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GUIDELINES FOR

VOLUNTARY
TAX
PRACTICE
REVIEW

TAX DIVISION

AICPA

American Institute of Certified Public Accountants

GUIDELINES FOR

**VOLUNTARY
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**VOLUNTARY
TAX
PRACTICE
REVIEW**

TAX DIVISION

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
1101 17th Street, N.W.
Washington, D.C. 20036
202-462-6000

NOTICE TO READERS

The AICPA Tax Division's *Guidelines for Voluntary Tax Practice Review* is published for the guidance of members of the Institute and does not constitute enforceable standards. This book has been approved by the Federal Taxation Executive Committee, Tax Practice Management Committee, and Tax Practice Guidelines Task Force.

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Derald L. Lyons

Lawrence I. Morgan
James W. Sansone, Jr.
David B. Winder
Anne M. Yamamoto

James A. Woehlke
Technical Manager
Federal Taxation

Tax Practice Guidelines Task Force

Bernard Werner, *Chairman*
Edward Bush
Willet R. Bushnell
Robert R. Hill
Ronald S. Katch
Derald L. Lyons
Gloria J. Molnar
Robert M. Pielech
Leonard Podolin
William L. Raby

David R. Ward
Anne M. Yamamoto

James A. Woehlke
Technical Manager
Tax Division
James S. Clark, Jr.
Technical Manager
Tax Division

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1211 Avenue of the Americas, New York, New York 10036-8775
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**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY TAX PRACTICE REVIEW**

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PREFACE

TAX PRACTICE REVIEW . . . WHO NEEDS IT?

There is no perfect method of managing a tax practice, no way to assure correct decisions by *all* of a firm's tax practitioners *all* of the time. Every tax practitioner—whether his or her firm is large, medium-sized, or small—can use tax practice review to improve the practice.

For years, international accounting firms have been imposing tax practice review programs on themselves. Tax partners and managers from one office review policies and procedures, returns, and memoranda for other offices in their own firm. These large firms recognize the benefits in both improved effectiveness and reduced risk exposure that indirectly—and occasionally directly—accrue from tax practice reviews.

Recently, regional firms and associations of firms have explored tax practice reviews with an eye toward obtaining their benefits. Until now, however, there has not been an organized program of tax practice review for smaller firms.

PROGRAM DESIGN

The Voluntary Tax Practice Review Program was designed by the Tax Division's Tax Practice Guidelines Task Force. The task force is composed of CPAs, at least 80 percent of whom practice in local firms. The task force set out to design a program of tax practice review that would be beneficial and practical for local firms.

The program it designed is very flexible. It can be used by all practitioners, even sole practitioners, seeking to review their own practices. The introduction to this book gives practitioners direction concerning which guidelines and checklists apply for self-assessments. In addition, sufficient materials are provided for a firm that wishes to engage another firm to perform a firm-on-firm consultation-type review of its tax practice.

The program is consultation-oriented. It is not a tool to regulate tax practices. There are no records kept by the AICPA and none, with the exception of the engagement letter used for a firm-on-firm review, are kept by the reviewer. Rather, the program charts a path to improved tax practice methods. In a self-assessment, the practitioner is the navigator. In other contexts, the reviewer navigates. The reviewed firm always sits in the captain's chair. The firm decides what course to follow. The firm determines whether to follow the advice resulting from the review, as with advice rendered by any consultant.

THE AICPA TAX PRACTICE REVIEW PROGRAM IS VOLUNTARY!

The AICPA Tax Division has approved this voluntary tax practice review program as a practice guide for its members. Do not confuse the Voluntary Tax Practice Review Program with the accounting and auditing practice monitoring programs. Tax practice reviews are neither "quality reviews" nor "peer reviews" as these terms are used to refer to the accounting and auditing practice reviews that are required to maintain AICPA membership.

Voluntary tax practice reviews are designed to identify methods to improve the quality of tax practice. The program is designed for two types of reviews: internal self-assessments and external firm-on-firm reviews, which are akin to consulting reviews because there is no pass/fail element. There are no reports. The reviewing firm agrees not to retain any records of the review. Again, a tax practice review is a wholly voluntary type of review.

ACKNOWLEDGEMENTS

This book was prepared by the Tax Practice Guidelines Task Force. The members of the task force were carefully selected to represent a broad spectrum of tax practitioners. At all times, however, a significant majority of the task force was composed of local practitioners. The Tax Division is grateful for the literally thousands of hours dedicated to this project by the task force.

The Tax Division acknowledges the efforts of the AICPA Division of Firms. Many of the concepts contained in the *Peer Review Manual* produced by the Division of Firms' Private Companies Practice Section were of great assistance to the task force in preparing this book. In addition, the AICPA Tax Division wants to recognize the efforts of the Associated Regional Accounting Firms (ARAF), which produced a tax practice quality control program concurrently with the Tax Practice Guidelines Task Force. In fact, the efforts of the ARAF volunteers are reflected in appendix C, an early draft of which originated with the ARAF Tax Quality Control Committee.

INTRODUCTION

WHAT IS A VOLUNTARY TAX PRACTICE REVIEW?

A voluntary tax practice review (VTPR) is a systematic assessment of tax practice methods. Its goal is to give CPAs useful, practical ideas to improve their tax practice. A VTPR can take virtually any form. A CPA can review his or her own practice. Or, a CPA can have another member of his or her firm perform the review. Or, a tax professional who is not otherwise associated with the reviewed practice can perform the review. The only constraint on the choice of reviewers is that the reviewer must be authorized to practice before the IRS.

What is the reviewer to look for, and against what is the reviewer "measuring" the CPA's practice methods? This is where the AICPA Tax Division's VTPR program can help. The VTPR program contains sample quality control documents and checklists to assist CPAs in identifying policies and procedures that can help them improve their tax practice by establishing a system of tax practice quality control. The VTPR program also has checklists for the reviewer or reviewers to use in performing their review.

THE THREE PARTS OF THE VTPR PROGRAM

The VTPR program has three main parts. These guidelines contain two of them: "Statement on Guidelines for Tax Practice Quality Control" and "Tax Practice Administrative Review Guidelines and Checklists." The third part, "Tax Practice Technical Review Guidelines and Checklists," is currently in preparation.

The first section, "Statement on Guidelines for Tax Practice Quality Control" (the Statement), was designed to provide the practitioner with guidelines for measuring performance. Unlike an accounting and auditing practice, there are no objective standards of tax practice. The Statement identifies nine elements of tax practice quality control and contains a list of policies for the practitioner to use in installing a system of tax practice quality control.

The second section pertains to tax practice administrative reviews. The VTPR program anticipates two separate levels of tax practice review: the administrative review and the technical review. A practitioner may choose to have both levels of review or only one.

Administrative reviews are designed so that reviewers will not need any client information to perform the review. An administrative review concentrates on tax practice policies and procedures and, to the extent possible without reference to client documents, the implementation of those policies and procedures. An administrative review may not fully test compliance with the reviewed firm's tax practice quality control system.

A technical review focuses on such matters as compliance with the firm's tax practice quality control system, whether the practitioner is asking the questions that best serve the client, and whether the practitioner's compliance work is technically correct. By nature, a technical review, unlike an administrative review, requires reviewer access to client information.

STATEMENT ON GUIDELINES FOR TAX PRACTICE QUALITY CONTROL

Objectively, there is no right or wrong way to manage a tax practice. The Statement contains a list of policies that will help the practitioner initiate a system of tax practice quality control. When a CPA firm installs a tax practice quality control system, it is adopting a formalized process of tax practice quality improvement.

What Is "Quality"?

"Quality" as used in "quality control" is multidimensional. Most of the policies in the Statement focus on quality as perceived by tax professionals practicing in the context of CPA firms. But equally important is quality as perceived by the outside world, and especially by tax clients.

A CPA's clients perceive the quality of professional services in terms of product output (for example, Form 1040) and results achieved (for example, tax savings), not in terms of time input. Thus, the final tax product is not merely the return, opinion, or report a client receives, although it certainly includes that. A CPA must always grasp that a client's perception of quality is colored by the cost effectiveness of the service being rendered. For example, a client will not normally consider an expenditure of \$5,000 of time to research a tax issue worth only \$2,500 to be a quality service.

Quality tax work responds to client desires, as long as these do not conflict with the CPA's own professional standards. If a client's objective is tax minimization, failing to offer the client meaningful tax planning ideas and suggestions, in addition to the preparation of the tax return, is not a quality result. CPAs should also be constantly alert for additional ways for their firm to be of service to clients.

To render quality service, CPAs must know the objectives and expectations of their clients. When a client's expectations are unrealistic, a CPA must help the client accept what the CPA can realistically be expected to accomplish. If the client and the CPA are unable to agree on the practicality of the client's expectations, they should terminate the client relationship.

What Is a System of Tax Practice Quality Control?

AICPA Statement on Quality Control Standards (SQCS) No. 1, *System of Quality Control for a CPA Firm*, states:

A system of quality control for a firm encompasses the firm's organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of conforming with professional [guidelines and] standards. The system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies, and the nature of its practice.

A system of tax practice quality control should foster an environment for rendering high-quality tax services. This environment should maximize the likelihood that the client's expectations will be accurately identified and effectively met.

The "Statement on Guidelines for Tax Practice Quality Control" identifies the following nine elements the AICPA Tax Division considers essential to a properly functioning system of tax practice quality control:

- Advocacy and integrity
- Assigning personnel to engagements
- Consultation
- Supervision
- Hiring
- Professional development
- Advancement
- Acceptance and continuance of clients
- Inspection

These elements are based largely on those outlined in SQCS No. 1. The element of advocacy and integrity, listed above, is substituted for the element of independence identified in SQCS No. 1. Independence, while critical to an accounting and auditing practice, is not an element of quality control in a tax practice.

How to Implement a Tax Practice Quality Control System

The first step in implementing a system of quality control is identifying and documenting which policies and procedures to establish. The Statement lists policies that are crucial to an effective system of tax practice quality control. Of course, each CPA firm's implementation of these policies must vary. Every client mix differs. The abilities of tax professionals will vary from firm to firm. But the nine elements necessary to the quality control system are constant, and the policies listed in the Statement should be addressed in every tax practice quality control system.

Documenting a system of quality control from scratch would be extremely time-consuming. To assist tax practitioners in implementing their quality control systems, this practice guide includes several examples of documentation.

A CPA firm may select one of two techniques to document its tax practice quality control system. The first is to develop an extensive tax practice quality control document. The appendices to this practice guide include three sample quality control documents. The second technique, a checklist approach, is to complete the "Questionnaire on Tax Practice Quality Control Policies and Procedures," which begins on page E-1.

The three sample quality control documents included in the appendices are designed for three differently sized CPA firms. Appendix A is a sample quality control document for a single practitioner with limited staff. Appendix B is a sample quality control document for a local firm without a structured tax department. Appendix C is a similar document for a local firm with a structured tax department.

It is not the position of the Tax Division that any firm must adopt one of the sample quality control documents included in this practice guide. Instead, the documents included here should be molded into documents appropriate to the individual firm's practice, with the nine elements of quality control discussed in the Statement always kept in mind.

Additional ideas for establishing a tax practice quality control system can be extracted from the following AICPA publications:

- *Statements on Responsibilities in Tax Practice* (1988 revision), pub. no. 065010
- *Standards for Performing and Reporting on Quality Reviews* (1989), pub. no. 067015
- *Statement on Quality Control Standards No. 1, System of Quality Control for a CPA Firm* (1979), pub. no. M810673
- *Implementing Quality Control: Forms and Sample Documents* (1989), pub. no. 008060
- *Preparing for Review: Maintaining Quality Control* (1988), pub. no. 749013
- *Quality Review Program Manual* (1989), pub. no. 019001

These AICPA publications can be ordered by calling (800) 334-6961 or, in New York, (800) 248-0445.

TAX PRACTICE ADMINISTRATIVE REVIEW GUIDELINES AND CHECKLISTS

These guidelines and checklists have been prepared to enable a CPA firm to administratively review its tax practice. A CPA firm can be administratively reviewed in a number of ways. A member of the firm can perform the review. This is called a *self-assessment*. Or,

the firm can engage an outside practitioner who is authorized to practice before the Internal Revenue Service (IRS) to perform the review. This is called a *firm-on-firm review*. An association-sponsored review is also firm-on-firm review for purposes of this practice guide.

The Self-Assessment Process

A CPA firm that is performing a self-assessment should follow these steps:

1. Read the first three sections of "General Instructions for Tax Practice Administrative Review Guidelines" on pages B-1 to B-3 (up to "Matters for Further Consideration").
2. Complete the "Questionnaire on Tax Practice Quality Control Policies and Procedures" beginning on page E-1. Some firms may use this questionnaire to document their tax practice quality control system. A CPA firm that uses this approach should take a blank checklist and complete it again when it performs a self-assessment. The firm should then compare the more recently completed checklist to the earlier version. Differences between the two indicate the firm's quality control system has changed over time. The firm should analyze the change to decide if it represents an improvement or a weakness in its quality control system.
3. Review in depth and note pertinent items in "Suggested Administrative Review Procedures," beginning on page H-1, and in appendix C, "Sample Quality Control Document for Local CPA Firm With a Structured Tax Department." These two documents contain extensive lists of procedures for a sophisticated quality control system. The firm should not automatically adopt any of the procedures listed in these documents. Any procedure in the firm's system of quality control should be appropriate to the firm and its style of practice. Nevertheless, reviewing these documents may give the firm ideas for improving its quality control system.
4. If possible, ask at least one staff member at each level of the firm to complete the "Staff Interview Questionnaire." This will give the firm feedback about how effective its quality control system is and how well the firm is communicating its policies to its staff. Be careful with the information gleaned from staff. In a firm-on-firm review, the anonymity of the interviewed staff member is maintained. Without this anonymity, staff comments may not be entirely candid.
5. Prepare written conclusions on the self-assessment. These conclusions can follow the format of "Conclusions About the Tax Practice Administrative Review" or may simply be a memo to the firm's ownership about the strengths and weaknesses of its quality control system identified during the self-assessment process.

Firm-on-Firm Review

A firm embarking on a firm-on-firm review should identify a partner or manager who will

coordinate the review from the firm's standpoint and serve as a liaison with the review team. This firm liaison should see that the following items are satisfactorily completed:

1. Seek out a qualified tax practitioner to perform the review. See appendix D, "Sample Tax Practice Review Engagement Letter," for engaging an outside reviewer.
2. Read section B, "General Instructions for Tax Practice Administrative Review Guidelines."
3. Read section C, "Instructions for Firms Undergoing Tax Practice Administrative Review."
4. Complete the "Checklist for Implementation of a Tax Practice Administrative Review" beginning on page D-1. As part of the process in completing this checklist the liaison should complete the "Questionnaire on Tax Practice Quality Control Policies and Procedures" beginning on page E-1.
5. Read "Materials for Reviewers," sections F through J, to gain an understanding of the review process.
6. Arrangements for firm-on-firm reviews do not have to be cleared with the AICPA.

FEEDBACK

The VTPR Program is an ongoing commitment of the AICPA Tax Division. As such, the materials in this practice guide will evolve over time. The greatest incitement to this evolutionary process is feedback from both the reviewed firm and the reviewer. Any CPA with constructive criticism or suggestions for improving the VTPR Program Practice Guides is welcome to call or write the Staff Aide to the Tax Practice Management Committee, AICPA, 1455 Pennsylvania Avenue, N.W., 4th Floor, Washington, D.C. 20004-1007.

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**STATEMENT ON GUIDELINES FOR
TAX PRACTICE QUALITY CONTROL**

STATEMENT ON GUIDELINES FOR TAX PRACTICE QUALITY CONTROL

PREAMBLE

There is no set of objective tax practice standards by which a practitioner must conduct his or her practice. Nonetheless, practitioners stand to improve the quality of their practices by adoption of a system of tax practice quality control. To be effective, any system of tax practice quality control should contain policies and procedures covering the following nine elements:

- | | |
|--------------------------------------|--|
| ■ Advocacy and integrity | ■ Hiring |
| ■ Assigning personnel to engagements | ■ Professional development |
| ■ Consultation | ■ Advancement |
| ■ Supervision | ■ Acceptance and continu-
ance of clients |
| | ■ Inspection |

These elements are based largely on those outlined in AICPA Statement on Quality Control Standards (SQCS) No. 1, *System of Quality Control for a CPA Firm*. One of the elements listed above, advocacy and integrity, has been substituted for the element of independence, identified in SQCS No. 1. Independence, while critical to an accounting and auditing practice, is not an element of quality control in a tax practice.

SQCS No. 1 states that a system of quality control should provide the firm with reasonable assurance of conformity with professional guidelines and standards. Further, a quality control system should address the nine elements of quality control to the extent applicable to the firm. SQCS No. 1 also states that a firm's quality control system will depend on a number of factors such as the firm's 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.

The introduction to this practice guide identifies several approaches to documenting a tax practice quality control system. Every quality control system should include procedures for addressing the following policies, which are listed according to the elements of tax practice quality control to which they apply.

ADVOCACY AND INTEGRITY

The firm should establish policies and procedures to provide reasonable assurance that people at all organizational levels pursue with professional integrity the firm's role as a client advocate in its tax practice. As advocates, members of the firm seek to advance the client's position as long as that position and their efforts are within standards set by the law and by appropriate bodies.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its tax practice:

1. Require that people at all organizational levels adhere to the AICPA Code of Professional Conduct and the rules, regulations, interpretations, and rulings of the Internal Revenue Service and any other regulatory agencies, to the extent applicable, or be able to document and justify appropriate departures (for example, a filing position contrary to an IRS revenue ruling). In addition, tax professionals should be familiar with the AICPA Statements on Responsibilities in Tax Practice.
2. Communicate policies and procedures relating to advocacy and integrity to people at all organizational levels within the firm. This includes (a) the need to treat as confidential any and all information regarding client tax matters and (b) independence of mental attitude in client relationships.
3. Monitor compliance with policies and procedures relating to advocacy and integrity.

ASSIGNING PERSONNEL TO ENGAGEMENTS

The firm should establish policies and procedures for assigning people to engagements to provide the firm with reasonable assurance that work will be performed by people having the degree of technical training and proficiency required in the circumstances. In making assignments, the nature and extent of the supervision to be provided should be taken into account. In general, the more able and experienced the people assigned to a particular project or engagement, the less the need for direct supervision.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Delineate the firm's approach to assigning people, including the planning of overall firm, office, and tax work needs and the measures employed to achieve a balance between engagement requirements, individual qualifications, individual development, and utilization.

2. Designate an appropriate person or persons to be responsible for assigning people to engagements.
3. Provide for the approval of the scheduling and staffing of individual engagements by the person with responsibility for the engagement.

CONSULTATION

The firm should establish policies and procedures for consultation to provide reasonable assurance that people will seek assistance, to the extent required, from persons within and without the firm having appropriate levels of knowledge, competence, judgment, and authority. The nature of arrangements for consultation will depend on a number of factors, including the size of the firm, the availability of library and other resources, and the levels of knowledge, competence, and judgment possessed by the people performing the work.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Identify areas and specialized situations in which consultation is required, and encourage people to consult authoritative sources in other situations that may be complex or unusual to them.
2. Designate individuals within and without the firm as consultants to serve as authoritative sources, and define their authority in consultative situations. Provide procedures for resolving differences of opinion between the consultants and the people working on an engagement.
3. Specify the responsibility for creating documentation of the results of the consultation and the extent of the documentation to be provided.

SUPERVISION

The firm should establish policies and procedures for the conduct and supervision of work at all organizational levels to provide reasonable assurance that the work performed meets the firm's standards. The extent of the supervision and review appropriate in a given situation depends on many factors, including the complexity of the subject matter, the risk of taxpayer or preparer penalties being proposed, the qualifications of the persons performing the work, and the extent of the consultation available and used.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Provide procedures for planning engagements, including specific evaluation of risk factors in the engagement.
2. Provide procedures for maintaining the firm's standards in the performance of the work.
3. Provide procedures for monitoring and reviewing engagement working papers, reports, tax returns, tax opinions, substantive tax correspondence, and oral advice.

HIRING

The firm should establish policies and procedures for hiring to provide reasonable assurance that employees possess the appropriate characteristics to perform competently. The quality of a firm's work depends on the integrity, competence, and motivation of the people who perform and supervise the work.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Maintain a program for hiring qualified people by planning for future requirements, establishing hiring objectives, and setting qualifications for those involved in the hiring function.
2. Establish guidelines for evaluating potential hirees at each level.
3. Inform applicants and new hires of the firm's policies and procedures relative to them and their work.

PROFESSIONAL DEVELOPMENT

The firm should establish policies and procedures for professional development to provide reasonable assurance that people doing tax work will continue to have the knowledge required to enable them to fulfill their assigned responsibilities. Continuing professional education and training activities enable a firm to provide its people with the knowledge and skills to fulfill responsibilities assigned to them and to progress within the firm.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Establish guidelines and requirements for the firm's tax education program and communicate them to all people involved in tax work.

2. Ensure that information about current tax developments, changes in professional standards affecting tax practice, and materials containing the firm's policies and procedures affecting its tax practice is made available to everyone involved with tax work.
3. Encourage people to grow and mature as individuals and as professionals through seminars, workshops, college and university course work, and self-study programs. Also provide, to the extent necessary, programs not otherwise readily available so that the firm's needs for people with expertise in specialized areas and industries are filled.
4. Provide on-the-job training during the performance of tax work.

ADVANCEMENT

The firm should establish policies and procedures to provide reasonable assurance that those selected for promotion have the necessary qualifications for fulfillment of the responsibilities they will be called on to assume.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Establish qualifications for the various levels of responsibility for people involved with tax work in the firm.
2. Periodically evaluate the performance of tax professionals and other personnel involved in the tax practice and review their progress with them. Maintain personnel files containing documentation relating to the evaluation process.
3. Assign responsibility for making promotion decisions.

ACCEPTANCE AND CONTINUANCE OF CLIENTS

To minimize its exposure to risk and maximize its long-run profitability, the firm should establish policies and procedures for deciding whether to accept or continue a tax client. A firm's image in its practice area is heavily affected by the public perception of who its clients are. Thus, prudence suggests that a firm be selective in determining its professional relationships.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Establish procedures for the evaluation and approval of prospective clients.

2. Establish procedures to document the client's understanding and acceptance of (a) the scope of the firm's services, (b) the firm's responsibility for tax advice and returns, and (c) the financial aspects of the client's relationship with the firm.
3. Establish procedures to review and evaluate tax clients at the end of specific periods or upon the occurrence of specified events to determine whether the relationship should be continued, modified, or terminated.

INSPECTION

The firm should establish policies and procedures for inspection to provide reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures may be developed for inspections to be performed by individuals from within or without the firm 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.

The firm should consider establishing policies and procedures to accomplish the following objectives to the extent such objectives are applicable to its practice:

1. Define the scope and content of the firm's inspection program.
2. Provide for reporting inspection findings to the appropriate management levels and for monitoring actions taken or planned.

Administrative Review

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**TAX PRACTICE ADMINISTRATIVE REVIEW
GUIDELINES AND CHECKLISTS**

TAX PRACTICE ADMINISTRATIVE REVIEW
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GENERAL INSTRUCTIONS FOR TAX PRACTICE ADMINISTRATIVE REVIEW GUIDELINES

A voluntary tax practice review is an objective evaluation of whether the following occurred during the year under review:

- The reviewed firm's system of tax practice quality control met the objectives of tax practice quality control guidelines established by the AICPA.
- The reviewed firm complied with its tax practice quality control policies and procedures.

The Tax Practice Administrative Review Guidelines (AR Guidelines) have been designed to facilitate the evaluation of the reviewed firm's system of tax practice quality control. The review team captain should authorize any departures from the AR Guidelines.

QUESTIONNAIRE ON TAX PRACTICE QUALITY CONTROL POLICIES AND PROCEDURES

The review team captain should request that the reviewed firm complete the "Questionnaire on Tax Practice Quality Control Policies and Procedures" (see page E-1) and return it to the review team captain prior to the review team's visit. Completion of the questionnaire assists the firm in accumulating and organizing the information regarding its tax practice quality control system and expedites the work of the reviewers. Because the extent of the documentation of tax practice quality control policies and procedures may vary from firm to firm, all firms should complete the questionnaire.

In completing the questionnaire, the reviewed firm should use the response column or attach other sheets as necessary. Answers should not be lengthy or elaborate. Wherever practicable, the reviewed firm should provide references to policies and procedures in the firm's tax practice quality control document, staff manuals, or other reference materials, to adequately convey the response to the particular question. Such references will help reviewers to find the indicated policy or procedure in the firm's materials. In addition to responding to the questions, the reviewed firm should indicate any significant changes made in its tax practice quality control policies and procedures during the period under review or since the last review.

SUGGESTED REVIEW PROCEDURES

The review team captain is responsible for assigning to individual team members the various tax practice quality control elements of the review. Prior to performing the procedures suggested for the assigned element, the review team member should compare the relevant sections of the firm's tax practice quality control policies and procedures with the firm's responses to the "Questionnaire on Tax Practice Quality Control Policies and Procedures" and determine, to the extent applicable, the reasons for any significant differences between them. The extent of the review team's testing and the nature of its findings should be appropriately documented.

The scope and adequacy of the reviewed firm's inspection program may affect the scope of the tax practice review. Therefore, the review team should complete its review of the firm's inspection program as soon as possible to determine whether the anticipated scope requires modification.

Tax Practice Administrative Review Procedures

Suggested procedures for evaluating the appropriateness of the reviewed firm's tax practice quality control policies and procedures and for testing the firm's compliance with them have been included in section H. The suggested procedures should be modified by the reviewer as circumstances may require. Due to the size and nature of a firm's practice, a reviewer may decide that in the areas of assignment of people, hiring, advancement, or acceptance and continuance of clients, the review can be limited to testing. In such circumstances, the reviewer should document the reasons why the review can be limited in this manner. **However, a reviewer must always review in depth the functional areas of advocacy and integrity, supervision, consultation, professional development, and inspection.**

Some of the suggested tax practice administrative review procedures include interviewing personnel of the reviewed firm who are knowledgeable about particular tax practice quality control functions or have responsibility for a function (such as assigning personnel to engagements, or making hiring decisions). The objectives of these interviews include (1) corroborating the information provided to the reviewer in the firm's documented policies and procedures and in the questionnaire completed by the reviewed firm, (2) determining whether the firm's policies and procedures have been effectively communicated to the individual responsible for the particular tax practice quality control function, (3) determining whether the individual believes that he or she has sufficient authority to perform the assigned duties, and (4) obtaining additional information that may be deemed necessary.

Staff Interview Questionnaire

Certain of the suggested review procedures also call for interviewing selected staff other than those responsible for a particular quality control function. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. In evaluating the answers to the questions, the interviewer

should carefully consider the interviewee's background, level of experience, and position in the reviewed firm. The interviews do not necessarily determine the results of the tax practice review. Responses should be compared with other review findings.

The individuals selected should have varying backgrounds and levels of experience. The number of individuals selected will be determined by the size and nature of the reviewed firm's tax practice.

In general, the review team should select one individual at each level of responsibility below partner (such as manager, supervisor, senior accountant, and staff accountant) in each office visited. If a firm does not designate levels of responsibility, the review team should select a cross section of the professional staff in each office visited based on other criteria, such as years of experience and responsibilities. A suggested questionnaire for such interviews is included in section I. To minimize disruptions to the reviewed firm's normal operations, all questions relative to the tax practice quality control system should be discussed in a single interview with each of the individuals selected for interview. (The interviewer should not indicate on the questionnaire the names of any of the individuals interviewed.)

MATTERS FOR FURTHER CONSIDERATION

Appendix E contains a sample form titled "Matter for Further Consideration" (MFC). Reviewers should exercise professional judgment in determining whether each answer of "no" on review documents is significant enough to warrant the preparation of an MFC form. The purpose of the form is to communicate the following to the reviewed firm:

1. A matter that, in the reviewer's opinion, could represent a significant design deficiency in the reviewed firm's tax practice quality control policies and procedures, or significant noncompliance therewith, and that might affect the letter of comments of the review team
2. Other matters that, in the reviewer's opinion, should be communicated to the reviewed firm as matters that may require corrective action or recommendations for improvement in the design of the tax practice quality control system

Completion of the form requires a description of the matter, the reviewed firm's comments on it, and information on how the matter was resolved. The form should be signed by the reviewer, the review team captain, and an appropriate partner in the reviewed firm. The review team captain should evaluate the substance of the matters described and their resolution and, after reviewing all MFC forms that have been prepared, should decide if, individually or collectively, they should affect the letter of comments to the reviewed firm. (The review captain should be consulted when the reviewed firm and the review team members disagree with respect to the interpretation of such matters.)

The reviewer should also identify matters that do not require corrective action but that should be communicated to the reviewed firm as suggestions for improvements in, or compliance with, the firm's tax practice quality control policies and procedures. These suggestions should be summarized by the review captain, in whatever manner is most convenient, for communication to the appropriate partner(s) of the reviewed firm.

SUMMARY OF TAX PRACTICE ADMINISTRATIVE REVIEW FINDINGS

At the conclusion of fieldwork, reviewers should summarize all of their findings, including all "no" answers on review documents and all MFCs. This summary should be used to evaluate the nature, causes, pattern, pervasiveness, and significance of the deficiencies noted in (1) the design of the firm's tax practice quality control system and (2) compliance with the system. The summary should also assist the reviewers in completing the questionnaire titled "Conclusions About the Tax Practice Administrative Reviews" (see section J) and in preparing the summary review memorandum(s).

A form to summarize MFCs is included in appendix F. Reviewers may use these materials, or they may develop their own, for summarizing the review findings.

CONCLUSIONS

Section J, "Conclusions About the Tax Practice Administrative Review," contains a questionnaire designed to assist reviewers in reaching overall conclusions on each of the functional areas. The questionnaire is divided into nine functional areas, each corresponding to one of the elements of quality control addressed in the "Statement on Guidelines for Tax Practice Quality Control." The first question in each functional area is a threshold question; if the reviewer's answer to the question is "no," he or she must proceed to the other questions in the functional area.

Responses to these questions also assist reviewers in determining whether the appropriate review procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of the reviews. Therefore, regardless of the modifications that are made to the other sections of these guidelines, the format of section J should not be modified.

If the finding on a particular matter caused the reviewer to conclude that (because of the nature, causes, pattern, or pervasiveness of the deficiencies) the matter should at least be considered for inclusion in the letter of comments, the applicable portion(s) of question 1 for the applicable functional area should be answered no.

REVIEW OF MULTI-OFFICE FIRMS

The procedures followed for the review of a firm that has more than one office will be similar, but not identical, to the procedures followed for the review of a single-office firm. Accordingly, the materials contained in the guidelines should be tailored as follows:

- In preparing the "Questionnaire on Tax Practice Quality Control Policies and Procedures (see Section E), the reviewed firm should be careful to explain any variations among offices in policies and procedures, if they exist, and to identify locations where functions related to the entire firm's tax practice are centralized.
- When visits are made to more than one office, the team captain should prepare a copy of the appropriate portions of "Suggested Administrative Review Procedures" (see section H) for each office visited. Obviously, certain items will be addressed at only one location, such as evaluating the policies of the firm or interviewing the individual responsible for a firmwide function. Other items will be addressed at more than one location, such as interviewing persons responsible for functions administered on a decentralized basis.
- The "Staff Interview Questionnaire" (see section I) should ordinarily be used in each office visited.
- Summaries of "no" answers on review documents and of MFCs should ordinarily be prepared so that findings at individual locations, as well as firmwide totals, are readily identifiable.
- Conclusions should be based on the firmwide findings and are not expected to be prepared for each office.

INSTRUCTIONS FOR FIRMS
UNDERGOING TAX PRACTICE ADMINISTRATIVE REVIEW

The purpose of these instructions is to provide guidance to a firm undergoing voluntary tax practice review. Firms that have successfully undergone a peer review or quality review of their accounting and auditing practice in the past eighteen months may be subject to only a limited review of personnel-related items.

All persons in your firm involved in the review should read and become familiar with the sections of these guidelines relative to their part of the review. Completion of the following procedures and preparation of the materials requested prior to the firm's review date will facilitate the review process.

Questions regarding these instructions or any other materials, or about the review in general, should be directed to the AICPA Tax Division staff aide to the Tax Practice Management Committee.

A. PRIOR TO THE REVIEW

1. Your firm and the team captain should agree on an appropriate date for the review to take place.
2. The terms and conditions of the review should be summarized in an engagement letter (see appendix D).
3. Accommodations for the review team should be coordinated with the team captain.
4. The firm is expected to have implemented its quality control policies and procedures for its tax practice for the period under review.
5. The review team should be provided with specific background information about your firm. The firm should determine that this background information is available, appropriately summarized, and communicated to the review team.
6. Prior to the arrival of the review team, you should complete the "Questionnaire on Tax Practice Quality Control Policies and Procedures" (see section E).

7. The team captain will arrange for the scheduling of interviews with selected members of the firm's professional staff. You should ensure that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of these interviews.
8. A partner, manager, or senior staff member should be designated as a liaison to provide administrative assistance to the review team and should be available throughout the review.
9. The firm should have prepared an inspection report (which should be made available to the review team) indicating that the system of tax practice quality control has been tested, that it has been in place for the period of the review, and that it has been properly documented. The report should also summarize the inspection team's findings and, if necessary, planned corrective actions. These findings should be communicated to all partners, and responsibility should be assigned to determine that planned corrective actions were taken.
10. Have documentation that your tax partner(s) (or your firm's equivalent) has (have) reviewed the latest versions of Treasury Department Circular 230 and AICPA Statements on Responsibilities in Tax Practice.
11. Have documentation of all problems related to advocacy and integrity policies and their final resolution available for review.
12. Have personnel files available for review.
13. Have available for review appropriate CPE records for all professional staff members for the three most recent educational years.
14. Prepare a complete list of the firm's professional staff members showing name, position, department (if any), and length of service with the firm.
15. Provide a comfortable, adequate working area for the review team.
16. If possible, send to the team captain copies of relevant manuals, checklists, partners' resumes, and background information.

B. DURING THE REVIEW

1. The designated liaison partner or staff member should meet with the reviewers at the beginning of the review to orient them to the firm's policies and procedures, introduce them to the appropriate personnel of the firm, and provide them with a tour of the office.

2. During the course of the review, the review team may find it necessary to discuss matters with the appropriate personnel of the firm. The personnel should be advised to make themselves available to the review team as necessary during the course of the review. Such interviews will usually not disrupt the firm's operations.
3. The review team will usually discuss its findings as the review progresses.
4. The team captain will ask the firm to respond to "Matter-for-Further-Consideration" (MFC) forms prepared during the course of the review. The firm should carefully review the matters discussed on the forms and should provide a thorough written response to avoid any misunderstandings regarding the facts or the firm's position.

C. UPON COMPLETION OF THE REVIEW

1. The review team will communicate its findings in one or more exit conferences. The firm will determine who will represent it at these exit conferences. It is normally expected that the managing partner and the partners having firmwide responsibility for tax practice quality control and tax practice will attend this meeting.
2. The firm will receive a written letter of comments on the review. The objective of this letter is to improve the firm's efficiency and effectiveness. A sample letter of comments is included in appendix G. The letter of comments contains suggestions on the reviewed firm's tax practice quality control system. The letter may contain comments relating to the design of quality control policies and procedures or to compliance with such policies and procedures. It may also include suggestions on how the firm could improve its conformity with tax practice guidelines. Suggestions for enhancing the firm's practice that are not in the letter of comments may be conveyed orally by the team captain.

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**CHECKLIST FOR IMPLEMENTATION OF
A TAX PRACTICE ADMINISTRATIVE REVIEW**

Firm

Prepared By

Date

**CHECKLIST FOR IMPLEMENTATION OF
A TAX PRACTICE ADMINISTRATIVE REVIEW**

The following checklist is intended to assist the firm in preparing for the review team's visit. The completion and availability of all items listed will help to ensure a thorough review.

	<u>Initials</u>	<u>Date</u>
1. Obtain the engagement letter.	_____	_____
2. Set the dates of the tax practice administrative review and establish with the team captain the twelve-month period to be covered by the review.	_____	_____
3. Arrange for hotel accommodations for the review team and communicate details to the team captain.	_____	_____
4. Submit the firm's background information to the team captain.	_____	_____
5. Forward the following, when available, to the team captain:		
a. A completed "Questionnaire on Tax Practice Quality Control Policies and Procedures"	_____	_____
b. The firm's tax practice quality control document or a summary statement of the firm's quality control policies related to its tax practice (not required if the firm elects to have the completed questionnaire referred to in item 5(a) above serve as the firm's tax practice quality control document or summary statement)	_____	_____
c. All relevant manuals, checklists, partners' resumes, etc.	_____	_____

	<u>Initials</u>	<u>Date</u>
6. Provide a reasonable estimate of total number of tax hours for—		
a. Tax preparation.	_____	_____
(1) Break hours down by the types of entity:		
(A) Corporation	_____	_____
(B) Fiduciary	_____	_____
(C) Individual	_____	_____
(D) Partnership	_____	_____
(E) Tax-exempt entities	_____	_____
(F) Other	_____	_____
(2) Also provide total number of federal returns.	_____	_____
b. Tax planning.	_____	_____
c. Tax examinations.	_____	_____
d. Special tax projects.	_____	_____
e. Other.	_____	_____
7. Prepare a list of the firm's professional staff members, showing name, position, department (if any), and length of service with the firm.	_____	_____
8. Prior to the review, the review team will ask to interview members of the firm. Arrange for the selected individuals to be available.	_____	_____
9. Have all the appropriate personnel files available for review.	_____	_____

Initials

Date

10. Have available the pertinent CPE records for all appropriate professional staff for the three most recent years of education.
11. Have available all documentation supporting resolution of any problems encountered during the year with regard to advocacy and integrity matters.
12. Have available the firm's latest tax practice inspection report that documents the scope of the review, the findings, and any recommendations for corrective action.

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**QUESTIONNAIRE ON TAX PRACTICE QUALITY CONTROL
POLICIES AND PROCEDURES**

Firm

Prepared By

Date

**QUESTIONNAIRE ON TAX PRACTICE QUALITY CONTROL
POLICIES AND PROCEDURES**

This questionnaire is intended to provide the reviewer with basic information about the firm's tax practice quality controls. It is not necessarily a checklist of all the policies and procedures that might be applicable to the firm's tax practice. Careful completion of this questionnaire should help firms evaluate the continuing appropriateness of their policies and procedures. Firms should briefly describe the policies in effect and, to the extent possible, make reference to other documents of the firm, such as the firm's tax practice quality control document, personnel manual, tax practice manual, checklists, or forms in which the policies are described in more detail.

In completing the questionnaire, the reviewed firm should use the response column and attach other sheets if necessary. Answers should not be lengthy or elaborate. Wherever practicable, the reviewed firm should provide references to policies and procedures in the firm's quality control document, staff manuals, or other reference materials that adequately convey the response to the particular question. Such references will assist reviewers in finding the indicated policy or procedure in the reviewed firm's materials. In addition to responding to the questions, the reviewed firm should indicate any significant changes in its quality control policies and procedures during the period under review.

**Response, Including Reference
to the Firm's Documents**

A. ADVOCACY AND INTEGRITY

1. How does the firm inform personnel (for example, through its tax practice quality control document, personnel manual, memorandums, client lists, or training meetings) of the policies and procedures relating to—
 - a. The need for independence of mental attitude in tax client relationships?
 - b. The understanding of and conformance to Treasury Department Circular 230, preparer

**Response, Including Reference
to the Firm's Documents**

- penalties, AICPA Statements on Responsibilities in Tax Practice, and other applicable rules, regulations, and professional standards?
- c. The requirements for confidentiality of client tax information?
2. Does the firm's library contain the AICPA Code of Professional Conduct, Treasury Circular 230, and AICPA Statements on Responsibilities in Tax Practice?
3. How does the firm monitor compliance with its policies and procedures on advocacy and integrity with regard to—
- a. Contrary filing positions?
 - b. Confidentiality?
 - c. Code of Professional Conduct?
 - d. Statements on Responsibilities in Tax Practice?
4. Who is responsible for resolving questions on matters of advocacy and integrity and is available to provide guidance?
- a. In what circumstances must the resolution of such questions be documented? Where is the documentation maintained?
 - b. What sources are or would be consulted to resolve these questions?

**Response, Including Reference
to the Firm's Documents**

- c. Has the firm found it necessary within the last year to consult with sources outside the firm on these matters?

B. ASSIGNING PERSONNEL TO ENGAGEMENTS

1. Are staffing schedules, time budgets, or both used for tax engagements?
 - a. If so, who is responsible for preparing and approving them?
 - b. If not, how are time requirements identified?
2. Who is responsible for assigning personnel to tax engagements?
3. Does the person with the final responsibility for the engagement approve its scheduling and staffing? Is this approval documented and, if so, where?
4. How are staff advised of their assignments and changes in them (for example, copies of staffing schedules, memoranda, or discussion)?
5. Does the firm require the following to have experience appropriate to the engagement—
 - a. Staff?
 - b. Partner-in-charge of the engagement?
 - c. Concurring reviewers?

C. CONSULTATION

1. Have certain areas of tax law or specialized situations been identified as requiring consultation? If so, attach a list of such areas and situations or briefly describe them, and indicate where this list will be found (for example, in the tax practice quality control document).
2. Explain how all personnel have been advised of the firm's tax practice consultation policies and procedures.
3. Does the firm designate individuals as having specialized experience and expertise in certain technical tax areas and being available for consultation? If so, attach a list of the designated individuals and what their specialties are, and indicate how personnel have been made aware of this information.
4. How are differences of opinion between engagement personnel and tax specialists resolved?
5. What outside sources are consulted on tax matters when it is deemed necessary (for example, AICPA, state CPA society, another firm, or an individual)?
6. Does the firm maintain an adequate technical reference library to assist personnel in resolving tax problems?
7. Does the tax partner monitor the library contents and make necessary changes?

**Response, Including Reference
to the Firm's Documents**

8. Does the firm require that consultations on tax matters be documented? If so—
 - a. To what extent must they be documented?
 - b. Where is this documentation maintained (for example, in the working papers or in a subject file)?
9. If professional personnel are not in agreement with a decision, do they have a right to document their disagreement and disassociate themselves from the resolution of the matter?

D. SUPERVISION

1. Does the firm have documented procedures for budgeting and planning substantial tax engagements and, if so, where are those procedures found (for example, in the tax manual)? If not, briefly describe the planning procedures followed in practice (including the information considered and the nature, extent, and timing of partner involvement) and indicate any variations in those procedures based on factors such as estimated time requirements, the nature of the engagement, or evaluated risk factors.
2. Does the firm have written guidance material regarding—
 - a. Involvement of tax personnel on engagements that include significant tax matters?
 - b. Control system for tax return due dates?

**Response, Including Reference
to the Firm's Documents**

- c. Documentation of advice to clients?
 - d. Documentation of tax research?
 - e. Form and content of tax working papers?
 - f. Other pertinent matters (such as manuals)?
3. If the answer to any of the questions under item 2 above is yes—
- a. Indicate where the material is found.
 - b. Describe the documentation required to be included in tax engagement working papers.
4. Does the firm use any standardized forms, checklists, and questionnaires for tax return preparation or other tax services? If so, attach a list or indicate where those materials are found and indicate which forms are required and which are discretionary. If not, briefly describe the procedures expected to be followed and indicate how the preparer's self-review process is documented.
5. How are differences of opinion on tax matters between engagement personnel resolved and how are the staff informed of the procedures to be followed?
6. Does the firm use other offices or correspondents for tax engagements? If yes, does the firm have documented procedures for the supervision and control of that work? (Indicate where those procedures are found.) If no, briefly describe (a) how instructions are given to the other office or correspondent and (b) the extent to which the

**Response, Including Reference
to the Firm's Documents**

work of that office or correspondent is reviewed by the referring office.

7. Does the firm have documented procedures for the review of tax returns, tax research reports, correspondence, and other working papers by the personnel assigned to the engagement? If so, indicate where those procedures are found. If not, briefly describe the procedures expected to be followed and indicate how the review process is documented.
8. If applicable, how does the firm train and integrate the professional personnel of a merged-in practice in the reviewed firm's tax practice quality control policies and procedures?
9. Are all engagements (tax compliance, research and planning, tax examinations, etc.) adequately planned by persons knowledgeable about the client and the type of engagement, including specific evaluation of risk factors?
10. Are tax accountants involved in reviewing working papers related to a financial statement engagement included in engagement planning conferences related to that engagement?
11. Is an engagement letter or memorandum of understanding used for all tax returns and substantial tax services to document the nature of the engagement?
12. When resolving questionable items, is a memorandum prepared stating the interpretation of the facts and citing the authorities relied upon?

**Response, Including Reference
to the Firm's Documents**

13. Is the tax partner responsible for assuring that file-retention policies comply with the Internal Revenue Code and any other applicable professional or regulatory requirements?

E. HIRING

1. Who is responsible for determining the firm's needs for professional personnel, for deciding on and carrying out a program to meet those needs, and for monitoring the effectiveness of the program?
2. What personal, educational, and experience requirements have been established for—
 - a. Entry-level personnel?
 - b. Experienced personnel?
 - c. Tax specialist personnel?
3. What types of background information regarding the qualifications of potential hirees (for example, resumes, transcripts, application forms, interviews, references) are required to be obtained?
4. Who is responsible for making the decision to hire?
5. Does the firm provide an orientation program, relating to the firm and the profession, for newly employed personnel? If so, attach a copy of the program outline.

F. PROFESSIONAL DEVELOPMENT

1. Where are the professional development records maintained (including attendance records, course materials, etc.)?
2. Who is responsible for monitoring compliance with applicable (for example, state) CPE requirements?
3. How are professional personnel made aware of current tax developments, as well as changes in professional standards affecting tax practice and in the firm's technical policies and procedures related to the tax practice (for example, by distributing technical pronouncements and holding training courses on recent changes and areas identified by the inspection program)?
4. Have guidelines and requirements been established for the firm's tax education program and communicated to all people involved in tax work?
5. Who is responsible for the formulation and implementation of the firm's policy on professional development?
6. Does the firm's professional development policy provide a program to fill its needs for expertise in specialized areas and industries?
7. Is a basic program of tax training provided to staff accountants using on-the-job training, formal group programs, and self-study programs, as appropriate?

**Response, Including Reference
to the Firm's Documents**

8. Is each partner and professional staff member required to complete a minimum of twenty hours of continuing professional education each year and a minimum of 120 hours in any three-year period?
9. Are personnel encouraged to serve on state society or AICPA committees, write articles for professional publications, serve as discussion leaders at professional development seminars, give speeches, and so forth?

G. ADVANCEMENT

1. What levels of responsibility exist within the firm (for example, partner, manager, supervisor, and senior)?
2. Have descriptions been prepared of the responsibilities at each level, expected performance at each level, and the qualifications necessary for advancement to a particular level, including any special requirements for tax personnel? If so, attach a copy of each description or indicate where (for example, in a personnel manual) this information can be found.
3. Does the firm periodically evaluate the performance of personnel and advise them of their progress in the firm?
 - a. When and how often are these evaluations performed?
 - b. Are these evaluations documented? If so, indicate where this documentation is maintained (for example, in the individual's personnel file).

**Response, Including Reference
to the Firm's Documents**

- c. Is a standard evaluation form used?
 - d. How are partners evaluated (for example, counseling, peer evaluation, or self-appraisal)?
4. Who is responsible for—
- a. Making advancement and termination decisions?
 - b. Monitoring the system of personnel evaluations and counseling?

H. ACCEPTANCE AND CONTINUANCE OF CLIENTS

- 1. Has the firm established procedures for evaluating prospective clients and for their acceptance as clients?
- 2. Who is responsible for evaluating the information obtained regarding prospective tax clients and for making acceptance decisions?
- 3. Are acceptance decisions documented (for example, on a questionnaire or in minutes of partners' meetings)?
- 4. What procedures are used to document—
 - a. The client's understanding of the scope of services?
 - b. The responsibility taken by the firm?

**Response, Including Reference
to the Firm's Documents**

- c. That each client has ultimate responsibility for all tax returns?
 - d. That each client is responsible for providing adequately substantiated information?
 - e. The financial aspects of the relationship?
5. Are tax clients reviewed and evaluated at the end of specific periods or upon the occurrence of specified events to determine whether the relationship should be continued, modified, or terminated?
 6. Who is responsible for evaluating the information obtained, making recommendations for the continuance of clients, and administering the firm's procedures for continuance?
 7. Are continuance decisions documented? If so, in what form? If the firm uses a standardized questionnaire, attach a copy.
 8. Who is responsible for monitoring the firm's compliance with its policies and procedures regarding the acceptance and continuance of tax clients?

I. INSPECTION

1. Who is responsible for the tax practice inspection function?
2. Have instructions been prepared concerning the performance of tax practice inspection activities, including the scope and content of those activities and the necessary qualifications of the inspectors?

**Response, Including Reference
to the Firm's Documents**

If so, indicate where they can be found.

3. Does the firm use any of the following materials during the inspection:
 - a. Inspection work programs?
 - b. Questionnaires?
 - c. Tax engagement or other checklists?
 - d. Other [identify]?
4. Does the firm retain evidence of the inspection procedures performed and the conclusions reached regarding the tax practice? If so, describe the materials retained and indicate the periods covered.
5. Have inspection findings been acted upon? If so, briefly describe the corrective actions identified and taken.

INSTRUCTIONS FOR REVIEWERS

These instructions provide guidance for practitioners who accept the responsibility to review tax practices. They should be read in conjunction with other material issued to implement the AICPA Tax Division's Voluntary Tax Practice Review Program. Questions regarding these instructions, any other materials, or the review in general should be directed to the AICPA Tax Division staff aide to the Tax Practice Management Committee.

CONFIDENTIALITY AND CONFLICT OF INTEREST

A tax practice review must be conducted with due regard for the confidentiality requirements set forth in the AICPA Code of Professional Conduct and the Internal Revenue Code and regulations thereunder. Information concerning the reviewed firm and any of its clients that is obtained as a consequence of the review is confidential and should not be disclosed by review team members to anyone not associated with the review.

The AICPA Code of Professional Conduct does not specifically consider relationships among reviewers, reviewed firms, and clients of reviewed firms. However, a reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm.

ORGANIZATION OF THE REVIEW TEAM

A review team is headed by a team captain who directs the organization and conducts the review, supervises other reviewers, and is responsible for the preparation of a letter of comment on the review. To facilitate summarization of the review team's findings and conclusions, the team captain will furnish instructions to the review team regarding the manner in which working papers and other notes relating to the review are to be accumulated.

THE ADMINISTRATIVE REVIEW

The administrative review should include the following procedures:

1. Study and evaluation of the reviewed firm's tax practice quality control policies and procedures

2. Review for compliance with the reviewed firm's tax practice quality control policies and procedures at each organizational or functional level within the firm
3. Accumulation of a list of points to be discussed at the exit conference, giving appropriate consideration to the distinction between matters that should be included in the letter of comments and other matters that would only be communicated orally in the form of suggestions
4. Preparation of a letter of comments

For the review of a firm that obtains tax practice quality control materials from a third party, the review team should consider the applicability and suitability of such materials to the tax practice of the reviewed firm.

SCOPE OF AN ADMINISTRATIVE REVIEW

Reviewers should recognize that a firm's tax practice quality control policies and procedures will likely differ between small and large firms (for example, in job descriptions) and between small and large offices of multi-office firms (for example, in procedures for assigning personnel to engagements). In testing a firm's tax practice quality control policies and procedures, the review should be tailored to the particular firm. Section H contains a checklist titled "Suggested Administrative Review Procedures."

The scope of the review should cover a firm's tax practice, which encompasses all tax compliance and consulting services rendered by the firm. **Review team members are not to have contact with, or access to, any client of the reviewed firm in connection with the review.**

The review will be directed to the professional aspects of the reviewed firm's tax practice. It may be difficult, at times, to distinguish between the business and professional aspects of the practice, since they may overlap. For example, in evaluating whether the supervision of an engagement was adequate, review team members would consider budgeted and actual time spent on the engagement by various categories or classifications of personnel but would not inquire as to fees billed to the client or the relationship of fees billed to time accumulated at usual or standard billing rates.

When reviewing policies and procedures for advancement, review team members would concern themselves with whether professional personnel were promoted based on demonstrated competence and whether criteria for admission of individuals to the firm give appropriate weight to professional qualifications, but would not review the compensation of professional personnel.

The review team should request the reviewed firm's latest letter of comments concerning tax practice review, if available and applicable, and should consider whether matters discussed in the letter require additional emphasis in the current review. The review team should evaluate the actions taken by the firm in response to any prior letter of comments.

There may be situations in which information available to the review team is insufficient to evaluate whether the reviewed firm's tax practice quality control policies and procedures have been followed by other offices. In these instances, it will be necessary to obtain documentation from such other offices; usually, this may be accomplished by arranging for the forwarding of the requested information to the reviewed office.

APPROACH TO THE REVIEW

The review should give primary emphasis to the reviewed firm's overall compliance with its tax practice quality control policies and procedures. The review checklists each contain questions relating to the nine elements of tax practice quality control listed in the "Statement on Guidelines for Tax Practice Quality Control" (see section A). Testing involves review of the quality control document, any other documents relevant to the administration and management of a tax practice (including manuals, checklists, etc.), and interviews with management personnel, selected staff members, etc.

FINDINGS AND CONCLUSIONS

Based on its review, the review team should document whether (1) the firm's tax practice quality control policies and procedures are adequate and (2) anything came to the team's attention that caused it to believe that the firm did not comply with its tax practice quality control policies and procedures in all material respects.

EXPANSION OF SCOPE

If, during the course of the review, the review team concludes that there was a significant failure by the reviewed firm to adhere to its tax practice quality control policies and procedures, the review team should consider whether the application of additional review procedures is necessary. This consideration should be documented in the administrative review working papers. The objective of the application of additional procedures would be to determine whether the significant failure is indicative of (1) a pattern of such failures, (2) a significant weakness in the reviewed firm's system of tax practice quality control, or (3) both. Under some circumstances, the reviewer may conclude that because of compensating controls, or for other reasons, further procedures are unnecessary.

**AICPA TAX DIVISION
REVIEW TEAM CAPTAIN CHECKLIST**

This checklist should be used in conjunction with section F, "Instructions for Reviewers," and other material issued to implement the Voluntary Tax Practice Review Program. This checklist may also be used when conducting firm-on-firm or association-sponsored tax practice reviews. If this checklist is not used on such reviews, the review captain must prepare an alternate checklist.

Questions regarding the use of this checklist, the use of any other materials, or about the review in general should be directed to the AICPA Tax Division staff aide to the Tax Practice Management Committee.

	<u>Initials</u>	<u>Date</u>
A. <u>PRIOR TO THE REVIEW</u>		
1. Review for completeness the background information furnished by the firm and obtain additional information, if needed.	_____	_____
2. Obtain and approve engagement letter.	_____	_____
3. Determine the composition of the review team. Consider the need for individuals with expertise in specialized areas.	_____	_____
4. Discuss the estimated date of the firmwide exit conference.	_____	_____
5. Call (or visit) the firm sufficiently in advance (ordinarily three weeks) of the review to make the necessary arrangements. During the call (or visit)—		
a. Ensure that the firm has completed the "Questionnaire on Tax Practice Quality Control Policies and Procedures" (see section E).	_____	_____

	<u>Initials</u>	<u>Date</u>
b. Obtain and evaluate documentation summarizing the inspection program implemented by the firm.	_____	_____
c. Request the firm to designate a partner or provide a senior staff member as liaison to provide administrative assistance to the review team.	_____	_____
d. Discuss the travel and hotel arrangements for the review.	_____	_____
e. Ascertain which person(s) in the firm are responsible for the various tax practice quality control functions and, with such person(s), prepare an interview schedule for the review team.	_____	_____
f. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for a visit. Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visit is not expected to be on a surprise basis.	_____	_____
g. Select a review period that covers a current period of one year. This review period should be mutually agreed on by the reviewed firm and the review team captain. The review should ordinarily be conducted within three or four months following the end of the year to be reviewed. The review period does not have to be a calendar year-end or coincide with the reviewed firm's fiscal year-end.	_____	_____
h. Contact all review team members (if any) to discuss arrangements with them.	_____	_____

B. AT THE BEGINNING OF THE REVIEW

Initials

Date

1. Arrive at the firm's office before the other review team members in order to perform preliminary planning, as necessary.

2. Meet with reviewers to orient them to the firm's policies and procedures. Each team member should read the sections of the firm's "Questionnaire on Tax Practice Quality Control Policies and Procedures" and the tax practice quality control document (if any) relative to their part of the review.

3. Introduce reviewers to appropriate firm personnel and tour the office. (A general meeting of reviewers and firm personnel may be desirable.)

4. Instruct the reviewers on the manner in which working papers, questionnaires, checklists, and other notes relating to the review are to be prepared during the course of the review to facilitate summarization. Explain the method of documenting the matters that, in the reviewer's opinion, could be significant deficiencies in, or significant lack of compliance with, the design of the firm's system of tax practice quality control and that might affect the review team's conclusions or be included in the letter of comments. (The MFC form provided for documentation of such items is included in appendix E.)

5. Assign responsibilities for review of the functional quality control areas. Time must be scheduled to permit proper supervision and review of the work of the reviewers.

C. DURING THE REVIEW

1. Gain an understanding of the firm's professional and management environment and the business environment in which the firm and its clients practice.

	<u>Initials</u>	<u>Date</u>
2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm's tax practice quality control system after studying and evaluating the system and the firm's inspection program. Approve the nature and extent of tests to be performed.	_____	_____
3. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).	_____	_____
4. Review all MFC forms, including the reviewed firm's written responses. Make sure the reviewed firm agrees with the facts or explains its reasons for disagreement.	_____	_____
5. For multi-office firms, prepare, or obtain from the individual in charge of the review of each office, a memorandum summarizing the results of the review of that office.	_____	_____
6. Prepare a draft of firmwide conclusions on the Tax Practice Administrative Review (see section J).	_____	_____
7. Develop a list of points to be discussed at the exit conference.	_____	_____
D. <u>UPON COMPLETION OF THE REVIEW</u>		
1. At the exit conference, communicate findings to appropriate individuals. The captain should direct the conference to the maximum extent possible. Remind the firm that the letter of comment is advisory.	_____	_____
2. Within thirty days of the exit conference, submit the letter of comments to the firm. All copies of the workpapers, checklists, notations relating to the review, etc., are to be surrendered to the reviewed firm for disposition.	_____	_____

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

SUGGESTED ADMINISTRATIVE REVIEW PROCEDURES

Reviewed Firm

Period Covered

SUGGESTED ADMINISTRATIVE REVIEW PROCEDURES

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

A. ADVOCACY AND INTEGRITY

1. Compare the firm's advocacy and integrity policies and procedures with professional and regulatory requirements.
2. Interview the individual responsible for resolving questions if advocacy and integrity seem to be in conflict, and discuss the following questions:
 - a. Have any departures from professional and regulatory requirements arisen during the year? Describe the nature and disposition of the departure.
 - b. How is the staff informed of the firm's policies and procedures on advocacy and integrity?
 - c. How do you monitor (i) changes in professional standards pertaining to advocacy and integrity and (ii) compliance with the firm's policies?
 - d. Do you believe that you have sufficient authority within the firm to fulfill your responsibilities?
3. Determine by review of appropriate documentation and by interviews with selected staff that the firm has communicated, on a

timely basis, its policies on advocacy and integrity, and test that they appear to be understood and implemented (see section I, "Staff Interview Questionnaire").

4. Identify, by review of files or inquiry (see item 2), a selection of situations in which questions involving advocacy or integrity arose and consider whether the resolution of such questions seems appropriate.

B. ASSIGNING PERSONNEL TO CLIENTS AND TO ENGAGEMENTS

1. Interview the individual responsible for assignments and discuss the following questions:
 - a. What criteria are used in making partner and staff assignments to clients or tax engagements?
 - b. How are you notified of advancement, hiring, and termination decisions?
 - c. How far in advance are staffing requirements for clients or engagements determined?
 - d. How far in advance are individuals notified of their particular work assignments?
 - e. Do you believe that you have the appropriate authority for making assignments?
2. Review and evaluate the firm's procedures for assigning—
 - a. Staff.

- b. Partners to clients or engagements.
 - c. Concurring reviewers, if used.
3. Determine if appropriate consideration was given to the factors (for example, competence, experience) identified by the firm as deserving consideration in staffing tax engagements.
4. Interview ____ [*insert number*] staff to determine whether they believe that the assignments they have received have been appropriate (see section I, "Staff Interview Questionnaire").

C. CONSULTATION

1. Evaluate the appropriateness of—
- a. The method and extent of designating specialists.
 - b. The degree of authority to be accorded specialists' opinions.
 - c. The procedures followed for resolving differences of opinion between engagement personnel and specialists.
2. Evaluate the extent of required consultation and whether this degree of consultation is sufficiently comprehensive for the firm.
3. Identify, by review of subject files or by inquiry, situations in which consultation has taken place and evaluate whether the advice appears appropriate and correctly applied.

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

4. Inspect the firm's library and any other library facilities it regularly uses and determine if they are sufficiently comprehensive and up-to-date. Specifically, determine whether the library contains (a) recent pronouncements, literature appropriate for the firm's specialties, current Internal Revenue Code and Regulations, and timely filed loose-leaf services or (b) adequate access to electronic data bases.
5. Interview ____ [*insert number*] personnel to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow them in practice (see section I, "Staff Interview Questionnaire").

D. SUPERVISION

1. Evaluate whether the position of the person(s) responsible for planning engagements is commensurate with the assigned responsibility.
2. Consider whether all appropriate matters are required to be included in the engagement planning process, and determine whether a current client engagement letter is in existence.
3. Review and evaluate the appropriateness of the firm's procedures for maintaining its standards of quality, specifically including—
 - a. Evaluation of risk factors in the engagement.
 - b. Maintenance of the firm's standards in performing the work.

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

- c. Supervision of work.
 - d. Documentation of work.
 - e. Maintenance of a client filing system and compliance with retention requirements.
 - f. Maintenance of a control system for the various types of returns filed and other tax engagements handled.
- 4. Review and evaluate the appropriateness of any standardized forms, checklists, and questionnaires used for tax engagements.
 - 5. Review and evaluate the appropriateness of the firm's policies and procedures for the review of engagement working papers, reports and tax returns, tax opinions, substantive tax correspondence, and oral advice.
 - 6. Check to see if all substantive tax matters correspondence is subject to a pre-issuance review.
 - 7. Review and evaluate the appropriateness of the firm's procedures for resolving differences of opinion among members of an engagement team.
 - 8. Check whether oral communications are documented in the file and subject to review.
 - 9. Review and evaluate, if applicable, the firm's policies and procedures for—
 - a. Evaluating the quality of a potential merger candidate's tax practice.

- b. Training and integrating the professionals of the merged practices, especially with regard to the reviewed firm's policies and procedures for tax practice quality control.
10. Review the firm's other supervision policies and procedures (including the policies and procedures for the supervision and control of work performed by other offices, correspondents, or other tax professionals) and evaluate their suitability for the firm.
11. Interview ____ [*insert number*] personnel to confirm their awareness of the firm's supervision policies and procedures (see section I, "Staff Interview Questionnaire").

E. HIRING

1. Interview the individual responsible for making hiring decisions and discuss the following questions:
- a. How does the firm plan for its tax personnel needs? Does the hiring program satisfy those needs?
 - b. How are potential tax hirees identified and informed about the firm?
 - c. What attributes, achievements, and experience do you seek in—
 - 1) Entry-level personnel?
 - A) Direct tax department hirees

B) Other staff who may transfer to tax

2) Experienced personnel?

- d. What background information is obtained? How is it confirmed?
- e. How are persons involved in the hiring process informed about the firm's personnel needs and objectives?
- f. How do you monitor the effectiveness of the recruiting program?
- g. Do you believe that you have sufficient authority within the firm for making hiring decisions?

2. Review or discuss the firm's hiring plans, including its hiring objectives, and evaluate the appropriateness of the hiring plans.

3. Evaluate the appropriateness of—

- a. The attributes sought in hirees.
- b. The achievements and experiences sought in hirees.
- c. The background information required by the firm's policy on potential hirees.

4. Select ____ [*insert number*] new hirees, including those joining the firm through mergers or at supervisory levels, and obtain each individual's personnel files.

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

- a. Determine whether the background information and other documentation required by firm policy was obtained.
 - b. Review the documentation contained in the personnel files and evaluate whether the individual possesses the desired attributes, achievements, and experience. If he or she does not, ascertain from other documentation or further inquiry why an exception was made.
 - c. Interview ____ [*insert number*] of these new hirees (see section I, "Staff Interview Questionnaire").
5. Review and evaluate the method(s) by which new personnel are notified of the policies and procedures relevant to them.
6. Interview ____ [*insert number*] staff involved in the recruiting process to confirm their awareness of the firm's hiring objectives (see section I, "Staff Interview Questionnaire").

F. PROFESSIONAL DEVELOPMENT

1. Interview the individual responsible for the professional development function and discuss the following questions:
- a. How does the firm ensure that it is complying with the AICPA's CPE membership requirement and what aspects, if any, is it having difficulty complying with?

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

- b. How frequently are the professional development records reviewed to ensure that the firm's personnel comply with—
 - 1) The firm's requirements?
 - 2) The AICPA's requirements?
 - 3) The state board of accountancy's requirements?
 - 4) The IRS requirements for EAs and the requirements of the appropriate state bar for any non-CPA members of the bar.
 - c. What factors are considered when enrolling professional personnel in training programs (for example, areas of weakness noted in the individual's performance in his or her areas of responsibility or specialty)?
2. How far in advance are professional personnel notified of the courses they are to attend?
- a. Do professional personnel have any input in deciding which courses they attend?
 - b. Do you believe that you have sufficient authority to ensure that all professional personnel receive appropriate training during the year?
3. If the firm presents in-house training programs, select ____ [*insert number*] of these programs. Examine the materials and information on the developer of the course

and on the course's instructors and determine whether—

- a. The developer is qualified.
 - b. The course is technically accurate, is current, and contributes to the professional competence of the staff.
 - c. The course instructor is qualified.
 - d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable.
4. Review the firm's records of participation by tax personnel in CPE and verify that—
- a. The records are suitably comprehensive.
 - b. The firm and its personnel have complied with the firm's CPE requirements.
 - c. The firm has complied with the AICPA's membership requirements.
5. Determine by inquiry of staff members or by review of other documentation whether professional literature relating to current tax developments is distributed on a timely basis.
6. Interview ____ [*insert number*] staff to determine their professional development activities, to evaluate the firm's CPE function, and to evaluate their on-the-job training experience (see section I, "Staff Interview Questionnaire").

G. ADVANCEMENT

1. Interview the individual(s) responsible for making advancement and termination decisions and discuss the following questions:
 - a. What are the firm's advancement and termination policies and procedures?
 - b. How do you monitor the firm's compliance with its policies and procedures?
 - c. Do you believe that you have the appropriate authority for making advancement and termination decisions?
2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm.
3. Review ___ [*insert number*] personnel files, personnel evaluations, or other documentary evidence to determine whether staff members are reviewed, evaluated, and promoted in accordance with the firm's policy.
4. Evaluate the method for determining whether partners are fulfilling their assigned responsibilities. (Consider interviewing selected partners to learn how the method is being applied.)
5. Interview ___ [*insert number*] staff to determine their awareness of the firm's advancement policies and procedures and whether they are followed (see section I, "Staff Interview Questionnaire").

H. ACCEPTANCE AND CONTINUANCE OF CLIENTS

1. Interview the person responsible for making decisions regarding the acceptance of tax clients and discuss the following questions:
 - a. What criteria for the acceptance of clients are considered by the firm and how were these applied during the year?
 - b. Where tax services are bundled with audit and accounting services, is separate consideration given to acceptance of such clients as tax clients? If not, then interview the person responsible for the acceptance of accounting and auditing clients to determine the criteria employed for acceptance.
 - c. Do you believe that you have sufficient authority for making acceptance decisions?
2. Interview the person responsible for making decisions regarding the continuance of clients and discuss the following questions:
 - a. What specific circumstances require the evaluation of an existing client to determine whether the relationship should be continued, and were evaluations performed during the year when these circumstances were encountered?
 - b. Do you believe that you have sufficient authority for making continuance decisions?

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

3. Evaluate the appropriateness of the firm's policies and procedures for the acceptance and continuance of clients, especially including documentation that the client understands and accepts (a) the scope of services, (b) the responsibility the firm takes for the tax advice and returns, and (c) the client's ultimate responsibility for all returns.
4. Review the methods of notifying the appropriate personnel of the firm's policies and procedures for the acceptance and continuance of clients. Evaluate whether the people being informed are the ones who need to have knowledge of these policies and procedures.
5. Ascertain the existence of documentation for ____ [*insert number*] clients considered for acceptance during the year and evaluate whether the firm is conforming with its requirements.
6. Review evidence (such as minutes) documenting client continuance and evaluate whether the firm is conforming with its own requirements.
7. Interview ____ [*insert number*] personnel and confirm their awareness of the circumstances in which the reevaluation of a client would be required (see section I, "Staff Interview Questionnaire").

I. INSPECTION

1. Interview the individual responsible for the tax practice inspection function and discuss the following questions:

Remarks and Findings Done By
(Including Extent of Testing) (Initials)

- a. What criteria are considered in selecting individuals to participate in inspection activities?
 - b. What criteria are considered in selecting offices and engagements for review?
 - c. Do you believe that sufficient resources, including inspection review time and senior management attention, are devoted to inspection, including follow-up on the inspection findings?
 - d. How do you monitor whether the corrective actions planned as a result of the inspection are appropriate and are actually taken?
 - e. Do you believe that you have sufficient authority to ensure that the inspection is performed in a comprehensive and timely manner?
2. Review the available documentation supporting annual inspections and evaluate whether—
- a. The inspectors have sufficient training and experience for the task(s) assigned.
 - b. The design and content of the programs, checklists, and instructions related to the inspection policies and procedures are sufficient to enable the inspectors to evaluate the firm's compliance with its quality control policies and procedures.

Remarks and Findings **Done By**
(Including Extent of Testing) **(Initials)**

- c. The inspection coverage included—
 - 1) Reviewing and testing compliance with the firm's applicable quality control policies and procedures, including those relating to all elements of the quality control system.
 - 2) Reviewing for compliance an appropriate number and type of engagements.
 - 3) Reviewing an appropriate number of offices, if applicable.
 - d. The inspection findings are appropriately documented and summarized.
 - e. Appropriate corrective action was taken, including timely and effective follow-up.
3. Evaluate whether the inspection findings correlate with the findings of this tax practice review. Explain the reasons for any significant differences.
4. Interview ____ [*insert number*] staff or review other documentation to determine whether the inspection findings have been appropriately communicated (see section I, "Staff Interview Questionnaire").

AICPA TAX DIVISION
STAFF INTERVIEW QUESTIONNAIRE

The review of a CPA firm's tax practice quality control policies and procedures frequently requires that the firm's personnel be interviewed. Interviews with personnel are generally contemplated as a corroborative technique rather than as a means for initially gathering information. During the interview reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm. This questionnaire lists suggested questions that may be altered as the interviewer deems appropriate. Use one "Staff Interview Questionnaire" for each person interviewed.

Office

Level of Interviewee

The interviewee should be advised that no record is kept of his or her name.

Responses

A. ADVOCACY AND INTEGRITY

1. How does the firm inform you of its policies on advocacy, integrity, and situations in which these may seem to be in conflict?
2. What do you understand to be the firm's policy on advocacy? on integrity in the tax practice?
3. Are you familiar with the AICPA Statements on Responsibilities in Tax Practice, Treasury Department Circular 230, and the preparer penalty and confidentiality sections of the Internal Revenue Code?
4. What kinds of situations might cause you to have a question concerning integrity? concerning what advocacy might require?

Responses

If you had such a question, what would you do?

5. Do you believe that the firm lives up to its stated policies as to advocacy and integrity? Explain.

B. ASSIGNING PERSONNEL TO ENGAGEMENTS

1. What types of assignments have you had in the past?
2. Do you believe that the assignments you have received have been appropriate and diversified?
3. How far in advance are individuals notified of their particular work assignments?

C. CONSULTATION

1. When you do not know and cannot ascertain the answer to a tax question, with whom do you consult?
2. Has the firm identified any special situations requiring consultation? Yes ____ No ____

If your answer is 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 tax specialists? Yes ____ No ____

If your answer is yes, give a few examples. How have you been apprised of them?

4. Have specialists outside of the firm been identified for you? In what way? When and how are you to consult with them?

Responses

5. What degree of authority, if any, is accorded the opinions of specialists? How are any differences of opinion with such specialists resolved?

D. SUPERVISION

1. Do you believe that the engagements on which you have participated and the assignments you have been given have been properly planned? Yes ____ No ____ If no, explain why.
2. Do you believe that the planning and supervision of tax research assignments take into account the amount of research time and the tax involved and thus the value of the research to the client? Please explain.
3. Do you understand the different levels of confidence that one can have in a tax position? If so, please explain what they are (reasonable basis, realistic possibility of success, substantial authority, and more likely than not). How are these reflected in your work and in the review of your work?
4. In planning a tax engagement, what forms should be prepared and what procedures should be performed (applicable only to staff with responsibility for planning)?
5. To what extent have you been supervised during engagements on which you have participated or during assignments you have been given, and do you believe that the degree of supervision was adequate? Do you believe that the review of your work was competent?
6. To what extent have you supervised other people during engagements or assignments on which you have participated? Were you adequately trained to carry out that responsibility? Do you believe

Responses

the personnel you supervised were competent to do the work they were assigned?

7. How are differences of professional judgment among members of an engagement team identified and resolved?

E. HIRING

1. *New hires:*

- a. How did you learn about the firm?
- b. Why did you select this firm? Have your expectations been met?
- c. How were you informed about the policies and procedures that are relevant to you?

2. *Staff involved in recruitment process:*

- a. Prior to becoming involved in the hiring process, were you informed about the firm's hiring objectives? Yes ____ No ____

If your answer is yes, how were you apprised of this information?

- b. What attributes, achievements, and experiences are sought in hirees?

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?

Responses

2. To what extent have you been provided with training during the performance of engagements (on-the-job training)?

3. Do you believe that the on-the-job training that you received was adequate? Yes ____ No ____

If your answer is no, briefly describe why.

4. In planning your professional growth with you, has the firm laid out the areas of tax competence you are expected to achieve as you progress in the firm? Is your training and education planned so that you can attain those objectives?

G. ADVANCEMENT

1. What is your current position in the firm, including title and related responsibilities?

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 were performed on a timely basis? Were they fair?

H. ACCEPTANCE AND CONTINUANCE OF CLIENTS

1. What conditions during 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?

Responses

I. INSPECTION

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 your answer is 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?

Interviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

**AICPA TAX DIVISION
CONCLUSIONS ABOUT THE TAX PRACTICE
ADMINISTRATIVE REVIEW**

	<u>YES</u>	<u>NO</u>
A. <u>ADVOCACY AND INTEGRITY</u>		
1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that—		
a. All professional personnel are required to adhere to applicable tax and other rules, regulations, interpretations, and rulings of the AICPA, IRS, etc.?	_____	_____
b. The policies and procedures relating to advocacy and integrity are communicated to all professional personnel?	_____	_____
c. The firm adequately and on a timely basis monitors compliance with its policies and procedures relating to advocacy and integrity?	_____	_____
d. The firm complied with its advocacy and integrity policies and procedures during the period and adequately documented its compliance to the extent required by the firm's policy?	_____	_____

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

YES

NO

2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes _____ No _____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

B. ASSIGNING PERSONNEL TO ENGAGEMENTS

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—

a. Identifies on a timely basis the staffing requirements of specific tax engagements?

b. Communicates its policies and procedures for assigning personnel to tax engagements to professional personnel?

c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of tax engagement manpower requirements, personnel skills, individual development, and utilization:

1) Tax engagement size and complexity?

2) Timing of the work to be performed?

3) Special expertise required?

4) Continuity and periodic rotation of personnel?

5) Opportunities for on-the-job training?

6) Availability of personnel?

d. Notifies staff of work assignments on a timely basis?

e. Complied with its policies and procedures for assigning personnel to tax engagements during the period and adequately documented its compliance to the extent required by the firm's policy?

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

YES NO

2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes _____ No _____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

C. CONSULTATION

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—

a. Appropriately identifies areas and situations in which tax consultation is required?

b. Designates, if applicable, appropriate individuals as tax specialists to serve as authoritative sources?

c. Specifies the authority to be accorded tax specialists in consultations?

d. Provides adequate procedures for resolving differences of opinion between tax engagement personnel and specialists?

e. Requires and maintains appropriate documentation of the results of tax consultations, including, if applicable, considerations involved in the resolution of differences of opinion?

f. Maintains or provides access to an adequate tax reference library or other authoritative source?

g. Adequately communicates its policies and procedures relating to tax 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 the firm's policy?

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

YES

NO

2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes ____ No ____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

D. SUPERVISION

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—

a. Has established appropriate procedures for planning tax engagements?

b. Has established appropriate procedures for maintaining the firm's standards of quality, including—

1) Guidelines for the form and content of tax working papers?

2) Standardized tax forms, checklists, questionnaires, and other guidance materials to the extent appropriate?

3) Adequate supervision at all organizational levels?

4) Procedures for resolving differences of professional judgment among the tax engagement team?

c. Has established appropriate procedures for reviewing and documenting tax engagements?

d. Adequately communicates to all professional personnel its policies and procedures relating to supervision?

e. Complied with its policies and procedures for supervision during the period and adequately documented its compliance to the extent required by the firm's policy?

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

- | | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes ____ No ____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

E. HIRING

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—

a. Adequately plans for the firm's tax 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 tax hires?

c. Appropriately investigates and evaluates the qualifications of prospective tax employees to ensure 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 tax hiring process?

e. Adequately monitors the effectiveness of its tax recruiting program?

f. Informs new tax personnel of the firm's policies and procedures on a timely basis?

g. Complied with its policies and procedures for hiring during the period and adequately documented its compliance to the extent required by the firm's policy?

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

- | | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes _____ No _____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

F. PROFESSIONAL DEVELOPMENT

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—

a. Has established appropriate continuing professional education requirements for tax personnel?

b. Adequately monitors the development of continuing professional tax education programs, maintains appropriate records, and monitors the records?

c. Provides tax personnel on a timely basis with appropriate professional literature relating to current developments?

d. Provides tax 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 to all professional personnel its policies and procedures relating to continuing professional tax education?

g. Complied with its policies and procedures relating to tax professional development during the period and adequately documented its compliance to the extent required by the firm's policy?

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

- | | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes ____ No ____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

G. ADVANCEMENT

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—

a. Has established appropriate qualifications for the various levels of tax responsibility within the firm?

b. Has identified relevant criteria for evaluating individual performance and expected proficiency in tax areas?

c. Adequately communicates to professional personnel the criteria for evaluating individual performance and expected proficiency?

d. Appropriately and periodically evaluates the performance of tax partners and other tax professional personnel?

e. Provides for the appropriate documentation of evaluations of the performance of tax personnel?

f. Appropriately evaluates the data regarding performance and, when making advancement decisions, gives proper recognition to the quality of work performed?

g. Appropriately and periodically monitors the firm's advancement experience to ascertain whether tax individuals meeting stated criteria are assigned increasing degrees of responsibility?

	<u>YES</u>	<u>NO</u>
h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by the firm's policy?	_____	_____

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

	<u>YES</u>	<u>NO</u>
2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes _____ No _____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

		<u>YES</u>	<u>NO</u>
H. <u>ACCEPTANCE AND CONTINUANCE OF CLIENTS</u>			
1.	After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that the firm—		
a.	Has established appropriate policies and procedures for obtaining and evaluating information about prospective clients?	_____	_____
b.	Has established appropriate policies and procedures for documenting the service arrangements with clients?	_____	_____
c.	Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued?	_____	_____
d.	Communicates to the appropriate personnel its policies and procedures for accepting and continuing clients?	_____	_____
e.	Adequately monitors its compliance with its policies and procedures relating to the acceptance and continuance of clients?	_____	_____
f.	Complied with its policies and procedures relating to the acceptance and continuance of clients during the period and adequately documents its compliance to the extent required by the firm's policy?	_____	_____

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

YES

NO

2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes _____ No _____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

YES

NO

I. INSPECTION

1. After reading the relevant section in the quality control document, the firm's other relevant written materials, and the information obtained from the questionnaire filled out by the reviewed firm; holding discussions with the firm's personnel; and assessing the results of the specific procedures performed, do you conclude that—

a. The firm has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in tax areas are operating effectively?

b. The firm has established appropriate qualifications for tax personnel who participate in inspection activities?

c. A comprehensive inspection was performed and documented—

1) Covering the year under review?

2) Covering the two preceding years?

d. Inspection findings are discussed with appropriate personnel?

e. Appropriate corrective actions are taken or planned with respect to the inspection findings?

f. The firm adequately monitors the corrective actions taken?

IF THE ANSWER TO ANY PART OF QUESTION 1 IS NO, PLEASE ANSWER QUESTIONS 2-4.

- | | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 2. In your opinion, do the "no" answers 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 below. Indicate if the "no" answers represent a lack of performance or inadequate documentation. (Attach additional pages if necessary.)

4. In your opinion, do the "no" answers indicate matters that should be included in the letter of comments? Yes _____ No _____ Briefly explain why, and if you answered no, indicate whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

APPENDIX A

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**SAMPLE QUALITY CONTROL DOCUMENT
FOR A SOLE-PRACTITIONER CPA FIRM
WITH LIMITED STAFF**

SAMPLE QUALITY CONTROL DOCUMENT
FOR A SOLE-PRACTITIONER CPA FIRM
WITH LIMITED STAFF

PREAMBLE

This sample document was prepared to summarize and communicate quality control policies and procedures for the tax practice of a CPA firm consisting of a sole practitioner with limited staff. It is intended that the quality control program, as outlined here, will provide the firm with reasonable assurance that it is maintaining and applying quality controls in accordance with the Statements on Responsibilities in Tax Practice recommended by the Tax Division of the AICPA.

In this sample, the sole practitioner is charged with the overall responsibility for the implementation, communication, and monitoring of quality control policies and procedures. The firm's employees may, at the discretion of the sole practitioner, assume varying degrees of responsibilities.

In an actual document, this Preamble will be replaced by a section titled "Background of the Firm," which briefly describes the history, goals, and objectives of the firm.

ADVOCACY AND INTEGRITY

1. All personnel are required to adhere to the AICPA Code of Professional Conduct; the rules, regulations, interpretations, and rulings of the (state) board of accountancy and the Internal Revenue Service; and federal and (state) law. In addition, all tax professionals shall be familiar with the AICPA Statements on Responsibilities in Tax Practice.

- a. The practitioner is responsible for resolving questions relating to matters of advocacy and integrity and is available to provide guidance when required.
- b. The practitioner communicates with the AICPA and the (state) Society of CPAs, as appropriate, for assistance in resolving questions of advocacy and integrity that are not satisfactorily resolved within the firm.
- c. The practitioner prepares and retains a memorandum documenting the resolution of questions of advocacy and integrity; the firm's other personnel review and initial the memorandum if the question relates to their advocacy and integrity.

SAMPLE QUALITY CONTROL DOCUMENT

2. Policies and procedures relating to advocacy and integrity are communicated to all personnel.

- a. Memorandums are used to inform personnel of the firm's policies and procedures on advocacy and integrity and to advise them that they are expected to be familiar with those policies and procedures.
- b. All tax personnel are expected to maintain a mental attitude that promotes advocacy and integrity.
- c. The library contains current professional, regulatory, and other literature relating to tax matters; rulings and interpretations of the IRS, AICPA, (state) Society of CPAs, and (state) Board of Accountancy; and federal and state law. These rulings and interpretations include IRS Circular 230, preparer penalties, and the AICPA Statements on Responsibilities in Tax Practice.
- d. No disclosure of client tax information to any person outside the firm is permitted without the express written approval of the practitioner and either express client consent or an enforceable court order.

3. Compliance with policies and procedures relating to advocacy and integrity is monitored. The practitioner is responsible for the resolution of exceptions to the firm's policies and procedures relating to advocacy and integrity.

ASSIGNING PERSONNEL TO ENGAGEMENTS

1. The firm's approach to assigning personnel includes the planning of the overall needs of the firm and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.

- a. On a periodic basis, the practitioner develops a projection containing anticipated manpower requirements for the next year.
- b. In scheduling assignments, the practitioner strives to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.

CONSULTATION

1. Areas and special situations in which consultation is needed are identified.

- a. All personnel are advised of the firm's consultation policies and procedures. These policies and procedures are set forth in a memorandum.
- b. Certain areas or special situations that require consultation because of their nature or complexity have been identified. These include the following: [List areas of concern to the practitioner. These may include such areas as employee benefits, corporate reorganizations, and foreign taxpayers.]

SAMPLE QUALITY CONTROL DOCUMENT

- c. A technical reference library is maintained, and arrangements have been made to use the libraries of other practicing CPAs. The resources of the AICPA library are drawn upon when needed.
 - d. The firm maintains a consultation arrangement with [list existing arrangements] to provide the firm with additional expertise. Inquiries to that firm are channeled through the practitioner.
2. Any professional personnel, if not in agreement with the practitioner's decision on a tax problem, may document their disagreement.
 3. For those occasions when the firm consults with specialists, a summary of the consultation conclusions and the reasons for those conclusions are required.
 - a. The consultation policy memorandum is used to inform personnel of the consultation procedures, the extent of the documentation required, and the responsibility for its preparation.
 - b. Consultation worksheets are filed with the engagement working papers.

SUPERVISION

1. All engagements are adequately planned.
 - a. On all recurring engagements, documents from the prior year's files are reviewed to determine if modifications are appropriate. Such documents may include (i) the engagement letter, (ii) the estimated time as compared with actual time expended, and (iii) tax engagement notes and memorandums.
 - b. For all engagements, the following are prepared when applicable: (i) the engagement letter, (ii) time estimates, and (iii) a memorandum stating the special problems, if any, that may impact the conduct of the engagement, including risk factors.
2. Procedures are provided for maintaining the firm's standards of quality for the work performed.
 - a. Working papers document the sources of data used, conclusions reached, and actions taken on behalf of clients.
 - b. When resolving questionable items, a memorandum is prepared stating the interpretation of the facts and citing the authorities relied upon.
 - c. Conversations with clients in which advice is given or an interpretation of tax impact is made should be documented.
 - d. The practitioner is responsible for ensuring that the firm's client filing system meets the needs of the tax practice (such as accessibility, confidentiality, quality control, and retention).
 - e. On all tax engagements, the practitioner shall consider which forms, checklists, and questionnaires are appropriate.

SAMPLE QUALITY CONTROL DOCUMENT

3. All engagement working papers and reports are reviewed prior to issuance of the tax return or other tax practice client-service document.

HIRING

1. The firm endeavors to obtain qualified tax personnel by planning for personnel needs and establishing hiring objectives.
2. The firm determines qualifications and guidelines for evaluating potential hirees.
3. New personnel are informed of the firm's policies and procedures relevant to them.

PROFESSIONAL DEVELOPMENT

1. Guidelines and requirements have been established for the firm's professional development program and are communicated to all personnel.
 - a. The practitioner is a member of the AICPA and the (state) Society of CPAs. All eligible staff are encouraged to be members of the AICPA and the (state) Society of CPAs, and all staff are encouraged to participate in appropriate professional activities.
 - b. The practitioner is responsible for the formulation and implementation of guidelines and requirements for professional development.
 - c. The practitioner and the full-time employees who are CPAs are required to complete an average of forty hours of formal continuing professional education each year, and all other professional employees are encouraged to do so. The practitioner maintains the appropriate records of continuing education.
2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel.
3. The firm recognizes that on-the-job training accounts for a significant part of professional development.
 - a. The practitioner provides for on-the-job training by discussing with the staff the relationship of the work they are performing to the engagement as a whole.
 - b. The practitioner reviews with staff the technical issues and decisions made in relation to the work in which they participate.

SAMPLE QUALITY CONTROL DOCUMENT

ADVANCEMENT

1. The performance of personnel is continuously evaluated, and personnel are periodically advised (at least annually) of their progress. Personnel files containing documentation of the evaluation process are maintained.
2. The practitioner documents all advancement and termination decisions.

ACCEPTANCE AND CONTINUANCE OF CLIENTS

1. The firm has established procedures for evaluation of prospective clients and for their acceptance as clients.
 - a. Prior-year income tax returns are obtained and reviewed.
 - b. Circumstances are identified that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.
 - c. The firm's ability to adequately serve a potential client is evaluated prior to its acceptance. In evaluating the firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and personnel.
 - d. A review is made to ensure that the client's expectations from the firm's services are not incompatible with the requirements of the profession and of the firm.
2. The practitioner will ensure that the client understands and accepts the scope of the firm's services, the firm's responsibility for tax advice and returns, and the financial aspects of the client's relationship with the firm.
3. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued.
 - a. Reevaluations are made of existing clients annually or whenever there are new conditions that would have caused the firm to reject the client had such conditions existed at the time of acceptance.
 - b. The following are some reasons that may justify terminating a professional tax relationship:
 - (i) The client is chronically slow to pay.
 - (ii) It becomes clear that the client fails to provide adequately substantiated information.
 - (iii) The client wants to take a position inconsistent with the firm's policies.
 - (iv) The engagement involves tax matters the firm is not competent to handle.

SAMPLE QUALITY CONTROL DOCUMENT

- (v) The timing of the engagement makes unreasonable demands on the firm's personnel.
- (vi) Insurmountable personality conflicts exist.
- (vii) The return on the engagement is too low for the effort expended and risk taken.

INSPECTION

1. The firm has an annual [in lieu of *annual*, the firm may substitute *periodic*] inspection program regarding its quality control policies and procedures. Using AICPA Tax Division Voluntary Tax Practice Review Program Practice Guides, the practitioner evaluates the firm's quality control policies and procedures for conformity with professional guidelines. This procedure includes a review of administrative, personnel, and engagement files that is sufficient for a reasonable assurance that quality control policies and procedures are being complied with.
2. The practitioner evaluates the inspection findings and recommendations together with suggested corrective actions. Appropriate corrective actions, if any, are taken. A memorandum documenting that the inspection has been performed is retained.

APPENDIX B

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**SAMPLE QUALITY CONTROL DOCUMENT
FOR A LOCAL CPA FIRM WITHOUT
A STRUCTURED TAX DEPARTMENT**

SAMPLE QUALITY CONTROL DOCUMENT
FOR A LOCAL CPA FIRM WITHOUT
A STRUCTURED TAX DEPARTMENT

PREAMBLE

This sample document was prepared to summarize and communicate quality control policies and procedures for the tax practice of a local CPA firm without a structured tax department. References made to any partner titles will vary depending on the administration of the individual firm. This sample document assumes that the firm has a managing partner and a tax partner. It is intended that the quality control program, as outlined here, will provide the firm with reasonable assurance that it is maintaining and applying quality controls in accordance with the Statements on Responsibilities in Tax Practice recommended by the Tax Division of the AICPA.

In this sample, the tax partner is charged with the overall responsibility for the implementation, communication, and monitoring of quality control policies and procedures. Other technical coordinators and the managing partner assume varying degrees of responsibilities.

In an actual document, this Preamble will be replaced by an introductory section titled "Background of the Firm" that briefly describes the firm's history, goals, and objectives. This introduction may be adapted from the firm's quality control document pertaining to its accounting and auditing services.

ADVOCACY AND INTEGRITY

The firm has established policies and procedures to provide reasonable assurance that people pursue with professional integrity the firm's role as a client advocate in its tax practice. As advocates, members of the firm seek to advance the client's position as long as that position and firm members' efforts are within standards set by the law and by appropriate regulatory and professional bodies.

1. People are required to adhere to the AICPA Code of Professional Conduct and to the rules, regulations, interpretations, and rulings of the Internal Revenue Service and any other regulatory agencies, to the extent applicable, or must be able to document and justify appropriate departures (for example, a filing position contrary to an IRS revenue ruling).

SAMPLE QUALITY CONTROL DOCUMENT

In addition, all tax professionals are familiar with the AICPA Statements on Responsibilities in Tax Practice.

- a. The managing partner is responsible for resolving questions relating to the foregoing matters and is available to provide guidance when required.
- b. The managing partner communicates with legal counsel, the AICPA, the (state) Society of CPAs, or other authorities for assistance in resolving any of the foregoing matters that are not satisfactorily resolved within the firm.
- c. Memorandums documenting the resolution of these questions are prepared and retained by the managing partner. The other firm personnel involved in the questions review and sign the memorandums.

2. Policies and procedures relating to advocacy and integrity are communicated to people within the firm. This includes the need to treat as confidential any and all information regarding client tax matters and to maintain an independent mental attitude in client relationships.

- a. A written statement is used to inform personnel of the firm's policies and procedures and advise them that they are expected to be familiar with these policies and procedures.
- b. Independence of mental attitude, coupled with advocacy of the client's interest, is emphasized during training sessions and in the supervision and review of tax engagements.
- c. The library contains current professional, regulatory, and the firm's own literature relating to tax matters, rulings and interpretations of the IRS, AICPA, the (state) Society of CPAs, the (state) Board of Accountancy, and federal and state law. These rulings and interpretations include IRS Circular 230, preparer penalties, and AICPA Statements on Responsibilities in Tax Practice.
- d. The firm considers all information relating to a client's tax matters to be confidential client information. The profession's Code of Professional Conduct generally prohibits disclosure of confidential client information without the client's consent. In addition, civil and criminal penalties are imposed by the Internal Revenue Code for disclosure of taxpayer information by return preparers.
 - (i) No disclosure of client tax information to any person outside the firm is permitted without the written approval of the managing partner and either express client consent or an enforceable court order.
 - (ii) No disclosure of client tax information to any person within the firm is permitted except in the following circumstances:
 - (A) Any communication to the tax partner or the managing partner
 - (B) A communication to appropriate professional staff of information relevant to the audit, review, or compilation of financial statements for such client

SAMPLE QUALITY CONTROL DOCUMENT

- (C) A communication in the normal course of preparation of such client's tax return
- (D) The research of issues arising from the preparation of such client's tax return or tax planning rendered to such client
- (E) Any other situation expressly permitted by the managing partner pursuant to written policy or confidential memorandum

3. Compliance with policies and procedures relating to advocacy and integrity is monitored.

- a. The tax partner is charged with the responsibility for monitoring the firm's policies and procedures in its tax practice.
- b. The managing partner is responsible for the resolution of exceptions to the firm's policies and procedures relating to tax practice.

ASSIGNING PERSONNEL TO ENGAGEMENTS

The firm has established policies and procedures for assigning people to engagements to provide 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 the supervision to be provided is taken into account. In general, the more able and experienced the personnel assigned to a particular project or engagement, the less the need for direct supervision.

1. The firm's approach to assigning people includes planning the overall needs of the firm, its office and tax work needs, and the measures needed to achieve a balance between engagement requirements, individual qualifications, individual development, and utilization.

- a. Each year the tax partner projects the total hours and number of people needed to process tax returns within the prescribed time. Staff needs will then be reviewed by the firm's partners.
- b. On all audits, and on other financial statement engagements, a partner reviews the tax accrual working papers. The purpose of this review is to determine that all material tax matters have been addressed.
- c. A log is maintained for all tax services, including recurring and nonrecurring matters.
- d. The tax partner reviews significant client matters prior to fiscal year-end with a view toward identifying potential problem areas and tax planning suggestions for discussion with a client.
- e. The tax partner considers the following factors in achieving a balance of engagement manpower requirements, personnel skills, individual development, and utilization: (i) engagement size and complexity, (ii) availability of personnel, (iii) special expertise required, (iv) timing of work to be performed, (v) continuity of personnel, and (vi) opportunities for on-the-job training.

SAMPLE QUALITY CONTROL DOCUMENT

2. The tax partner is responsible for assigning personnel to engagements after considering the following criteria:

- a. Staff and time requirements of the engagement
- b. Evaluation of the qualifications of personnel as to experience, position, and possession of any special expertise
- c. Planned supervision and involvement by managers and partners
- d. Projected availability of individuals assigned
- e. Need for continuity to provide for efficient conduct of the engagement

CONSULTATION

The firm has established policies and procedures for consultation to provide reasonable assurance that people will seek assistance, to the extent required, from persons within and without the firm having appropriate levels of knowledge, competence, judgment, and authority. The nature of arrangements for consultation will depend on a number of factors, including the size of the firm, the availability of library and other resources, and the levels of knowledge, competence and judgment possessed by the people performing the work.

1. Areas and specialized situations in which consultation is required are identified, and people are encouraged to consult authorities in other situations that may be complex or unusual to them.

- a. All personnel are advised of the firm's consultation policies and procedures through the quality control document.
- b. The tax partner has listed areas or specialized situations that require consultation, because of the nature or complexity of the subject matter. This list is periodically updated by the tax partner and distributed to all tax personnel. Areas and situations receiving special consideration in preparing the list include (i) application of newly issued IRS requirements, (ii) situations with unique reporting requirements, and (iii) choices among different tax treatments.
- c. A technical reference library is maintained to assist personnel in resolving tax problems. The tax partner is charged with the responsibility of reviewing the library's contents and making necessary changes.
- d. All personnel are encouraged to seek advice from the tax partner when confronted with a situation that is not in their area of expertise.
- e. When expertise on a tax question or problem is not available within the firm, the tax partner will authorize consultation with outside sources, including other firms or educators with expertise on the subject.

SAMPLE QUALITY CONTROL DOCUMENT

- f. The results of outside consultation are reviewed by the tax partner before a decision is reached on the matter in question.
2. Specific individuals are designated within and without the firm as consultants to serve as authoritative sources, and their authority in consultative situations is defined. Procedures are provided for resolving differences of opinion between the people working on an engagement and the consultants.
- a. The tax partner maintains a listing, by subject and industry, of those within and without the firm who are particularly knowledgeable in the tax matters related to those subjects and industries.
 - b. The following procedures are used to resolve differences of opinion on tax problems:
 - (i) Differences of opinion between professional staff members are brought to the attention of the tax partner.
 - (ii) If the tax partner and staff are able to reach an appropriate resolution, the matter is concluded.
 - (iii) If the tax partner is unable to develop an appropriate resolution, the managing partner is consulted. The opinion of the managing partner shall prevail.
 - (iv) Any professional personnel, if not in agreement with the decision, may document their disagreement.
3. For those situations in which the firm's policy requires the use of a consultant, a summary of the consultant's conclusions and rationale is to be prepared by the person seeking the consultation. The summary shall be filed in the working papers.

SUPERVISION

The firm has established policies and procedures for the conduct and supervision of work at all organizational levels to provide reasonable assurance that the work performed meets the firm's standards. The extent of supervision and review appropriate in a given situation depends on many factors, including the complexity of the subject matter, the risk of penalties being proposed, the qualifications of the persons performing the work, and the extent of the consultation available and used.

1. All engagements are adequately planned by persons knowledgeable about the client and the type of engagement, including specific evaluation of risk factors.
 - a. Substantial tax engagements are budgeted and planned prior to commencement. The plan contains specific follow-up points for supervisory personnel.

SAMPLE QUALITY CONTROL DOCUMENT

- b. For engagements in which the firm represents a client in a tax examination by the IRS or other tax authority, the tax partner will develop an approach to the examination, including assignment of appropriate personnel to work with the examining agent.
 - c. An engagement letter or memorandum of understanding is used for all tax returns and substantial tax services to document the nature of the engagement.
2. Procedures are provided for maintaining the firm's standards of quality for the work performed.
- a. Tax engagements, or those segments of other engagements that include tax matters, are supervised directly by the tax partner or a person designated by the tax partner.
 - b. Working papers document the sources of data used, conclusions reached, and actions taken on behalf of clients.
 - c. To resolve questionable items, a memorandum is prepared stating the interpretation of the facts and citing the authorities relied upon.
 - d. The tax partner is responsible for ensuring that the firm's client filing system meets such needs of the tax practice as accessibility, confidentiality, quality control, and retention.
 - e. A control system is established for the miscellaneous reports and returns prepared or reviewed by the firm.
 - f. The tax partner is responsible for ensuring that file-retention policies comply with the Internal Revenue Code and other regulatory requirements.
 - g. The tax partner reviews any returns, tax working papers, or correspondence files that are scheduled for destruction.
 - h. Conversations with clients in which advice is given or an interpretation of tax impact is made should be documented.
 - i. Differences of opinion regarding tax matters should be resolved as discussed under the section of this document entitled "Consultation."
3. Procedures are provided for monitoring and reviewing engagement working papers, reports, tax returns, tax opinions, substantive tax correspondence, and oral advice.
- a. Before delivery to the client, all returns are reviewed by a person other than the preparer and the review is documented in the workpapers.
 - b. Tax research projects are reviewed by the tax partner whether or not the research results in a formal communication to the client. In addition, the managing partner or other responsible person familiar with the client reviews the project documentation to ensure that the facts are properly understood.

SAMPLE QUALITY CONTROL DOCUMENT

- c. For engagements in which the firm represents a client in a tax examination, the tax partner or the tax partner's designee reviews the examining agent's proposed adjustments and all related working papers before conclusion of the engagement.

HIRING

The firm has established policies and procedures for hiring to provide reasonable assurance that those employed possess the appropriate characteristics to perform competently. The quality of the firm's work depends on the integrity, competence, and motivation of the people who perform and supervise the work.

1. The firm maintains a program designed to obtain qualified people by planning for future requirements, establishing hiring objectives, and setting qualifications for those involved in the hiring function.
2. The firm has established qualifications and guidelines for evaluating potential hires at each level.
 - a. The firm seeks to employ individuals who possess high levels of intelligence, integrity, honesty, and motivation and high aptitude for the profession.
 - b. The firm generally requires that a professional staff applicant's academic preparation be sufficient for taking the CPA examination.
 - c. In certain situations (such as hiring relatives of personnel or clients, rehiring former employees, or hiring clients' employees), the approval of the managing partner is required before making an employment offer.
 - d. To have reasonable assurance that persons with acceptable qualifications are hired by the firm, the background of all new employees is appropriately investigated by obtaining completed application forms, college transcripts, and personal references.
3. Applicants and new hires are informed of the firm's policies and procedures relevant to them and their work.
 - a. The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
 - b. Personnel policies and procedures are in writing and distributed to all personnel.
 - c. The managing partner discusses the firm's personnel policies and procedures with new employees.

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PROFESSIONAL DEVELOPMENT

The firm has established policies and procedures for professional development to provide reasonable assurance that people doing tax work will continue to have the knowledge required to enable them to fulfill their assigned responsibilities. Continuing professional education and training activities enable the firm to provide its people with the knowledge and skills to fulfill responsibilities assigned to them and to progress within the firm.

1. Guidelines and requirements have been established for the firm's tax education program and are communicated to all people involved in tax work.

- a. The managing partner is responsible for the formulation and implementation of the firm's policy regarding the guidelines and requirements for the firm's professional development programs. The firm's professional development year is from May 1 to April 30. Prior to the start of each year the tax and managing partners are to prepare the professional development program for the coming year with input from the tax partner, including (i) professional development objectives, (ii) specific courses to be taken, identified by individual, (iii) tentative dates for professional development by individual, and (iv) cost.
- b. A basic program of tax training will be provided to staff accountants and will consist of on-the-job training, formal group programs, and self-study programs, as appropriate.
- c. To maximize the training benefits of job assignments, the managing partner develops a plan for each accountant.
- d. Each partner and professional staff member is required to complete a minimum of twenty hours of continuing professional education each year and a minimum of 120 hours in any three-year period. The managing partner is responsible for having the personnel files of each partner and professional employee updated to include a current record of the hours of professional development completed. Types of programs qualifying for the fulfillment of the requirements include —
 - (i) Continuing professional education programs of the AICPA and state societies. These include both sessions attended and cassette/workbook or workbook programs, as long as there is written evidence of completion.
 - (ii) College courses related to the profession.
 - (iii) In-house education programs.

An evaluation of each program is completed and forwarded to the managing partner.

- e. Personnel may be reimbursed for membership dues paid to the AICPA, the AICPA Tax Division, one state society, and the local chapter of the state society.
- f. Personnel are encouraged to serve on state society or AICPA committees, write articles for professional publications, serve as discussion leaders at professional development seminars, give speeches, etc.

SAMPLE QUALITY CONTROL DOCUMENT

- g. Resolution of conflicts between professional development course attendance and engagement scheduling requires managing partner approval.

2. Information about current tax developments, changes in professional standards affecting tax practice, and materials containing the firm's policies and procedures affecting its tax practice is made available to all professionals involved with tax work.

- a. Pronouncements (such as those issued by the Internal Revenue Service and other taxing authorities) relating to areas of specific interest are distributed to persons who have responsibilities in such areas.
- b. The firm conducts formal in-house educational programs. The purpose of the programs is to discuss current literature and elaborate on the distributed materials.

3. The firm encourages people to grow and mature as individuals and as professionals through seminars, workshops, college and university course work, and self-study programs. It also provides, to the extent necessary, programs not otherwise readily available, to fill the firm's needs for people with expertise in specialized areas and industries.

- a. The firm designates certain individuals to join the appropriate associations and pays for those memberships that are concerned with specialized areas or industries in which the firm is engaged or intends to become engaged.
- b. The tax partner is responsible for maintaining technical literature on specialized areas and industries.

4. The firm provides for on-the-job training during the performance of tax work.

- a. Personnel with in-charge responsibility on engagements explain to assistants the reasons for any additional work requirements discovered through the review process.
- b. Personnel are evaluated in part on their effectiveness in properly training and developing subordinates.
- c. The tax partner monitors tax assignments to determine that personnel are (i) gaining experience in various engagements and varied industries and (ii) working under different supervisory personnel.

ADVANCEMENT

The firm has established policies and procedures to provide reasonable assurance that those selected for promotion have the necessary qualifications for fulfillment of the responsibilities they will be called on to assume.

1. The firm has established qualifications for the various levels of responsibility for people involved with tax work in the firm.

SAMPLE QUALITY CONTROL DOCUMENT

a. The firm has established the following staff classifications:

(i) *Staff.* The staff accountant is expected to —

- Prepare individual, corporate, partnership, and various other tax returns for clients, under close supervision of a partner or supervisor.
- On smaller tax engagements, perhaps perform all aspects of the engagement, including maintaining minimum client contact.
- Prepare various payroll tax, sales tax, and other local tax returns.
- Become familiar with the contents of the firm's manuals.
- Know the rules, regulations, and Code of Professional Conduct of the AICPA, the (state) Society of CPAs, and the (state) Board of Accountancy.
- Progress professionally by working toward passing the CPA examination as soon as possible.

(ii) *Supervisor.* The supervisor is expected to —

- Pass the CPA exam, if not already completed.
- Demonstrate the ability to resolve most tax problems through sources available within and without the firm's library.
- Supervise a number of engagements at one time.
- Be able to develop, complete, and review most tax planning situations.
- Adequately review all working papers and completed returns to ascertain that both meet the firm's standards.
- Be involved in coordinating the filing of due date extensions.

(iii) *Manager.* The manager is a CPA and is expected to —

- Assume full responsibility for assignments falling within his or her level of expertise.
- Supervise the assignment of duties to, and the training of, personnel assigned to the engagement.
- Supervise a number of engagements at one time.
- Be involved in the scheduling of personnel, compliance with due dates, and monitoring the time budgets of engagements.
- Adequately review all working papers and the completed returns for compliance with the firm's standards.
- Resolve all problems before submitting the returns for final partner review.
- Communicate the firm's policies and technical information to all personnel through individual or group meetings.
- Motivate and assist staff in professional development.
- Represent the firm in professional and service development by conducting seminars, making speeches, writing articles, and similar means.
- Assist partners with practice development and practice management.

SAMPLE QUALITY CONTROL DOCUMENT

- b. The firm's personnel manual provides information about the firm's advancement policies and procedures. The managing partner issues updates as needed to incorporate changes made by the firm in the policies and procedures.
2. The performance of people is evaluated and their progress periodically reviewed with them. Personnel files are maintained containing documentation relating to the evaluation process.
 - a. All professional employees receive an evaluation of their performance at least annually. The individual's progress, strengths, weaknesses, and future objectives and the firm's future objectives are among the items discussed. Documentation of the interview, evaluation forms, and staff assessment are included in personnel files.
 - b. Personnel with the responsibility for the preparation of evaluations are evaluated at least annually by the managing partner.
3. The managing partner is responsible for making promotion decisions.

ACCEPTANCE AND CONTINUANCE OF CLIENTS

To minimize its exposure to risk and maximize its long-run profitability, the firm has established policies and procedures for deciding whether to accept or continue a tax client. The firm's image in its practice area is heavily affected by the public perception of who its clients are. Thus, prudence suggests that the firm be selective in determining its professional relationships.

1. The firm has established procedures for evaluating and approving prospective clients.
 - a. The tax partner should be consulted before the firm accepts a new client if there is any doubt that the firm possesses the tax expertise to complete the job adequately.
 - b. Prior year's tax returns are obtained and reviewed.
 - c. A review is made to ensure that the acceptance of the client would not violate the requirements of the profession and of the firm.
 - d. The managing partner performs an annual review of compliance with the firm's policies and procedures for the acceptance of clients.
2. A partner will ensure that the client understands and accepts the scope of the firm's services, the firm's responsibility for tax advice and returns, and the financial aspects of the client's relationship with the firm.
 - a. Engagement letters are used to document service arrangements for tax clients.

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- b. All clients are informed that they are required to provide adequately substantiated information.
3. Tax clients are reviewed and evaluated at the end of specific periods or upon the occurrence of specified events to determine whether the relationship should be continued, modified, or terminated.
- a. Reevaluations are made of existing clients on a regular basis or whenever there are new conditions that would have caused the firm to reject the client had such conditions existed at the time of acceptance.
 - b. The following are some reasons for terminating a professional tax relationship:
 - (i) The client is chronically slow to pay.
 - (ii) The client clearly fails to provide adequately substantiated information.
 - (iii) The client wants to take a position inconsistent with the firm's policies.
 - (iv) The engagement involves tax matters the firm is not competent to handle.
 - (v) The timing of the engagement makes unreasonable demands on the firm's personnel.
 - (vi) Insurmountable personality conflicts exist.
 - (vii) The return on the engagement is too low for the effort expended and the risk taken.
 - c. The tax partner should be consulted when significant tax engagements are being considered for termination.

INSPECTION

The firm has established policies and procedures for inspection to provide reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures for inspection have been developed and may be performed by individuals from within or without the firm 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.

- 1. The firm conducts an inspection program regarding its quality control policies and procedures.
 - a. Each year the managing partner will perform an inspection to evaluate the firm's quality control policies and procedures for conformity with professional guidelines.

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- b. The managing partner obtains reasonable assurance that quality control policies and procedures are being followed by reviewing (i) selected administrative and personnel files, (ii) selected engagement working paper files, tax returns, and reports, and (iii) other evidential matter.
2. Provision is made for reporting inspection findings to the partners for monitoring actions taken or planned.
- a. The results of engagement reviews are discussed with the engagement partner and personnel responsible for the engagement.
 - b. The partner involved in the inspection must correct specific deficiencies noted in the inspection and should address general comments for improvement in writing.
 - c. The managing partner has the responsibility for determining that planned corrective actions were taken and for reporting the extent of compliance to all partners.

APPENDIX C

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**SAMPLE QUALITY CONTROL DOCUMENT
FOR A LOCAL CPA FIRM WITH
A STRUCTURED TAX DEPARTMENT**

SAMPLE QUALITY CONTROL DOCUMENT
FOR A LOCAL CPA FIRM WITH
A STRUCTURED TAX DEPARTMENT

PREAMBLE

This sample document was prepared to summarize and communicate quality control policies and procedures for the tax practice of a local CPA firm with a structured tax department. References are made to at least four partner titles: administrative partner, tax partner, partner in charge (PIC) or managing partner, and engagement partner (who can also double as any of the other three "titled" partners). It is intended that the quality control program as outlined here will provide the firm with reasonable assurance that it is maintaining and applying quality controls in accordance with the Statements on Responsibilities in Tax Practice recommended by the Tax Division of the AICPA.

In this sample, the tax partner is charged with the overall responsibility for the implementation, communication, and monitoring of quality control policies and procedures. Other technical coordinators and the managing partner assume varying degrees of responsibilities.

In an actual document, this Preamble will be replaced by an introductory section titled "Background of the Firm" that briefly describes the firm's history, goals, and objectives. This introduction may be adapted from the firm's quality control document pertaining to its accounting and auditing services.

ADVOCACY AND INTEGRITY

The firm has established policies and procedures to provide reasonable assurance that people at all organizational levels pursue with professional integrity the firm's role as a client advocate in its tax practice. As advocates, members of the firm seek to advance the client's position as long as that position and the firm's efforts are within standards set by the law and by appropriate regulatory and professional bodies.

1. People at all organizational levels are required to adhere to the AICPA Code of Professional Conduct and the rules, regulations, interpretations, and rulings of the Internal Revenue Service and any other regulatory agencies, to the extent applicable, or must be able to document and justify appropriate departures (for example, a filing position contrary to

SAMPLE QUALITY CONTROL DOCUMENT

an IRS revenue ruling). In addition, all tax professionals shall be familiar with the AICPA Statements on Responsibilities in Tax Practice.

- a. The administrative partner is responsible for resolving questions relating to the foregoing matters and is available to provide guidance when required.
- b. The administrative partner communicates with legal counsel, the AICPA, the (state) Society of CPAs, or other authorities for assistance in resolving any of the matters that have not been satisfactorily resolved within the firm.
- c. Memorandums documenting the resolution of these questions are prepared and retained by the administrative partner. The other personnel involved in the questions review and sign the memorandums.

2. Policies and procedures relating to advocacy and integrity are communicated to people at all organizational levels within the firm. This includes the need to treat as confidential any and all information regarding client tax matters and to maintain an independent mental attitude in client relationships.

- a. A written statement is used to inform personnel of the firm's policies and procedures and advise them that they are expected to be familiar with these policies and procedures.
- b. Independence of mental attitude, coupled with advocacy of the client's interest, is emphasized during training sessions and in the supervision and review of tax engagements.
- c. The library contains current professional, regulatory, and the firm's own literature relating to tax matters, rulings and interpretations of the IRS, AICPA, the (state) Society of CPAs, (state) Board of Accountancy, and federal and state law. These rulings and interpretations include IRS Circular 230, preparer penalties, and AICPA Statements on Responsibilities in Tax Practice.
- d. The firm considers all information relating to a client's tax matters to be confidential client information. The profession's Code of Professional Conduct generally prohibits disclosure of confidential client information without the client's consent. In addition, civil and criminal penalties are imposed by the Internal Revenue Code for disclosure of taxpayer information by return preparers.
 - (i) No disclosure of client tax information to any person outside the firm is permitted without written approval of the managing partner and either express client consent or an enforceable court order.
 - (ii) No disclosure of client tax information to any person within the firm is permitted except in the following circumstances:
 - (A) Any communication to the engagement partner, a tax partner, or the managing partner
 - (B) A communication to appropriate professional staff of information relevant to the audit, review, or compilation of financial statements for such client

SAMPLE QUALITY CONTROL DOCUMENT

- (C) A communication in the normal course of preparation of such client's tax return
- (D) The research of issues arising from the preparation of such client's tax return or tax planning rendered to such client
- (E) Any other situation expressly permitted by the managing partner pursuant to written policy or confidential memorandum

3. Compliance with policies and procedures relating to advocacy and integrity is monitored.

- a. The administrative partner is charged with the responsibility for monitoring the firm's policies and procedures in its tax practice.
- b. The administrative partner is responsible for the resolution of exceptions to the firm's policies and procedures relating to tax practice.

ASSIGNING PERSONNEL TO ENGAGEMENTS

The firm has established policies and procedures for assigning people to engagements to provide 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 the supervision to be provided is taken into account. In general, the more able and experienced the personnel assigned to a particular project or engagement, the less the need for direct supervision.

1. The firm's approach to assigning people includes planning the overall needs of the firm, its office and tax work needs, and the measures needed to achieve a balance between engagement requirements, individual qualifications, individual development, and utilization.

- a. Each year the tax partner projects the total hours and number of people needed to process tax returns within the prescribed time. Staff needs will then be reviewed by the firm's scheduling partner.
- b. On all audits, and on other financial statement engagements as deemed appropriate by the engagement partner, a tax accountant is assigned to, at a minimum, review the tax accrual working papers. The purpose of this review is to determine that all material tax matters have been addressed.
- c. Except for tax return preparation scheduled through normal tax due-date controls, a tax department service request form is completed for services expected to require more than one half hour.
- d. For complex nonrecurring tax assignments, the tax accountant should consider preparing a written outline or memorandum that describes the engagement plan and sets a timetable for accomplishing it.

SAMPLE QUALITY CONTROL DOCUMENT

- e. The scheduler assigns a tax accountant to review significant client matters prior to fiscal year-end so that potential problem areas and tax planning suggestions for discussion with a client may be identified.
 - f. In requesting staffing and approval of final staff selections, the tax scheduler considers the following factors in achieving a balance of engagement manpower requirements, personnel skills, individual development, and utilization: (i) engagement size and complexity, (ii) availability of personnel, (iii) special expertise required, (iv) timing of work to be performed, (v) continuity of personnel, and (vi) opportunities for on-the-job training.
2. The scheduler is responsible for assigning personnel to engagements after considering the following criteria:
- a. Staff and time requirements of the engagement
 - b. Evaluation of the qualifications of personnel as to experience, position, and possession of any special expertise
 - c. Planned supervision and involvement by managers and partners
 - d. Projected availability of individuals assigned
 - e. Need for continuity to provide for efficient conduct of the engagement
3. The tax partner or other person with responsibility for the engagement approves the scheduling and staffing of individual engagements.
- a. If the tax partner or engagement partner disapproves of the staff assigned to the engagement, he or she consults with the scheduler on necessary changes.
 - b. The tax partner considers the experience and training of the assigned personnel in terms of the complexity of the engagement, other requirements, and the extent of supervision to be provided.
 - c. Unresolved assignment conflicts between the tax partner or engagement partner and the scheduler are resolved by the managing partner.

CONSULTATION

The firm has established policies and procedures for consultation to provide reasonable assurance that people will seek assistance, to the extent required, from persons within and without the firm having appropriate levels of knowledge, competence, judgment, and authority. The nature of arrangements for consultation will depend on a number of factors, including the size of the firm, the availability of the library and other resources, and the levels of knowledge, competence, and judgment possessed by the people performing the work.

SAMPLE QUALITY CONTROL DOCUMENT

1. Areas and specialized situations in which consultation is required are identified, and people are encouraged to consult authorities in other situations that may be complex or unusual to them.

- a. All personnel are advised of the firm's consultation policies and procedures through the quality control document.
- b. The tax partner has listed areas or specialized situations that require consultation, because of the nature or complexity of the subject matter. This list is periodically updated by the tax partner and distributed to all tax personnel. Areas and situations receiving special consideration in preparing the list include (i) application of newly-issued IRS requirements, (ii) situations with unique reporting requirements, and (iii) choices among different tax treatments.
- c. A technical reference library is maintained to assist personnel in resolving tax problems. The tax partner is charged with the responsibility of reviewing the library's contents and making necessary changes.
- d. All personnel are encouraged, when faced with a problem in a designated consultant's area of expertise, to seek advice from the designated consultant.
- e. When expertise on a tax question or problem is not available within the firm, the tax partner will authorize consultation with outside sources, including other firms or educators with expertise on the subject.
- f. The results of outside consultation are reviewed by the engagement partner and the tax partner before a decision is reached on the matter in question.

2. Specific individuals are designated within and without the firm as consultants to serve as authoritative sources, and their authority in consultative situations is defined. Procedures are provided for resolving differences of opinion between the people working on an engagement and the consultants.

- a. The tax partner maintains a listing, by subject and industry, of those within and without the firm who are particularly knowledgeable in the tax matters related to those subjects and industries.
 - (i) The executive committee will designate an individual as a tax consultant, when it is satisfied that the individual has met the training and experience requirements.
 - (ii) Documentation of the requisite training and experience to qualify a tax professional as an in-house tax consultant should be in the form of a memorandum in the professional's personnel file.
 - (iii) The designated tax consultants are the individuals who consult with accounting and audit personnel when consultation is required by the firm's quality control procedures. Outside resources shall be listed only after satisfactory financial and service arrangements have been made.
- b. The following procedures are used to resolve differences of opinion on tax problems:

SAMPLE QUALITY CONTROL DOCUMENT

- (i) Differences of opinion between professional staff members are brought to the attention of the engagement partner.
- (ii) If the engagement partner and staff are able to reach an appropriate resolution, the matter is concluded.
- (iii) If the engagement partner is unable to develop an appropriate resolution, the tax partner is consulted. The opinion of the tax partner shall prevail.
- (iv) Any professional personnel, if not in agreement with the decision, may document their disagreement and can disassociate themselves from the resolution of the matter.

3. In situations in which the firm's policy requires the use of consultants, a summary of the conclusions and rationale is to be prepared by the person seeking the consultation and is filed in the working papers.

SUPERVISION

The firm has established policies and procedures for the conduct and supervision of work at all organizational levels to provide reasonable assurance that the work performed meets the firm's standards. The extent of supervision and review appropriate in a given situation depends on many factors, including the complexity of the subject matter, the risk of penalties being proposed, the qualifications of the persons performing the work, and the extent of consultation available and used.

1. All engagements are adequately planned by persons knowledgeable about the client and the type of engagement, including specific evaluation of risk factors.
 - a. Substantial tax engagements are budgeted and planned prior to commencement. The plan contains specific follow-up points for supervisory personnel.
 - b. For engagements in which the firm represents a client in a tax examination by the IRS or other tax authority, the engagement partner and tax accountant will jointly develop an approach to the examination, including assignment of appropriate personnel to work with the examining agent.
 - c. Tax accountants involved in reviewing working papers related to a financial statement engagement are included in the engagement planning conferences related to that engagement.
 - d. An engagement letter or memorandum of understanding is used for all tax returns and substantial tax services to document the nature of the engagement.
2. Procedures are provided for maintaining the firm's standards of quality for the work performed.
 - a. Tax engagements, or those segments of other engagements that include tax matters, are supervised directly by the tax partner or a person designated by the tax partner.

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- b. Working papers document the sources of data used, conclusions reached, and actions taken on behalf of clients.
- c. To resolve questionable items, a memorandum is prepared stating the interpretation of the facts and citing the authorities relied upon.
- d. The tax partner is responsible for ensuring that the firm's client filing system meets such needs of the tax practice as accessibility, confidentiality, quality control, and retention.
- e. A control system is established for the miscellaneous reports and returns prepared or reviewed by the firm.
- f. The tax partner is responsible for ensuring that file retention policies comply with the Internal Revenue Code and other regulatory requirements.
- g. The tax partner or a designated tax accountant reviews any returns, tax working papers, or correspondence files that are scheduled for destruction.
- h. Conversations with clients in which advice is given or an interpretation of tax impact is made should be documented.
- i. The tax department will maintain "due date control logs" for the various types of returns filed.
- j. All tax staff are required to become familiar with the firm's Tax Manual and procedures.
- k. Differences of opinion regarding tax matters should be resolved as discussed under the section of this document entitled "Consultation."

3. Procedures are provided for monitoring and reviewing engagement working papers, reports, tax returns, tax opinions, substantive tax correspondence, and oral advice.

- a. Before delivery to the client, all returns are reviewed by a qualified tax reviewer other than the preparer and the review is documented in the workpapers.
- b. Tax research projects are reviewed by a qualified tax accountant, preferably one who is knowledgeable in the area being researched, whether or not the research results in a formal communication to the client. In addition, the engagement partner or other responsible supervisory person familiar with the client reviews the project's documentation to ensure that the facts are properly understood.
- c. For engagements in which the firm represents a client in a tax examination, a tax accountant reviews the examining agent's proposed adjustments and all related working papers before conclusion of the engagement.
- d. Written communication regarding client tax matters, including documentation of verbal communication, are reviewed by the tax partner or a designated tax accountant.
- e. Tax accountants involved in planning financial statement engagements also review tax-related working papers.

SAMPLE QUALITY CONTROL DOCUMENT

HIRING

The firm has established policies and procedures for hiring to provide reasonable assurance that those employed possess the appropriate characteristics to perform competently. The quality of the firm's work depends on the integrity, competence, and motivation of the people who perform and supervise the work.

1. The firm maintains a program designed to obtain qualified people by planning for future requirements, establishing hiring objectives, and setting qualifications for those involved in the hiring function.

- a. The firm's long-range personnel objectives are planned annually by the administrative partner and the managing partner. Some of the factors considered are current clientele needs, anticipated growth, personnel turnover, individual advancement, and retirement. Also considered are the number and qualifications of personnel, along with the sources and methods of obtaining personnel who meet the requirements and guidelines set by the firm.
- b. The administrative partner is responsible for the overall employment decisions.

2. The firm has established qualifications and guidelines for evaluating potential hirees at each level.

- a. The firm seeks to employ individuals who possess high levels of intelligence, integrity, honesty, and motivation, and high aptitude for the profession.
- b. The firm generally requires that an applicant's academic preparation be sufficient for taking the CPA examination.
- c. In certain situations (such as hiring relatives of personnel or clients, rehiring former employees, or hiring clients' employees), the joint approval of the administrative partner and the managing partner is required before making an employment offer.
- d. To reasonably assure persons with acceptable qualifications are hired by the firm, the background of all new employees is appropriately investigated by obtaining completed application forms, college transcripts, and personal references.
- e. Before an employment decision is made, both the tax partner and the administrative partner must interview and approve applicants for tax positions.

3. Applicants and new hires are informed of the firm's policies and procedures relevant to them and their work.

- a. The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
- b. Personnel policies and procedures are in writing and distributed to all personnel.

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- c. The administrative partner discusses the firm's personnel policies and procedures with new employees.

PROFESSIONAL DEVELOPMENT

The firm has established policies and procedures for professional development to provide reasonable assurance that people doing tax work will continue to have the knowledge required to enable them to fulfill their assigned responsibilities. Continuing professional education and training activities enable the firm to provide its people with the knowledge and skills to fulfill responsibilities assigned to them and to progress within the firm.

1. Guidelines and requirements have been established for the firm's tax education program and are communicated to all people involved in tax work.

- a. The administrative partner is responsible for the formulation and implementation of the firm's policy regarding the guidelines and requirements for the firm's professional development programs. The firm's professional development year is from May 1 to April 30. In January of each year, the administrative partner is to prepare the professional development program for the coming year with input from the tax partner, including (i) the professional development objectives of the tax department, (ii) the specific courses to be taken, identified by individual, (iii) tentative dates for professional development by the individual, and (iv) cost. The program is approved by the executive committee.
- b. A basic program of tax training will be provided to staff accountants and will consist of on-the-job training, formal group programs, and self-study programs, as appropriate.
- c. The tax partner develops a plan for each accountant to maximize the training benefits of job assignments.
- d. Each partner and professional staff member is required to complete a minimum of twenty hours of continuing professional education each year and a minimum of 120 hours in any three-year period. Personnel complete the record of professional development and forward it to the administrative partner. The administrative partner is responsible for having the personnel files of each partner and professional employee updated to include a current record of the hours of professional development completed. The types of programs qualifying for the fulfillment of the requirements include —
 - (i) Continuing professional education programs of the AICPA and state societies. This includes both sessions attended and cassette/workbook or workbook programs, as long as there is written evidence of completion.
 - (ii) College courses related to the profession.
 - (iii) In-house education programs.

An evaluation of each program is completed and forwarded to the administrative partner before the expenses of attending are paid.

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- e. Personnel are reimbursed for membership dues paid to the AICPA, the AICPA Tax Division, one state society, and the local chapter of the state society.
 - f. Personnel are encouraged to serve on state society or AICPA committees, write articles for professional publications, serve as discussion leaders at professional development seminars, give speeches, etc.
 - g. Resolution of conflicts between professional development course attendance and engagement scheduling requires administrative partner approval.
 - h. The managing partner annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements. An annual report is made to the partners.
2. Information about current tax developments, changes in professional standards affecting tax practice, and materials containing the firm's policies and procedures affecting its tax practice is made available to all professionals involved with tax work.
- a. Pronouncements (such as those issued by the Internal Revenue Service and other taxing authorities) relating to areas of specific interest are distributed by the tax partner or the tax partner's designee to persons who have responsibilities in such areas.
 - b. The firm conducts formal in-house educational programs. The purpose of the programs is to discuss current literature and elaborate on the distributed materials.
3. The firm encourages people to grow and mature as individuals and as professionals through seminars, workshops, college and university course work, and self-study programs. It also provides, to the extent necessary, programs not otherwise readily available, to fill the firm's needs for people with expertise in specialized areas and industries.
- a. The tax partner is responsible for arranging CPE programs on tax matters for those involved in special areas.
 - b. Formal tax training is scheduled to develop expertise in areas the firm needs and to maintain expertise in areas the firm has already developed.
 - c. Specialized tax training will be provided for those persons demonstrating special expertise or interest in the tax area.
 - d. Individuals designated as having special experience and expertise maintain their proficiency by attending external professional education programs.
 - e. The firm designates certain individuals to be responsible for joining appropriate associations, and it pays for those memberships that are concerned with specialized areas or industries in which the firm is engaged or intends to become engaged.

SAMPLE QUALITY CONTROL DOCUMENT

- f. The tax partner is responsible for maintaining technical literature on specialized areas and industries.
4. The firm provides for on-the-job training during the performance of tax work.
- a. Personnel with in-charge responsibility on engagements explain to assistants the reasons for any additional work requirements discovered through the review process.
 - b. Personnel are evaluated in part on their effectiveness in properly training and developing subordinates.
 - c. The administrative partner monitors tax assignments to determine that personnel are (i) gaining experience in various engagements and varied industries and (ii) working under different supervisory personnel.

ADVANCEMENT

The firm has established policies and procedures to provide reasonable assurance that those selected for promotion have the necessary qualifications for fulfillment of the responsibilities they will be called on to assume.

1. The firm has established qualifications for the various levels of responsibility for people involved with tax work in the firm.
- a. The levels of responsibilities inherent in various staff classifications are clearly defined. The firm has established the following staff classifications:

<u>Classification</u>	<u>Experience</u>
Intern	—
Assistant	0-2 years
Intermediate	1-3 years
In-charge	2-5 years
Supervisor	3-8 years
Manager	5-10 years
Partner	8-year minimum

- (i) *Assistant*. The assistant is expected to—
 - Prepare individual, corporate, partnership, and various other tax returns for clients, under close supervision of a partner, manager, supervisor, in-charge, or intermediate accountant.
 - On smaller tax engagements, perhaps perform all aspects of the engagement, including maintaining minimum client contact.
 - Prepare various payroll tax, sales tax, and other local tax returns.
 - Become familiar with the contents of the firm’s manuals.

SAMPLE QUALITY CONTROL DOCUMENT

- Know the rules, regulations, and Code of Professional Conduct of the AICPA, the (state) Society of CPAs, and the (state) Board of Accountancy.
- Progress professionally by working toward passing the CPA examination as soon as possible.

(ii) *Intermediate.* The intermediate should be able to—

- Prepare individual, corporate, partnership, and various other tax returns for clients, with minimal supervision.
- Assume full responsibility for small tax engagements, with limited supervision.
- Instruct and supervise the work of one or more staff assistants, including a thorough review of their work.
- Complete research assignments under supervision.
- Progress professionally by working toward passing the CPA examination as soon as possible.

(iii) *In-charge Accountant.* The in-charge is expected to—

- Pass the CPA examination, if not already completed.
- Assume responsibility for the administration and execution of one or more engagements of greater size and complexity.
- Be responsible for supervising one or more accountants, including reviewing their tax work.
- Be able to (a) make decisions on ordinary tax matters, (b) cogently convey to superiors thoughts, knowledge, and suggested solutions on tax matters, and (c) act upon advice given.
- From personal knowledge or by research, readily prepare tax returns and resolve most tax questions.
- Maintain control on time and charges and recommend billing to the supervisor, manager, or partner-in-charge for tax clients.
- Set appointments with clients, interview clients, assemble information, and prepare or arrange for the preparation of federal, state, and local returns.

(iv) *Supervisor.* The supervisor is a CPA and is expected to—

- Demonstrate the ability to resolve most normal and complex tax problems through sources available within and without the firm's library.
- Act as technical adviser in providing advice or research assistance to others in moderate to complex tax questions.
- Supervise a number of engagements at one time.
- Be able to develop, complete, and review most normal tax planning situations.
- Have the ability to work directly with Internal Revenue Service agents in tax examinations.
- Adequately review all working papers and completed returns to ascertain that both meet the firm's standards.
- Be responsible for the scheduling of personnel, compliance with due dates, and

SAMPLE QUALITY CONTROL DOCUMENT

monitoring the time budgets of engagements.

- Be involved in planning tax season strategy, developing office policies pertaining to tax practice, informing the firm's members of tax developments, and coordinating the filing of due date extensions.
- Communicate the firm's policies and technical information to accounting and auditing personnel through individual or group meetings.
- Motivate and assist staff in professional development.
- Represent the firm in professional and service development.

(v) *Manager.* The manager is a CPA and is expected to —

- Assume full responsibility for large assignments falling within his or her level of expertise.
- Supervise the assignment of duties to, and the training of, personnel assigned to the engagement.
- Supervise a number of engagements at one time.
- Be responsible for the scheduling of personnel, compliance with due dates, and the monitoring of time budgets of engagements.
- Adequately review all working papers and the completed returns for compliance with the firm's standards.
- Resolve all problems before submitting the returns for final partner review.
- Communicate the firm's policies and technical information to tax personnel through individual or group meetings.
- Motivate and assist staff in professional development.
- Represent the firm in professional and service development.
- Develop the firm's and his or her own reputation by conducting seminars, making speeches, writing articles, and similar means.
- Assist partners with the development and management of the practice.

b. Criteria for evaluating individual performance and the expected level of proficiency are stated in the firm's staff classification guidelines which are contained in the personnel manual.

c. The firm's personnel manual provides information about the firm's advancement policies and procedures. The administrative partner issues updates as needed to incorporate changes that the partnership makes to the firm's policies and procedures.

2. The performance of people is evaluated and their progress periodically reviewed with them. Personnel files containing documentation relating to the evaluation process are maintained.

a. All professional employees in the tax department receive an evaluation of their performance at least semiannually. Among the items discussed are the individual's progress, strengths, weaknesses, and future objectives and the firm's future objectives. Documentation of the interview, evaluation forms, and staff assessment are forwarded to the tax partner for review, and then to the administrative partner for inclusion in the personnel files.

SAMPLE QUALITY CONTROL DOCUMENT

- b. Personnel with the responsibility for the preparation of evaluations are evaluated at least annually by the PIC.
 - c. Each partner annually prepares a partner evaluation form, in which each of the partners is evaluated, including the preparer. The completed forms are submitted to the managing partner, who summarizes them and reviews with each partner the summary relating to that partner.
 - d. The managing partner reviews the system of personnel evaluation and counseling to ensure that (i) procedures for evaluation and documentation are being followed on a timely basis, (ii) the established requirements for advancement are being met, (iii) personnel decisions are consistent with evaluations, and (iv) recognition is given to outstanding performance. At the completion of the review, a report is made to the partners.
3. Responsibility for making promotion decisions is assigned to specific individuals.
- a. The PIC is responsible for making advancement and termination recommendations, conducting the evaluation interviews, and documenting the results of the interviews. Appropriate personnel files are maintained by the administrative partner.
 - b. The administrative partner evaluates the foregoing data and, after giving appropriate recognition to the quality of the work performed, makes advancement recommendations to the executive committee. The executive committee has the ultimate responsibility for making advancement decisions.
 - c. The administrative partner makes an annual study of the firm's advancement experience to learn whether individuals meeting stated criteria are assigned increased degrees of responsibility. A report is made to the partners. This report includes the administrative partner's opinion of the capabilities and progress of the staff.

ACCEPTANCE AND CONTINUANCE OF CLIENTS

To minimize its exposure to risk and maximize its long-run profitability, the firm has established policies and procedures for deciding whether to accept or continue a tax client. The firm's image in its practice area is heavily affected by the public perception of who its clients are. Thus, prudence suggests that the firm be selective in determining its professional relationships.

1. The firm has established procedures for evaluating and accepting prospective clients.
 - a. The tax partner should be consulted before the firm accepts a new client if substantial tax work will be required or if there is any doubt that the firm possesses the tax expertise to complete the job adequately.
 - b. Prior year tax returns are obtained and reviewed.
 - c. A review is made to ensure that the acceptance of the client would not violate the requirements of the profession and of the firm.

SAMPLE QUALITY CONTROL DOCUMENT

- d. The engagement partner assembles the information and, for substantial new engagements, evaluates all matters described in the previous paragraphs.
 - e. Substantial new engagements are approved in writing by the engagement partner and the administrative partner.
 - f. The administrative partner is responsible for administering the procedures for the acceptance of clients.
 - g. The managing partner performs an annual review of compliance with the firm's policies and procedures for the acceptance of clients and makes a report to the partners.
2. The engagement partner will ensure that the client understands and accepts the scope of the firm's services, the firm's responsibility for tax advice and returns, and the financial aspects of the client's relationship with the firm.
- a. Engagement letters are used to document service arrangements for tax clients.
 - b. All clients are informed that they are required to provide adequately substantiated information.
3. Tax clients are reviewed and evaluated at the end of specific periods or upon the occurrence of specified events to determine whether the relationship should be continued, modified, or terminated.
- a. Reevaluations are made of existing clients on a regular basis or whenever there are new conditions that would have caused the firm to reject the client had such conditions existed at the time of acceptance.
 - b. The following are some reasons for terminating a professional tax relationship:
 - (i) The client is chronically slow to pay.
 - (ii) The client fails to provide adequately substantiated information.
 - (iii) The client wants to take a position that is inconsistent with the firm's policies.
 - (iv) The engagement involves tax matters that the firm is not competent to handle.
 - (v) The timing of the engagement makes unreasonable demands on the firm's personnel.
 - (vi) Insurmountable personality conflicts exist.
 - (vii) The return on the engagement is too low for the effort expended and risk taken.
 - c. The administrative partner is responsible for evaluating the information obtained, making continuance recommendations, and administering the firm's procedures for continuance of clients. If the administrative partner recommends discontinuance or if any of the conditions enumerated in 3(b) exist, the executive committee participates in the continuance decision.

SAMPLE QUALITY CONTROL DOCUMENT

- d. The tax partner should be consulted when significant tax engagements are being considered for termination.
- e. The managing partner performs an annual review of compliance with the firm's policies and procedures for continuance of clients and makes a report to the partners.

INSPECTION

The firm has established policies and procedures for inspection to provide reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures for inspection have been developed and may be performed by individuals from within or without the firm 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.

1. The firm conducts an inspection program regarding its quality control policies and procedures.
 - a. Each year the managing partner will appoint an inspection team to evaluate the firm's quality control policies and procedures for conformity with professional guidelines.
 - b. The team obtains reasonable assurance that quality control policies and procedures are being followed by—
 - (i) Questioning the people who are responsible for a function or activity.
 - (ii) Reviewing selected administrative and personnel files.
 - (iii) Reviewing selected engagement working paper files, tax returns, and reports.
 - (iv) Reviewing other evidential matter.
 - c. The inspection team annually selects a sample of engagements from each partner's and manager's tax client list and reviews it in depth. The working papers, tax returns, and reports are reviewed for compliance with professional standards and with the firm's quality control policies and procedures.
 - d. Differences of opinion may arise between members of the inspection team and (i) the engagement team or (ii) the individual responsible for a functional area. These differences are resolved by the tax partner if the difference of opinion is with the engagement team and by the managing partner if the difference of opinion concerns a functional area.
2. Provision is made for reporting inspection findings to the appropriate management levels and for monitoring actions taken or planned.

SAMPLE QUALITY CONTROL DOCUMENT

- a. **The results of engagement reviews are discussed with the engagement partner and staff personnel responsible for the engagement.**
- b. **The inspection team reports its findings and recommendations to the managing partner.**
- c. **The tax partner must correct specific deficiencies noted in the inspection and should address in writing general comments for improvement.**
- d. **The managing partner prepares a report to the executive committee indicating the inspection team findings, recommendations, and corrective actions taken or planned.**
- e. **The managing partner has the responsibility of determining that planned corrective actions were taken and reporting to all partners the extent of compliance.**

APPENDIX D

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**SAMPLE TAX PRACTICE REVIEW
ENGAGEMENT LETTER**

SAMPLE TAX PRACTICE REVIEW
ENGAGEMENT LETTER

PLEASE NOTE: This form contains provisions that may not be enforceable in all states. Before using the letter, the reviewing firm is advised to have it reviewed by its attorneys.

[Date]

[Firm Contact]

[Firm Name]

[Address]

Re: Voluntary Tax Practice Review

Dear Mr. or Ms. [Firm Contact]:

You have requested that we perform a voluntary tax practice review of your firm. We are willing to perform such an engagement, subject to the terms and conditions set forth in this letter.

The attachment to this letter contains information on the review team. If we must make any changes in the makeup of the review team, we will notify you immediately.

Scope of the Review

The review will be performed in accordance with the guidelines developed for the AICPA Voluntary Tax Practice Review Program.

SAMPLE ENGAGEMENT LETTER

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. In connection with the review, no review team member will have any contact with clients of your firm.

Retention of Record of Review

In accordance with the guidelines set forth by the AICPA for voluntary tax practice reviews, we will turn over to your firm within thirty days after completion of the review the originals and all copies of any written matter connected with the review (except for this engagement letter). You will provide us with a receipt for the materials given to you.

Liability and Subpoena

You agree not to take, or assist in, any action seeking to hold us or any member of the review team liable, jointly or singly, for damages caused by any act or omission unless those actions arise from malice, gross negligence, or recklessness. The protection afforded by this paragraph extends to any staff member, assistants, committees of the review team, this firm, and any other firm supplying members of the review team. Furthermore, you agree not to subpoena any of the persons or firms referred to in the previous sentence or any information held by such persons or firms, 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 tax practice review. However, this limitation on your right to subpoena persons and information shall not apply to the extent some other party has successfully subpoenaed such persons or information and you conclude you must subpoena such persons or information in response. In any event, if we or any review team members are required to give testimony relating to the requested review, you agree to pay for the time involved (and for out-of-pocket expenses) at the billing rates referred to in the next section of this engagement letter.

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 the review will be billed at actual time.

SAMPLE ENGAGEMENT LETTER

The billing rates for the review are set forth in the attachment to this letter, which is incorporated herein by reference. Your firm will also pay all reviewer out-of-pocket expenses.

Invoices are due upon presentation. Normally, fees will be billed within thirty days after completion of the review. Under certain circumstances, however, progress billings may be rendered.

Please contact the undersigned with any questions.

Sincerely,

[Reviewing Firm]

APPROVAL

We have read the preceding engagement letter and agree to its terms.

[Reviewed Firm]

APPENDIX E

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

MATTER-FOR-FURTHER-CONSIDERATION FORM

AICPA TAX DIVISION
MATTER-FOR-FURTHER-CONSIDERATION FORM

FIRM NAME _____
OFFICE _____

CONTROL NO. _____

Reviewer's description of the matter:

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, if any: _____
Check One: Design _____
Performance _____
Compliance _____
Documentation _____

Team captain's comments, if any:

<u>Signatures</u>	<u>Dates</u>
Partner _____	_____
Reviewer _____	_____
Team Captain _____	_____

Program Questionnaire

Section _____
Element _____
Program Step _____

INSTRUCTIONS FOR USE OF
MATTER-FOR-FURTHER-CONSIDERATION (MFC) FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. On the other hand, if an MFC is prepared for a matter that 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.
2. Number MFCs consecutively.
3. MFCs relating to functional review areas should be sorted by nature of comment.

APPENDIX F

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

**SUMMARY OF
MATTERS FOR FURTHER CONSIDERATION**

SUMMARY OF MATTERS FOR FURTHER CONSIDERATION

_____ (Name of Reviewed Firm)

MFC Number	Type of Matter *	Brief Description of Matter	Reference †	Does this matter, individually or collectively, result in an answer of no in the review conclusion?		Section J Reference
				Yes/No	Briefly Explain reasons	

* The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either (1) design, (2) performance, (3) compliance—other, or (4) documentation.
 † The reviewer should indicate the program or engagement checklist step that led to the MFC.

APPENDIX G

**AICPA TAX DIVISION
GUIDELINES FOR VOLUNTARY
TAX PRACTICE REVIEW**

SAMPLE LETTER OF COMMENTS

AICPA TAX DIVISION
SAMPLE LETTER OF COMMENTS

[Date]

[Contact with the Firm]

[Firm's Name]

[Address]

Re: Comments on Your Recent Voluntary Tax Practice Review

Dear Mr. or Ms. [Contact With the Firm]:

This letter is to communicate to you certain comments generated during our recent review of your tax practice in accordance with the guidelines recommended by the AICPA Voluntary Tax Practice Review Program. Our comments will follow the following format:

- A. Summary and findings
 - 1. Principal strengths
 - 2. Principal weaknesses

- B. Analysis of tax practice quality control system
 - 1. Adequacy of overall tax practice quality control system
 - 2. Compliance with firm's tax practice quality control system
 - a. Advocacy and integrity
 - b. Assigning personnel to engagements
 - c. Supervision
 - d. Hiring
 - e. Professional development
 - f. Advancement
 - g. Acceptance and continuance of clients

We noticed no significant exceptions regarding the "Consultation" and "Inspection" elements of your tax practice quality control system.

SAMPLE LETTER OF COMMENTS

C. Recommendations

D. Other comments

Before giving you our comments, we want to commend you, your partners, and staff for their courtesy and candor. Without these the value of a tax practice review can be compromised.

A. Summary and findings

1. Principal strengths. Our review indicated a high level of conformity with the firm's tax practice quality control (TPQC) system. The firm's principal strengths include —
 - a. Excellent communication among tax personnel and between tax personnel and other members of the firm.
 - b. Excellent comprehension of the firm's TPQC system. It was obvious that staff understood what procedures to follow for handling various tax practice contingencies.
2. Principal weaknesses. We noted the following weaknesses:
 - a. Certain partners circumvent established procedures in the area of client acceptance.
 - b. The firm's two tax managers carry a disproportionately heavy burden. This could mean the firm should explore the possibility of adding one or two tax professionals at the manager level and should encourage managers to improve their delegation skills.

B. Analysis of tax practice quality control system

1. Adequacy of overall tax practice quality control system. Overall, the firm's TPQC system serves the firm's practice well. However, the firm's TPQC system documentation is not entirely current. For instance, the quality control document recommends several procedures that are no longer followed and does not include a procedure that appears to be generally in use (see "Acceptance and Continuance of Clients"). We recommend that you and your partners review your TPQC system documentation to reflect current practices in this area.
2. Compliance with firm's TPQC system. As mentioned previously, the firm has an excellent TPQC system. We noted several potential weaknesses in the areas of

SAMPLE LETTER OF COMMENTS

advocacy and integrity, the assignment of people to engagements, supervision, hiring, professional development, advancement, and acceptance and continuance of clients and will confine our comments to these quality control elements.

- a. Advocacy and integrity. In this area, we have two comments. First, we noted that the firm does not own a paper shredder. It is common practice for CPA firms to shred discarded material that contains confidential client information. We recommend that you implement procedures to destroy these documents. Second, it was not uncommon for clerical and professional staff to discuss confidential client matters while passing through your lobby on the way to the break room and when leaving for lunch. We encourage you to reemphasize to the staff the firm's excellent procedures on confidentiality.
- b. Assigning personnel to engagements. Although your scheduling program is in place and generally followed, you do not schedule tax work far enough in advance to fully benefit from the scheduling effort. We noted that tax work generally is scheduled two weeks in advance of the beginning of the engagement.
- c. Supervision. Time budgets are frequently not compared with the actual time expended on tax engagements. This can potentially impact the adequacy of the firm's subsequent year's budgeting process, the decision to continue clients from one year to the next, and evaluation of the effectiveness of tax personnel.

The firm's consistency in utilizing preparation checklists is laudable for all tax returns except fiduciary income tax returns for which no checklists are consistently used. By nature, Form 1041 involves complicated tax practice concepts, and preparation checklists are particularly important for this tax return.

- d. Hiring. Your interviewing process involves forwarding all potential professional staff resumes to the managing partner and distributing the resume to all partners on the day of an interview. You have no procedures to follow up on claims made on the resume other than to call the potential staff person's current employer and to accept the interviewee's proffered copy of his or her transcript.

We encourage you to do additional verification of the claims of potential staff members. Unfortunately, we have noted an increase in the number of exaggerated claims. You may find it helpful to designate a partner or manager to obtain additional background information on the job candidate.

- e. Professional development. The firm's use of part-time and per diem tax personnel is effective to meet the challenges of scheduling for tax season. The

SAMPLE LETTER OF COMMENTS

training of these professionals appears to leave something to be desired, however. We noted that several of these people showed a need for additional professional development.

- f. Advancement. We noted that your two tax managers are charged with nearly all tax practice administration along with their normal client duties. While this reflects well on the ability of your firm's partners to delegate, it does mean you appear short-handed at the tax manager level. We recommend that you consider expanding both the number of your tax managers and your efforts to coach the existing tax managers in the art of delegation.
- g. Acceptance and continuance of clients. As mentioned previously, your quality control document is not entirely current with regard to the acceptance and continuance of clients. Your tax managers require at least three prior years' returns from prospective clients earning over \$75,000. They then review the prior returns. (This is a good idea both from a quality control and a practice development standpoint.) Yet, this requirement has not been written into your TPQC document. In addition, two of your partners ignore this requirement even though they recognize that it is an unwritten policy of the firm.

C. Recommendations. Based on our review, we recommend that the following measures be taken:

1. The firm should acquire a shredding machine or adopt some other means to destroy confidential client documents that are to be discarded.
2. The firm should hold an in-house confidentiality seminar for its staff, reemphasizing its TPQC system confidentiality procedures. A number of useful videos are available for this purpose.
3. The firm should revise its TPQC document to include new procedures that are part of the firm's quality control system but have not yet been formalized.
4. The firm should begin scheduling its tax work one to two months in advance of the beginning of the engagement.
5. The firm should analyze the actual time expended against budgeted time for all tax engagements. The results of this analysis should be used in the subsequent year's budgeting process, the client continuation process, and the review of tax personnel.

SAMPLE LETTER OF COMMENTS

6. The firm should begin using tax preparation checklists for fiduciary returns. We suggest that the firm refer to the Tax Practice Guides and Checklists issued each year by the AICPA Tax Division.
 7. The firm should designate a partner or manager who is responsible for confirming job interviewee claims.
 8. Before tax season begins, the firm should either send its part-time and per diem personnel to an end-of-year tax update or prepare an in-house seminar geared to these professionals' specific needs.
 9. The firm should consider increasing the number of tax managers it employs and should coach its existing managers in their skills of delegation.
- D. Other comments. On the whole, we are very impressed with your office administration and tax practice methods. They are supportive of your firm's efforts to maintain the high quality tax practice you now have.

If you have any questions or comments, please feel free to call.

Sincerely,

[Reviewing Firm]