the comments, its response should describe the reasons for such disagreement. In the event that a material error or omission in the quality control materials is uncovered by the QCM review team, the response also should describe the provider's plan for notifying known users of that error or omission.

.25 When a letter of comments is issued along with a qualified or adverse report, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unqualified report.

Sample Unqualified Report

[Firm, association, or state CPA society letterhead]

April 15, 19__

Executive Board

XYZ Organization

We have reviewed the system of quality control for the development and maintenance of (*identify each item covered by the opinion or refer to an attached listing*) ("materials") of XYZ Organization ("the organization") in effect for the year ended December 31, 19__ and the resultant materials in effect at December 31, 19__ in order to determine whether the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass. [The organization has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials.]* Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Board of the American Institute of Certified Public Accountants.

In performing our review, we have given consideration to the following general characteristics of a system of quality control. An organization's system for the development and maintenance of quality control materials encompasses its organizational structure and the policies and procedures established to provide the users of its materials with reasonable assurance that the quality control materials are reliable aids to assist them in conforming with professional standards in conducting their accounting and auditing practices. The extent of an organization's quality control policies and procedures for the development and maintenance of quality control materials and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the organization and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

Our review and tests were limited to the system of quality control for the development and maintenance of the aforementioned materials of the XYZ Organization and to the materials themselves and did not extend to the application of these materials by users of the materials nor to the policies and procedures of individual users.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 19__ to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials referred to above are reliable aids at December 31, 19__.

John Doe, Team Captain [*or Name of Reviewing Firm*]

* To be included if the provider has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials. In this circumstance, all references to "maintenance" of the quality control materials should be deleted from the report and letter of comments.

.27 Appendix B**Sample Letter of Comments**

[Firm, association or state CPA society letterhead]

April 15, 19__

[Should correspond with date of report]

Executive Board

XYZ Organization

We have reviewed the system of quality control for the development and maintenance* of (*identify each item covered by the opinion or refer to an attached listing*) ("materials") of XYZ Organization ("the organization") in effect for the year ended December 31, 19__ and the resultant materials in effect at December 31, 19__ and have issued our report thereon dated April 15, 19__ (which was modified as described therein).** This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon your system of quality control for the development and maintenance of quality control materials and your compliance with that system, and upon whether the materials are reliable aids in assisting users in conforming with those professional standards the materials purport to encompass. Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Board of the American Institute of Certified Public Accountants; however, our review would not necessarily disclose all weaknesses in the system or instances of noncompliance with it or all deficiencies in the quality control materials.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control for the development and maintenance of quality control materials. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control for the development and maintenance of quality control materials or of the materials themselves to future periods is subject to the risk that the system or the materials may become inadequate because of changes in conditions, or that the degree of compliance with the system may deteriorate, or that the materials may become outdated.

Design of the Quality Control System

Finding—The organization's policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization's policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that the questionnaires were being read, but that they were not being summarized or analyzed to determine whether the quality control materials require change.

Recommendation for improvement—The organization should revise its policies and procedures for the development and maintenance of quality control materials to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

* If the provider has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials, all references to "maintenance" of the quality control materials should be deleted from the letter of comments.

** To be included if a modified or adverse report is issued and should be tailored to fit the circumstances.

Noncompliance with the Quality Control System

Finding—The organization's policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the financial statement disclosure and reporting checklist. However, we were satisfied that the checklist is a reliable aid.

Recommendation for improvement—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

Deficiency in the Quality Control Materials

Finding—In our review of the organization's accounting and auditing manual, we noted that there was no guidance for the avoidance of unwarranted reliance on computer-generated reports. Furthermore, in our review of the organization's quality control policies and procedures manual, we noted that the manual states that the completion of the organization's Environmental Information Form will provide sufficient documentation to enable a user to obtain an understanding of the flow of transactions through the computerized portion of an accounting system. As presently designed, the Environmental Information Form, when completed, ordinarily will not, by itself, provide sufficient documentation.

Recommendation for improvement—The organization, in its next revision of its manuals, should provide guidance for the avoidance of unwarranted reliance on computer-generated reports and modify the Environmental Information Form or develop other aids so that, when properly completed, it/they will provide sufficient information about the computerized portion of an accounting system to enable a user to obtain an understanding of the flow of transactions through it.

The foregoing matters were considered in determining our opinion set forth in our report dated April 15, 19___, and this letter does not change that report.

John Doe, Team Captain
[or Name of Reviewing Firm]

.28 Appendix C**Elements of a Provider's System for the Development and Maintenance of Quality Control Materials**

1. A provider's system for the development and maintenance of quality control materials normally should include—
 - a. A requirement that the quality control materials be developed by individuals qualified in the subject matter.
 - b. A requirement that the quality control materials be reviewed for technical accuracy by qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.
 - c. Procedures to ensure the currency and relevancy of the quality control materials.
 - d. Procedures for soliciting and evaluating feedback from users of the quality control materials.
 - e. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider's policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating.
 - f. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

.29 Appendix D

Guidance for Firms Using Acquired Quality Control Materials**Introduction**

1. A firm's quality control materials are those materials that have been adopted as an integral part of the firm's quality control system. Such materials provide guidance in conforming with professional standards and may include, but are not limited to, such items as—

- a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams.
- b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms.

2. Some firms ("user firms") acquire these materials from another accounting firm or some other third party and require their personnel to use the materials during the performance of accounting and auditing engagements or elsewhere in its system of quality control. The following guidance has been developed to assist firms in discharging their responsibilities when they acquire quality control materials from others.

Guidance for User Firms

3. Users of acquired quality control materials are obligated to evaluate whether the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. If the materials have been subjected to an independent review ("QCM review"), a user firm should obtain and review the report and, if applicable, the letter of comments and response thereto from the provider, and determine whether the firm should establish compensating policies and procedures as a result of any deficiencies identified in the report or letter of comments.

If the materials have not been subjected to an independent QCM review, the user firm must evaluate whether the materials are reliable aids to assist it in conforming with those professional standards the materials purport to encompass.

4. Regardless of whether the acquired quality control materials have been subjected to an independent QCM review, the user firm is responsible for tailoring the materials, to the extent appropriate, to provide it with reliable aids to assist its professional personnel in conforming with those professional standards the materials purport to encompass and for integrating those materials into its practice.¹ A user firm should establish a plan for doing these. Such a plan would ordinarily include—

- a. Identifying the materials that personnel must use during the performance of accounting and auditing engagements.
- b. Tailoring the materials to the firm's practice.²
- c. Communicating the firm's policies and procedures for using the materials to the professional personnel.
- d. Training the professional personnel in the use of the materials.

¹ Where a firm has acquired quality control materials that have been subjected to a QCM review, the peer reviewer may rely on the results of the QCM review. However, the reviewer must still evaluate whether the firm has appropriately tailored the materials and integrated them into its practice.

² The user firm should be aware that the piecemeal utilization of a provider's quality control materials may violate the integrity of the design of the materials.

5. It is the user firm's responsibility to ensure that its quality control materials remain current and relevant if the provider has not undertaken the responsibility for updating the materials. Where the provider has undertaken such a responsibility, the user firm should monitor that updates are received on a timely basis and are in accordance with those professional standards the updates purport to encompass. In the event that a provider does not undertake the responsibility for updating quality control materials or if a user has not received timely updates, the user firm should establish appropriate quality control policies and procedures to provide it with reasonable assurance of conforming with those recently issued professional standards that the provider's quality control materials do not encompass.

[The next page is 12,201.]

PRP Section 12,200

Guidelines for Review of Continuing Professional Education Programs

Introduction

.01 Associations of CPA firms authorized to arrange and carry out peer reviews are required to submit to an independent review of the materials that constitute association quality control materials and of the related system of quality control for the development and maintenance of the materials at least once every three years. (Other providers of quality control materials may opt for an independent review of these materials.) In the event of substantial change in the system or in the resultant materials, the third-party provider should consult with the AICPA Peer Review Board or its designee to determine whether an accelerated review is warranted.

.02 The following discussion describes the guidelines that a review team should follow in reviewing continuing professional education programs ("CPE programs") that constitute association quality control materials. See PRP § 12,100, *Standards for Performing and Reporting on Reviews of Quality Control Materials* for information on reviews of quality control materials other than CPE programs.

Qualifications of Review Teams

.03 A review of association CPE programs may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association CPE programs may not be performed by a member of the association or subscriber to the third party materials. Furthermore, the review of association CPE programs may not be performed by a person or firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the review, such as a person who assisted in the development, review, or presentation of the CPE programs or a firm that uses the programs as an integral part of its quality control system.

Review Procedures

.04 The review should include a study and evaluation of the system of quality control for the development and maintenance of the CPE programs and a review of the CPE programs themselves. Such a review normally should include—

- a. Obtaining a description of the system of quality control for the development and maintenance of the CPE programs.
- b. Obtaining a description of the objectives of the CPE programs.
- c. Reviewing the qualifications (subject matter and instruction design) of the developer(s) and reviewer(s) of the CPE programs.
- d. Obtaining evidence that the CPE programs were reviewed by qualified person(s) other than the developer(s).
- e. Reviewing and evaluating the procedures established for updating the CPE programs to ensure that they remain current and relevant, and for communicating any relevant changes in professional standards, to program participants should new professional standards be issued prior to updating the CPE programs.
- f. Reviewing the system developed for soliciting and evaluating feedback on the CPE programs.
- g. Testing documentation evidencing compliance with the system.

- h. Reviewing selected instructor and participant manuals and evaluating whether the materials appear to accomplish the program's objectives.
- i. Evaluating whether the applicable AICPA standards for CPE program development and presentation that are not covered by the provider's procedures are being achieved.

Reporting on a Review

.05 For assistance in preparing the report and letter of comments, if any, on the review of the quality control system for the development and maintenance of CPE programs and of the CPE programs themselves, the reviewer should refer to the general guidelines set forth in PRP § 12,100, *Standards for Performing and Reporting on Reviews of Quality Control Materials*.

PEER REVIEW DIVISION

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