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Peer review manual : instructions and checklists

American Institute of Certified Public Accountants. SEC Practice Section

American Institute of Certified Public Accountants. Private Companies Practice Section

Karen H. Jones

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***DIVISION FOR
CPA FIRMS
PEER REVIEW
MANUAL***

INSTRUCTIONS AND CHECKLISTS



**Division for
CPA Firms**
AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

PEER REVIEW MANUAL

INSTRUCTIONS AND CHECKLISTS

Prepared by

The PCPS Peer Review Committee

and

The SECPS Peer Review Committee

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New York, NY 10036-8775

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PEER REVIEW MANUAL**

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AICPA DIVISION FOR CPA FIRMS

Peer Review Manual Instructions and Checklists

The instructions, checklists and programs contained in this manual have been developed to assist reviewers in performing peer reviews of member firms of the private companies practice section and SEC practice section of the AICPA Division for CPA Firms. The members of the peer review committee of the private companies practice section and the SEC practice section shall review these checklists and programs from time to time to determine whether any modification, update, or amendment is required in light of future developments in practice. The checklists and programs are intended to be guides and in application may require modification and tailoring for each firm reviewed.

PRIVATE COMPANIES PRACTICE SECTION

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PRM Section 11000
AICPA DIVISION FOR CPA FIRMS
PEER REVIEW PROGRAMS

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AICPA Division For CPA Firms**Peer Review Programs****INTRODUCTION**

.01 Members of the American Institute of Certified Public Accountants who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as proprietors, partners, shareholders, or employees of firms enrolled in an approved practice-monitoring program in order to retain their membership in the Institute beyond specified periods. A firm enrolled in the AICPA Division for CPA Firms is deemed to be enrolled in an approved practice-monitoring program (an enrolled firm). A firm auditing one or more SEC clients, as defined by counsel, should be enrolled in the SEC practice section. (See sections 2.2.3, 2.3.4, and 2.3.5 of the bylaws of the AICPA and the implementing Council resolutions under those sections.)

.02 The Council of the AICPA has established an SEC Practice Section (SECPS) and a Private Companies Practice Section (PCPS) of the AICPA Division for CPA Firms, which are governed by executive committees having senior committee status with the authority to carry out the activities of the section. The Committees are called the AICPA SEC Practice Section Executive Committee and the Private Companies Practice Executive Committee.

.03 This manual has been prepared by the SECPS and PCPS peer review committees. The programs and checklists set forth in this manual have been developed to assist –

- a. Reviewers carrying out peer reviews.
- b. Associations of CPA firms that assist their members in arranging and carrying out peer reviews.
- c. State CPA societies that assist their members in arranging and carrying out peer reviews.
- d. The AICPA Quality Review Division itself.

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

- a. Comments and suggestions from individuals or groups in the program.
- b. Needs identified by the AICPA Division for CPA Firms' executive committees or the SECPS and PCPS peer review committees.
- c. Issuance of new official pronouncements by the Financial Accounting Standards Board, the AICPA Auditing Standards Board, and other senior AICPA committees.

11004

.05 Comments and suggestions should be addressed to:

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

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAMS

INSTRUCTIONS TO FIRMS

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AICPA DIVISION FOR CPA FIRMS**PEER REVIEW PROGRAMS****Instructions to Firms****Introduction**

.01 The purpose of these instructions is to provide guidance to firms having peer reviews in accordance with provisions of the membership requirements of the SEC practice section (SECPS) and the private companies practice section (PCPS) of the AICPA Division for CPA Firms. References are to "Standards for Performing and Reporting on Peer Reviews" (Section 2000 in the *SECPS Reference Manual* and *PCPS Reference Manual*). All persons in your firm involved in the peer review should read and become familiar with the sections of these standards relative to their part of the review. Although these instructions have been designed for reviews conducted by committee-appointed review teams, to the extent applicable, they should be used for reference on firm-on-firm, association, or state CPA society sponsored reviews. Questions regarding these instructions, other materials, or about the review in general should be directed to the AICPA quality review division at (201) 938-3030.

Prior to the Review

.02 Your firm and the team captain should agree on an appropriate date for the review to take place.

.03 The terms and conditions of the peer review should be summarized in an engagement letter. A copy of the engagement letter should be signed and returned to the AICPA prior to the start of the review.

.04 Accommodations for the review team should be coordinated with the team captain.

.05 The firm is expected to have documented and implemented its quality control policies and procedures for its accounting and auditing practice for the period under review (*Standards*, SECPS §2000.04-.07 and PCPS §2000.05-.08). The firm should determine that this responsibility has been met.

.06 The review team should be provided with certain background information about the reviewed firm (*Standards*, SECPS §2000.45-.46 and PCPS §2000.50). You should determine that this background information is available and appropriately summarized. The background information for members of the SEC practice section should include:

- a. A list of those SEC clients for which the fees for management advisory services exceed the audit fees.

- b. A list of those SEC engagements accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously had a peer review), where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board or the Federal Deposit Insurance Corporation, or in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection) or there was a reported disagreement over any matter of accounting principles or practices, financial statements disclosure or auditing scope or procedure, or there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K.
- c. A list of all new SEC clients (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to a period that ended during the reviewed firm's peer review year.

.07 Prior to the arrival of the review team, you should complete the "Quality Control Policies and Procedures and Membership Requirements Questionnaire" (Section 1 of the "Peer Review Program Guidelines" in PRM §13200 of this manual.

.08 The team captain will arrange for the scheduling of interviews with selected members of the firm's professional staff. You should see that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of these interviews.

.09 The team captain will select certain engagements for review (SECPS §2000.60-.70 of the *SECPS Reference Manual* and PCPS §2000.62-.68 of the *PCPS Reference Manual*) and ask your firm to prepare a profile sheet on each engagement selected. You should see that the profile sheets are appropriately completed and that the working papers and reports for those engagements are assembled and readily accessible to the review team.

.10 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.

.11 The firm should have prepared an inspection report (which should be made available to the review team), indicating that the system has been tested, that it has been in place for the required length of time, 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.

.12 Have your latest independence confirmations available for review.

.13 Have documentation of all independence problems and their final resolution available for review.

.14 Have all documentation regarding the independence of any correspondent firms used during the year available for review.

.15 Have personnel files available for review.

.16 Have available for review appropriate CPE records for all professional staff members for the three most recent educational years. (See SECPS §8000.28-.32 of the *SECPS Reference Manual* and PCPS §6000.28-.32 of the *PCPS Reference Manual*.)

.17 Prepare a complete list of the firm's professional staff members showing name, position, and length of service with the firm (if practicable).

.18 Have available for review documentation verifying that each proprietor, shareholder, or partner eligible for membership is a member of the AICPA.

.19 Have available for review copies of the firm's latest annual membership report filed with either the SEC practice section (SECPS) or the private companies practice section (PCPS).

.20 Provide a comfortable, adequate working area for the review team.

.21 If possible, send copies of relevant manuals, checklists, partners' resumes, as well as background information to the team captain.

During the Review

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

.23 During the course of the review, the review team may find it necessary to discuss matters with appropriate firm personnel (aside from PRM §11100.08). Firm personnel should be advised to make themselves available to the review team as necessary during the course of the review. Usually such interviews will not disrupt the firm's operations.

.24 The review team will usually discuss its findings as the review progresses.

.25 The team captain will ask your firm to respond to "Matter for Further Consideration" 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.

Completion of the Review

.26 Upon completion of the peer review, the review team will communicate its findings through one or more exit conferences. These exit conferences should be attended by appropriate firm personnel as determined by the firm. (It is normally expected that the managing partner and the partners having firm-wide responsibility for quality control and accounting and auditing will attend the final firm-wide meeting.)

.27 The firm will receive a report on the peer review and may receive a letter of comments.

- a. A peer review report contains a statement of the scope of the review, a description of the general characteristics of a system of quality control, and the review team's opinion on the reviewed firm's quality control system for its accounting and auditing practice and its compliance with SECPS or PCPS membership requirements. (Note - If the firm does not have an auditing practice, the report will so state.) For an SECPS review, the report will also include a reference to the letter of comments, if such a letter is issued.
- b. A letter of comments will be issued if the peer review report is qualified or if the team captain believes there are matters that resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements. These matters may relate to the design of your quality control policies and procedures, or the compliance with such policies and procedures, or with the SECPS or PCPS membership requirements.
- c. Although the SEC practice section specifically prohibits a reviewer from issuing a letter of suggestions, the private companies practice section permits a reviewer to issue such a letter. A letter of suggestions is a written communication solely between the team captain and the reviewed firm. The letter will address matters that are not so serious or material as to result in a qualified report or to be in a letter of comments, but that will enhance the firm's practice. The letter of suggestions will not be part of the committee's files.

.28 Upon receipt of the written peer review report and letter of comments, the reviewed firm is required to respond in writing to the team captain's comments on matters in the letter of comments. The response should be addressed to the peer review committee and should individually describe the action(s) taken or planned with respect to each matter in the letter. If the firm disagrees with one or more comments, it should describe the reasons for such disagreement.

.29 The firm must submit a copy of the peer review report, the letter of comments, and the firm's letter of response within 30 days to either the SECPS or PCPS Peer Review Committee, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881. (*Note* — The report received by the firm is *not* official until it has been accepted by the peer review committee. Therefore, it would not be prudent to have the report printed or published or to make any other reference to it in a public manner until that time.)

.30 After it has been accepted by the peer review committee, the report, the letter of comments, and the reviewed firm's response thereto, and the letter indicating that the committee has accepted the report will be placed in the public files of the Division for CPA Firms and will be retained until completion of the subsequent peer review.

Appendix A—Checklist for Implementation of Your Peer Review

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

	Initial	Date
1. Obtain the engagement letter.		
2. Set the dates of your peer review and establish the 12-month period to be covered by the review with the team captain.		
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 to the team captain when available:		
a. A completed "Quality Control Policies and Procedures and Membership Requirements Questionnaire." (This questionnaire, section 1 of the "Peer Review Program Guidelines," can be found in PRM §13200 of this manual)		
b. The firm’s quality control document or summary statement of the firm’s quality control policies. (This is not required if the firm elects to have the completed questionnaire referred to in 5a. above serve as the firm’s quality control document or summary statement.)		
c. All relevant manuals, checklists, partners’ resumes, etc.		
6. Prepare separate lists of your firm’s audit, review, and compilation engagements. The lists should include the following for each engagement:		
a. Total number of auditing or accounting hours or the total fees		
b. Partner-in-charge		
c. Nature of business		
d. Period reported on		
On the list of audit engagements, all SEC engagements, all audits of ERISA plans, audits subject to the <i>Government Auditing Standards</i> , and Federally Insured Depository Institutions with \$500 million or more in total assets should be highlighted.		
7. For firms who are members of the SEC practice section, prepare a list of those SEC clients for which the fees for management advisory services exceed the audit fees.		

19. Have available invoices and cancelled checks supporting payment of annual dues to the SEC practice section and the private companies practice section (as applicable).

Initial	Date

PRM
11200

Instructions to Reviewers

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAMS

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INSTRUCTIONS TO REVIEWERS

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PRIVATE COMPANIES PRACTICE SECTION**INSTRUCTIONS TO REVIEWERS****Introduction**

.01 The purpose of these instructions is to provide guidance for reviewers assigned to peer reviews under the auspices of the Private Companies Practice Section of the Division for CPA Firms (PCPS). They should be read in conjunction with other guidance material issued to implement the PCPS peer review program. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA quality review division staff at (201) 938-3030.

.02 Peer reviews are intended to evaluate whether, during the year under review, a reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (Statement on Quality Control Standards No. 1, paragraph 7) and was being complied with to provide the firm with reasonable assurance of conforming with professional standards. Peer reviews are also intended to evaluate the reviewed firm's compliance with the section's membership requirements.

Independence and Conflict of Interest

.03 A peer review is to be conducted with due regard for the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information obtained as a consequence of the review concerning the reviewed firm or any of its clients is confidential and should not be disclosed by review team members to anyone not associated with the review.

.04 Independence with respect to the reviewed firm must be maintained by the reviewing firm, by review team members, and by consultants who may participate in the review. The AICPA Code of Professional Conduct does not specifically consider relationships between reviewers, reviewed firms, and clients of reviewed firms. However, the concepts pertaining to independence embodied in the Code should be considered for their application.

.05 A reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm or to those clients of the reviewed firm that are the subject of engagements reviewed.

.06 The personnel of a reviewing firm and the reviewing firm itself are not precluded from owning securities of clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client since the reviewer's independence would be considered to be impaired. In addition, the effect of family relationships (spouses, close relatives) and other relationships and the possible loss of the appearance of independence must be considered when assigning team members to review individual engagements.

Organization of the Review Team

.07 A review team is headed by a team captain who directs the organization and conduct of the review, supervises other reviewers, and is responsible for the preparation of a report on the review. 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 to facilitate summarization of the review team's findings and conclusions. The team captain should notify the AICPA quality review division staff of changes, if any, in the composition of the review team and in the date of the exit conference.

The Review

.08 The review should include the following procedures:

- a. Study and evaluation of the reviewed firm's quality control system.
- b. Review compliance with the reviewed firm's quality control system at each organizational or functional level within the firm.
- c. Review selected engagements, including the relevant working paper files and reports of the firm.
- d. Review compliance with the section's membership requirements.
- e. Accumulate a list of points to be discussed at the exit conference, giving appropriate consideration to the distinction between matters that require qualification of the report, other matters that should be included in the letter of comments, and other matters that would only be communicated orally in the form of suggestions.
- f. Prepare a report on the review (unqualified, modified, or adverse).
- g. Prepare a letter of comments, if applicable.

.09 For the review of a firm that obtains quality control materials from a third party, the review team should obtain the most recent report, letter of comments (if any), and letter of response thereto on those materials, if such documents are available. (For association arranged reviews, see "Standards for Performing and Reporting on Reviews of Quality Control Materials," PCPS §2400 of the *PCPS Reference Manual*.) In addition to considering the report relating to the suitability of design of the quality control materials, reviewers should consider the applicability of such materials to the practice of the firm being reviewed. The report on the reviewed firm should not make reference to the review of the materials.

Scope of Review

.10 Reviewers should recognize that quality control policies and procedures will likely differ between small and large firms (for example, the necessity for job descriptions) and between small and large offices of multi-office firms (for example, the procedures for assigning personnel to engagements.) In testing a firm's quality control policies and procedures,

the review should be tailored to the particular firm. Peer review program guidelines have been prepared and are included in PRM §13000.

.11 The scope of the review should cover a firm's accounting and auditing practice, which encompasses all auditing and all accounting, review, and compilation services for which professional standards have been established, and includes, for example, engagements to report on an entity's system of internal accounting control and its financial forecast. Other segments of a firm's practice, such as providing tax services or management advisory services, are not encompassed by the scope of the review except (1) to the extent they are associated with financial statements (for example, reviews of tax provisions and accruals contained in financial statements are included in the scope of the review) or (2) as they relate to compliance with the membership requirements of the section. Review team members are not to have contact with, or access to, any client of the reviewed firm in connection with the review.

.12 The review will be directed to the professional aspects of the reviewed firm's accounting and auditing practice; it will not include the business aspects of that practice. It may be difficult, however, to distinguish between these 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.

.13 Further, 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 compensation of professional personnel.

.14 The review team should obtain the reviewed firm's latest peer review or quality review report and, if applicable, its letter of comments and response thereto, from the firm or from the AICPA and should consider whether matters discussed therein require additional emphasis in the current review. In all cases, the review team should evaluate the actions taken by the firm in response to the prior report and letter of comments.

.15 The reviews of engagements should usually be directed toward the accounting and auditing work performed by the practice offices visited, including work performed for another office of the reviewed firm, for a correspondent firm, or for an affiliated firm. For those situations in which engagements selected in the practice office reviewed include the use of work of another office, correspondent, or affiliate (domestic or international), the reviewer, however, should evaluate the instructions for the engagement issued to the reviewed office to the parties responsible for performing the work. In addition, the scope of the review should encompass the procedures by which the reviewed office maintained control over the engagement through supervision (including visits by its supervisory personnel to other locations) and review of the work performed by the other offices, correspondents, or affiliates.

.16 There may be situations when information available to the review team is insufficient to evaluate whether the reviewed firm's quality control policies and procedures have been applied in supervising segments of engagements performed by other offices or firms. In these instances, it will be necessary to obtain documentation from such other offices or firms; usually this may be accomplished by arranging for the forwarding of the requested information to the reviewed office.

.17 The review is office-oriented, not engagement-oriented. However, if the reviewed firm has multi-office engagements, the sections' standards for performing and reporting on peer reviews require that, for at least one such engagement, the work performed by the office with primary responsibility for the engagement and the work performed on a significant segment of the engagement by at least one of the domestic offices should be reviewed. If the participating office is not selected for visit, the review can be accomplished by having the appropriate working papers sent to the primary office being visited.

Extent of Engagement Review

.18 The objectives of the review of engagements are to obtain evidence of (1) whether the reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA to the extent such objectives are applicable to its practice, (2) whether the reviewed firm complied with the policies and procedures that constituted its system of quality control during the year under review, and (3) whether the reviewed firm complied in all material respects with the applicable membership requirements of the section during the year under review. To the extent necessary to achieve these objectives, the review of engagements should include review of financial statements, accountants' reports, working papers, and correspondence, and should include discussions with professional personnel of the reviewed firm.

.19 Since, in most cases, the engagement personnel will not be responsible for establishing firm policies, the reviewer should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the engagement reviews, these matters should be discussed with the team captain.

.20 On individual engagements, reports other than on the basic financial statements (special reports, limited reviews, etc.) may have been issued during the period under review. If such reports have been issued or if separate financial statements have been issued on subsidiaries, the team captain should be consulted regarding the amount of work to be done in these areas on each engagement.

.21 If significant parts of the firm's practice include compilation or review services, cash-basis statements, financial forecasts and projections, etc., certain of those reports and related working papers should be reviewed.

Engagement Review Technique

.22 Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections, memoranda or other working papers describing the company and its business, the firm's audit approach and problem areas. Work is most efficiently completed by first reviewing the "top files," applicable sections of the work programs, correspondence files, consolidating working papers and other key audit area working papers and then completing the engagement review checklist. Then, any unanswered questions on the checklist can be completed by additional reference to the engagement files.

Approach to the Review

.23 The review should give primary emphasis to the reviewed firm's overall approach to the engagement, rather than the specific procedures performed. The engagement review checklists (which can be used for most engagements) contain the following sections:¹

- a. The first section of each checklist contains questions on the accountant's report and the accompanying financial statements and footnotes. This section of the checklist ordinarily would be completed for engagement reviews. However, on peer reviews of firms that have their own report and financial statement disclosure checklist that is completed by the firm's personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm's checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a "Matter for Further Consideration" form.
- b. The second section of the checklists contains questions concerning planning, preliminary and general procedures that normally should be performed for the applicable type of engagement. This section should be completed for each engagement reviewed.

¹ The "Checklist for Review of Audit Engagements of Not-For-Profit Organizations" and the "Checklist for Review of Audit Engagements of State or Local Governmental Entities, including Those Receiving Federal Financial Assistance" include the first four sections discussed herein. In addition, the former checklist includes an additional section on "Audits of Governmental Grantees," and the latter checklist includes an additional section on "Compliance with the Requirements of the Single Audit Act of 1984." In addition, the "Checklist for Review of Compilation Engagements" includes an additional Section on Compilations that omit substantially all disclosures.

- c. The third section included in the audit engagement checklist contains questions relating to specific audit areas. Although frequently it will not be necessary to answer all of these questions for an audit engagement because of the emphasis on key audit areas, they should be used for guidance concerning the type of questions to be considered when reviewing the audit procedures performed.
- d. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the functional areas of a firm's quality control system. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm, as detailed in the completed peer review program guidelines. For example, a number of the questions are not applicable to sole practitioners without full-time professional staff or additional questions may have to be added regarding the use of required standard forms. These sections should be completed for each engagement reviewed.
- e. The fifth section of the audit engagement questionnaire includes a separate list of questions to be answered on SEC engagements. In order to answer these questions it may be necessary for the reviewer to refer to an SEC or other specialized disclosure checklist.

.24 All "no" answers for each type of engagement should be summarized to assist reviewers in answering questions in PRM §13500, "Peer Review Program Guidelines," and in preparing the summary review memorandum. Reviewers may use the summary engagement review checklists included in PRM §15000, or they may develop their own, for summarizing the peer review findings.

.25 The general checklists for audit, review and compilation engagements were developed for use in reviewing engagements of "for-profit" companies and probably will require extensive modification or supplementation for engagements involving companies in specialized industries (for example, insurance and finance companies). Specialized checklists have been developed for review of audits of state or local government entities, including those receiving federal financial assistance, not-for-profit entities, prospective financial statements and employee benefit plans. In certain specialized industries/areas, supplemental checklists have been developed and should be used in addition to the primary checklists (Audit, Review and Compilation). Industries/areas that have supplemental checklists include: depository institutions, voluntary health and welfare organizations, construction, common interest realty associations, providers of healthcare services and HUD.

.26 Generally, a "no" answer to a question indicates possible noncompliance with a firm policy and/or professional standards. All "no" answers should be cross-referenced to either: (1) an MFC form, or (2) if no MFC form was generated, to the standardized comment sheets provided at the end of each checklist. The MFC forms and standardized comment sheets should include a description of the disposition of each "no" answer.

.27 The explanatory comments to "no" answers should be reviewed with the engagement partner to obtain the partner's agreement or to note a disagreement and the reasons.

.28 Except where specifically requested, it is not necessary to document the work the reviewer performed to form an opinion on each question. The answer to the question and the signing of the checklist indicate that the reviewer has completed the necessary testing to answer the question through reading documents or discussions with firm personnel. Naturally, when documentary evidence is available, it should be reviewed. Discussions with personnel should be used only for background purposes, to clarify points, or to provide satisfaction when documentation is not available.

Emphasis on Key Audit Areas

.29 The depth of the review of working papers for particular engagements is left to the judgment of the reviewers; however, the review should ordinarily include all the key areas of an engagement. Thus, **a page-by-page review of all working papers is not contemplated.** Points to consider in determining the key areas include—

- a. Key areas in the client's industry (for example, revenue recognition for construction companies; inventory and accounts receivable for manufacturing and retail concerns; policy reserves for insurance companies; or loan loss allowances for financial institutions).
- b. Key areas noted during the review of the financial statements and discussions with engagement personnel (for example, review of loan defaults or follow-up of litigation matters).
- c. Key areas identified by the firm in planning or conducting the engagement.
- d. Recent accounting and auditing developments and pronouncements.
- e. Weaknesses noted in other engagements reviewed.
- f. Weaknesses noted by the firm during its inspection program.
- g. Weaknesses noted in the prior peer review or quality review.

.30 The selection of the key areas should be directed toward maximizing the effectiveness of the review, as well as determining the extent to which the firm's personnel recognized the key areas. Ordinarily, in applying the "key area" concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. For example, in some of the initial audit engagements or specialized industry engagements selected for review, attention might be limited to the special areas of the engagements since the engagements were specifically selected to test those areas. In such cases, the reviewer should document in the

working papers the reasons why all key areas were not reviewed.² (See Appendix C, PCPS §2000, "Selecting Engagements for Review," in the *PCPS Reference Manual* for additional guidance on the application of the key area concept.)

.31 No definitive guidance can be provided regarding the depth of review to be given to these key areas, but the reviewer should evaluate whether the firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements (*AICPA Professional Standards*, Vol. 1, AU Section 326.)

Findings and Conclusions

.32 For each engagement reviewed, the review team must evaluate and document, based on its review of the engagement working papers and representations from the reviewed firm's personnel, whether anything came to the review team's attention that caused it to believe that (1) the financial statements were not presented in all material respects in accordance with generally accepted accounting principles, (2) the firm did not have a reasonable basis under the applicable professional standards for the report issued, (3) the documentation on the engagement did not support the report issued, or (4) the firm did not comply with its quality control policies and procedures in all material respects. Accordingly, a "conclusions" page must be completed for each engagement reviewed to summarize the results of that review.

.33 In performing engagement reviews, the review team may encounter (a) indications of significant failures by the reviewed firm to reach appropriate conclusions in the application of professional standards which include generally accepted auditing standards, standards for accounting and review services, and generally accepted accounting principles (for example, the reviewed firm may have issued an inappropriate report on a client's financial statements or omitted a necessary auditing procedure), or (b) situations in which the documentation on the engagement does not appear to support the report issued. In either case, the team captain shall promptly inform an appropriate authority within the reviewed firm (generally on an MFC form). In such circumstances, the reviewed firm should investigate the matter

² In such cases, the reviewer must exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement. If only one or a few specific key areas out of many key areas are reviewed on the engagement, such as only the referring office's supervision and control of the work performed by foreign offices or by domestic or foreign affiliates or correspondents, only the hours devoted to the specific area(s) should be claimed. Conversely, if all but one or two specific key areas out of many key areas are reviewed, the review team ordinarily would be justified in claiming all the hours devoted to the engagement except for those devoted to the key areas that were not reviewed. In situations that fall in between the preceding two cases — that is, when the reviewer has reviewed many, but not virtually all, of the key areas — the review team generally would be justified in claiming a percentage of the total hours on the engagement (or on the unit actually reviewed) equal to the hours on the key areas reviewed divided by the hours devoted to all the key areas on the engagement (or on the unit actually reviewed).

questioned by the review team and determine what action, if any, should be taken.³ The reviewed firm should advise the review team of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required.

.34 If the reviewed firm believes after investigating the matter that it can continue to support its previously issued report, it should provide the review team with a written explanation of the basis for its conclusion (generally on an MFC form). If the explanation appears reasonable, the review team should consider whether the documentation of the engagement supports the report issued. In evaluating the responses, the review team should recognize that it has not made an examination of the financial statements in accordance with generally accepted auditing standards (or reviewed or compiled them in accordance with the standards for accounting and review services), and that it has not had the benefit of access to the client's records, discussions with the client, or specific knowledge of the client's business.

.35 After reviewing the documentation supporting the actions planned or the documentation explaining why no action is required, the review team may continue to question whether there is a significant failure to reach appropriate conclusions in the application of professional standards. In such cases, the review team would promptly inform an appropriate authority in the reviewed firm and pursue any remaining questions. At this time, the reviewed firm should also be aware that any unresolved issues will be referred promptly to the peer review committee for resolution.

.36 When the reviewed firm concludes there is a significant failure to reach an appropriate conclusion on the application of professional standards on an engagement, the review team should review the firm's plan for addressing the questioned matter and document in the summary review memorandum whether the plan appears appropriate in the circumstances. If those actions are taken prior to the issuance of the peer review report (for example, the report and financial statements are reissued, omitted auditing procedures are performed, or a previously issued report is recalled), the review team should review the documentation supporting such actions. If the actions are not taken prior to the issuance of the report, the review team should advise the reviewed firm that it may be asked by the peer review committee to allow the reviewer to review the documentation supporting such actions when those actions are completed.

Expansion of Scope

.37 If, during the course of the peer review, the review team concludes that there was a significant failure by the reviewed firm to reach an appropriate conclusion on the application of professional standards on an engagement, the review team should consider

³ The reviewed firm is required under generally accepted auditing standards and the standards for accounting and review services to take appropriate action under certain circumstances with respect to (1) subsequently discovered information that relates to a previously issued report or (2) the omission of one or more auditing procedures considered necessary to support a previously expressed opinion. (See *AICPA Professional Standards*, Vol. 1, AU Sections 561 and 390 and Vol. 2, AR Section 100.42.)

whether the application of additional review procedures is necessary.⁴ This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the significant failure is indicative of a pattern of such failures and/or of a significant weakness in the reviewed firm's system of quality control or in compliance with the system. Under some circumstances, the reviewer may conclude that, because of compensating controls, or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements. Such additional engagements may be in the same industry, or supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to apply professional standards.

Review Team Working Papers

.38 The peer review working papers should include documentation, on an MFC form, of matters that, in the reviewer's opinion, could indicate (1) that one or more of the applicable objectives of quality control standards were not accomplished by the reviewed firm's policies or procedures, or (2) that the reviewed firm did not comply with professional standards, or the policies and procedures that constitute its quality control system or (3) that the reviewed firm did not comply with a membership requirement. The MFC form should include the reviewer's description of the matters, the reviewed firm's agreement or disagreement with the description and its comments on the matter, and the reviewer's and team captain's comments. The MFC form is to be signed in the places indicated by the reviewer, the team captain and an appropriate partner in the reviewed firm (generally the engagement partner or the partner responsible for the applicable area).

.39 On each MFC form, the reviewer should classify the matter into one of the following:

- a. Design — The reviewer believes that the firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.
- b. Performance — The reviewer believes that the reviewed firm failed to adhere to professional standards, including generally accepted accounting principles, generally accepted auditing standards, and statement on standards for accounting and review services, even if such deficiencies would not result in a situation where the firm should consider taking action pursuant to the *AICPA Professional Standards*, Vol. 1, AU Sections 390 or 561.
- c. Compliance-Membership Requirement — The reviewer believes that the reviewed firm did not comply with an applicable membership requirement of the section.

⁴ See PCPS §2000.69–.76 of the *PCPS Reference Manual* for action(s) required regarding the specific engagement involved.

- d. Compliance-Other — The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did comply with professional standards.
- e. Documentation — The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

.40 To the extent that there are disagreements or differences of opinion between the reviewed firm and the team captain with respect to the interpretation or effect of matters included on an MFC form, the staff of the AICPA quality review division should be consulted. The results of all consultations should be documented on the MFC form.

Completion of the Review

.41 At the conclusion of field work, the reviewers should (1) summarize all of their findings (including all "no" answers to the individual engagement checklists and MFCs); (2) evaluate the nature, causes, pattern, pervasiveness, and significance of the deficiencies noted in the design of the firm's quality control system and in the firm's compliance with its system, with professional standards, and with the membership requirements of the section; and (3) consider whether such matters should result in a qualified report, be included in the letter of comments, or otherwise be communicated to the firm. Summary engagement checklists, PRM §15000, have been designed to assist reviewers in preparing the necessary summary of findings, including "no" answers and MFCs. These summaries of findings should also assist the review team captain in preparing the overall summary review memorandum. For additional guidance on use of these summaries, see the instructions for use of the peer review program guidelines included in PRM §13100.

.42 Prior to the issuance of its report and, if applicable, letter of comments, the review team should communicate its conclusions to the reviewed firm. This communication ordinarily would take place at a meeting (exit conference) attended by appropriate representatives of the review team and the reviewed firm. It is normally expected that the managing partner and the partners having firm-wide responsibility for quality control and accounting and auditing will attend this meeting. The review team should notify the AICPA quality review division staff of the date and time of the scheduled exit conference to permit representatives of the peer review committee to attend the exit conference, if they so elect. The parties should discuss the report and letter of comments, if any, as well as any suggestions. Accordingly, the review team, except in rare instances, should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty as to the opinion to be expressed, the review team should postpone the exit conference until a decision has been reached. When discussing its findings, recommendations and suggestions at the conference, the review team should give an in-depth explanation of each matter or suggestion.

.43 For the review of a multi-office firm, in addition to the communication described in the preceding paragraph, the review team for a practice office should communicate its findings to appropriate individuals at the office reviewed.

.44 The peer review program provides that, within 30 days of the date of the exit conference, the review team should submit to the reviewed firm a written report and, if applicable, a letter of comments. A copy of the report, the letter, and a response thereto should be submitted by the reviewed firm to the PCPS Peer Review Committee within 30 days of the date the report and letter were issued.

.45 A disagreement regarding the type of report to be issued or the comments to be included in the letter of comments may arise among the review team members. When the members are unable to resolve such a disagreement, the matter should be documented and referred, through the AICPA quality review division staff, to the peer review committee for resolution.

Retention of Peer Review Working Papers

.46 The following materials should be retained by the entity that formed the review team until the completion of the subsequent review required for continued membership or until the time for such review has elapsed:

- a. The peer review report.
- b. The letter of comments and the firm's response thereto, if applicable.
- c. The letter accepting the peer review report.
- d. The engagement letter.
- e. The scheduling information forms.
- f. The team appointment acceptance letters.
- g. Any extension requests.
- h. The letter documenting the firm's compliance with actions taken as a result of the committee's consideration of the peer review report.

All other materials should be discarded 90 days after the committee issues a letter accepting the peer review report. If the peer review is intended to meet the requirements of Section 32 of the Federal Deposit Insurance Act, the review team should retain the working papers for a period of 120 days after the date that the reviewed firm files the peer review documents with the Federal Deposit Insurance Corporation.

SEC PRACTICE SECTION

INSTRUCTIONS TO REVIEWERS

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SEC PRACTICE SECTION**INSTRUCTIONS TO REVIEWERS****Introduction**

.01 The purpose of these instructions is to provide guidance for reviewers assigned to peer reviews under the auspices of the SEC Practice Section of the Division for CPA Firms (SECPS). They should be read in conjunction with other guidance material issued to implement the SECPS peer review program. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA quality review division staff at (201) 938-3030.

.02 Peer reviews are intended to evaluate whether, during the year under review, a reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (Statement on Quality Control Standards No. 1, paragraph 7) and was being complied with to provide the firm with reasonable assurance of conforming with professional standards. Peer reviews are also intended to evaluate the reviewed firm's compliance with the section's membership requirements.

Independence and Conflict of Interest

.03 A peer review is to be conducted with due regard for the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information obtained as a consequence of the review concerning the reviewed firm or any of its clients is confidential and should not be disclosed by review team members to anyone not associated with the review.

.04 Independence with respect to the reviewed firm must be maintained by the reviewing firm, by review team members, and by consultants who may participate in the review. The AICPA Code of Professional Conduct does not specifically consider relationships between reviewers, reviewed firms, and clients of reviewed firms. However, the concepts pertaining to independence embodied in the Code should be considered for their application.

.05 A reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm or to those clients of the reviewed firm that are the subject of engagements reviewed.

.06 The personnel of a reviewing firm and the reviewing firm itself are not precluded from owning securities of clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client since the reviewer's independence would be considered to be impaired. In addition, the effect of family relationships (spouses, close relatives) and other relationships and the possible loss of the appearance of independence must be considered when assigning team members to review individual engagements.

Organization of the Review Team

.07 A review team is headed by a team captain who directs the organization and conduct of the review, supervises other reviewers, and is responsible for the preparation of a report on the review. 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 to facilitate summarization of the review team's findings and conclusions. The team captain should notify the AICPA quality review division staff of changes, if any, in the composition of the review team and in the date of the exit conference.

The Review

.08 General Considerations

The review should include the following procedures:

a. Planning the Review

1. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review.
2. Obtain a sufficient understanding of the design of the firm's quality control system to plan the review.
3. Obtain a sufficient understanding to the potential effectiveness of the inspections performed since the prior peer or quality review to plan the review.
4. Assess inherent risk and control risk (including determining whether the firm's inspection program for the current year is likely to enable the review team to reduce the number of offices or engagements to be reviewed or the extent of the functional area reviews, and, if so, perform tests of the findings and conclusions of the current year's inspection program).
5. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed, and to determine the nature and extent of the tests to be applied in the functional areas.

b. Performing the Review

1. Review compliance with the reviewed firm's quality control system at each organizational or functional level within the firm.
2. Review selected engagements, including the relevant working paper files and reports.
3. Review compliance with the section's membership requirements.

4. Reassess the adequacy of the scope of the review based on the results obtained to determine if additional procedures are necessary.
5. Prepare a written report on the results of the review and, if applicable, a letter of comments.

.09 For the review of a firm that obtains quality control materials from a third party, the review team should obtain the most recent report, letter of comments (if any), and letter of response thereto on those materials, if such documents are available. (For association arranged reviews, see "Standards for Performing and Reporting on Reviews of Quality Control Materials," SECPS §2400 of the *SECPS Reference Manual*.) In addition to considering the report relating to the suitability of design of the quality control materials, reviewers should consider the applicability of such materials to the practice of the firm being reviewed. The report on the reviewed firm should not make reference to the review of the materials.

Scope of Review

.10 Reviewers should recognize that quality control policies and procedures will likely differ between small and large firms (for example, the necessity for job descriptions) and between small and large offices of multi-office firms (for example, the procedures for assigning personnel to engagements.) In testing a firm's quality control policies and procedures, the review should be tailored to the particular firm. Peer review program guidelines have been prepared and are included in PRM §13000.

.11 Although the peer review standards do not suggest minimum or maximum percentages of the reviewed firm's accounting and auditing hours that should be reviewed, historical experience suggests that a range of between 5 and 15 percent of the hours for firms with 15 or fewer offices and between 3 and 6 percent for firms with more than 15 offices ordinarily will provide an adequate scope for a peer review. However, in situations where the combined assessed levels of inherent and control risk are relatively low, and the current year's inspection program is considered effective and will be considered to reduce the scope of the peer review, the application of the peer review standards may result in a scope that is lower than these ranges. Conversely, in situations where the combined assessed levels of inherent and control risk are relatively high, and the firm has not performed an inspection for the review year or its inspection program for the review year is ineffective, the application of the peer review standards may result in a scope that is higher than these ranges.

.12 The scope of the review should cover a firm's accounting and auditing practice, which encompasses all auditing and all accounting, review, and compilation services for which professional standards have been established, and includes, for example, engagements to report on an entity's system of internal accounting control and its financial forecast. Other segments of a firm's practice, such as providing tax services or management advisory services, are not encompassed by the scope of the review except (1) to the extent they are associated with financial statements (for example, reviews of tax provisions and accruals contained in financial statements are included in the scope of the review) or (2) as they relate to compliance with the membership requirements of the section. Review team members are not to have contact with, or access to, any client of the reviewed firm in connection with the review.

.13 The review will be directed to the professional aspects of the reviewed firm's accounting and auditing practice; it will not include the business aspects of that practice. It may be difficult, however, to distinguish between these 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.

.14 Further, 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 compensation of professional personnel.

.15 The review team should discuss with the reviewed firm whether litigation, proceedings or investigations against the firm or its personnel reported to the SECPS quality control inquiry committee (QCIC) since the date of the firm's last peer review involve the same offices, industries, audit areas, or engagement personnel, and whether the firm has considered any such patterns in the scope of its own inspection or other internal review programs. The review team, giving due regard to the fact that such litigation, proceedings, and investigations will ordinarily involve unproven allegations, should consider this information in setting the scope of the review. In this connection, review teams must recognize that it is not their function to evaluate the merits of litigation or the adequacy of corrective actions, if any, taken by the firm as a result thereof, nor is it their function to duplicate the work of the QCIC. However, a reviewer might decide that an office that is involved in several instances of litigation should be selected for visitation rather than a comparable office with no litigation. Similarly, if a firm is involved in several instances of litigation involving a specific industry, the reviewer might consider whether the scope of his work adequately considers the risk factors inherent in that industry. The review team's documentation of its performance in this regard should be limited to an indication that such matters (without identification of the litigation) were considered in setting the scope of the review.

.16 The review team should also obtain a listing from the firm being reviewed of those SEC engagements accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously had a peer review) where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board or the Federal Deposit Insurance Corporation, or in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection) or there was a reported disagreement over any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure or there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K. For such engagements, the review team should:

- a. Review the existing client-acceptance documentation that relates to the matters or procedures that were the subject of the resignation or disagreement or reportable event.

- b. Review such current or prior periods' engagement working papers, financial statements, or auditor's reports to the extent considered necessary to be able to evaluate whether the matters or procedures were handled appropriately.
- c. Determine whether, since the end of the last peer review year (or for the year under review if the reviewed firm has not previously had a peer review), any opinions on the application of generally accepted accounting principles were rendered to the entity prior to acceptance.
- d. Determine whether any such opinion was issued pursuant to the firm's policies relating to the issuance of such opinions.

This may necessitate a review of engagement files related to the matters or procedures from any or all of the past three years. As part of its normal selection procedures, the review team should also determine whether to select such engagements for review.

.17 The review team should also obtain a listing ("this list") from the firm being reviewed of all new SEC clients (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to a period that ended during the reviewed firm's peer review year. In the selection of offices, greater weight should be given to those offices that had the most such SEC engagements. If there are any engagements in the offices selected that are on both this list and the list described in the preceding paragraph, those engagements (or portions of those engagements) should be selected for review. The existing client-acceptance documentation for all other engagements on this list in the offices selected should be reviewed and, based on the results of these reviews, the team should consider the need to select additional engagements (or portions of engagements) on this list for review, particularly in circumstances where the prior accountant's or auditor's most recent audit report was qualified or contained explanatory language not relating to consistency or the report of another auditor. In any event, at least one engagement on this list should be reviewed in each office visited.

.18 The review team should obtain the reviewed firm's latest peer review or quality review report and, if applicable, its letter of comments and response thereto, from the firm or from the AICPA and should consider whether matters discussed therein require additional emphasis in the current review. In all cases, the review team should evaluate the actions taken by the firm in response to the prior report and letter of comments.

.19 The reviews of engagements should usually be directed toward the accounting and auditing work performed by the practice offices visited, including work performed for another office of the reviewed firm, for a correspondent firm, or for an affiliated firm. For those situations in which engagements selected in the practice office reviewed include the use of work of another office, correspondent, or affiliate (domestic or international), the reviewer, however, should evaluate the instructions for the engagement issued by the reviewed office to the parties responsible for performing the work. In addition, the scope of the review should encompass the procedures by which the reviewed office maintained control over the engagement through supervision (including visits by its supervisory personnel

to other locations) and review of the work performed by the other offices, correspondents, or affiliates.

.20 There may be situations when information available to the review team is insufficient to evaluate whether the reviewed firm's quality control policies and procedures have been applied in supervising segments of engagements performed by other offices or firms. In these instances, it will be necessary to obtain documentation from such other offices or firms; usually this may be accomplished by arranging for the forwarding of the requested information to the reviewed office.

.21 The review is office-oriented, not engagement-oriented. However, if the reviewed firm has multi-office engagements, the sections' standards for performing and reporting on peer reviews require that, for at least one such engagement, the work performed by the office with primary responsibility for the engagement and the work performed on a significant segment of the engagement by at least one of the domestic offices should be reviewed. If the participating office is not selected for visit, the review can be accomplished by having the appropriate working papers sent to the primary office being visited.

Examples of Factors to Consider When Assessing Inherent Risk

.22 Assessing inherent risk involves evaluating the likelihood the reviewed firm will perform engagements that do not comply with professional standards in the absence of a quality control system. The assessed level of inherent risk may be affected by circumstances arising (a) within the firm (for example, individual partners have engagements in numerous specialized industries), or (b) outside the firm that affect its clients (for example, new professional standards being applied for the first time, changes in regulatory requirements, or adverse economic developments in an industry). In addition, the assessed level of inherent risk may vary from engagement to engagement (for example, inherent risk ordinarily will be greater for an initial public offering than for a nondisclosure compilation of a small privately owned entity).

.23 Examples of factors to consider when assessing inherent risk follow. These factors have been classified according to whether they pertain primarily to offices or to specific engagements. This list is for illustrative purposes only, and does not include all possible inherent risk factors, nor is the peer reviewer required to consider every item on the list when assessing inherent risk.

a. Office Selection

- Number and size (in terms of accounting and auditing hours and personnel) of offices.
- Offices with one or a few engagements comprising a significant portion of the office's accounting and auditing practice.
- Offices with concentrations of high risk engagements (see next section).
- Offices with a pattern of litigation or regulatory actions reported to the quality control inquiry committee.

- Offices identified in the preceding peer or quality review or recent inspections as operating at a level significantly below the firm's quality standards.
- Offices with many SEC clients.
- Offices with concentrations of new engagements that are SEC registrants for which the firm's first report related to a period that ended during the peer review year.
- Offices with new SEC engagements since the prior peer review where, as reported in a form 8-K, or a similar public offering, (1) the former accountant resigned or declined to stand for re-election, (2) there was a reported disagreement over accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or (3) there was a reportable event as defined in item 304(a)(1)(v)(A) through (D) of SEC Regulation S-K.
- Offices with an unreasonably large number of accounting and auditing hours per engagement partner.
- Offices with only one or a few engagements in a specialized industry.
- Offices recently merged, acquired or opened.
- Offices not inspected or not scheduled to be inspected since the last peer review.
- Offices where individual partners practice in many industries.
- Offices in geographic areas that are experiencing economic hardships.
- Offices with numerous clients in industries experiencing economic hardships.

b. Engagement Selection

- Engagement size, in terms of the number of personnel assigned and the hours required to plan and perform it.
- Level of accounting and auditing services performed (for example, audit, review or compilation of historical financial statements).
- Engagements involving merged personnel, experienced personnel hired from other firms, and partners who also have office, regional or firm-wide management, administrative, or functional responsibilities.
- Engagements where work on segments has been referred to other firms, foreign offices, domestic or foreign affiliates, or correspondents.

- Engagements where one or more affiliated entities (for example, parent companies and subsidiaries or brother/sister companies) constitute a large portion of the firm's overall clientele.
- Engagements identified in the firm's quality control system or guidance material as having a high degree of risk.
- Engagements where departures from professional standards and failures to comply with the firm's quality control policies and procedures were noted in the preceding year's inspection.
- Engagements that might be affected by possible weaknesses in the design of or compliance with the firm's quality control system alleged in litigation, proceedings or investigations, particularly in matters reported to the quality control inquiry committee.
- Engagements affected by recently implemented revisions of the firm's quality control policies and auditing procedures.
- Engagements affected by newly effective professional standards.
- Engagements performed by personnel not routinely assigned to accounting and auditing engagements.
- Clients in industries in poor financial condition.
- Clients in poor financial condition.
- Engagements with a high turnover of engagement personnel.
- Clients with complex or sophisticated transactions.
- Engagements from merged-in practices.
- Initial engagements.
- Engagements where reportable conditions in the client's internal controls were reported in the preceding year.
- Engagements where internal audit participation was extensive.
- Engagements where the work of specialists is used in significant areas.
- Engagements that might be affected by the same quality control deficiencies as those that may have been factors in losing other engagements.
- Engagements where MAS fees exceed audit fees.
- SEC Engagements.
- Engagements subject to *Governmental Auditing Standards*.

Extent of Engagement Review

.24 The objectives of the review of engagements are to obtain evidence of (1) whether the reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA to the extent such objectives are applicable to its practice, (2) whether the reviewed firm complied with the policies and procedures that constituted its system of quality control during the year under review, and (3) whether the reviewed firm complied in all material respects with the applicable membership requirements of the section during the year under review. To the extent necessary to achieve these objectives, the review of engagements should include review of financial statements, accountants' reports, working papers, and correspondence, and should include discussions with professional personnel of the reviewed firm.

.25 Since, in most cases, the engagement personnel will not be responsible for establishing firm policies, the reviewer should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the engagement reviews, these matters should be discussed with the team captain.

.26 On individual engagements, reports other than on the basic financial statements (special reports, limited reviews, etc.) may have been issued during the period under review. If such reports have been issued or if separate financial statements have been issued on subsidiaries, the team captain should be consulted regarding the amount of work to be done in these areas on each engagement.

.27 If significant parts of the firm's practice include compilation or review services, cash-basis statements, financial forecasts and projections, etc., certain of those reports and related working papers should be reviewed.

Engagement Review Technique

.28 Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections, memoranda or other working papers describing the company and its business, the firm's audit approach and problem areas. Work is most efficiently completed by first reviewing the "top files," applicable sections of the work programs, correspondence files, consolidating working papers and other key audit area working papers and then completing the engagement review checklist. Then, any unanswered questions on the checklist can be completed by additional reference to the engagement files.

Approach to the Review

.29 The review should give primary emphasis to the reviewed firm's overall approach to the engagement, rather than the specific procedures performed. The engagement review checklists (which can be used for most engagements) contain the following sections:¹

- a. The first section of each checklist contains questions on the accountant's report and the accompanying financial statements and footnotes. This section of the checklist ordinarily would be completed for engagement reviews. However, on peer reviews of firms that have their own report and financial statement disclosure checklist that is completed by the firm's personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm's checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a "Matter for Further Consideration" form.
- b. The second section of the checklists contains questions concerning planning, preliminary and general procedures that normally should be performed for the applicable type of engagement. This section should be completed for each engagement reviewed.
- c. The third section included in the audit engagement checklist contains questions relating to specific audit areas. Although frequently it will not be necessary to answer all of these questions for an audit engagement because of the emphasis on key audit areas, they should be used for guidance concerning the type of questions to be considered when reviewing the audit procedures performed.
- d. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the functional areas of a firm's quality control system. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm, as detailed in the completed peer review program guidelines. For example, a number of the questions are not applicable to sole practitioners

¹ The "Checklist for Review of Audit Engagements of Not-For-Profit Organizations" and the "Checklist for Review of Audit Engagements of State or Local Governmental Entities, including Those Receiving Federal Financial Assistance" include the first four sections discussed herein. In addition, the former checklist includes an additional section on "Audits of Governmental Grantees," and the latter checklist includes an additional section on "Compliance with the Requirements of the Single Audit Act of 1984." In addition, the "Checklist for Review of Compilation Engagements" includes an additional Section on Compilations that omit substantially all disclosures.

without full-time professional staff or additional questions may have to be added regarding the use of required standard forms. These sections should be completed for each engagement reviewed.

- e. The fifth section of the audit engagement questionnaire includes a separate list of questions to be answered on SEC engagements. In order to answer these questions it may be necessary for the reviewer to refer to an SEC or other specialized disclosure checklist.

.30 All "no" answers for each type of engagement should be summarized to assist reviewers in answering questions in PRM §13500, "Peer Review Program Guidelines," and in preparing the summary review memorandum. Reviewers may use the summary engagement review checklists included in PRM §15000, or they may develop their own, for summarizing the peer review findings.

.31 The general checklists for audit, review and compilation engagements were developed for use in reviewing engagements of "for-profit" companies and probably will require extensive modification or supplementation for engagements involving companies in specialized industries (for example, insurance and finance companies). Specialized checklists have been developed for review of audits of state or local government entities, including those receiving federal financial assistance, not-for-profit entities, prospective financial statements and employee benefit plans. In certain specialized industries/areas, supplemental checklists have been developed and should be used in addition to the primary checklists (Audit, Review and Compilation). Industries/areas that have supplemental checklists include: depository institutions, voluntary health and welfare organizations, construction, common interest realty associations, providers of healthcare services and HUD.

.32 Generally, a "no" answer to a question indicates possible noncompliance with a firm policy and/or professional standards. All "no" answers should be cross-referenced to either: (1) an MFC form, or (2) if no MFC was generated, to the standardized comment sheets provided at the end of each checklist. The MFC forms and standardized comment sheets should include a description of the disposition of each "no" answer.

.33 The explanatory comments to "no" answers should be reviewed with the engagement partner to obtain the partner's agreement or to note a disagreement and the reasons.

.34 Except where specifically requested, it is not necessary to document the work the reviewer performed to form an opinion on each question. The answer to the question and the signing of the checklist indicate that the reviewer has completed the necessary testing to answer the question through reading documents or discussions with firm personnel. Naturally, when documentary evidence is available, it should be reviewed. Discussions with personnel should be used only for background purposes, to clarify points, or to provide satisfaction when documentation is not available.

Emphasis on Key Audit Areas

.35 The depth of the review of working papers for particular engagements is left to the judgment of the reviewers; however, the review should ordinarily include all the key areas

of an engagement. Thus, **a page-by-page review of all working papers is not contemplated.** Points to consider in determining the key areas include—

- a. Key areas in the client's industry (for example, revenue recognition for construction companies; inventory and accounts receivable for manufacturing and retail concerns; policy reserves for insurance companies; or loan loss allowances for financial institutions).
- b. Key areas noted during the review of the financial statements and discussions with engagement personnel (for example, review of loan defaults or follow-up of litigation matters).
- c. Key areas identified by the firm in planning or conducting the engagement.
- d. Recent accounting and auditing developments and pronouncements.
- e. Weaknesses noted in other engagements reviewed.
- f. Weaknesses noted by the firm during its inspection program.
- g. Weaknesses noted in the prior peer review or quality review.

.36 The selection of the key areas should be directed toward maximizing the effectiveness of the review, as well as determining the extent to which the firm's personnel recognized the key areas. Ordinarily, in applying the "key area" concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. For example, in some of the initial audit engagements or specialized industry engagements selected for review, attention might be limited to the special areas of the engagements since the engagements were specifically selected to test those areas. In such cases, the reviewer should document in the working papers the reasons why all key areas were not reviewed.² (See Appendix D, SECPS §2000 "Selecting Engagements for Review," in the *SECPS Reference Manual* for additional guidance on the application of the key area concept.)

² In such cases, the reviewer must exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement. If only one or a few specific key areas out of many key areas are reviewed on the engagement, such as only the referring office's supervision and control of the work performed by foreign offices or by domestic or foreign affiliates or correspondents, only the hours devoted to the specific area(s) should be claimed. Conversely, if all but one or two specific key areas out of many key areas are reviewed, the review team ordinarily would be justified in claiming all the hours devoted to the engagement except for those devoted to the key areas that were not reviewed. In situations that fall in between the preceding two cases — that is, when the reviewer has reviewed many, but not virtually all, of the key areas — the review team generally would be justified in claiming a percentage of the total hours on the engagement (or on the unit actually reviewed) equal to the hours on the key areas reviewed divided by the hours devoted to all the key areas on the engagement (or on the unit actually reviewed).

.37 No definitive guidance can be provided regarding the depth of review to be given to these key areas, but the reviewer should evaluate whether the firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements (*AICPA Professional Standards*, Vol. 1, AU Section 326.)

Findings and Conclusions

.38 For each SEC engagement accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously had a peer review) which was reviewed because of a reported disagreement with or the resignation of the former accountant, or because there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K, the review team should conclude, based upon its review of the existing client-acceptance documentation and current or prior periods' files, whether anything came to the review team's attention to cause it to believe the matters or procedures that were the subject of the resignation or disagreement may not have been handled appropriately by the reviewed firm.

.39 For each engagement reviewed, the review team must evaluate and document, based on its review of the engagement working papers and representations from the reviewed firm's personnel, whether anything came to the review team's attention that caused it to believe that (1) the financial statements were not presented in all material respects in accordance with generally accepted accounting principles, (2) the firm did not have a reasonable basis under the applicable professional standards for the report issued, (3) the documentation on the engagement did not support the report issued, or (4) the firm did not comply with its quality control policies and procedures in all material respects. Accordingly, a "conclusions" page must be completed for each engagement reviewed to summarize the results of that review.

.40 In performing engagement reviews, the review team may encounter (a) indications of significant failures by the reviewed firm to reach appropriate conclusions in the application of professional standards which include generally accepted auditing standards, standards for accounting and review services, and generally accepted accounting principles (for example, the reviewed firm may have issued an inappropriate report on a client's financial statements or omitted a necessary auditing procedure), or (b) situations in which the documentation on the engagement does not appear to support the report issued. In either case, the team captain shall promptly inform an appropriate authority within the reviewed firm (generally on an MFC form). In such circumstances the reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken.³ The reviewed firm should advise the review team of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required.

³ The reviewed firm is required under generally accepted auditing standards and the standards for accounting and review services to take appropriate action under certain circumstances with respect to (1) subsequently discovered information that relates to a previously issued report or (2) the omission of one or more procedures considered necessary to support a previously expressed opinion. (See *AICPA Professional Standards*, Vol. 1, AU Sections 561 and 390 and Vol. 2, AR Section 100.42.)

.41 If the reviewed firm believes after investigating the matter that it can continue to support its previously issued report, it should provide the review team with a written explanation of the basis for its conclusion (generally on an MFC form). If the explanation appears reasonable, the review team should consider whether the documentation of the engagement supports the report issued. In evaluating the responses, the review team should recognize that it has not made an examination of the financial statements in accordance with generally accepted auditing standards (or reviewed or compiled them in accordance with the standards for accounting and review services) and that it has not had the benefit of access to the client's records, discussions with the client, or specific knowledge of the client's business.

.42 After reviewing the documentation supporting the actions planned or the documentation explaining why no action is required, the review team may continue to question whether there is a significant failure to reach appropriate conclusions in the application of professional standards. In such cases, the review team would promptly inform an appropriate authority in the reviewed firm and pursue any remaining questions. At this time, the reviewed firm should also be aware that any unresolved issues will be referred promptly to the peer review committee for resolution.

.43 When the reviewed firm concludes there is a significant failure to reach an appropriate conclusion on the application of professional standards on an engagement, the review team should review the firm's plan for addressing the questioned matter and document in the summary review memorandum whether the plan appears appropriate in the circumstances. If those actions are taken prior to the issuance of the peer review report (for example, the report and financial statements are reissued, omitted auditing procedures are performed, or a previously issued report is recalled), the review team should review the documentation supporting such actions. If the actions are not taken prior to the issuance of the report, the review team should advise the reviewed firm that it may be asked by the peer review committee to allow the reviewer to review the documentation supporting such actions when those actions are completed.

Expansion of Scope

.44 If, during the course of the peer review, the reviewed firm concludes that there was a significant failure to reach an appropriate conclusion on the application of professional standards on one or more of its engagements, the review team should consider whether the application of additional review procedures is necessary.⁴ This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the significant failure is indicative of a pattern of such failures and/or of a significant weakness in the reviewed firm's system of quality control or in compliance with the system. Under some circumstances, the reviewer may conclude that, because of compensating controls, or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements. Such additional engagements may be in the same industry, or supervised by the same individual

⁴ See SECPS §2000.77-.83 of the *SECPS Reference Manual* for action(s) required regarding the specific engagement involved.

in the reviewed firm, or otherwise have characteristics associated with the failure to apply professional standards.

Review Team Working Papers

.45 The peer review working papers should include documentation, on an MFC form, of matters that, in the reviewer's opinion, could indicate (1) that one or more of the applicable objectives of quality control standards were not accomplished by the reviewed firm's policies or procedures, or (2) that the reviewed firm did not comply with professional standards, or the policies and procedures that constitute its quality control system or (3) that the reviewed firm did not comply with a membership requirement. The MFC form should include the reviewer's description of the matters, the reviewed firm's agreement or disagreement with the description and its comments on the matter, and the reviewer's and team captain's comments. The MFC form is to be signed in the places indicated by the reviewer, the team captain and an appropriate partner in the reviewed firm (generally the engagement partner or the partner responsible for the applicable area).

.46 On each MFC form, the reviewer should classify the matter into one of the following:

- a. Design — The reviewer believes that the firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.
- b. Performance — The reviewer believes that the reviewed firm failed to adhere to professional standards, including generally accepted accounting principles, generally accepted auditing standards, and statement on standards for accounting and review services, even if such deficiencies would not result in a situation where the firm should consider taking action pursuant to the *AICPA Professional Standards*, Vol. 1, AU Sections 390 or 561.
- c. Compliance-Membership Requirement — The reviewer believes that the reviewed firm did not comply with an applicable membership requirement of the section.
- d. Compliance-Other — The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did comply with professional standards.
- e. Documentation — The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

.47 To the extent that there are disagreements or differences of opinion between the reviewed firm and the team captain with respect to the interpretation or effect of matters included on an MFC form, the staff of the AICPA quality review division should be consulted. The results of all consultations should be documented on the MFC form.

Completion of the Review

.48 At the conclusion of field work, the reviewers should (1) summarize all of their findings (including all "no" answers to the individual engagement checklists and MFCs); (2) evaluate the nature, causes, pattern, pervasiveness, and significance of the deficiencies noted in the design of the firm's quality control system and in the firm's compliance with its system, with professional standards, and with the membership requirements of the section; and (3) consider whether such matters should result in a qualified report, be included in the letter of comments, or otherwise be communicated to the firm. Summary engagement checklists, PRM §15000, have been designed to assist reviewers in preparing the necessary summary of findings, including "no" answers and MFCs. These summaries of findings should also assist the review team captain in preparing the overall summary review memorandum. For additional guidance on use of these summaries, see the instructions for use of the peer review program guidelines included in PRM §13100.

.49 Prior to the issuance of its report and, if applicable, letter of comments, the review team should communicate its conclusions to the reviewed firm. This communication ordinarily would take place at a meeting (exit conference) attended by appropriate representatives of the review team and the reviewed firm. It is normally expected that the managing partner and the partners having firm-wide responsibility for quality control and accounting and auditing will attend this meeting. The review team should notify the AICPA quality review division staff of the date and time of the scheduled exit conference to permit representatives of the peer review committee and/or staff of the Public Oversight Board to attend the exit conference, if they so elect. The parties should discuss the report and letter of comments, if any, as well as any suggestions. Accordingly, the review team, except in rare instances, should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty as to the opinion to be expressed, the review team should postpone the exit conference until a decision has been reached. When discussing its findings, recommendations and suggestions at the conference, the review team should give an in-depth explanation of each matter or suggestion.

.50 For the review of a multi-office firm, in addition to the communication described in the preceding paragraph, the review team for a practice office should communicate its findings to appropriate individuals at the office reviewed.

.51 The peer review program provides that, within 30 days of the date of the exit conference, the review team should submit to the reviewed firm a written report and, if applicable, a letter of comments. A copy of the report, the letter, and a response thereto should be submitted by the reviewed firm to the SECPS Peer Review Committee within 30 days of the date the report and letter were issued.

.52 A disagreement regarding the type of report to be issued or the comments to be included in the letter of comments may arise among the review team members. When the members are unable to resolve such a disagreement, the matter should be documented and referred, through the AICPA quality review division staff, to the peer review committee for resolution.

Retention of Peer Review Working Papers

.53 The following materials should be retained by the entity that formed the review team until the completion of the subsequent review required for continued membership or until the time for such review has elapsed:

- a. The peer review report.
- b. The letter of comments and the firm's response thereto, if applicable.
- c. The letter accepting the peer review report.
- d. The engagement letter.
- e. The scheduling information forms.
- f. The team appointment acceptance letters.
- g. Any extension requests.
- h. The letter documenting the firm's compliance with actions taken as a result of the committee's consideration of the peer review report.

All other materials should be discarded 90 days after acceptance by the peer review committee. If the peer review is intended to meet the requirements of Section 36 of the Federal Deposit Insurance Act, the review team should retain the working papers for a period of 120 days after the date that the reviewed firm files the peer review documents with the Federal Deposit Insurance Corporation.

**PRM
12000**

Team Captain Checklists

PRM Section 12000

12001

AICPA DIVISION FOR CPA FIRMS

TEAM CAPTAIN CHECKLISTS

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SEC PRACTICE SECTION

TEAM CAPTAIN CHECKLISTS

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AICPA DIVISION FOR CPA FIRMS**SEC PRACTICE SECTION****Guidelines for Testing Compliance With MAS Membership Requirements**

.01 This section describes the MAS membership requirements and provides suggested work programs for testing compliance with the requirements at a firm's executive office and as part of the engagement reviews of SEC audit clients.

MAS Membership Requirements

.02 The "Organizational Structure and Functions", SECPS §1000.8(h) and (i) of the *SECPS Reference Manual* requires that member firms:

- a. Adhere to the portions of the AICPA Code of Professional Ethics and Statements on Standards for Management Advisory Services dealing with independence in performing management advisory services for audit clients whose securities are registered with the SEC. Refrain from performing for such clients services that are inconsistent with the firm's responsibilities to the public¹ or that consist of the following types of services:
 - (1) Psychological testing
 - (2) Public opinion polls
 - (3) Merger and acquisition assistance for a finder's fee
 - (4) Executive recruitment as described in Appendix A²
 - (5) Actuarial services to insurance companies as described in Appendix A²
- b. Report annually to the audit committee or board of directors (or its equivalent in a partnership) of each SEC audit client on the total fees received from the client for management advisory services during the year under audit and a description of the types of such services rendered.³

¹ In evaluating whether a service is "inconsistent with the firm's responsibilities to the public," the SECPS Executive Committee has determined that reviewers should be concerned with the firm's role in providing that service and with the firm's independence.

² See Appendix A to the "Organizational Structure and Functions" section (SECPS §1000 of the *SECPS Reference Manual*).

³ See also SECPS §1000.8(g)(13) of the "Organizational Structure and Functions" section for the requirement that member firms provide in its annual report to the SEC practice section information concerning the fees for MAS services performed for SEC audit clients.

Code of Professional Conduct

- .03 When providing management advisory services, a firm must, as in all areas of practice, give consideration to its independence as set forth in the AICPA Code of Professional Conduct particularly in Rule 101. That rule precludes a firm from expressing an opinion on the financial statements of an enterprise which it services in any capacity equivalent to that of a member of management or of an employee. In rendering management advisory services to an audit client, a firm must take steps to ensure that such services do not place the firm in a position similar to that of a member of management or an employee.

Role of MAS Practitioner

- .04 The first Statement on Standards for Consulting Services issued by the AICPA Management Consulting Services Executive Committee specifically deals with independence: "In performing an MAS engagement, an MAS practitioner should not assume the role of management or take any positions that might impair the MAS practitioner's objectivity."

Evaluating a Firm's Role

- .05 To obtain a general familiarity with and to evaluate a firm's role in a particular MAS engagement, pertinent engagement documents should be reviewed. Considerations in evaluating a firm's role in a particular MAS engagement include—
 - a. The firm's understanding with the client regarding the respective roles and responsibilities of the firm and the client.
 - b. Management's participation in the engagement.
 - c. The firm's communications to the client on the significant alternatives considered and the reasoning supporting any recommendations.

**TESTING COMPLIANCE WITH MAS MEMBERSHIP REQUIREMENTS
SUGGESTED EXECUTIVE OFFICE WORK PROGRAM**

(Name of Firm)

Before Practice Office Reviews

- 1. If applicable, obtain from the firm and read a description of:
 - a. The firm’s policies and procedures established to provide the firm with reasonable assurance of compliance with the MAS membership requirements.
 - b. How the firm monitors compliance with such policies and procedures.
- 2. If the firm has an inspection program that tests for compliance with the MAS membership requirements, review the scope, findings, and conclusions of the most recent inspection program as they relate to the MAS membership requirements.
- 3. To the extent compliance can be tested at the executive office, test compliance with the firm’s policies and procedures established to provide the firm with reasonable assurance of compliance with the MAS membership requirements.
- 4. Consider the results obtained from the above procedures and make appropriate changes to the suggested engagement work program.

Initial	Date

After Practice Office Reviews

- 5. Summarize the scope, findings, and conclusions of the engagement reviews.

Conclusions

- 6. Based on the results obtained from the foregoing procedures, are the firm's policies and procedures established to provide the firm with reasonable assurance of conforming with the MAS membership requirements:
 - a. Appropriately comprehensive and suitably designed for the firm?*
 - b. Adequately documented and communicated to professional personnel?*
- 7. While performing the foregoing procedures, did anything come to your attention that caused you to believe that the firm:
 - a. Did not adhere to the portions of the AICPA Code of Professional Conduct or the MAS Standards dealing with independence when performing management advisory services for SEC audit clients? **
 - b. Performed proscribed services for SEC audit clients? **

Yes	No

* Although it may be desirable, a firm is not required to establish policies and procedures to provide it with reasonable assurance of conforming with the MAS membership requirements; accordingly, a "no" answer could result in a comment in the letter of comments, but it would not result in a modified report.

** A "yes" answer probably would result in a comment in the letter of comments and perhaps in a modified report.

TESTING COMPLIANCE WITH MAS MEMBERSHIP REQUIREMENTS
SUGGESTED ENGAGEMENT WORK PROGRAM

This program should be completed for each SEC audit client reviewed if the reviewed practice office issued the firm’s audit report. (If several SEC audit clients are selected for review, a sample of MAS engagements may be selected from all such engagements performed for these clients.)

If the reviewed practice office is responsible for SEC audit clients for which the MAS fees exceed 100% of the audit fees, this program should also be completed for a sample of the MAS engagements performed for those SEC clients.

(Office Number)

(Engagement Number)

1. Review the firm’s documentation of compliance with the membership requirement that a member firm report annually to the audit committee or board of directors (or its equivalent in a partnership) of each SEC audit client on the total fees received from the client for management advisory services during the year under audit and a description of the types of such services rendered.
2. From the information obtained above, select a sample of MAS engagements *performed by U.S. practice offices*. Include the practice office that issued the firm’s audit report and other offices that performed MAS engagements for that SEC audit client.
3. For each MAS engagement included in the sample, perform the following procedures to obtain a general familiarity with the firm’s role in the MAS engagement:
 - a. To the extent necessary, read the written report issued upon completion of the engagement, or if no such report was issued, read the file memorandum documenting the significant recommendations and other pertinent information discussed with the client.

Initial	Date

- b. If you are unable to obtain a general familiarity with the firm's role by performing procedure a., perform one or more of the following procedures to the extent necessary to obtain such familiarity:
 - i. Read the documentation of the firm's initial understanding with the client and any significant changes made in the nature or scope of the engagement as the work progressed. The documentation may consist of a contract, a letter of understanding, or a file memorandum summarizing the terms of an oral agreement.
 - ii. Read the engagement plan and any revisions to it.
 - iii. Discuss the MAS engagement with the personnel responsible for the MAS engagement.
 - iv. Read any interim reports.
 - v. Review selected working papers.

Initial	Date

4. Conclusions—While performing the foregoing procedures, did anything come to your attention that caused you to believe that the firm:
- a. Did not adhere to the portions of the AICPA Code of Professional Conduct the MAS Standards dealing with independence?*
 - b. Performed a proscribed service?*

Yes	No

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* If yes, explain the findings that led to this conclusion.

AICPA DIVISION FOR CPA FIRMS

SEC PRACTICE SECTION

Review Team Captain Checklist

This checklist should be used on peer reviews conducted by committee-appointed review teams in conjunction with the General Instructions to Reviewers and other guidance material issued to implement the peer review program of the SEC Practice Section of the AICPA Division for CPA Firms. References are to *Standards for Performing and Reporting on Peer Reviews*. (Section 2000 in the *SECPS Reference Manual*, loose-leaf edition.)

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (201) 938-3030.

I. Prior to the Review

1. Review background information furnished by the firm for completeness and obtain additional information, if needed (*Standards*, SECPS §2000.46). If the firm has had a significant acquisition of another practice, or divestiture of a portion of its practice during or subsequent to the peer review year, consult with the Peer Review Committee to determine the scope of the review (*Standards*, SECPS §2000.43).
2. Discuss with AICPA staff the composition of the review team. Consider the need for individuals with expertise in specialized areas (*Standards*, SECPS §2000.22-.27) and the requirement that reviewers be independent of the reviewed firm (*Standards*, SECPS §2000.12-.18 and Appendix A, SECPS §2000.135). Review and approve the composition of the review team.
3. Discuss with AICPA staff the estimated date of the firm-wide exit conference.¹

Initial	Date

¹ The review team ordinarily should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty about the type of report to be issued, the review team should postpone the exit conference until a decision is reached (*Standards*, SECPS §2000.85-.86).

4. Call (or visit) the firm sufficiently in advance (ordinarily three weeks) of the review in order to make necessary arrangements. During the call (or visit):
 - a. Make certain that the firm has completed the Quality Control Policies and Procedures Questionnaire portion of the *Peer Review Program Guidelines* (PRM §13200).
 - b. Obtain and evaluate documentation summarizing the inspection program implemented by the firm (*Standards*, SECPS §2000.48-.59).
 - c. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) that have been purchased from another accounting firm or some other third party and that have been reviewed by an independent third party, obtain a copy of the most recent report, letter of comments, and response thereto issued in conjunction with the review of those materials (*Peer Review Program Guidelines*, PRM §13300, pp. 13315 and 13338).
 - d. Obtain the following lists from the firm:²
 - Those SEC audit clients for which the fees for management advisory services exceed the audit fees.
 - New SEC engagements (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to a period that ended during the firm's peer review year [SECPS 2000.46(c)(6)].
 - Those SEC engagements accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously had a review) where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, or

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² In addition, the reviewer may wish to consider obtaining a list of SEC engagements where since the end of the last peer review year the firm ceased to be the auditor.

in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection), or there was a reported disagreement over any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or there was a reportable event as defined in item 304(a)(1)(v) of SEC Regulation S-K [SECPS §2000.46(c)(5)].

- e. Inquire whether the firm has had a previous peer or quality review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents from the reviewed firm (*Standards*, SECPS §2000.66).
- f. In setting the scope of the review, consider litigation, proceedings, or investigations against the firm or its personnel reported to the Quality Control Inquiry Committee since the date of the firm’s last peer review (*Standards*, SECPS §2000.65).
- g. Request firm to designate a partner or senior staff member as liaison to provide administrative assistance to the review team.
- h. Discuss the travel and hotel arrangements for the review, engagement letter, period to be reviewed (*Standards*, SECPS §2000.40), timing of exit conference, etc.
- i. Ascertain which persons in the firm are responsible for the various quality control functions and arrange an interview schedule for the review team with such persons.
- j. Inquire whether —
 - (1) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm’s accounting and auditing practice and, if available, the results thereof.

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- (2) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing, that were effective during the period since the firm’s last review (or since joining the Division for CPA Firms, whichever is later), and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (such as the SEC, DOL, GAO). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s action to comply with such restrictions or limitations.
- (3) There are any other situations that may affect the scope of the peer review.
- k. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for visit (*Standards*, SECPS §2000.60-.68). Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visits are not expected to be on a surprise basis.
- l. Select a review period which covers a current period of one year. This review period should be mutually agreed upon by the reviewed firm and the review team captain (*Standards*, SECPS §2000.40 and Appendix B, SECPS §2000.136). 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 coincide with the reviewed firm’s fiscal year-end.
- m. Make an initial selection of engagements for review. Engagements selected for review should be those with years ending during the period under review unless a more recent report has been issued at the time of selection. Large, complex, and high risk engagements, and the firm’s initial audits of clients, should be given greater weight in selecting engagements. In addition, at least one of each of the following types of engagements should be selected for review:
 - SEC engagements.
 - Engagements performed during the peer review year, or subsequently, in connection with a filing under the Securities Act of 1933 [*Standards*, SECPS §2000.70(d)].
 - SEC clients where the fees for management advisory services exceed the audit fees [*Standards*, SECPS §2000.70(a)].

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- Engagements subject to the *Government Auditing Standards* if the review is intended to satisfy the requirements of those standards [*Standards*, SECPS §2000.70(f)].
- Federally insured depository institution engagements with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act established by the Federal Deposit Insurance Corporation Improvement Act of 1991 [*Standards*, SECPS §2000.70(g)].
- Multi-office engagements (the work performed by the office with primary responsibility for the engagement and by at least one of the domestic offices that performs work on a significant segment of the engagement) [*Standards*, SECPS §2000.70(e)].
- All engagements, or portions of all engagements, in the offices visited that are on both the list described in the second bullet (new SEC engagements) and the list described in the third bullet (resignations or reported disagreements on new SEC engagements) of step I.4(d) in PRM §12100 p. 12122. In any event, at least one engagement on the list described in the second bullet should be reviewed in each office visited [*Standards*, SECPS §2000.70(b) and (c)].
- In addition, because of the attention focused by regulators and legislators on audits conducted pursuant to the Employee Retirement Income Security Act (ERISA) of 1974, the peer review should include at least one such audit engagement if the firm intends to continue to perform such audits pursuant to that Act [*Standards* SECPS §2000.70(h)].

(Deviations from these requirements may be necessary. In such cases, consider consultation with the AICPA staff.)

- n. For those engagements selected, request the firm to complete the profile sheets of the engagement review checklists.³ In order to maintain client confidentiality, code numbers should be assigned to engagements selected. If

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³ To minimize any inference that advance selections may afford undue opportunities for last minute "clean-up" of the files, it is preferable that the selection of some engagements not be made known to the firm (or office) until the review team arrives (*Standards*, Appendix E SECPS §2000.139).

the engagement working papers are not located at the practice office to be visited, request the firm to arrange for the working papers to be forwarded [*Standards*, SECPS §2000.70(e)].

- o. If the firm states that certain engagements that you have selected are not to be reviewed, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances and whether the engagements excluded from review place a limitation on the scope of the review (*Standards*, SECPS §2000.44).
- p. Contact all review team members (if any) to discuss arrangements with them.

II. At Beginning of Review (Before Starting)

1. Arrive at the firm's office prior to the other review team members in order to perform preliminary planning, as necessary.
2. Meet with reviewers to orient them to firm policies and procedures. Each team member should read the sections of the firm's quality control policies and procedures questionnaire and the 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 as to 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 (*Standards*, SECPS §2000.87-.90). Explain the method of documenting the matters that, in the reviewer's opinion, could be significant deficiencies in the design of the firm's quality control procedures or significant lack of compliance therewith and that might affect the review team's report or be included in the letter of comments. (The form provided for documentation of such items is captioned "Matter for Further Consideration.")
5. Make final selection of engagements for review. Request the firm to fill out the profile sheets and to provide the working papers and other client files.
6. Explain "key-area" concept of engagement reviews to reviewers. (See "Emphasis on Key Audit Areas" in the Instructions to Reviewers.)

Initial	Date

- 7. Assign responsibilities for review of the functional quality control areas, engagements, and membership requirements. (Engagement reviewers must be independent with respect to the engagement and not have a conflict of interest— *Standards*, SECPS §2000.12-.18 and Appendix A, SECPS §2000.135). Time must be scheduled to permit proper supervision and review of the work of the reviewers.
- 8. If the firm was previously reviewed (*Standards*, SECPS §2000.66):
 - a. Document the review team’s evaluation of the actions taken by the firm in response to the prior report and letter of comments.
 - b. Consider whether matters, if any, discussed in the firm’s prior report, letter of comments, and response thereto require additional emphasis in the current review.

III. During the Review

- 1. Gain an understanding of the firm’s professional management environment and the business environment in which the firm and its clients practice.
- 2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm’s 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. Ascertain that the scope of the peer review includes an adequate sample of audit and accounting engagements and consider whether there is a need for further modifications in program or approach.
- 4. Ascertain that for all engagements included on the listing obtained in the third bullet of item 1.4(d) the review procedures performed include a review of (1) the existing client-acceptance documentation that relates to the matters or procedures that were the subject of the resignation, disagreement or reportable event, and (2) such current or prior period’s engagement working papers, financial statements or auditor’s reports to the extent considered necessary to be able to evaluate whether the matters or procedures were handled appropriately.
- 5. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).

Initial	Date

- 6. Consult with AICPA staff (and indicate name and date below) whenever any of the following situations develop:

AICPA Technical Manager Consulted:

Name _____ Date _____

- a. When difficulties are encountered or circumstances appear to dictate departure from the guidelines — e.g., such as in selection of engagements for review.
 - b. When difficulties are encountered in selecting a reasonable cross section of the firm’s accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.
 - c. When the review team feels it does not have the expertise required to satisfactorily accomplish the required engagement reviews.
 - d. When consideration is being given to discontinuing the review.
 - e. When the team encounters a situation where it and the reviewed firm disagree about whether there is a need to take action to prevent future reliance on a previously issued report, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 561.
 - f. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need for additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 390.
 - g. When the review team encounters a situation where it and the reviewed firm disagree about whether the firm had a reasonable basis under the standards for accounting and review services for the report issued.
 - h. When issuance of a modified report is being considered.
 - i. When no letter of comments will be issued.
- 7. Prepare a summary of "no" answers on engagements for each office reviewed (see PRM §15100, 15200, and 15300). It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.

Initial	Date

- 8. Review the summary of "no" answers on engagements (Step 7) and ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
- 9. 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.
- 10. 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 using the format suggested in Appendix A to this checklist.
- 11. Prepare the summary review memorandum (*Standards*, SECPS §2000.89 and Appendix A to this checklist).
- 12. Develop a list of points to be discussed at the exit conference. Give appropriate consideration to the distinction between matters that may require modification of the report, other matters that should be included in the letter of comments, and other comments or suggestions.
- 13. Notify AICPA staff promptly if there is a change in the date of the exit conference.

IV. At Completion of Review

- 1. Communicate findings to appropriate individuals at exit conference (*Standards*, SECPS §2000.85-.86).⁴ The captain should direct the conference to the maximum extent possible. Discuss with the firm:
 - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
 - b. It is the firm's responsibility to send the report, and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
 - c. The letter of response should be addressed to the Peer Review Committee and should describe the action(s) taken or planned with respect to each matter included in the letter of comments.

Initial	Date

⁴ See footnote 1.

- d. The actual costs incurred to date (time and expenses) plus anticipated cost to complete all aspects of the review.
- 2. Complete the "Early Notification Form" and mail to the AICPA's Quality Review Division within three days of the exit conference. (Use attached notification form — Appendix C)
- 3. Prepare appropriate report on results of the review on AICPA letterhead. (*Standards*, SECPS §2000.91-.107 See also III. 6h above).
- 4. Prepare letter of comments, if any, on AICPA letterhead (*Standards*, SECPS §2000.108-.113 See also III. 6i).
- 5. Complete summary review memorandum which should cover the matters included in the attached Appendix A and should be placed in the working papers. (Also, see *Standards*, SECPS §2000.89.)
- 6. Within 30 days of the exit conference, submit report and letter of comments, if any, to the firm.
- 7. Communicate any suggestions on how to improve auditing standards to the AICPA Auditing Standards Division. (See attached Appendix B.) (This communication is optional.)
- 8. Notify AICPA staff that review has been completed and that report and letter of comments, if any, have been issued. (Use attached notification form - Appendix D.)
- 9. Prepare evaluations of review team members utilizing forms supplied by AICPA and place in working papers.
- 10. When completed and in condition for review, send all working papers to the AICPA Quality Review Division by an insured carrier. The files should be segregated as follows and should be sent under separate cover:
 - Working papers dealing with individual engagement reviews.
 - Remainder of working papers, including office and firm-wide summary review memorandums and summary engagement checklists.

Initial	Date

11. Approve bills for time and expenses of review team members and submit them along with your own bill to the AICPA Quality Review Division for payment. (Reviewers will be paid directly by the AICPA.) Make sure the bills include the federal employer identification number for Form 1099 purposes. To expedite processing of your bill(s) it is recommended that you mail the bill(s) under separate cover.

Initial	Date

AICPA DIVISION FOR CPA FIRMS**SEC PRACTICE SECTION****Instructions for Use of
Summary Review Memorandum
Questionnaire**

The "Standards for Performing and Reporting on Peer Reviews" require that a summary review memorandum (SRM) be prepared. The purpose of the SRM is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments issued, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.

Separate SRMs ordinarily should be prepared for each office visited, and a firm-wide SRM should be prepared describing the overall findings and conclusions.

The attached questionnaire, if properly completed, should provide the documentation necessary to meet the aforementioned objectives. If there is insufficient space in the questionnaire to fully describe any matters, additional sheets should be used and attached to the questionnaire.

Experience indicates that the questionnaire can best be utilized for peer reviews of firms with three or fewer offices. Peer reviews of firms with more than three offices may require a separately prepared and more detailed memorandum.

A copy of the firm-wide summary review memorandum and of an appropriate team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.

AICPA DIVISION FOR CPA FIRMS

SEC PRACTICE SECTION
SUMMARY REVIEW MEMORANDUM
Firm-Wide

Reviewed Firm's Name _____

Reviewed Firm's Address _____

Peer Review Year End _____

Timing of Review:

Commencement _____

Exit Conference _____

Issuance of report and, if applicable, letter of comments _____

Mailing of working papers to the AICPA Quality Review Division _____

I. Description of Firm

A. Professional Staff Profile (if the firm has more than one office, consider providing the breakdown by office):

Partners (or equivalent)

Managers (or equivalent)

Other Professionals

TOTAL

=====

B. Indicate extent of industry specializations, if any:

II. Scope of Work Performed

A. Accounting and Auditing Statistics:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients ¹								
Other SEC Engagements ²								
"Yellow Book" ³								
ERISA								
Other								
Reviews ⁴								
Compilations ⁴								
Other Accounting Services ⁵								
	=====	=====	=====	=====	=====	=====	=====	=====

B. Engagements Reviewed:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients ¹								
Other SEC Engagements ²								
"Yellow Book" ³								
ERISA								
Other								
Reviews ⁴								
Compilations ⁴								
Other Accounting Services ⁵								
	=====	=====	=====	=====	=====	=====	=====	=====
Percentage of A&A Practice Reviewed	=====	=====	=====	=====	=====	=====	=====	=====

¹ Includes clients for which the firm is the principal auditor-of-record pursuant to the first paragraph of the definition contained in Appendix D SECPS §1000.38 of the *SECPS Reference Manual*.

² Includes other engagements defined as SEC engagements pursuant to the second paragraph of the definition contained in Appendix D SECPS §1000.38 of the *SECPS Reference Manual*.

³ Includes audits of entities subject to Generally Accepted Government Auditing Standards ("Yellow Book").

⁴ The number of engagements should include all monthly, quarterly, and annual reports issued.

⁵ Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting control, its financial forecast, the results of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement, etc.

C. Did the firm perform any audits of federally insured depository institutions with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes ___ No ___. If yes, how many were included in the scope of the peer review? ___.

III. Planning the Review

A. Composition of Review Team:

1. Team Captain _____

Firm _____ Position _____

Areas of Experience⁶ _____

2. Team Member _____

Firm _____ Position _____

Areas of Experience⁶ _____

3. Team Member _____

Firm _____ Position _____

Areas of Experience⁶ _____

B. Describe basis for and degree of reliance on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

⁶ As it relates to the reviewed firm's practice.

C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

D. Development of Review Program:

1. Describe peer review programs used and indicate any deviations therefrom:

2. Describe number of offices selected and basis for selection:

3. Describe basis for selection of engagements:

E. In setting the scope of the review, did you consider the effect, if any, of litigation, proceedings, or investigations against the firm or its personnel reported to the Quality Control Inquiry Committee since the date of the firm's last peer review?
Yes___ No___. If no, give reason(s). (Specific litigation should not be identified.)

F. If the reviewed firm performs management advisory services for SEC audit clients and the fees for such services exceed the audit fees, did you select one or more such audit engagements for review? Yes__ No__ N/A__. If no, give reasons.

IV. Functional Areas and Engagements Not Reviewed

A. Indicate functional areas not reviewed and give reasons:

B. Were you requested not to review any engagements? Yes __ No __. If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

V. Overall Findings and Conclusions:

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes __ No __. If yes, attach a copy. If no, give reason why no letter of comments was issued.

C. If the firm was previously peer reviewed, were any matters noted on the previous peer review repeated in the letter of comments on the current review? Yes __ No __. If yes, please describe what the firm has done or plans to do to prevent a recurrence of the matter(s) and whether you concur with the actions taken or planned.

D. Did the reviewed firm accept any SEC engagements since the end of the last peer review year (or for the year under review, whichever comes later, if the reviewed firm has not previously undergone a peer review) where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, or in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection) or there was a reported disagreement over any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K? Yes ____ No ____ . If yes, how many? ____ . For such engagements, did the review disclose any information that led the reviewers to question whether the matters or procedures that were the subject of the resignation, disagreement or reportable event were handled appropriately by the reviewed firm? Yes ____ No ____ . If yes, describe such situations fully and indicate whether they led the reviewers to conclude that the reviewed firm should consider taking certain actions pursuant to AU Sections 561 or 390 [see questions V.I and J on pp. 12143 and 12144].

E. If the firm performed an inspection for the year covered by the peer review, or for a period close to the peer review year, do the inspection findings differ in one or more significant respects from the findings of the peer review? Yes__ No__ . If yes, briefly describe the general nature of the differences and their effects on the scope of the peer review.

I. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor's/accountant's report was not appropriately modified? (AU561 and ET203) Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions.⁸ _____

⁸ If corrective actions are taken prior to the Committee's acceptance of the peer review documents, review the documentation of such action and submit an addendum to this document describing that review and indicating whether you concur with the action.

J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU390 and ET202)? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate.

5. If the firm has not performed the necessary procedures, indicate whether you concur with its planned actions.⁹ _____

⁹ See footnote 8.

K. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accounting and review services (ET202)? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions.¹⁰ _____

¹⁰ See footnote 8.

L. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accountant's services on prospective financial information or any other standards not encompassed in items I, J, and K of this section? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions.¹¹ _____

¹¹ See footnote 8.

M. If reliance is being placed on the firm’s inspection program for the current year, did the reviewed firm’s inspection program identify any engagements on which the firm must consider taking action pursuant to the standards cited in Items I, J, K, and L of this section? Yes ___ No ___. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

Team Captain _____

Date _____

ATTACHMENT

Cost Information (Required only for committee-appointed review teams)

A. Budget to Actual Comparison

	<u>Budgeted Hours</u>	<u>Actual Hours</u>		
		<u>Total</u>	<u>Team Captain</u>	<u>Team Member(s)</u>
Planning	_____	_____	_____	_____
Review of Quality Control System and Membership Requirements	_____	_____	_____	_____
Engagement Reviews	_____	_____	_____	_____
Staff Interviews	_____	_____	_____	_____
Review of Working Papers	_____	_____	_____	_____
Reporting	_____	_____	_____	_____
Exit Conference	_____	_____	_____	_____
Other (describe if significant)	_____	_____	_____	_____
Total Hours	=====	=====	=====	=====
Range per Engagement Letter	_____			
Rate/Hour			_____	_____
Total Amount			=====	=====

B. Was the actual costs (time and expenses) discussed with the firm? Yes ___ No ___.

C. Does actual time exceed the upper end of the estimated range by more than 10%? Yes ___ No ___. If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

Team Captain _____

Date _____

(Optional)

Comments to Improve Auditing Standards

A significant potential benefit of the peer review and quality review program is the opportunity it provides to identify areas of practice where improvements can be made in the professional standards. Representatives of the SECPS and PCPS Peer Review Committees and the AICPA Quality Review Executive Committee meet annually with representatives of the Auditing Standards Board to discuss the implications of peer review and quality review results for standard setting. However, the committees believe the personal advice of those participating in peer reviews and quality reviews needs to be added to the process.

Your observations of the policies and practices in many different firms and your judgments about the efficient and effective application of professional standards are potentially valuable sources of input for the Board. The Auditing Standards Board would appreciate receiving your comments on the attached questions as well as any other information that would be helpful to the standard-setting process. Responses should address areas where standards can be improved rather than specific peer or quality review engagements and should not include the names of any reviewed firms. Responses should be sent directly to Dan M. Guy, Vice President-Auditing, AICPA, 1211 Avenue of the Americas, New York, NY 10036. The Auditing Standards Board thanks you in advance for your contribution.

**American Institute of Certified Public
Accountants
Division for CPA Firms
SEC Practice Section**

Questionnaire

(use additional sheets for your comments, if necessary)

1. Is there particular guidance in any Statement on Auditing Standards or auditing interpretation that practitioners have difficulty applying? Yes ___ No ___. Please cite specific paragraph numbers of the pronouncements to which the problems relate and descriptions of those problems.

2. If you identified a problem above please make specific suggestions for making the pronouncements clearer or more useful.

3. Have you identified any other areas of practice where additional guidance is needed? Yes ___ No ___. If yes, please provide a description of those areas.

Team Captain _____

Address _____

Date _____

SEC PEER REVIEW PROGRAM**Early Notification Form****Instructions**

Team captains are asked to complete the following information after holding the exit conference and to mail the form to the address noted below within three days of the exit conference. Team captains are also asked to communicate any changes in the exit conference date on a peer review to the Quality Review Division (201/938-3030) as soon as that change takes place.

Requested Information

1. Firm Name _____.
2. Firm Number or Review Number _____.
3. The exit conference was held on (date) ____ / ____ / ____.
4. The review team (circle) **DOES** / **DOES NOT** anticipate problems issuing the peer review report and letter of comments within 30 days of the exit conference date, as required.
5. The review team anticipates issuing an (circle) **UNQUALIFIED** / **MODIFIED** / **ADVERSE** report on this peer review.
6. There (circle) **ARE** / **ARE NOT** unresolved questions about the firm's compliance with professional standards for one or more engagements.

Team Captain Signature: _____ Date: _____

When completed, this form should be immediately sent to:

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

FAX: 201 / 938-3056

AICPA DIVISION FOR CPA FIRMS
SEC PRACTICE SECTION
REVIEW COMPLETION NOTIFICATION FORM

Date: _____

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

From: _____
(Name of the Review Team Captain)

Re: Review of _____

Firm Number _____ Review Number _____

1. On what date was the firm-wide exit conference held? _____ / _____ / _____

2. When was the report delivered to the reviewed firm? _____ / _____ / _____

3. What was the general nature of the report? * _____

4. If the report was qualified, what were the reasons for the qualification? * • •

5. When will the working papers be shipped to the AICPA Quality Review Division? _____ / _____ / _____

* * * * *

Team Captain Signature: _____ Date: _____

* Please use the report codes on reverse. More than one reason can be indicated.

REPORT CODES

GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Modified—Quality Control System (only)
- 4 Modified—Membership Requirements of the Division for CPA Firms (only)
- 5 Modified—Scope Limitation (only)
- 6 Modified—Quality Control System and Membership Requirements of the
Division for CPA Firms
- 7 Adverse

REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

- 401 Continuing Professional Education
- 402 Partner Rotation
- 403 Concurring Partner Review
- 404 Reporting to Audit Committees
- 405 Reporting to QCIC
- 406 Statement of Philosophy
- 499 Other

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AICPA DIVISION FOR CPA FIRMS

SEC PRACTICE SECTION

**Review Team Captain Checklist
for Firm-on-Firm, Association-Sponsored
and State Society-Sponsored
Peer Reviews**

This checklist should be used in conjunction with the other materials used by your entity to implement the peer review program of the SEC Practice Section of the AICPA Division for CPA Firms. A copy of this checklist should be submitted to the AICPA together with a copy of the firm-wide summary review memorandum (Appendix A), including copies of any documents incorporated by reference. Questions regarding the use of this checklist or about the review in general should be directed to the AICPA Quality Review Division at (201) 938-3030.¹

I. Prior to the Review

- 1. Review background information furnished by the firm for completeness and obtain additional information, if needed (*Standards*, SECPS §2000.46). If the firm has had a significant acquisition of another practice, or divestiture of a portion of its practice during or subsequent to the peer review year, consult with the Peer Review Committee to determine the scope of the review (*Standard* SECPS §2000.43).
- 2. Notify the AICPA staff of the composition of the review team. Consider the need for individuals with expertise in specialized areas (*Standards*, SECPS §2000.22-.27) and the requirement that reviewers be independent of the reviewed firm (*Standards*, SECPS §2000.12-.18 and Appendix A, SECPS §2000.135). Review and approve the composition of the review team.

Initial	Date

¹ If the AICPA Review Team Captain Checklist for committee-appointed reviews or a similar checklist is used, it may be submitted in place of this checklist.

3. Notify the AICPA staff of the estimated date of the firm-wide exit conference so that the SECPS Peer Review Committee and/or POB staff can coordinate oversight if appropriate.²
4. Call the firm sufficiently in advance of the review in order to make necessary arrangements. During the call:
 - a. Make certain that the reviewed firm has received a letter from the Quality Review Division confirming that it has received the information about the firm and the review team. If the letter was not received, contact the Quality Review Division.
 - b. Make certain that the firm has completed the Quality Control Policies and Procedures Questionnaire portion of the *Peer Review Program Guidelines* (PRM §13200).
 - c. Obtain and evaluate documentation summarizing the inspection program implemented by the firm (*Standards*, SECPS §2000.48-.59).
 - d. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) that have been purchased from another accounting firm or some other third party and that have been reviewed by an independent third party, obtain a copy of the most recent report, letter of comments, and response thereto issued in conjunction with the review of those materials (*Peer Review Program Guidelines*, PRM §13300, pp. 13315 and 13338).
 - e. Obtain the following lists from the firm:³
 - Those SEC audit clients for which the fees for management advisory services exceed the audit fees.

Initial	Date

² The review team ordinarily should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty about the type of report to be issued, the review team should postpone the exit conference until a decision is reached (*Standards*, SECPS 2000.85-.86).

³ In addition, the reviewer may wish to consider obtaining a list of SEC engagements where since the end of the last peer review year the firm ceased to be the auditor.

- New SEC engagements (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to a period that ended during the firm's peer review year [SECPS §2000.46(c)(6)].
 - Those SEC engagements accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously had a review) where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, or in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection), or there was a reported disagreement over any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or there was a reportable event as defined in item 304(a)(1)(v) of SEC Regulation S-K [SECPS §2000.46(c)(5)].
- f. Inquire whether the firm has had a previous peer or quality review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents from the reviewed firm (*Standards*, SECPS §2000.66).
- g. In setting the scope of the review, consider litigation, proceedings, or investigations against the firm or its personnel reported to the Quality Control Inquiry Committee since the date of the firm's last peer review (*Standards*, SECPS §2000.65).
- h. Ascertain which persons in the firm are responsible for the various quality control functions and arrange an interview schedule for the review team with such persons.
- i. Inquire whether —
- (1) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm's accounting and auditing practice and, if available, the results thereof.

Initial	Date

- (2) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing, that were effective during the period since the firm’s last review (or since joining the Division for CPA Firms, whichever is later), and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (such as the SEC, DOL, GAO). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s action to comply with such restrictions or limitations.
- (3) There are any other situations that may affect the scope of the peer review.
- j. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for visit (*Standards*, SECPS §2000.60-.68). Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visits are not expected to be on a surprise basis.
- k. Select a review period which covers a current period of one year. This review period should be mutually agreed upon by the reviewed firm and the review team captain (*Standards*, SECPS §2000.40 and Appendix B, SECPS §2000.136). 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 coincide with the reviewed firm’s fiscal year-end.
- l. Make an initial selection of engagements for review. Engagements selected for review should be those with years ending during the period under review unless a more recent report has been issued at the time of selection. Large, complex, and high risk engagements, and the firm’s initial audits of clients, should be given greater weight in selecting engagements. In addition, at least one of each of the following types of engagements should be selected for review:
 - SEC engagements.
 - Engagements performed during the peer review year, or subsequently, in connection with a filing under the Securities Act of 1933 [*Standards*, SECPS §2000.70(d)].
 - SEC clients where the fees for management advisory services exceed the audit fees [*Standards*, SECPS §2000.70(a)].

Initial	Date

- Engagements subject to the *Government Auditing Standards* if the review is intended to satisfy the requirements of those standards [*Standards*, SECPS §2000.70(f)].
- Federally insured depository institution engagements with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act established by the Federal Deposit Insurance Corporation Improvement Act of 1991 [*Standards*, SECPS §2000.70(g)].
- Multi-office engagements (the work performed by the office with primary responsibility for the engagement and by at least one of the domestic offices that performs work on a significant segment of the engagement) [*Standards*, SECPS §2000.70(e)].
- All engagements, or portions of all engagements, in the offices visited that are on both the list described in the second bullet (new SEC engagements) and the list described in the third bullet (resignation or reported disagreements on new SEC engagements) of step I.4(e) in PRM §12100 p. 12163. In any event, at least one engagement on the list described in the second bullet should be reviewed in each office visited [*Standards*, SECPS §2000.70(b) and (c)].
- In addition, because of the attention focused by regulators and legislators on audits conducted pursuant to the Employee Retirement Income Security Act (ERISA) of 1974, the peer review should include at least one such audit engagement if the firm intends to continue to perform such audits pursuant to that Act [*Standards*, SECPS §2000.70(h)].

(Deviations from these requirements may be necessary. In such cases, consider consultation with the AICPA staff.)

- m. For those engagements selected, request the firm to complete the profile sheets of the engagement review checklists.⁴ In order to maintain client confidentiality, code numbers should be assigned to engagements selected. If the engagement working papers are not located at the practice office to be visited, request the firm to

Initial	Date

⁴ To minimize any inference that advance selections may afford undue opportunities for last minute "clean-up" of the files, it is preferable that the selection of some engagements not be made known to the firm (or office) until the review team arrives (*Standards*, Appendix E, SECPS §2000.139).

arrange for the working papers to be forwarded [*Standards*, SECPS §2000.70(e)].

- n. If the firm states that certain engagements that you have selected are not to be reviewed, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances and whether the engagements excluded from review place a limitation on the scope of the review (*Standards*, SECPS §2000.44).

II. At Beginning of Review (Before Starting)

- 1. Arrive at the firm’s office prior to the other review team members in order to perform preliminary planning, as necessary.
- 2. Meet with reviewers to orient them to firm policies and procedures. Each team member should read the sections of the firm’s quality control policies and procedures questionnaire for documentation of such items is captioned "Matter for Further Consideration."
- 3. Make final selection of engagements for review. Request the firm to fill out the profile sheets and to provide the working papers and other client files.
- 4. Explain "key-area" concept of engagement reviews to reviewers. (See "Emphasis on Key Audit Areas" in the Instructions to Reviewers.)
- 5. If the firm was previously reviewed (*Standards*, SECPS §2000.66).
 - a. Document the review team’s evaluation of the actions taken by the firm in response to the prior report and letter of comments.
 - b. Consider whether matters, if any, discussed in the firm’s prior report, letter of comments, and response thereto require additional emphasis in the current review.

III. During the Review

- 1. Gain an understanding of the firm’s professional management environment and the business environment in which the firm and its clients practice.
- 2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm’s 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.

Initial	Date

3. Ascertain that the scope of the peer review includes an adequate sample of audit and accounting engagements and consider whether there is a need for further modifications in program or approach.
4. Ascertain that for all engagements included on the listing obtained in the third bullet of item 1.4(e) the review procedures performed include a review of (1) the existing client-acceptance documentation that relates to the matters or procedures that were the subject of the resignation, disagreement or reportable events, and (2) such current or prior periods' engagement working papers, financial statements, or auditor's reports to the extent considered necessary to be able to evaluate whether the matters or procedures were handled appropriately.
5. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).
6. Consult with AICPA staff (and indicate name and date below) whenever any of the following situations develop:

AICPA Technical Manager Consulted:

Name _____ Date _____

- a. When difficulties are encountered or circumstances appear to dictate departure from the guidelines — e.g., such as in selection of engagements for review.
- b. When difficulties are encountered in selecting a reasonable cross section of the firm's accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.
- c. When the review team feels it does not have the expertise required to satisfactorily accomplish the required engagement reviews.
- d. When consideration is being given to discontinuing the review.
- e. When the team encounters a situation where it and the reviewed firm disagree about whether there is a need to take action to prevent future reliance on a previously issued report, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 561.

Initial	Date

- f. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need for additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 390.
- g. When the review team encounters a situation where it and the reviewed firm disagree about whether the firm had a reasonable basis under the standards for accounting and review services for the report issued.
- h. When issuance of a modified report is being considered.
- i. When no letter of comments will be issued.
- 7. Prepare a summary of "no" answers on engagements for each office reviewed (see PRM §15100, 15200 and 15300). It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.
- 8. Review the summary of "no" answers on engagements (Step 7) and ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
- 9. 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.
- 10. 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 using the format suggested in Appendix A to this checklist.
- 11. Prepare draft of summary review memorandum (*Standards*, SECPS §2000.89 and Appendix A to this checklist).
- 12. Develop a list of points to be discussed at the exit conference. Give appropriate consideration to the distinction between matters that may require modification of the report, other matters that should be included in the letter of comments, and other comments or suggestions.
- 13. Notify AICPA staff promptly if there is a change in the date of the exit conference.

Initial	Date

IV. At Completion of Review

1. Communicate findings to appropriate individuals at exit conference (Standards, SECPS §2000.85-.86).⁵ The captain should direct the conference to the maximum extent possible. Discuss with the firm:
 - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
 - b. It is the firm’s responsibility to send the report, and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
 - c. The letter of response should be addressed to the Peer Review Committee and should describe the action(s) taken or planned with respect to each matter included in the letter of comments.
 - d. The actual costs incurred to date (time and expenses) plus anticipated cost to complete all aspects of the review.
2. Complete the "Early Notification Form" and mail to the AICPA’s Quality Review Division within three days of the exit conference. (Use attached notification form – Appendix C.)
3. Prepare appropriate report and letter of comments on the results of the review. If the review is performed by another firm, the report and letter of comments should be on the reviewing firm’s letterhead and signed by the reviewing firm. If the review is performed by a team appointed by an authorized association or state society, the report should be on the letterhead of the entity that appointed the review team and signed by the review team captain, without reference to the captain’s firm.
4. Complete summary review memorandum which should cover the matters included in the attached Appendix A and should be placed in the working papers. (Also, see *Standards*, SECPS §2000.89.)
5. Within 30 days of the exit conference, submit report and letter of comments, if any, to the firm.

Initial	Date

⁵ See footnote 2.

6. Within 30 days of the exit conference, submit the following to the AICPA Quality Review Division:
 - a. This checklist.
 - b. Firm-wide summary review memorandum (Appendix A), including copies of the report, letter of comments, and any other documents incorporated by reference (*Standards*, SECPS §5000.23-.24).
7. When completed and in condition for review, and unless other arrangements have been made with the Quality Review Division staff or the POB staff, send all working papers to the AICPA Quality Review Division by an insured carrier. The files should be segregated as follows and should be sent under separate cover:
 - Working papers dealing with individual engagement reviews.
 - Remainder of working papers, including office and firm-wide summary review memorandums and summary engagement checklists.
8. Communicate any suggestions on how to improve auditing standards to the AICPA Auditing Standards Division. (See attached Appendix B.) (This communication is optional.)
9. Notify AICPA staff that review has been completed and that report and letter of comments, if any, have been issued. (Use attached notification form – Appendix D.)

Initial	Date

AICPA DIVISION FOR CPA FIRMS**SEC PRACTICE SECTION****Instructions for Use of
Summary Review Memorandum
Questionnaire**

The "Standards for Performing and Reporting on Peer Reviews" require that a summary review memorandum (SRM) be prepared. The purpose of the SRM is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments issued, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.

Separate SRMs ordinarily should be prepared for each office visited, and a firm-wide SRM should be prepared describing the overall findings and conclusions.

The attached questionnaire, if properly completed, should provide the documentation necessary to meet the aforementioned objectives. If there is insufficient space in the questionnaire to fully describe any matters, additional sheets should be used and attached to the questionnaire.

Experience indicates that the questionnaire can best be utilized for peer reviews of firms with three or fewer offices. Peer reviews of firms with more than three offices may require a separately prepared and more detailed memorandum.

A copy of the firm-wide summary review memorandum and of an appropriate team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.

AICPA DIVISION FOR CPA FIRMS
SEC PRACTICE SECTION
SUMMARY REVIEW MEMORANDUM
Firm-Wide

Reviewed Firm's Name _____

Reviewed Firm's Address _____

Peer Review Year End _____

Timing of Review:

Commencement _____

Exit Conference _____

Issuance of report and, if applicable, letter of comments _____

Mailing of working papers to the AICPA Quality Review Division, or the POB if requested

I. Description of Firm

A. Professional Staff Profile (if the firm has more than one office, consider providing the breakdown by office):

	<u>TOTAL</u>
Partners (or equivalent)	_____
Managers (or equivalent)	_____
Other Professionals	_____

B. Indicate extent of industry specializations, if any:

II. Scope of Work Performed

A. Accounting and Auditing Statistics:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients ¹								
Other SEC Engagements ²								
"Yellow Book" ³								
ERISA								
Other								
Reviews ⁴								
Compilations ⁴								
Other Accounting Services ⁵								
	=====	=====	=====	=====	=====	=====	=====	=====

B. Engagements Reviewed:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients ¹								
Other SEC Engagements ²								
"Yellow Book" ³								
ERISA								
Other								
Reviews ⁴								
Compilations ⁴								
Other Accounting Services ⁵								
	=====	=====	=====	=====	=====	=====	=====	=====
Percentage of A&A Practice Reviewed	=====	=====	=====	=====	=====	=====	=====	=====

¹ Includes clients for which the firm is the principal auditor-of-record pursuant to the first paragraph of the definition contained in Appendix D SECPS §1000.38 of the *SECPS Reference Manual*.

² Includes other engagements defined as SEC engagements pursuant to the second paragraph of the definition contained in Appendix D SECPS §1000.38 of the *SECPS Reference Manual*.

³ Includes audits of entities subject to Generally Accepted Government Auditing Standards ("Yellow Book").

⁴ The number of engagements should include all monthly, quarterly, and annual reports issued.

⁵ Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting control, its financial forecast, the results of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement, etc.

C. Did the firm perform any audits of federally insured depository institutions with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes ___ No ___. If yes, how many were included in the scope of the peer review? ___.

III. Planning the Review

A. Composition of Review Team:

1. Team Captain _____

Firm _____ Position _____

Areas of Experience⁶ _____

2. Team Member _____

Firm _____ Position _____

Areas of Experience⁶ _____

3. Team Member _____

Firm _____ Position _____

Areas of Experience⁶ _____

B. Describe basis for and degree of reliance on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

⁶ As it relates to the reviewed firm's practice.

C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

D. Development of Review Program:

1. Describe peer review programs used and indicate any deviations therefrom:

2. Describe number of offices selected and basis for selection:

3. Describe basis for selection of engagements:

E. In setting the scope of the review, did you consider the effect, if any, of litigation, proceedings, or investigations against the firm or its personnel reported to the Quality Control Inquiry Committee since the date of the firm's last peer review? Yes ___ No ___. If no, give reason(s). (Specific litigation should not be identified.)

F. If the reviewed firm performs management advisory services for SEC audit clients and the fees for such services exceed the audit fees, did you select one or more such audit engagements for review? Yes ___ No ___ N/A ___. If no, give reasons.

IV. Functional Areas and Engagements Not Reviewed

A. Indicate functional areas not reviewed and give reasons:

B. Were you requested not to review any engagements? Yes ___ No ___. If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

V. Overall Findings and Conclusions:

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes ___ No ___. If yes, attach a copy. If no, give reason why no letter of comments was issued.

C. If the firm was previously peer reviewed, were any matters noted on the previous peer review repeated in the letter of comments on the current review? Yes ___ No ___. If yes, please describe what the firm has done or plans to do to prevent a recurrence of the matter(s) and whether you concur with the actions taken or planned.

I. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor's/accountant's report was not appropriately modified? (AU561 and ET203) Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions.⁸ _____

⁸ If corrective actions are taken prior to the Committee's acceptance of the peer review documents, review the documentation of such action and submit an addendum to this document describing that review and indicating whether you concur with the action.

J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU390 and ET202)? Yes ___ No ___.
If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate.

5. If the firm has not performed the necessary procedures, indicate whether you concur with its planned actions.⁹ _____

⁹ See Footnote 8.

K. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accounting and review services (ET202)? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions.¹⁰ _____

¹⁰ See Footnote 8.

L. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accountant's services on prospective financial information or any other standards not encompassed in items I, J, and K of this section? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions.¹¹ _____

¹¹ See Footnote 8.

(Optional)

Comments to Improve Auditing Standards

A significant potential benefit of the peer review and quality review program is the opportunity it provides to identify areas of practice where improvements can be made in the professional standards. Representatives of the SECPS and PCPS Peer Review Committees and the AICPA Quality Review Executive Committee meet annually with representatives of the Auditing Standards Board to discuss the implications of peer review and quality review results for standard setting. However, the committees believe the personal advice of those participating in peer reviews and quality reviews needs to be added to the process.

Your observations of the policies and practices in many different firms and your judgments about the efficient and effective application of professional standards are potentially valuable sources of input for the Board. The Auditing Standards Board would appreciate receiving your comments on the attached questions as well as any other information that would be helpful to the standard-setting process. Responses should address areas where standards can be improved rather than specific peer or quality review engagements and should not include the names of any reviewed firms. Responses should be sent directly to Dan M. Guy, Vice President-Auditing, AICPA, 1211 Avenue of the Americas, New York, NY 10036. The Auditing Standards Board thanks you in advance for your contribution.

**American Institute of Certified Public
Accountants
Division for CPA Firms
SEC Practice Section**

Questionnaire

(use additional sheets for your comments, if necessary)

1. Is there particular guidance in any Statement on Auditing Standards or auditing interpretation that practitioners have difficulty applying? Yes ___ No ___. Please cite specific paragraph numbers of the pronouncements to which the problems relate and descriptions of those problems.

2. If you identified a problem above please make specific suggestions for making the pronouncements clearer or more useful.

3. Have you identified any other areas of practice where additional guidance is needed? Yes ___ No ___. If yes, please provide a description of those areas.

Team Captain _____
Address _____

Date _____

SEC PEER REVIEW PROGRAM**Early Notification Form****Instructions**

Team captains are asked to complete the following information after holding the exit conference and to mail the form to the address noted below within three days of the exit conference. Team captains are also asked to communicate any changes in the exit conference date on a peer review to the Quality Review Division (201/938-3030) as soon as that change takes place.

Requested Information

1. Firm Name _____.
2. Firm Number or Review Number _____.
3. The exit conference was held on (date) ____ / ____ / ____.
4. The review team (circle) **DOES** / **DOES NOT** anticipate problems issuing the peer review report and letter of comments within 30 days of the exit conference date, as required.
5. The review team anticipates issuing an (circle) **UNQUALIFIED** / **MODIFIED** / **ADVERSE** report on this peer review.
6. There (circle) **ARE** / **ARE NOT** unresolved questions about the firm's compliance with professional standards for one or more engagements.

Team Captain Signature: _____ Date: _____

When completed, this form should be immediately sent to:

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

FAX: 201 / 938-3056

AICPA DIVISION FOR CPA FIRMS
SEC PRACTICE SECTION
REVIEW COMPLETION NOTIFICATION FORM

Date: _____

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

From: _____
(Name of the Review Team Captain)

Re: Review of _____

Firm Number _____ Review Number _____

- 1. On what date was the firm-wide exit conference held? _____ / /
- 2. When was the report delivered to the reviewed firm? _____ / /
- 3. What was the general nature of the report? * _____
- 4. If the report was qualified, what were the reasons for the qualification? * • •
- 5. When will the working papers be shipped to the AICPA Quality Review Division? _____ / /

* * * * *

Team Captain Signature: _____ Date: _____

* Please use the report codes on reverse. More than one reason can be indicated.

REPORT CODES

GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Modified—Quality Control System (only)
- 4 Modified—Membership Requirements of the Division for CPA Firms (only)
- 5 Modified—Scope Limitation (only)
- 6 Modified—Quality Control System and Membership Requirements of the
Division for CPA Firms
- 7 Adverse

REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

- 401 Continuing Professional Education
- 402 Partner Rotation
- 403 Concurring Partner Review
- 404 Reporting to Audit Committees
- 405 Reporting to QCIC
- 406 Statement of Philosophy
- 499 Other

PRM
12200

PCPS

PRIVATE COMPANIES PRACTICE SECTION

TEAM CAPTAIN CHECKLISTS

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AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION

Review Team Captain Checklist

This checklist should be used on peer reviews conducted by committee-appointed review teams in conjunction with the General Instructions to Reviewers and other guidance material issued to implement the peer review program of the Private Companies Practice Section of the AICPA Division for CPA Firms. References are to *Standards for Performing and Reporting on Peer Reviews*. (Section 2000 in the *PCPS Reference Manual*, loose-leaf edition.)

This checklist may also be used when conducting firm-on-firm or association-sponsored or state society-sponsored peer reviews.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (201) 938-3030.

I. Prior to the Review

1. Review background information furnished by the firm for completeness and obtain additional information, if needed (*Standards*, PCPS §2000.50).
2. If the firm has had a significant acquisition of another practice or portion thereof, or divestiture of a portion of its practice, during or subsequent to the peer review year, consult with the Peer Review Committee to determine the scope of the review (*Standards*, PCPS §2000.45).
3. Discuss with AICPA staff the composition of the review team. Consider the need for individuals with expertise in specialized areas (*Standards*, PCPS §2000.24-.29) and the requirement that reviewers be independent of the reviewed firm (*Standards*, PCPS §2000.13-.19 and Appendix A, PCPS §2000.128). Review and approve the composition of the review team.
4. Discuss with AICPA staff the estimated date of the firm-wide exit conference.¹

Initial	Date

¹ The review team ordinarily should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty about the type of report to be issued, the review team should postpone the exit conference until a decision is reached (*Standards*, PCPS 2000.78-.79).

5. Call (or visit) the firm sufficiently in advance (ordinarily three weeks) of the review in order to make necessary arrangements. During the call (or visit):
 - a. Make certain that the firm has completed the Quality Control Policies and Procedures Questionnaire portion of the Peer Review Program Guidelines (PRM §13200).
 - b. Obtain and evaluate documentation summarizing the inspection program implemented by the firm (*Standards*, PCPS §2000.54-.56).
 - c. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) that have been purchased from another accounting firm or some other third party and that have been reviewed by an independent third party, obtain a copy of the most recent report, letter of comments, and response thereto issued in conjunction with the review of those materials (*Peer Review Program Guidelines*, PRM §13300, pp. 13364 and 13377).
 - d. Request firm to designate a partner or senior staff member as liaison to provide administrative assistance to the review team.
 - e. Discuss the travel and hotel arrangements for the review, engagement letter, period to be reviewed (*Standards*, PCPS §2000.40-.44), timing of exit conference, etc.
 - f. Inquire whether the firm has had a previous peer or quality review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents from the reviewed firm.
 - g. Ascertain which persons in the firm are responsible for the various quality control functions and arrange an interview schedule for the review team with such persons.
 - h. Inquire whether —
 - (1) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm's accounting and auditing practice and if, available, the results thereof.

Initial	Date

- (2) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing, that were effective during the period since the firm’s last review (or since joining the Division for CPA Firms, whichever is later), and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (such as the SEC, DOL, GAO). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s action to comply with such restrictions or limitations.
 - (3) Any other situation exist which might affect the ability of the firm to engage legally in the practice of public accounting.
 - (4) There are any other situations that may affect the scope of the peer review.
 - i. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for visit (*Standards*, PCPS §2000.47-.49, .59-.61). Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visits are not expected to be on a surprise basis.
 - j. Select a review period which covers a current period of one year. This review period should be mutually agreed upon by the reviewed firm and the review team captain (*Standards*, PCPS §2000.43 and Appendix B, PCPS §2000.129). 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 coincide with the reviewed firm’s fiscal year-end.
 - k. Make a preliminary selection of engagements for review (*Standards*, PCPS §2000.62-.68 and Appendix C, PCPS §2000.130).²
- Large, complex, and high risk engagements, and the firm’s initial audits of clients should be given greater weight in selecting engagements. In addition, the sample of engagements selected for review should include:

Initial	Date

² In addition, if the reviewed firm issued a report on the financial statements of an SEC registrant client during the period under the review, but is no longer the auditor-of-record of that client, then the peer review should include a review of the client’s 8-K filing notifying the SEC of the change in auditor. Depending on the results of the review, appropriate consideration should be given in determining if the peer review should include the review of the SEC engagement.

- One or more audits conducted pursuant to the *Government Auditing Standards* issued by the U.S. General Accounting Office, the "Yellow Book".
- One or more audits conducted pursuant to the Employee Retirement Income Security Act (ERISA) of 1974.
- One or more engagements subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act established by the Federal Deposit Insurance Corporation Improvement Act of 1991.

(Deviations from these requirements may be necessary. In such cases, consider consultation with the AICPA staff.)

Engagements selected for review should be those with years ending during the period under review unless a more recent report has been issued at the time of selection (*Standards*, PCPS §2000.63).

- I. For those engagements selected, request the firm to complete the profile sheets of the engagement review checklists.³ In order to maintain client confidentiality, code numbers should be assigned to engagements selected.
- m. If the firm states that certain engagements that you have selected are not to be reviewed, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances and whether the engagements excluded from review place a limitation on the scope of the review (*Standards*, PCPS §2000.45-.46).
- n. Contact all review team members (if any) to discuss arrangements with them.

II. At Beginning of Review (Before Starting)

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

Initial	Date

³ To minimize any inference that advance selections may afford undue opportunities for last minute "clean-up" of the files, it is preferable that the selection of some engagements not be made known to the firm (or office) until the review team arrives.

- 2. Meet with reviewers to orient them to firm policies and procedures. Each team member should read the sections of the firm’s quality control policies and procedures questionnaire and the 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 as to 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 (*Standards*, PCPS §2000.80-.83). Explain the method of documenting the matters that, in the reviewer’s opinion, could be significant deficiencies in the design of the firm’s quality control policies and procedures or significant lack of compliance therewith and that might affect the review team’s report or be included in the letter of comments. (The form provided for documentation of such items is captioned "Matter for Further Consideration.")
- 5. Make final selection of engagements for review and request working papers and other client files.
- 6. Explain "key-area" concept of engagement reviews to reviewers. (See "Emphasis on Key Audit Areas" in the "General Instructions to Reviewers.")
- 7. Assign responsibilities for review of the functional quality control areas, engagements, and membership requirements. (Engagement reviewers must be independent with respect to the engagements and not have a conflict of interest — *Standards*, PCPS §2000.13-.20). Time must be scheduled to permit proper supervision and review of the work of the reviewers.
- 8. If the firm was previously reviewed (*Standards*, PCPS §2000.44):
 - a. Document the review team’s evaluation of the actions taken by the firm in response to the prior report and letter of comments.
 - b. Consider whether matters, if any, discussed in the firm’s prior report, letter of comments, and response thereto require additional emphasis in the current review.

Initial	Date

III. 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.
2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm’s 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. Ascertain that the scope of the peer review includes an adequate sample of audit and accounting engagements and consider whether there is a need for further modifications in program or approach.
4. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).
5. Consult with AICPA staff (and indicate name and date below) whenever any of the following situations develop:

AICPA Technical Manager Consulted:

Name _____ Date _____

- a. When difficulties are encountered or circumstances appear to dictate departure from the guidelines — e.g., such as in selection of engagements for review.
- b. When difficulties are encountered in selecting a reasonable cross section of the firm’s accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.
- c. When the review team feels it does not have the required expertise to satisfactorily accomplish the required engagement reviews.
- d. When consideration is being given to suspending or terminating the review.
- e. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need to take action to prevent future reliance on a previously issued report, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 561.

Initial	Date

- f. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need for additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 390.
 - g. When the review team encounters a situation where it and the reviewed firm disagree about whether the firm had a reasonable basis under the standards for accounting and review services for the report issued.
 - h. When there is any uncertainty about the report to be issued or the matters to be included in the letter of comments.
6. Prepare a summary of "no" answers on engagements for each office reviewed (see PRM §15100, 15200 and 15300). It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.
 7. Review the summary of "no" answers on engagements (Step 6) and ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
 8. 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.
 9. 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 using the format suggested in Appendix A to this checklist.
 10. Prepare draft of firm-wide summary review memorandum (*Standards*, PCPS §2000.82 and Appendix A to this checklist).
 11. Develop a list of points to be discussed at the exit conference. Give appropriate consideration to the distinction between matters that may require modification of the report, other matters that should be included in the letter of comments, and other comments or suggestions.
 12. Notify AICPA staff promptly if there is a change in the date of the exit conference.

Initial	Date

IV. At Completion of Review

1. Communicate findings to appropriate individuals at exit conference (*Standards*, PCPS §2000.78-.79).⁴ The captain should direct the conference to the maximum extent possible. Discuss with the firm:
 - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
 - b. It is the firm’s responsibility to send the report and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
 - c. The letter of response should be addressed to the Peer Review Committee and should describe the action(s) taken or planned with respect to each matter included in the letter of comments.
 - d. The actual cost incurred to date (time and expenses) plus anticipated cost to complete all aspects of the review.
2. Prepare appropriate report on results of the review on AICPA letterhead supplied by AICPA staff (*Standards*, PCPS §2000.84-.99. See III. 5h, above).
3. Prepare letter of comments, if any, on AICPA letterhead (*Standards*, PCPS §2000.100-.105. See III. 5i, above). [If a letter of suggestions is issued, it should not be prepared on AICPA letterhead inasmuch as it is a communication between the review captain and the reviewed firm only (*Standards*, PCPS §2000.108).]
4. Complete summary review memorandum which should cover the matters included in the attached Appendix A and should be placed in the working papers. (See attached Appendix A and *Standards*, PCPS §2000.82.)
5. Within 30 days of the exit conference, submit report and letter of comments, if any, to the firm.
6. Notify AICPA staff that review has been completed and that report and letter of comments, if any, have been issued. (Use attached notification form — Appendix C.)
7. Prepare evaluations of review team members utilizing forms supplied by AICPA and place in working papers.

Initial	Date

⁴ See footnote 1.

8. When completed and in condition for review, send all working papers to the AICPA Quality Review Division by an insured carrier. The files should be segregated as follows and should be sent under separate cover:
- Working papers dealing with individual engagement reviews.
 - Remainder of working papers, including office and firm-wide summary review memorandums and summary engagement checklists.
9. Approve bills for time and expenses of review team members and submit them along with your own bill to the AICPA Quality Review Division for payment. (Reviewers will be paid directly by the AICPA.) Make sure the bills include the federal employer identification number for Form 1099 purposes. To expedite processing of your bill(s) it is recommended that you mail the bill(s) under separate cover.

Initial	Date

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION

**Instructions for Use of
Summary Review Memorandum
Questionnaire**

The "Standards for Performing and Reporting on Peer Reviews" require that a summary review memorandum (SRM) be prepared. The purpose of the SRM is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments issued, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.

Separate SRMs ordinarily should be prepared for each office visited, and a firm-wide SRM should be prepared describing the overall findings and conclusions.

The attached questionnaire, if properly completed, should provide the documentation necessary to meet the aforementioned objectives. If there is insufficient space in the questionnaire to fully describe any matters, additional sheets should be used and attached to the questionnaire.

Experience indicates that the questionnaire can best be utilized for peer reviews of firms with three or fewer offices. Peer reviews of firms with more than three offices may require a separately prepared and more detailed memorandum.

A copy of the firm-wide summary review memorandum and of an appropriate team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.

AICPA DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION
SUMMARY REVIEW MEMORANDUM
Firm-Wide

Reviewed Firm's Name _____

Reviewed Firm's Address _____

Peer Review Year End _____

Timing of Review:

Commencement _____

Exit Conference _____

Issuance of report and, if applicable, letter of comments _____

Mailing of working papers (committee-appointed review teams only) or team captain checklist and SRM to AICPA _____

I. Description of Firm

A. Professional Staff Profile (if the firm has more than one office, consider providing the breakdown by office):

	<u>TOTAL</u>
Partners (or equivalent)	
Managers (or equivalent)	
Other Professionals	_____
	=====

B. Indicate extent of industry specializations, if any:

II. Scope of Work Performed

A. Accounting and Auditing Statistics:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients								
GAGAS ¹								
ERISA								
Other								
Reviews ²								
Compilations ²								
Other Accounting Services ³								

B. Engagements Reviewed:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients								
GAGAS ¹								
ERISA								
Other								
Reviews ²								
Compilations ²								
Other Accounting Services ³								
Percentage of A&A Practice Reviewed								

¹ Include audits subject to Generally Accepted Government Auditing Standards ("Yellow Book").

² The number of engagements should include all monthly, quarterly, and annual reports issued.

³ Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting control, its financial forecast, the results of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement, etc.

C. Did the firm perform any audits of federally insured depository institutions with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes ___ No ____. If yes, how many were included in the scope of the peer review? ___.

III. Planning the Review

A. Composition of Review Team:

1. Team Captain _____

Firm _____ Position _____

Areas of Experience⁴ _____

2. Team Member _____

Firm _____ Position _____

Areas of Experience⁴ _____

3. Team Member _____

Firm _____ Position _____

Areas of Experience⁴ _____

B. Describe basis for and degree of reliance on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

⁴ As it relates to the reviewed firm's practice.

D. Development of Review Program:

1. Describe peer review programs used and indicate any deviations therefrom:

2. Describe number of offices selected and basis for selection:

3. Describe basis for selection of engagements:

IV. Functional Areas and Engagements Not Reviewed

A. Indicate functional areas not reviewed and describe the reasons:

B. Were you requested not to review any engagements? Yes ___ No ___. If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

V. Overall Findings and Conclusions:

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes ___ No ___. If yes, attach a copy. If no, describe the reason why no letter of comments was issued.

C. If the firm was previously reviewed, were any matters noted on the previous review repeated in the letter of comments on the current review? Yes ___ No ___. If yes, describe what the firm has done or plans to do to prevent a recurrence of the matter(s) and whether you concur with the actions taken or planned.

D. If the firm performed an inspection for the year covered by the peer review, or for a period close to the peer review year, do the inspection findings differ in one or more significant respects from the findings of the peer review? Yes__ No__. If yes, briefly describe the general nature of the differences and their effects on the scope of the peer review.

E. In a review of a multi-office firm, did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes__ No__. If yes, briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

F. If a letter of comments was issued, were there any matters included in the letter that did not result in a modified report for which the review team considered modifying the report? Yes__ No__. If yes, describe such matters fully, including the basis for the conclusion that a report modification was not warranted.

H. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor's/accountant's report was not appropriately modified? (AU561 and ET203) Yes ____ No ____ . If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

I. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU390 and ET202)? Yes ___ No ___.
If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate.

5. If the firm has not performed the necessary procedures, indicate whether you concur with the planned actions. _____

J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accounting and review services (ET202)? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions. _____

K. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accountant's services on prospective financial information or any other standards not encompassed in items H, I, and J of this section? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

ATTACHMENT

Cost Information (Required only for committee-appointed review teams)

A. Budget to Actual Comparison

	<u>Budgeted Hours</u>	<u>Actual Hours</u>		
		<u>Total</u>	<u>Team Captain</u>	<u>Team Member(s)</u>
Planning	_____	_____	_____	_____
Engagement Review	_____	_____	_____	_____
Quality Control System Review	_____	_____	_____	_____
Membership Requirements	_____	_____	_____	_____
Exit Conference	_____	_____	_____	_____
Report	_____	_____	_____	_____
Letter of Comments	_____	_____	_____	_____
Other (describe if significant)	_____	_____	_____	_____
Total Hours	_____	_____	_____	_____
Range per Engagement Letter	_____			
Rate/Hour			_____	_____
Total Amount			_____	_____

B. Was the actual costs (time and expenses) discussed with the firm? Yes ___ No ___.

C. Does actual time exceed the upper end of the estimated range by more than 10%? Yes ___ No ___. If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

Team Captain _____

Date _____

Appendix B

(Optional)

Comments to Improve Auditing Standards

A significant potential benefit of the peer review and quality review program is the opportunity it provides to identify areas of practice where improvements can be made in the professional standards. Representatives of the SECPS and PCPS Peer Review Committees and the AICPA Quality Review Executive Committee meet annually with representatives of the Auditing Standards Board to discuss the implications of peer review and quality review results for standard setting. However, the committees believe the personal advice of those participating in peer reviews and quality reviews needs to be added to the process.

Your observations of the policies and practices in many different firms and your judgments about the efficient and effective application of professional standards are potentially valuable sources of input for the Board. The Auditing Standards Board would appreciate receiving your comments on the attached questions as well as any other information that would be helpful to the standard-setting process. Responses should address areas where standards can be improved rather than specific peer or quality review engagements and should not include the names of any reviewed firms. Responses should be sent directly to Dan M. Guy, Vice President-Auditing, AICPA, 1211 Avenue of the Americas, New York, NY 10036. The Auditing Standards Board thanks you in advance for your contribution.

**American Institute of Certified Public
Accountants
Division for CPA Firms
Private Companies Practice Section**

Questionnaire

(use additional sheets for your comments, if necessary)

1. Is there particular guidance in any Statement on Auditing Standards or auditing interpretation that practitioners have difficulty applying? Yes ___ No ___. Please cite specific paragraph numbers of the pronouncements to which the problems relate and descriptions of those problems.

2. If you identified a problem above please make specific suggestions for making the pronouncements clearer or more useful.

3. Have you identified any other areas of practice where additional guidance is needed? Yes ___ No ___. If yes, please provide a description of those areas.

Team Captain _____

Address _____

Date _____

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
REVIEW COMPLETION NOTIFICATION FORM

Date: _____

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

From: _____
(Name of the Review Team Captain)

Re: Review of _____

Firm Number _____ Review Number _____

1. On what date was the firm-wide exit conference held? _____/_____/_____

2. When was the report delivered to the reviewed firm? _____/_____/_____

3. What was the general nature of the report? * _____

4. If the report was qualified, what were the reasons for the qualification? *
 • •

5. When will the working papers be shipped to the AICPA Quality Review Division? _____/_____/_____

* * * * *

Team Captain Signature: _____ Date: _____

* Please use the report codes on reverse. More than one reason can be indicated.

REPORT CODES

GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
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- 6 Modified—Quality Control System and Membership Requirements of the
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REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS

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AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION

**Review Team Captain Checklist
for Firm-on-Firm, Association-Sponsored
and State Society-Sponsored
Peer Reviews**

This checklist should be used in conjunction with the other materials used by your entity to implement the peer review program of the Private Companies Practice Section of the AICPA Division for CPA Firms. A copy of this checklist should be submitted to the AICPA together with a copy of the firm-wide summary review memorandum (Appendix A), including copies of any documents incorporated by reference. Questions regarding the use of this checklist or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.¹

I. Prior to the Review

1. Review background information furnished by the firm for completeness and obtain additional information, if needed (*Standards*, PCPS §2000.50-.51).
2. If the firm has had a significant acquisition of another practice or portion thereof, or divestiture of a portion of its practice, during or subsequent to the peer review year, consult with the Peer Review Committee to determine the scope of the review (*Standards*, PCPS §2000.45).
3. Notify the AICPA staff of the composition of the review team. Consider the need for individuals with expertise in specialized areas (*Standards*, PCPS §2000.24-.29) and the requirement that reviewers be independent of the reviewed firm (*Standards*, PCPS §2000.13-.19 and Appendix A, PCPS §2000.128). Review and approve the composition of the review team.

Initial	Date

¹ If the AICPA Review Team Captain Checklist for committee-appointed review teams or a similar checklist is used, it may be submitted in place of this checklist.

4. Discuss with AICPA staff the estimated date of the firm-wide exit conference.²
5. Call the firm sufficiently in advance of the review in order to make necessary arrangements. During the call (or visit):
 - a. Make certain that the reviewed firm has received a letter from the Quality Review Division confirming that it has received the information about the firm and the review team. If the letter was not received, contact the Quality Review Division.
 - b. Make certain that the firm has completed the Quality Control Policies and Procedures Questionnaire portion of the Peer Review Program Guidelines (PRM §13200).
 - c. Obtain and evaluate documentation summarizing the inspection program implemented by the firm (*Standards*, PCPS §2000.54-.56).
 - d. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) that have been purchased from another accounting firm or some other third party and that have been reviewed by an independent third party, obtain a copy of the most recent report, letter of comments, and response thereto issued in conjunction with the review of those materials (*Peer Review Program Guidelines*, PRM §13300, pp. 13364 and 13377).
 - e. Inquire whether the firm has had a previous peer or quality review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents from the reviewed firm.
 - f. Ascertain which persons in the firm are responsible for the various quality control functions and arrange an interview schedule for the review team with such persons.

Initial	Date

² The review team ordinarily should not hold the exit conference until the results of the peer review have been summarized and the report and letter of comments, if any, have been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty about the type of report to be issued, the review team should postpone the exit conference until a decision is reached (*Standards*, PCPS 2000.79-.80).

g. Inquire whether —

- (1) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm’s accounting and auditing practice and if, available, the results thereof.
- (2) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing, that were effective during the period since the firm’s last review (or since joining the Division for CPA Firms, whichever is later), and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (such as the SEC, DOL, GAO). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s action to comply with such restrictions or limitations.
- (3) Any other situations exist which might affect the ability of the firm to engage legally in the practice of public accounting.
- (4) There are any other situations that may affect the scope of the peer review.

h. For multi-office firms, determine which procedures must be reviewed at practice offices and select certain offices for visit (*Standards*, PCPS §2000.47-.49, .59-.61). Inform the reviewed firm of offices selected for visit as close to the scheduled review dates as practicable. However, the visits are not expected to be on a surprise basis.

i. Select a review period which covers a current period of one year. This review period should be mutually agreed upon by the reviewed firm and the review team captain (*Standards*, PCPS §2000.43 and Appendix B, PCPS §2000.129). 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 coincide with the reviewed firm’s fiscal year-end.

Initial	Date

- j. Make a preliminary selection of engagements for review (*Standards*, PCPS §2000.63-.69 and Appendix C, PCPS §2000).³

Large, complex, and high risk engagements, and the firm's initial audits of clients, should be given greater weight in selecting engagements. In addition, the sample of engagements selected for review should include:

- One or more audits conducted pursuant to the *Government Auditing Standards* issued by the U.S. General Accounting Office, the "Yellow Book".
- One or more audits conducted pursuant to the Employee Retirement Income Security Act (ERISA) of 1974.
- One or more engagements subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act established by the Federal Deposit Insurance Corporation Improvement Act of 1991.

(Deviations from these requirements may be necessary. In such cases, consider consultation with the AICPA staff.)

Engagements selected for review should be those with years ending during the period under review unless a more recent report has been issued at the time of selection (*Standards*, PCPS §2000.63).

- k. For those engagements selected, request the firm to complete the profile sheets of the engagement review checklists.⁴ In order to maintain client confidentiality, code numbers should be assigned to engagements selected.

Initial	Date

³ In addition, if the reviewed firm issued a report on the financial statements of an SEC registrant client during the period under the review, but is no longer the auditor-of-record of that client, then the peer review should include a review of the client's 8-K filing notifying the SEC of the change in auditor. Depending on the results of the review, appropriate consideration should be given in determining if the peer review should include the review of the SEC engagement.

⁴ To minimize any inference that advance selections may afford undue opportunities for last minute "clean-up" of the files, it is preferable that the selection of some engagements not be made known to the firm (or office) until the review team arrives.

- I. If the firm states that certain engagements that you have selected are not to be reviewed, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances and whether the engagements excluded from review place a limitation on the scope of the review (*Standards*, PCPS §2000.45-.46).

II. At Beginning of Review (Before Starting)

- 1. Arrive at the firm's office prior to the other review team members in order to perform preliminary planning, as necessary.
- 2. Instruct the reviewers as to 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 (*Standards*, PCPS §2000.80-.83). Explain the method of documenting the matters that, in the reviewer's opinion, could be significant deficiencies in the design of the firm's quality control policies and procedures or significant lack of compliance therewith and that might affect the review team's report or be included in the letter of comments. (The form provided for documentation of such items is captioned "Matter for Further Consideration.")
- 3. Make final selection of engagements for review and request working papers and other client files.
- 4. Explain "key-area" concept of engagement reviews to reviewers. (See "Emphasis on Key Audit Areas" in the "General Instructions to Reviewers.")
- 5. If the firm was previously reviewed (*Standards*, PCPS §2000.44).
 - a. Document the review team's evaluation of the actions taken by the firm in response to the prior report and letter of comments.
 - b. Consider whether matters, if any, discussed in the firm's prior report, letter of comments, and response thereto require additional emphasis in the current review.

III. 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.

Initial	Date

- 2. Prepare or supervise the preparation of modifications to programs and tests of compliance with the firm's 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. Ascertain that the scope of the peer review includes an adequate sample of audit and accounting engagements and consider whether there is a need for further modifications in program or approach.
- 4. For multi-office firms, determine that arrangements are made for an exit conference at each office visited by reviewers (to the extent deemed necessary).
- 5. Consult with AICPA staff and indicate name and date below whenever any of the following situations develop:

AICPA Technical Manager Consulted:

Name _____ Date _____

- a. When difficulties are encountered or circumstances appear to dictate departure from the guidelines — e.g., such as in selection of engagements for review.
- b. When difficulties are encountered in selecting a reasonable cross section of the firm's accounting and auditing practice based on the engagement selection criteria set forth in the peer review standards.
- c. When the review team feels it does not have the required expertise to satisfactorily accomplish the required engagement reviews.
- d. When consideration is being given to suspending or terminating the review.
- e. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need to take action to prevent future reliance on a previously issued report, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 561.
- f. When the review team encounters a situation where it and the reviewed firm disagree about whether there is a need for additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to the *AICPA Professional Standards*, vol. 1, AU section 390.

Initial	Date

- g. When the review team encounters a situation where it and the reviewed firm disagree about whether the firm had a reasonable basis under the standards for accounting and review services for the report issued.
- h. When there is any uncertainty about the report to be issued or matters to be included in the letter of comments.
- 6. Prepare a summary of "no" answers on engagements for each office reviewed (see PRM §15100, 15200 and 15300). It may be helpful to classify comments as those relating to design, performance, compliance-membership, compliance-other, and documentation.
- 7. Review the summary of "no" answers on engagements (Step 6) and ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
- 8. 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.
- 9. 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 using the format suggested in Appendix A to this checklist.
- 10. Prepare draft of firm-wide summary review memorandum (*Standards*, PCPS §2000.82 and Appendix A to this checklist).
- 11. Develop a list of points to be discussed at the exit conference. Give appropriate consideration to the distinction between matters that may require modification of the report, other matters that should be included in the letter of comments, and other comments or suggestions.
- 12. Notify AICPA staff promptly if there is a change in the date of the exit conference.

Initial	Date

IV. At Completion of Review

1. Communicate findings to appropriate individuals at exit conference (Standards, PCPS §2000.78-.79).⁵ The captain should direct the conference to the maximum extent possible. Remind the firm that:
 - a. The report and letter of comments, if any, are not final until accepted by the Peer Review Committee.
 - b. It is the firm's responsibility to send the report and, if applicable, the letter of comments and response thereto, to the AICPA Quality Review Division within 30 days of the date the report and letter of comments are issued.
 - c. The letter of response should be addressed to the Peer Review Committee and should describe the action(s) taken or planned with respect to each matter included in the letter of comments.
2. Prepare appropriate report and letter of comments on the results of the review. If the review is performed by another firm, the report and letter of comments should be on the reviewing firm's letterhead and signed by the reviewing firm. If the review is performed by a team appointed by an authorized association or state society, the report should be on the letterhead of the entity that appointed the review team and signed by the review team captain, without reference to the captain's firm.
3. Complete summary review memorandum which should cover the matters included in the attached Appendix A and should be placed in the working papers. (See attached Appendix A and *Standards*, PCPS §2000.82).
4. Within 30 days of the exit conference, submit report and letter of comments, if any, to the firm.
5. Within 30 days of the exit conference, submit the following to the AICPA Quality Review Division:
 - a. This checklist.

Initial	Date

⁵ See footnote 2.

- b. Firm-wide summary review memorandum (Appendix A), including copies of the report, letter of comments, and any other documents incorporated by reference. (*Standards*, PCPS §2000.82).
- c. Copies of all MFC forms.
6. Notify AICPA staff that the review has been completed and the report and letter of comments, if any, have been issued. (Use attached notification form — Appendix C.)

Initial	Date

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION

**Instructions for Use of
Summary Review Memorandum
Questionnaire**

The "Standards for Performing and Reporting on Peer Reviews" require that a summary review memorandum (SRM) be prepared. The purpose of the SRM is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments issued, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments.

Separate SRMs ordinarily should be prepared for each office visited, and a firm-wide SRM should be prepared describing the overall findings and conclusions.

The attached questionnaire, if properly completed, should provide the documentation necessary to meet the aforementioned objectives. If there is insufficient space in the questionnaire to fully describe any matters, additional sheets should be used and attached to the questionnaire.

Experience indicates that the questionnaire can best be utilized for peer reviews of firms with three or fewer offices. Peer reviews of firms with more than three offices may require a separately prepared and more detailed memorandum.

A copy of the firm-wide summary review memorandum and of an appropriate team captain checklist must be submitted to the staff of the Quality Review Division for all reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations or state societies.

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
SUMMARY REVIEW MEMORANDUM
Firm-Wide

Reviewed Firm's Name _____

Reviewed Firm's Address _____

Peer Review Year End _____

Timing of Review:

Commencement _____

Exit Conference _____

Issuance of report and, if applicable, letter of comments _____

Mailing of team captain checklist and SRM to AICPA _____

I. Description of Firm

A. Professional Staff Profile (if the firm has more than one office, consider providing the breakdown by office):

	<u>TOTAL</u>
Partners (or equivalent)	_____
Managers (or equivalent)	_____
Other Professionals	_____
	=====

B. Indicate extent of industry specializations, if any:

II. Scope of Work Performed

A. Accounting and Auditing Statistics:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients								
GAGAS ¹								
ERISA								
Other								
Reviews ²								
Compilations ²								
Other Accounting Services ³								
	=====	=====	=====	=====	=====	=====	=====	=====

B. Engagements Reviewed:

	TOTAL		OFFICES					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
	Audits:							
SEC Clients								
GAGAS ¹								
ERISA								
Other								
Reviews ²								
Compilations ²								
Other Accounting Services ³								
	=====	=====	=====	=====	=====	=====	=====	=====
Percentage of A&A Practice Reviewed								
	=====	=====	=====	=====	=====	=====	=====	=====
	=====	=====	=====	=====	=====	=====	=====	=====

¹ Must include audits subject to Generally Accepted Government Auditing Standards ("Yellow Book").

² The number of engagements should include all monthly, quarterly, and annual reports issued.

³ Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting control, its financial forecast, the results of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement, etc.

- C. Did the firm perform any audits of federally insured depository institutions with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes ___ No ___. If yes, how many were included in the scope of the peer review? ___.

III. Planning the Review

A. Composition of Review Team:

1. Team Captain _____
 Firm _____ Position _____
 Areas of Experience⁴ _____
2. Team Member _____
 Firm _____ Position _____
 Areas of Experience⁴ _____
3. Team Member _____
 Firm _____ Position _____
 Areas of Experience⁴ _____

- B. Describe basis for and degree of reliance on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

- C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

⁴ As it relates to the reviewed firm's practice.

D. Development of Review Program:

1. Describe peer review programs used and indicate any deviations therefrom:

2. Describe number of offices selected and basis for selection:

3. Describe basis for selection of engagements:

IV. Functional Areas and Engagements Not Reviewed

A. Indicate functional areas not reviewed and describe the reasons:

B. Were you requested not to review any engagements? Yes ____ No ____ . If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

V. Overall Findings and Conclusions:

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes ___ No ___. If yes, attach a copy. If no, describe the reason why no letter of comments was issued and attach copies of MFC forms.

C. If the firm was previously reviewed, were any matters noted on the previous review repeated in the letter of comments on the current review? Yes ___ No ___. If yes, describe what the firm has done or plans to do to prevent a recurrence of the matter(s) and whether you concur with the actions taken or planned.

D. If the firm performed an inspection for the year covered by the peer review, or for a period close to the peer review year, do the inspection findings differ in one or more significant respects from the findings of the peer review? Yes ___ No ___. If yes, briefly describe the general nature of the differences and their effects on the scope of the peer review.

E. In a review of a multi-office firm, did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes ___ No ___ . If yes, briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

F. If a letter of comments was issued, were there any matters included in the letter that did not result in a modified report for which the review team considered modifying the report? Yes ___ No ___. If yes, describe such matters fully, including the basis for the conclusion that a report modification was not warranted.

G. Describe the nature and extent of each matter discussed at the exit conference and/or communicated to senior management of the reviewed firm that was not deemed of sufficient significance to include in a letter of comments.

H. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor's/accountant's report was not appropriately modified? (AU561 and ET203) Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate. _____

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

I. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU390 and ET202) Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate.

5. If the firm has not performed the necessary procedures, indicate whether you concur with the planned actions. _____

J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accounting and review services (ET202)? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions. _____

K. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accountant's services on prospective financial information or any other standards not encompassed in items H, I, and J of this section? Yes ___ No ___. If yes:

1. Describe such situations fully. _____

2. Indicate whether the firm considered the matter. _____

3. Describe the actions the firm has taken or plans to take. _____

4. If the firm has completed the necessary actions, indicate whether you have reviewed the documentation of such actions and whether the actions are appropriate. _____

5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions. _____

L. If reliance is being placed on the firm's inspection program for the current year, did the reviewed firm's inspection program identify any engagements on which the firm must consider taking action pursuant to the standards cited in Items H, I, J and K of this section? Yes ___ No ___. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.

M. The following is the actual or best estimate of the number of hours expended to complete the peer review.

	Actual Review Hours
Team Captain	_____
Team Member(s)	A. _____
	B. _____
	C. _____
	D. _____
Total Review Hours	=====

Team Captain _____

Date _____

APPENDIX B**(Optional)****Comments to Improve Auditing Standards**

A significant potential benefit of the peer review and quality review program is the opportunity it provides to identify areas of practice where improvements can be made in professional standards. Representatives of the SECPS and PCPS Peer Review Committees and the AICPA Quality Review Executive Committee meet annually with representatives of the Auditing Standards Board to discuss the implications of peer review and quality review results for standard setting. However, the committees believe the personal advice of those participating in peer reviews and quality reviews needs to be added to the process.

Your observations of the policies and practices in many different firms and your judgments about the efficient and effective application of professional standards are potentially valuable sources of input for the Board. The Auditing Standards Board would appreciate receiving your comments on the attached questions as well as any other information that would be helpful to the standard setting process. Responses should address areas where standards can be improved rather than specific peer or quality review engagements and should not include the names of any reviewed firms. Responses should be sent directly to Dan M. Guy, Vice President-Auditing, AICPA, 1211 Avenue of the Americas, New York, NY 10036. The Auditing Standards Board thanks you in advance for your contribution.

**American Institute of Certified Public
Accountants
Division for CPA Firms
Practice Section**

Questionnaire

(use additional sheets for your comments, if necessary)

1. Is there particular guidance in any Statement on Auditing Standards or auditing interpretation that practitioners have difficulty applying? Yes ___ No ___. Please cite specific paragraph numbers of the pronouncements to which the problems relate and descriptions of those problems.

2. If you identified a problem above please make specific suggestions for making the pronouncements clearer or more useful.

3. Have you identified any other areas of practice where additional guidance is needed? Yes ___ No ___. If yes, please provide a description of those areas.

Team Captain _____

Address _____

Date _____

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
REVIEW COMPLETION NOTIFICATION FORM

Date: _____

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

From: _____
(Name of the Review Team Captain)

Re: Review of _____

Firm Number _____ Review Number _____

1. On what date was the firm-wide exit conference held? _____/_____/_____

2. When was the report delivered to the reviewed firm? _____/_____/_____

3. What was the general nature of the report? * _____

4. If the report was qualified, what were the reasons for the qualification? * • •

5. When will the working papers be shipped to the AICPA Quality Review Division? _____/_____/_____

* * * * *

Team Captain Signature: _____ Date: _____

* Please use the report codes on reverse. More than one reason can be indicated.

REPORT CODES

GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Modified—Quality Control System (only)
- 4 Modified—Membership Requirements of the Division for CPA Firms (only)
- 5 Modified—Scope Limitation (only)
- 6 Modified—Quality Control System and Membership Requirements of the
Division for CPA Firms
- 7 Adverse

REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

- 401 Continuing Professional Education
- 402 Partner Rotation
- 403 Concurring Partner Review
- 404 Reporting to Audit Committees
- 405 Reporting to QCIC
- 406 Statement of Philosophy
- 499 Other

**PRM
13000**

**Peer Review Program
Guidelines**

**AICPA Division
for CPA Firms**

**PEER REVIEW PROGRAM
GUIDELINES**

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1211 Avenue of the Americas, New York, NY 10036-8775

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAM GUIDELINES

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PRM
13100

Instructions

AICPA DIVISION FOR CPA FIRMS**INSTRUCTIONS FOR USE OF PEER REVIEW PROGRAM GUIDELINES****General**

.01 A peer review is an independent evaluation of whether, during the year under review—

- a. The reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (as set forth in Statement on Quality Control Standards No. 1, paragraph 7).
- b. The reviewed firm's quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of conforming with professional standards.
- c. The reviewed firm was complying with the applicable section's membership requirements.

.02 Peer reviews are to be conducted under the standards prescribed in the sections entitled "Standards for Performing and Reporting on Peer Reviews" (section 2000, *PCPS Reference Manual* or *SECPS Reference Manual*). These sections provide guidance for selecting the offices and engagements to be reviewed, and include examples of peer review reports and a letter of comments. Review team members are expected to be thoroughly familiar with the applicable section's standards prior to commencing a review.

.03 These guidelines have been designed to facilitate evaluation of the reviewed firm's system of quality control, testing its compliance therewith, and testing compliance with the membership requirements of the applicable section. Although departures from these guidelines may occur in particular situations, with the approval of the team captain, reviewers should provide adequate documentation of the type contemplated in these guidelines.

Quality Control Policies And Procedures And Membership Requirements Questionnaire

.04 In advance of the review, the team captain should request that the reviewed firm complete the quality control policies and procedures questionnaire included in PRM §13200 Series, and return it to the team captain prior to the review team's visit. Completion of the questionnaire assists the firm in accumulating and organizing the information regarding its quality control system and the section's membership requirements and expedites the work of the reviewers. Because the extent of documentation of quality

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control policies and procedures may vary from firm to firm, all firms should complete the questionnaire.¹

.05 In completing the questionnaire, the reviewed firm should use the response column or attach other sheets as necessary. Lengthy and elaborate answers are not expected. Rather, 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, which 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 made in its quality control policies and procedures during the period or since the last peer review.

Suggested Review Procedures

.06 To assist the review team in performing its work, suggested review procedures have been organized in two sections (PRM §13300 Series and PRM §13400 Series) as hereinafter discussed. The team captain is responsible for the assignment of the various quality control elements for review to individual team members. Prior to performing the procedures suggested for the element assigned, the team member should compare the relevant sections of the firm's quality control policies and procedures with its responses to the quality control policies and procedures questionnaire 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 documented on appropriate pages of the guidelines and supplemented as necessary with additional pages.

.07 The team member(s) responsible for engagement reviews should, in particular, be familiar with the reviewed firm's policies and procedures for supervision and for consultation. If the AICPA engagement checklists are used, the questions should be augmented to include the reviewed firm's specific quality control policies and procedures applicable to engagements.

.08 The scope and adequacy of the reviewed firm's inspection program may affect the scope of the review. Therefore, the review of the firm's inspection program should be completed as soon as possible to determine whether the initial anticipated scope requires modification.

Peer Review Procedures

.09 Suggested procedures for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing the firm's compliance therewith and with the applicable section's membership requirements have been included in PRM §13300 Series. The suggested procedures should be tailored by the reviewer as the

¹ To assist it in evaluating whether it is ready for its initial peer review and in determining whether its quality control policies and procedures should be revised, a firm would be wise to complete PRM §13200 Series shortly after joining the AICPA Division for CPA Firms.

circumstances may require. [For example, due to the size and nature of a firm's practice, a reviewer may decide to limit his review in such areas as assignment of personnel, hiring, advancement, or acceptance and continuance of clients to testing during engagement reviews. On all reviews, however, a reviewer must review in depth the functional areas of independence, supervision, professional development, inspection and consultation. In addition, on SECPS reviews, the element of acceptance and continuance of clients must also be reviewed.]

.10 Some of the suggested peer review procedures include interviewing personnel of the reviewed firm who are knowledgeable about particular quality control functions or have responsibility for a function (for example, assigning personnel to engagements, making hiring decisions, resolving independence questions). The objectives of these interviews include (a) corroborating the information provided to the reviewer in the firm's documented policies and procedures and in the questionnaire completed by the reviewed firm; (b) determining whether the firm's policies and procedures have been effectively communicated to the individual responsible for the particular quality control function; (c) determining as to whether the individual believes that he has sufficient authority to perform the assigned duties; and (d) obtaining additional information that may be deemed necessary.

Staff Interview Questionnaire

.11 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 are not necessarily determinative in regards to the nature of the report or the matters to be included in the letter of comments. Responses should be compared to other review findings.

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

.13 Generally, the review team should select one individual at each level of responsibility below partner (for example, manager, supervisor, senior 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 PRM § 13400 Series. To minimize disruptions to the reviewed firm's normal operations, all questions relative to the quality control system should be discussed, to the extent possible, at the same time with each of the individual(s) selected for interview. [The interviewer should not indicate the name of the individual(s) interviewed on the questionnaire.]

Matters For Further Consideration

.14 Exhibit A, PRM §13600, contains a sample form captioned "Matters for Further Consideration" (MFC). Reviewers should exercise professional judgment in determining whether a "no" answer is significant enough to warrant the preparation of an MFC form. The purpose of the form is to communicate to the reviewed firm:

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

.15 Completion of the form requires a description of the matter, the reviewed firm's comments thereon, and information on the resolution of the matter. The form should be signed in the places indicated by the reviewer, the team captain, and an appropriate partner in the reviewed firm. The team captain should evaluate the substance of the matters described and their resolution and, after reviewing all such forms, should decide if, individually or collectively, they should affect the report of the review team or should be included in a letter of comments to the reviewed firm. (The team captain should be consulted when there are disagreements or differences in opinion between the reviewed firm and the review team members with respect to the interpretation of such matters.)

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

Summarization Of Peer Review Findings

.17 The "Standards for Performing and Reporting on Peer Reviews" requires that reviewers, at the conclusion of field work, summarize all of their findings, including all "no" answers to the individual engagement questions and MFCs. These summaries should be used to evaluate the nature, causes, pattern, pervasiveness, and significance of the deficiencies noted in (a) the design of the firm's quality control system, (b) compliance with the system or with professional standards, and (c) compliance with the membership requirements of the Section. The summaries should also assist the reviewers in answering the questions in PRM §13500 Series of these guidelines and in preparing the summary review memorandum(s).

.18 The following sample summaries have been developed to assist reviewers at the conclusion of field work:

- a. Summary Checklist for Reviews of Compilations of Financial Statement (PRM §15100)
- b. Summary Checklist for Reviews of Reviews of Financial Statements (PRM §15200)
- c. Summary Checklist for Reviews of Audit Engagements (PRM §15300)
- d. Summary of Matter for Further Consideration Forms (Exhibit B, PRM §13600)

.19 Reviewers may use the materials listed in PRM §13100.18, above, or they may develop their own, for summarizing the peer review findings. The format of the summary checklists is consistent with that of the engagement checklists contained elsewhere in this *Peer Review Manual*. Since the engagement checklists are developed for typical situations, they, as well as the summaries, should be augmented, as necessary, to include the reviewed firm's specific quality control policies and procedures applicable to engagements.

Conclusions

.20 PRM §13500 Series, "Conclusions on the Peer Review," sets forth a series of questions designed to assist reviewers in reaching overall conclusions on each of the functional areas and on the membership requirements. The responses also assist reviewers in determining whether the appropriate peer review procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of peer reviews. Therefore, regardless of the modifications that are made to the other sections of these guidelines, the "Conclusions" pages for each functional area and for the membership requirements should be used without modification.

.21 If the finding on a particular matter caused you to conclude that (because of the nature, causes, pattern, or pervasiveness of the deficiencies) they 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." In reaching this conclusion, reviewers should consider the reporting standards in Section 2000 of the applicable *SECPS Reference Manual* or *PCPS Reference Manual*.

Reviews Of Multi-Office Firms

.22 When a reviewed firm has more than one office, the procedures followed by both the reviewed firm and by the reviewers will be similar, but not identical, to the procedures followed in the review of a single office. Accordingly, the materials contained in these guidelines should be tailored as follows:

- a. In preparing the questionnaire in PRM §13200 Series, 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 are centralized.

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- b. When visits are made to more than one office, the team captain should prepare a copy of the appropriate portions of PRM §13300 Series for each office visited. Obviously, certain items will be addressed at only one location, such as evaluating firm policy or interviewing the individual responsible for a firm-wide function. Other items will be addressed at more than one location, such as reviewing certain types of files or interviewing persons responsible for functions administered on a decentralized basis.
- c. PRM §13400 Series ordinarily should be used in each office visited.
- d. Summaries of "no" answers and of MFCs ordinarily should be prepared so that findings at individual locations, as well as firm-wide totals, are readily identifiable.
- e. PRM §13500 Series should be based on the firm-wide findings and is not expected to be prepared for each office.

PRM
13200

Section 1: Quality Control
Questionnaire

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAM GUIDELINES

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SECTION 1
AICPA DIVISION FOR CPA FIRMS
QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE

Note: This questionnaire is intended to provide the reviewer with basic information about the firm's quality controls. It is not necessarily a checklist of all the policies and procedures that might be applicable to the firm's practice. Careful completion of this questionnaire should be helpful to firms in evaluating the continuing appropriateness of their policies and procedures. Firms should describe briefly the policies in effect and, to the extent possible, make reference to other firm documents, such as the firm's quality control document, personnel manual, audit manual, checklists, or forms where the policies are described in more detail. (See also PRM §13100.04-.05 of the "Instructions for Use of the Peer Review Program Guidelines" for instructions on preparing this questionnaire.)

Response, Including Reference
to Firm Documents

A. INDEPENDENCE

1. Does the firm require that all professional personnel adhere to the applicable independence rules, regulations, interpretations, and rulings of the AICPA, state CPA society, state board of accountancy, state statute, and SEC and other regulatory agencies?
2. How does the firm inform personnel (for example, through its quality control document, personnel manual, memoranda, client lists, training meetings) of the applicable independence requirements and of the following:
 - a) Investments that are not to be held?
 - b) Relationships that should not exist?
 - c) Transactions that are prohibited by firm policy?

In responding, also indicate how and when personnel are informed of new clients to which the independence policies apply.

Response, Including Reference
to Firm Documents

3. Does the firm obtain periodic written independence representations from all professional personnel? If not, how does the firm monitor compliance with its independence policies and procedures?
4. If written independence representations are obtained:
 - a) Who is responsible for assuring that these representations have been obtained from all required personnel and for reviewing them?
 - b) How often are the representations obtained?
 - c) Where are they filed?
 - d) Do these representations affirm that:
 - i. The individual is familiar with the firm's independence policies and procedures?
 - ii. Prohibited investments are not held and were not held during the period?
 - iii. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?
5. Who is responsible for resolving questions on independence matters?
 - a) In what circumstances must the resolution of independence questions be documented? Where is the documentation maintained?

Response, Including Reference
to Firm Documents

- b) What sources are or would be consulted when resolving independence questions?
 - c) Has the firm found it necessary within the last year to consult with sources outside the firm on independence matters?
6. Does the firm confirm, when acting as principal auditor, the independence of another firm engaged to perform segments of an engagement?
- a) Does the firm provide its staff with a standard independence representation form to use as a guide? If so, indicate where (for example, in an audit manual) the form and related instructions are found.
 - b) Does the firm obtain similar representations in review engagements under SSARS 1?
7. Who reviews accounts receivable from clients to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence?
- a) How often is this done?
 - b) Have there been any such situations during the year under review?

B. ASSIGNING PERSONNEL TO ENGAGEMENTS

1. Are staffing schedules and/or time budgets used?
- a) If yes, who is responsible for preparing and approving them?

- b) If no, how are manpower requirements identified?
- 2. Who is responsible for assigning personnel to 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, by 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 or specialized situations been identified as requiring consultation? If yes, attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).
- 2. Does the firm designate individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their special-

Response, Including Reference
to Firm Documents

- ties are and indicate how personnel have been made aware of this information.
3. How are differences of opinion between engagement personnel and specialists resolved?
 4. What outside sources are consulted when it is deemed necessary (for example, AICPA, state CPA society, another firm or individual)?
 5. Does the firm require that consultations be documented? If yes:
 - a) To what extent must they be documented?
 - b) Where is this documentation maintained (for example, in the working papers and/or a subject file)?
 6. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS 50? If yes, attach a copy of that guidance. Also, indicate whether the firm issued any such reports during the year under review.
 7. Who is responsible for determining that the firm's reference library or libraries remain adequate and current?
 8. Does the firm's library include current editions of AICPA industry audit guides relevant to the firm's practice and are those guides required to be followed?

D. SUPERVISION

1. Does the firm have documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (for example, in an audit 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 or the nature of the engagement.
2. Is a written audit program used on all audit engagements as required by SAS 22? Who is required to review and approve the audit program, and how is this approval documented?
3. Does the firm have written guidance material regarding:
 - a) Evaluation of internal accounting controls, including computer controls?
 - b) Correlation of internal accounting controls to substantive procedures.
 - c) Audit risk and materiality considerations?
 - d) Audit sampling techniques?
 - e) Degree of reliance to be placed on analytical review procedures?
 - f) Form and content of working papers?
 - g) Other pertinent matters (e.g., manuals).
4. If the answer to any of the questions under 3 above is yes:

Response, Including Reference
to Firm Documents

- a) Indicate where the material is found.
 - b) Describe the documentation required to be included in engagement working papers.
5. Does the firm require the use of any standardized forms, checklists, and questionnaires? (Attach a list or indicate where those materials are found and indicate which forms are required and which are discretionary.)
 6. How are differences of professional judgment between engagement personnel resolved and how are staff informed of the procedures to be followed?
 7. Does the firm use other offices or correspondents, including those outside the United States, for engagements? If yes, does the firm have documented procedures for the supervision and control of that work? (Indicate where those procedures are found.) If not, briefly describe how instructions are given to the other office or correspondent, and the extent to which the work of that office or correspondent is reviewed by the referring office 2/.
 8. Does the firm have documented procedures for the review of reports, financial statements, and working papers for audit, review, and compilation engagements by the personnel assigned to the engagement?

2/ See Appendix C, §2000 of the SECPS Reference Manual and PCPS Reference Manuals.

If yes, indicate where those procedures are found. If no, briefly describe the procedures expected to be followed and indicate how the review process is documented.

9. Does the firm require that an individual having no other significant responsibility for the engagement review the following prior to issuance:
- a) Accountants'/Auditors' report and accompanying financial statements?
 - b) Working papers?

If the answer is yes to either of these questions, indicate who performs these reviews and how they are documented, the extent of the review and whether the procedures are applicable to all engagements or specific types of engagements.

10. How does the firm evaluate the quality of a potential merger candidate?
11. How does the firm train and integrate the professional personnel of a merge-in practice in the reviewed firm's quality control policies and procedures?

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, education, and experience requirements have been established for:

*AICPA Division For CPA Firms
Private Companies and SEC Practice Sections**

*Quality Control Policies and Procedures
Questionnaire for Sole Practitioners With No
Professional Staff*

.01 This section of the manual contains a questionnaire that a member of the PCPS and/or SECPS must complete prior to the commencement of its review. This questionnaire has been developed for sole practitioners without professional staff. Completion of the questionnaire assists a sole practitioner in accumulating and organizing the information regarding its quality control system.

.02 Sole practitioners should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, sole practitioners should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

Firm	Prepared By	Date
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* This questionnaire is to be used on SECPS and PCPS peer reviews of sole practitioners with no professional staff.

**AICPA Division For CPA Firms
Private Companies and SEC Practice Sections***

**QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF**

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a practice. Sole practitioners who are about to be reviewed should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, make reference to any documents that describe those policies and procedures in more detail. Examples of such documents might be audit and accounting manuals and forms and checklists used in the practice.

Response, Including Reference to Firm Documents

A. Independence

1. Do you adhere to the independence rules, regulations, interpretations, and rulings of the—
 - a. AICPA?
 - b. State CPA society?
 - c. State board of accountancy?
 - d. State accountancy laws?
 - e. SEC and other regulatory agencies?
2. Have you, during the year under review, identified any independence problems with respect to audit or accounting clients?
3. Briefly describe how you do or would resolve independence questions by answering the following—
 - a. What sources do you or would you consult?
 - b. Have you found it necessary to consult with outside parties on independence matters within the last year?
 - c. In what circumstances do you or would you document the resolution of an independence question?

* This questionnaire is to be used on SECPS *and* PCPS peer reviews of sole practitioners with no professional staff.

4. Do you have any engagements where you act as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?
5. If the answer to (4) above is "yes"—
 - a. Do you confirm the independence of such other firm(s)?
 - b. Do you do so in writing?
 - c. Do you do so annually?
6. Have you had during the year under review any accounts receivable from clients that may have taken on some of the characteristics of loans and, therefore, may impair your independence?

B. Consultation

1. During the year under review, did you seek consultation from internal or external sources?
2. How do you determine when to consult with outside parties and with whom to consult?
3. Describe the extent to which you document consultations with outside parties by answering the following—
 - a. Do you document all such consultations?
 - b. If the answer to (a) is "no", describe the circumstances in which you would document a consultation.
 - c. Does your documentation always, usually, or never include the following information:
 - Description of the issue?
 - The client's position, if any?
 - The possible alternatives?
 - The sources consulted (both written materials and people)?

- The position indicated by those sources?
 - Your conclusion?
 - Your underlying rationale?
4. Does your library include current editions of—
- a. AICPA *Professional Standards*?
 - b. AICPA industry audit guides relevant to your practice?
 - c. FASB pronouncements?
 - d. GASB pronouncements, *Government Auditing Standards* (the "yellow book"), and other government audit guides relevant to your practice?

C. Supervision

1. Do you follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (for example, in an audit and accounting manual)?
2. If the answer to (1) is "no," briefly describe the procedures you perform in planning audit and accounting engagements in practice, including the information you obtain and consider and when you do your planning. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.
3. Is a written audit program used on all audit engagements?
4. Do you use written guidance materials regarding the following matters? If so, indicate whether you developed it or obtained it from an outside source, and name the source.
 - a. Consideration of internal control structure in planning and performing an audit.

- b. Assessment of control risk.
 - c. Consideration of audit risk and materiality when planning and performing an audit.
 - d. Audit sampling techniques.
 - e. Degree of reliance placed on analytical procedures.
 - f. Form and content of working papers.
 - g. Other audit and accounting matters, in the form of an audit and accounting manual.
5. Do you use any standardized forms, checklists, or questionnaires? If so, attach a list and describe the types of engagements on which you use them. (Note that the reviewer will want to inspect these forms during the review.)
 6. Do you use correspondents for audit or accounting engagements? If "yes," describe how (in writing or orally and when this is done) instructions are given to such correspondents and the extent to which you review their work.
 7. Have you purchased audit or accounting clients from another CPA during the year under review?

D. Professional Development

1. Are you in compliance with state, AICPA, and the Section's continuing professional education requirements? If not, indicate how and when you plan to correct the situation.
2. Briefly describe how you plan the allocation of your CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
3. Do you maintain CPE records and course materials?

E. Acceptance and Continuance of Clients

1. Briefly describe the procedures you follow, including any documents you generally obtain and review and any inquiries you generally make of third parties, before you accept a client for whom you will perform audit or accounting services, in order to provide yourself with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate your ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.
2. Did you terminate any audit or accounting relationships during the year under review?

F. Inspection

1. Have you performed a timely, formal, documented inspection of your quality control policies and procedures for each year since your last peer or quality review and, if so, have you retained the summary or report for the team captain's review?
2. Have you taken appropriate corrective action in response to the findings on your most recent quality review or peer review?

G. Membership Requirements (SECPS only)

1. How do you ensure that you are complying with the section's membership requirements pertaining to—
 - a. Concurring partner review of SEC engagements [membership requirement SECPS §1000.08(f)]?
 - b. Refraining from proscribed management advisory services [membership requirement SECPS §1000.08(h)]?

Response, Including Reference to Firm Documents

- c. Reporting annually to the audit committee or board of directors (or its equivalent in a partnership) of each SEC audit client the total fees received from the client for management advisory services during the year under audit and a description of the types of such services rendered [membership requirement SECPS §1000.08(i)]?
- d. The firm's statement of philosophy [membership requirement SECPS §1000.08(l)]?
- e. Communicating in writing on a timely basis to an SEC registrant and the Office of the Chief Accountant of the SEC that the client auditor relationship has ceased [membership requirement SECPS §1000.08(m)]?

[The next page is 13221.]

**AICPA Division For CPA Firms
Private Companies and SEC Practice Sections***

**Quality Control Policies and Procedures
Questionnaire for Firms With Two or More
Professionals**

.01 This section of the manual contains a questionnaire that a member of the PCPS and/or SECPS must complete prior to the commencement of its review. The questionnaire has been developed for firms with two or more professionals. Completion of the questionnaire assists a firm in accumulating and organizing the information regarding its quality control system.

.02 The reviewed firm should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

Firm

Prepared By

Date

* This questionnaire is to be used on SECPS and PCPS peer reviews of firms with two or more professionals.

**AICPA Division For CPA Firms
Private Companies and SEC Practice Sections***

**QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE
FOR FIRMS WITH TWO OR MORE PROFESSIONALS**

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a firm's practice. Firms about to be reviewed should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists.

Response, Including Reference to Firm Documents

A: Independence

1. Does the firm, including all its professional personnel, adhere to the independence rules, regulations, interpretations, and rulings of the—
 - a. AICPA?
 - b. State CPA society?
 - c. State board of accountancy?
 - d. State accountancy laws?
 - e. SEC and other regulatory agencies?
2. Describe how the firm informs its professional personnel of the applicable independence requirements (for example, through its personnel manual, audit and accounting manual, training meetings, memoranda).
3. How does the firm inform its professional personnel of the new clients to which independence requirements apply? For example, does the firm—
 - a. Circulate new client lists to all personnel?
 - b. Post new clients on a staff bulletin board?

* This questionnaire is to be used on SECPS and PCPS peer reviews of firms with two or more professionals.

- c. Report new clients at staff meetings?
 - d. Use other (describe) means?
4. Does the firm obtain at least annually written representations from all professional personnel concerning their compliance with applicable independence requirements? If not, how does the firm monitor compliance with its independence policies? If yes, do these representations affirm that:
- a. The individual is familiar with the firm's independence policies and procedures?
 - b. Prohibited investments are not held and were not held during the period?
 - c. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?
5. Who is responsible for resolving independence questions:
- a. The engagement partner?
 - b. The managing partner?
 - c. Someone else (identify individual)?
6. In connection with the resolution of independence questions—
- a. In what circumstances must the question and its resolution be documented?
 - b. Where is the documentation maintained (for example, the working paper files or other specific firm or client files)?
 - c. What sources are or would be consulted?
 - d. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence matters?

7. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?
8. If the answer to (7) above is "yes"—
 - a. Does the firm confirm the independence of such other firm(s)?
 - b. Does it do so in writing?
 - c. Does it do so annually?
9. Does the firm review accounts receivable from clients to ascertain whether any outstanding amounts have taken on some of the characteristics of loans and, therefore, may impair the firm's independence?
 - a. Who does this?
 - b. How often is it done?
 - c. Have there been any such situations during the year under review?

B. Assigning Personnel to Engagements

1. Describe the method the firm uses to assign professional personnel to engagements. In that description, include—
 - a. The basis on which assignments are made. For example, some firms make assignments on an engagement by engagement basis; others assign personnel to specific clients and hold them accountable for all services to those clients.
 - b. How staff are advised of their assignments. For example, some firms do this orally; others issue memoranda or copies of scheduling forms; others post assignments to a staff bulletin board.

- c. Who is responsible for making staff assignments on a day-to-day basis.
 - d. How that person is informed of estimated time requirements and of any special skills or experience that a given assignment might demand.
 - e. How far in advance assignments are typically made.
2. Does the firm require the following to have experience appropriate to the engagement:
 - a. Staff?
 - b. Partner-in-charge of the engagement?
 - c. Concurring reviewer?

C. Consultation

1. Have certain areas or specialized situations been identified as requiring consultation? If yes, attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).
2. Does the firm designate individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their specialties are and indicate how personnel have been made aware of this information.
3. How are differences of opinion between engagement personnel and specialists resolved?
4. During the year under review, did the firm seek consultation from internal or external sources?
5. How does the firm determine when to consult with outside parties and with whom to consult?

6. Describe the extent to which the firm expects consultations to be documented. Where is such documentation maintained?
7. Does the firm's library include current editions of—
 - a. AICPA *Professional Standards*?
 - b. AICPA industry audit guides relevant to the firm's practice?
 - c. FASB pronouncements?
 - d. GASB pronouncements, *Government Auditing Standards* (the "yellow book") and other government audit guides relevant to the firm's practice?
8. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS 50? If yes, attach a copy of that guidance. Also, indicate whether the firm issued any such reports during the year under review.

D. Supervision

1. Does the firm follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (e.g., in an audit and accounting manual)?
2. If the answer to (1) is "no," briefly describe the procedures the firm performs in planning audit and accounting engagements in practice, including the information obtained and considered and the nature, timing and extent of partner involvement in the planning process. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.

3. Is a written audit program used on all audit engagements? If yes, who is required to review and approve the audit program, and how is this approval documented?
4. Indicate whether the firm has written guidance materials regarding the following matters. If so, indicate where the material is found and whether it was developed internally or was obtained from an outside source, and name the source.
 - a. Consideration of internal control structure in planning and performing an audit.
 - b. Assessment of control risk.
 - c. Consideration of audit risk and materiality when planning and performing an audit.
 - d. Audit sampling techniques.
 - e. Degree of reliance placed on analytical review procedures.
 - f. Form and content of working papers.
 - g. Other audit and accounting matters, in the form of an audit and accounting manual.
5. Does the firm use any standardized forms, checklists, or questionnaires? If so, attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.)
6. Has the firm established procedures to be followed when differences of opinion exist among firm personnel on an audit (see AICPA *Professional Standards*, AU section 311.14)?
 - a. Are those procedures documented?
Where?

- b. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?
7. Does the firm use other offices or correspondents for audit or accounting engagements? If "yes," describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm's procedures for the supervision and control of that work are found.
8. Does the firm have documented procedures for review by supervisors and partners of the reports, financial statements, and working papers for—
 - a. Audits?
 - b. Reviews?
 - c. Compilations?
9. If the answer to (8) is "yes," indicate where those procedures are found. If the answer is "no," briefly describe the procedures that are followed, including how the review process is documented.
10. Does the firm require that an individual having no other significant responsibility for the engagement perform a preissuance review of some or all engagements? If "yes," indicate who performs such preissuance reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable. Alternatively, indicate where these procedures are found.
11. Has the firm merged with any other firm since the date of its last peer or quality review or in the last three years? If "yes"—
 - a. Did the firm acquire any professional personnel in the merger?

- b. Did the firm acquire and retain any new office or offices in the merger (indicate the locations of any such offices)?
 - c. Have the personnel of the merged firm adopted the firm's quality control policies and procedures?
12. How does the firm evaluate the quality of a potential merger candidate?

E. Hiring

1. Briefly describe how the firm identifies its professional personnel needs, how it goes about recruiting such personnel, and who makes the decision to hire an applicant.
2. Briefly describe the personal, educational, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.
3. Identify the types of background information the firm requires for new hires, such as resumes, transcripts, and personal or employment references.
4. Briefly describe how new professional personnel are informed about the policies and procedures that are applicable to them. Also, attach a list of the manuals, professional publications, and other documents relevant to their professional assignments that are provided to them individually.

F. Professional Development

1. Are all professional personnel in compliance with state, AICPA, and the Section's continuing professional education requirements? If not, attach an analysis by level and discipline (e.g., audit, tax, consulting) of personnel who are not in compliance and indicate the firm's plan for correcting the situation.

2. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
3. Provide an approximation of the nature of the CPE taken by professional personnel assigned to audit and accounting engagements:
 - a. Self-study courses ___%
 - b. In-house training programs—
 - (i) Developed by the firm ___%
 - (ii) Obtained from outside vendors .. ___%
 - c. State society or AICPA programs ___%
 - d. Other programs ___%
4. Who maintains CPE records and course materials?
5. How is compliance with the Section's and other applicable (e.g., state, AICPA, governmental) CPE requirements monitored?
6. How are professional personnel made aware of changes in accounting and auditing standards and in the firm's technical policies and procedures (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?

G. Advancement

1. What levels of responsibility exist within the firm (e.g., partner, manager, senior)?
2. Are personnel at all levels aware of the responsibilities of each of these positions? How is this accomplished? Are those responsibilities documented in, for example, a personnel manual?
3. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?

- a. When are these evaluations performed?
 - b. Are they documented?
 - c. Is a standard evaluation form used?
4. Are partners periodically evaluated, and by what means (e.g., peer evaluation, self-appraisal, counseling)?
 5. Briefly describe how advancement decisions are made (a) within the professional staff and (b) to the partnership.

H. Acceptance and Continuance of Clients

1. Briefly describe the procedures followed by the firm, including any documents generally obtained and reviewed and any inquiries generally made of third parties, before accepting a client for whom the firm will provide audit or accounting services in order to provide the firm with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate the firm's ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.
2. Indicate when or under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.
3. Were any audit or accounting client relationships terminated by the firm during the year under review?

I. Inspection

1. Does the firm perform timely annual inspections? If "yes," briefly describe—

- a. The scope of the program, including who carries it out.
 - b. The materials used, such as questionnaires, programs, and checklists.
 - c. The documentation of the work performed and conclusions reached and the period of time such documentation and conclusions are retained.
2. Has the firm taken appropriate corrective action in response to the findings on its most recent quality review or peer review?

J. Membership Requirements (SECPS only)

1. How does the firm ensure that it is complying with the section's membership requirements pertaining to –
 - a. Partner rotation on SEC engagements [membership requirements SECPS §1000.08(e)]?
 - b. Concurring partner review of SEC engagements [membership requirement SECPS §1000.08(f)]?
 - c. Refraining from proscribed management advisory services [membership requirement SECPS §1000.08(h)]?
 - d. Reporting annually to the audit committee or board of directors (or its equivalent in a partnership) of each SEC audit client the total fees received from the client for management advisory services during the year under audit and a description of the types of such services rendered [membership requirement SECPS §1000.08(i)]?
 - e. Communicating the firm's statement of philosophy [membership requirement SECPS §1000.08(l)]?

Response, Including Reference to Firm Documents

- f. Communicating in writing on a timely basis to an SEC registrant and the Office of the Chief Accountant of the SEC that the client auditor relationship has ceased [membership requirement SECPS §1000.08(m)]?

[The next page is 13301.]

PRM
13300

Section 2: Peer Review
Program Procedures

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAM GUIDELINES

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SECTION 2
AICPA DIVISION FOR CPA FIRMS
Peer Review Program Guidelines

(See PRM §13100.06-.10 of the "Instructions for
Use of the Peer Review Program Guidelines")

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>A. <u>INDEPENDENCE</u></p> <ol style="list-style-type: none"> 1. Compare the firm's independence policies and procedures with professional and regulatory requirements. 2. Interview the individual responsible for resolving independence questions and discuss the following questions: <ol style="list-style-type: none"> a) Have any significant independence questions been raised during the year? Describe the nature and disposition of the question. b) How frequently is the staff informed of changes in the entities to which the firm's independence rules apply? c) How do you monitor changes in independence requirements and compliance with the firm's policies? d) Do you believe that you have sufficient authority within the firm to fulfill your responsibilities? 		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>3. Determine by review of appropriate documentation and/or by interviews with selected staff that the firm has communicated, on a timely basis, those entities to which the independence rules apply.</p> <p>4. Select _____ employees and review the written independence representations obtained from those employees during the most current year.</p> <p>5. Identify, by review of files or inquiry (see 2 above), a selection of situations in which independence questions arose and consider whether the resolution of such questions appears appropriate.</p> <p>6. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, by inspection of records and selected letters that the firm has obtained timely and appropriate assurance of independence from other firms engaged to perform segments of engagements for which it is the principal auditor.</p> <p>7. Interview _____ staff to confirm their familiarity with the firm's independence policies and procedures. (See separate interview guidelines.)</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
B. <u>ASSIGNING PERSONNEL ENGAGEMENTS</u>		
1. Interview the individual responsible for assignments and discuss the following questions:		
a) What criteria/factors are used in making partner and staff assignments?		
b) How are you notified of advancement, hiring, and termination decisions?		
c) How far in advance are staffing requirements for 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-in-charge of engagements.		
c) Concurring reviewers.		
3. Review the firm's staff scheduling records.		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>a) Determine if appropriate consideration was given to the factors (e.g., competence, experience) identified by the firm as deserving consideration in staffing engagements.</p> <p>b) Evaluate whether the factors considered are appropriate.</p> <p>4. Interview _____ staff to determine whether they believe that the assignments they have received have been appropriate. (See separate interview guidelines.)</p>		
<p>C. <u>CONSULTATION</u></p>		
<p>1. Evaluate the appropriateness of the method and extent of designating specialists, the degree of authority to be accorded specialists' opinions, and the procedures followed for resolving differences of opinion between engagement personnel and specialists.</p>		
<p>2. Evaluate the extent of required consultation and whether such situations are comprehensive enough for the firm.</p>		
<p>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.</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
4. Evaluate the appropriateness of any guidance issued regarding reports on the application of accounting principles, as described in SAS 50.		
5. Review the documentation prepared in connection with the issuance of _____ reports on the application of accounting principles, as described in SAS 50, and evaluate whether:		
a) The firm complied with its requirements and with professional standards.		
b) There is reason to believe that the opinion rendered is not appropriate in the circumstances.		
6. Inspect the firm's library and determine if it is sufficiently comprehensive and up-to-date. Specifically, determine that the library includes: recent pronouncements, literature appropriate for the firm's specialties, and timely filing of loose-leaf services.		
7. Interview _____ personnel to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.)		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>D. SUPERVISION</p> <ol style="list-style-type: none"> 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. 3. Review and evaluate the appropriateness of the guidance material provided by the firm regarding: <ol style="list-style-type: none"> a) Evaluation of internal accounting controls, including computer controls. b) Correlation of internal accounting controls to substantive procedures. c) Audit risk and materiality considerations. d) Audit sampling techniques. e) Degree of reliance to be placed on analytical review procedures. g) Other pertinent matters (e.g., Manuals). 4. Review and evaluate the appropriateness of any standardized forms, checklists, and questionnaires. 		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>5. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, or questionnaires) purchased from another accounting firm or some other third party:</p> <p>a) Obtain and review the most recent report on the review of the suitability of the design of those materials, if any.</p> <p> i) If there is such a report determine whether the firm has tailored the materials, to the extent appropriate, to provide the firm with reliable aids to assist it in conforming with professional standards.</p> <p> ii) If there is no such report, evaluate whether the materials are appropriately comprehensive and suitably designed and whether the firm has tailored the materials, to the extent appropriate, to provide the reviewed firm with reliable aids to assist it in conforming with professional standards.</p>		

Suggested Review Procedures	Remarks and Findings Including Extent of Testing	Done By (Initials)
<p>b) Evaluate the appropriateness of the procedures performed by the firm to ensure that the materials are up-to-date and cover all applicable recent pronouncements.</p> <p>6. Review and evaluate the appropriateness of the firm's policies and procedures for the review of engagement working papers, reports, and financial statements. [See also page PRM 13327, step J (7).]</p> <p>7. Review and evaluate the appropriateness of the firm's procedures for resolving differences of opinion among members of an engagement team.</p> <p>8. Review and evaluate the firm's policies and procedures for:</p> <p>a) Evaluating the quality of a potential merger candidate.</p> <p>b) Training and integrating the professional personnel of the merged-in practice in the reviewed firm's quality control policies and procedures.</p> <p>9. 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 affiliates, and evaluate their suitability for the firm.</p>		

**AICPA Division For CPA Firms
SEC Practice Section***

**Guidelines for Review of Quality Control
Policies and Procedures for Sole Practitioners
With No Professional Staff**

.01 To assist the reviewer in performing an SECPS peer review, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing compliance with them. The suggested procedures for review of a sole practitioner with no professional staff, who is a member of the SECPS, are set forth in the attached guidelines (PRM Section 13310).

.02 The suggested SECPS review procedures are based on typical policies and procedures that a firm with SEC clients may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team's testing should be documented on the appropriate pages of these guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 These guidelines should not be used for reviews of SECPS member firms with two or more professionals or reviews of PCPS member firms. Suggested review procedures for reviews of these firms are contained elsewhere in this section.

Reviewed Firm

Period Covered

* These guidelines are to be used on SECPS peer reviews of sole practitioners with no professional staff only.

**AICPA Division For CPA Firms
SECPS Peer Review Program***

**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF**

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>A. Independence</p> <p>1. Interview the CPA and—</p> <ul style="list-style-type: none"> a. Review the CPA’s responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary. b. Inquire about financial or other relationships that may be prohibited relationships, such as: <ul style="list-style-type: none"> (i) Business relationships with clients or with nonclients that have investor or investee relationships with clients. (ii) Loans from financial institutions. (iii) Family members in director or manager positions with client entities, including not-for-profit organizations. (iv) Past-due fees for professional services. (v) Accounting or advisory services that have evolved into situations where the CPA has assumed some of the responsibilities of management. 		

* These guidelines are to be used on SECPS peer reviews of sole practitioners with no professional staff only.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>c. Inquire about any situations where the CPA has elected <i>not</i> to be independent and whether the CPA withdrew from the audit or accounting engagement or appropriately modified his or her report.</p> <p>d. Inquire into the procedures the CPA follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice.</p> <p>2. Identify by review of files or by interviewing the CPA all situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</p> <p>3. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the CPA has complied with his or her policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the CPA is the principal auditor or accountant.</p> <p>B. Consultation</p> <p>1. Interview the CPA and—</p> <p>a. Review the CPA's responses to the consultation section (part B) of the questionnaire and clarify those responses, if necessary.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. Inquire into and evaluate the CPA's views concerning when outside consultation should take place and the sources that should be used.</p> <p>2. Identify by review of appropriate documentation (see questionnaire, B.1, B.2, and B.3) or by interviewing the CPA situations in which consultation has taken place and evaluate whether the advice appears appropriate and whether the CPA responded appropriately to that advice.</p> <p>3. Inspect the CPA's library for his or her audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the CPA's specialties and that loose-leaf services are filed on a timely basis.</p> <p>4. Ask if the firm has issued any reports on the application of accounting principles as described in SAS 50. If yes, review a sample of such reports to determine compliance with professional standards and that the opinion rendered is appropriate in the circumstances.</p>		
<p>C. Supervision</p> <p>1. Interview the CPA and review his or her responses to the supervision section (part C) of the questionnaire and clarify those responses, if necessary.</p> <p>2. Evaluate the CPA's procedures for planning audit and accounting engagements.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>3. If the CPA uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer also may wish to obtain the most recent report of the design of those materials.)</p> <p>4. Review and evaluate the following quality control materials developed by the CPA and those materials developed by other parties on which there is no separate report on the review of the suitability of their design:</p> <ul style="list-style-type: none"> a. Consideration of internal control structure in planning and performing an audit. b. Assessment of control risk. c. Consideration of audit risk and materiality when planning and performing an audit. d. Audit sampling techniques. e. Degree of reliance placed on analytical review procedures. f. Form and content of working papers. g. Other audit and accounting matters, in the form of an audit and accounting manual. <p>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>questionnaires (see questionnaire, C.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the CPA.</p>		
<p>6. Evaluate the CPA's procedures for the supervision and control of work, if any, performed by correspondents.</p>		
<p>7. Inquire about any unusual accounting or auditing problems related to clients purchased during the year under review and evaluate the appropriateness of the CPA's assessment and treatment of such matters.</p>		
<p>D. Professional Development</p>		
<p>1. Review the CPA's continuing professional education records and determine that those records are adequate to demonstrate compliance with the requirements of the Section, the state board of accountancy, and the state CPA society, if applicable.</p>		
<p>2. Discuss with the CPA the factors considered in planning his or her CPE activities and evaluate the appropriateness of the plan for the year under review and compliance with the plan. In that connection, consider—</p>		
<p>a. The allocation of CPE hours among accounting and auditing, tax, and other topics.</p>		
<p>b. The nature of the CPE obtained (self-study, attendance at conferences, participation in group-study programs).</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>E. Acceptance and Continuance of Clients</p> <p>1. Interview the CPA and —</p> <ul style="list-style-type: none"> a. Review the responses to the acceptance and continuance section (part E) of the questionnaire and clarify those responses, if necessary. b. Inquire into the circumstances surrounding the termination, if any, of audit or accounting relationships during the year under review. c. Determine the extent to which firm policies and procedures require client acceptance and continuance decisions to be documented, and where such documentation is maintained. <p>2. Evaluate the appropriateness of the CPA's policies and procedures for the acceptance and continuance of clients, including procedures to ensure compliance with professional standards on communications between predecessor and successor accountants.</p> <p>3. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its own policies and procedures and with the requirements of professional standards.</p> <p>4. Obtain a list from the firm of those SEC clients accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously undergone a peer review) where, as reported in a Form 8-K, in a similar public filing,</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, or in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection) or there was a reported disagreement over any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K. For such engagements:</p> <ul style="list-style-type: none"> a. Review the existing client-acceptance documentation that relates to the matter or procedures that were the subject of the resignation or disagreement. b. Review such current or prior periods' engagement working papers, financial statements, or auditor's reports to the extent considered necessary to be able to evaluate whether the matters or procedures were handled appropriately. c. Determine whether, since the end of the last peer review year (or for the year under review if the reviewed firm has not previously undergone a peer review), any opinions on the application of generally accepted accounting principles were rendered to the entity prior to acceptance (for example, during the proposal process or before). 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>d. If any such opinions were rendered, determine whether they were issued pursuant to the firm's policies relating to the issuance of such opinions.</p> <p>5. Obtain a list from the firm of all new SEC engagements (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to a period that ended during the reviewed firm's peer review year. Review the existing client-acceptance documentation for all engagements on this list in the offices selected for review.¹</p>		
<p>F. Inspection</p>		
<p>1. Interview the CPA and —</p> <p>a. Review the responses to the inspection section (part F) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Discuss the criteria used in selecting engagements for review and for selecting individuals within or outside the firm to carry out such procedures.</p> <p>c. Discuss how the CPA monitors whether the corrective actions planned as a result of an inspection are actually carried out.</p>		

¹ If there are any engagements in the offices selected for review that are on both this list and the list obtained at step (5) above, those engagements (or portions of those engagements) should be selected for review. In any event, at least one engagement on the list obtained in this step should be reviewed in each office visited.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>2. Review the available documentation supporting annual inspections conducted since the last peer review, if any, and evaluate whether:</p> <ul style="list-style-type: none"> a. The inspectors have sufficient training and experience. b. The inspection coverage included: <ul style="list-style-type: none"> i) Reviewing and testing compliance with applicable firm quality control policies and procedures, relating to all the relevant elements of quality control. ii) Reviewing an appropriate number and type of engagements for compliance with professional standards. c. The inspection findings are appropriately documented and summarized. d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate. e. Appropriate corrective action was taken, including, if necessary, action pursuant to the requirements of AICPA Professional Standards, AU Sections 390 and 561 or supplementing the working papers to document the procedures performed. <p>3. Consider whether inspection findings for the year under review correlate with the findings on the peer review and explain any significant differences.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>G. Membership Requirements</p> <ol style="list-style-type: none"> 1. Obtain reasonable assurance that the CPA is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and canceled checks. 2. Inquire about the existence of present or pending matters that might affect the ability of the CPA to engage legally in the practice of public accounting. 3. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected. 4. Review documentation evidencing payment of the applicable Section's dues for the current year. 5. Review the guidelines that have been developed in connection with the concurring partner review requirement and evaluate whether they: <ol style="list-style-type: none"> a. Provide for the required review by a reviewer having sufficient technical expertise and experience. b. Specify the nature, extent, and timing of the review. c. Specify the nature and extent of the documentation required to evidence compliance with the firm's policies and procedures with respect to the concurring partner review requirement. 6. Evaluate the adequacy of the system for reporting litigation to the Quality Control Inquiry Committee pursuant to membership requirement SECPS §1000.08(k). 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>7. Determine by inquiry and by inspecting letters to the Quality Control Inquiry Committee that litigation against the firm since the firm's last peer review (or since the firm became a member of the SECPS, whichever is later) was reported on a timely basis pursuant to membership requirement SECPS §1000.08(k).²</p> <p>8. Interview the CPA regarding management advisory services. Obtain an understanding of the scope of the CPA's services in that area and the CPA's familiarity with the Section's requirements proscribing the performance of certain management advisory services.</p> <p>9. Evaluate the adequacy of the system for monitoring compliance with membership requirement SECPS §1000.08(e) [partner rotation on SEC engagements].</p> <p>10. Evaluate the adequacy of the procedures for communicating at least annually with the audit committee or board of directors of each SEC audit client regarding the matters discussed in membership requirement SECPS §1000.08(i).</p> <p>11. Review the statement of philosophy that has been developed pursuant to membership requirement SECPS §1000.08(l) and evaluate whether it is consistent with the firm's quality control policies and procedures.</p>		

² New member firms shall report within 30 days of joining the Section, such litigation, proceedings or investigations, as defined, as may have been filed or announced within the three-year period preceding the firm's admission to the section.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>12. Evaluate the adequacy of the system for notifying the Office of the Chief Accountant of the SEC on a timely basis [pursuant to membership requirement SECPS §1000.08(m)] when the client-auditor relationship with an SEC registrant has ceased.</p> <p>13. Select _____ SEC clients where, since May 1, 1989 or the end of the last peer review year, whichever comes later, the firm ceased to be the auditor, and review the letter notifying the Office of the Chief Accountant of the SEC that the client-auditor relationship has ceased.³ [Consider including in this selection any such engagements that were reviewed.]</p>		
<p>H. Other Matters</p>		
<p>1. Discuss with the CPA plans, if any, the CPA may have for recruiting professional personnel and review with the CPA the quality control considerations related to the hiring of additional personnel as well as the implications of that for the CPA's quality control system.</p>		

[The next page is 13331.]

³ The reviewer may wish to obtain a list of former clients meeting these criteria.

**AICPA Division For CPA Firms
SEC Practice Section***

**Guidelines for Review of Quality Control
Policies and Procedures for Firms With Two or
More Professionals**

.01 To assist the review team in performing an SECPS peer review, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm’s quality control policies and procedures and for testing the firm’s compliance with them. The suggested procedures for reviews of firms with two or more professional staff who are members of the SECPS are set forth in the attached guidelines (PRM Section 13330).

.02 The suggested SECPS review procedures are based on typical policies and procedures that a firm with SEC clients may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team’s testing should be documented on the appropriate pages of these guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 Some of the suggested quality review procedures include inquiring about particular quality control functions. The objectives of these inquiries include:

- a. Corroborating the information provided to the reviewer in the questionnaire completed by the reviewed firm; and
- b. Determining whether the firm’s policies and procedures have been effectively communicated to the individual(s) responsible for the particular quality control function.

.05 These guidelines should not be used for reviews of SECPS sole practitioners with no professional staff or reviews of PCPS member firms. Suggested review procedures for reviews of these firms are contained elsewhere in this section.

Reviewed Firm	Period Covered

* These guidelines are to be used on SECPS peer reviews of firms with two or more professionals only.

**AICPA Division For CPA Firms
SECPS Peer Review Program***

**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR FIRMS WITH TWO OR MORE PROFESSIONALS**

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>A. Independence</p> <ol style="list-style-type: none"> 1. Compare the firm's independence policies and procedures with professional and regulatory requirements. 2. Interview the appropriate individual¹ and— <ol style="list-style-type: none"> a. Review the firm's responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary. b. Inquire about financial or other relationships that may be prohibited relationships, such as <ol style="list-style-type: none"> (i) Business relationships with clients or with non-clients that have investor or investee relationships with clients. (ii) Loans from financial institutions. (iii) Family members in director or manager positions with client entities, including not-for-profit organizations. (iv) Past-due fees for professional services. 		

¹The "appropriate individual" would usually be an owner and, depending on the circumstances, may be the managing partner, the individual responsible for the accounting and auditing function, the individual responsible for the quality control function, or other partners or shareholders responsible for specific functions.

* These guidelines are to be used on SECPS peer reviews of firms with two or more professionals only.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>(v) Accounting or advisory services that have evolved into situations where the firm has assumed some of the responsibilities of management.</p> <p>(vi) Bookkeeping services to SEC clients.</p> <p>c. Inquire about how frequently the staff is informed of the changes in the entities to which the firm's independence rules apply.</p> <p>d. Inquire about any situations where the firm is not independent and whether the firm withdrew from the audit or accounting engagement or appropriately modified its report.</p> <p>e. Inquire into the firm's procedures for monitoring new or revised rules, interpretations, or rulings on independence matters and the firm's procedures to provide reasonable assurance that these matters are considered within the firm's practice.</p> <p>3. Identify by review of files or by interviewing the appropriate individual a selection of situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</p> <p>4. Review the written independence confirmations obtained by the firm for a sample (indicate number ____) of professional personnel, if required by firm policy.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>5. Determine by review of appropriate documentation (see questionnaire, A.3) and by interviews with selected staff (see separate interview guidelines) that the firm has advised all professional personnel on a timely basis about entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.</p> <p>6. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the firm has complied with its policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the firm is the principal auditor.</p>		
<p>B. Assigning Personnel to Engagements</p> <p><i>For firms with up to ten professionals (defined as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide not to complete this section of the questionnaire. This would be appropriate, when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives of this element of quality control. However, when significant deficiencies are noted in the engagements reviewed, the team captain may need to perform some or all of the procedures described in this section in order to identify corrective actions the</i></p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>firm should consider taking. Moreover, in all reviews, the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to this element of quality control; ordinarily, that understanding can be obtained from reading the reviewed firm's responses to the quality control policies and procedures questionnaire.</p>		
<p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the assigning personnel section (part B) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire about the criteria and other factors considered in making personnel assignments and about the relative priorities assigned to:</p> <ul style="list-style-type: none"> (i) Engagement size and complexity. (ii) Personnel availability. (iii) Special expertise required. (iv) Timing of work to be performed. (v) Continuity and periodic rotation of personnel. (vi) Opportunities for on-the-job training. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>2. Determine by review of appropriate documentation (see questionnaire, B.1.b) and by interviewing the appropriate individual how far in advance staffing requirements for engagements are determined and how far in advance staff are notified of their particular work assignments.</p> <p>3. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate. (See separate interview guidelines.)</p> <p>C. Consultation</p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm’s responses to the consultation section (part C) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Evaluate the appropriateness of the method and extent of designating specialists, the degree of authority to be accorded specialists’ opinions, and the procedures followed for resolving differences of opinion between engagement personnel and specialists.</p> <p>c. Inquire into and evaluate the firm’s policies and procedures concerning consultation outside the firm, especially those dealing with when consultation should take place and the sources that should be used.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> 2. Identify by review of documentation (see questionnaire, C.5, C.6, and C.7) or by interviewing the appropriate individual situations in which consultation with outside parties has taken place. Evaluate the advice received and whether the firm acted appropriately on that advice. 3. Evaluate the extent of required consultation and whether such situations are comprehensive enough for the firm. 4. Evaluate the appropriateness of any guidance issued regarding reports on the application of accounting principles, as described in SAS 50, and evaluate whether: <ol style="list-style-type: none"> a. The firm complied with its requirements and with professional standards. b. There is reason to believe that the opinion rendered is not appropriate in the circumstances. 5. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis. 6. Interview selected staff to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.) 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>D. Supervision</p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and review the firm's responses to the supervision section (part D) of the questionnaire and clarify those responses, if necessary. 2. Evaluate the firm's procedures for planning audit and accounting engagements. 3. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer may also wish to obtain the most recent report on the review of the design of those materials.) 4. Review and evaluate the following quality control materials developed by the firm and those materials developed by other parties on which there is no separate report on the review of the suitability of their design: <ol style="list-style-type: none"> a. Consideration of internal control structure in planning and performing an audit. b. Assessment of control risk. c. Consideration of audit risk and materiality when planning and performing an audit. d. Audit sampling techniques. e. Degree of reliance placed on analytical review procedures. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> 2. Identify by review of documentation (see questionnaire, C.5, C.6, and C.7) or by interviewing the appropriate individual situations in which consultation with outside parties has taken place. Evaluate the advice received and whether the firm acted appropriately on that advice. 3. Evaluate the extent of required consultation and whether such situations are comprehensive enough for the firm. 4. Evaluate the appropriateness of any guidance issued regarding reports on the application of accounting principles, as described in SAS 50, and evaluate whether: <ol style="list-style-type: none"> a. The firm complied with its requirements and with professional standards. b. There is reason to believe that the opinion rendered is not appropriate in the circumstances. 5. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis. 6. Interview selected staff to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.) 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>D. Supervision</p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and review the firm's responses to the supervision section (part D) of the questionnaire and clarify those responses, if necessary. 2. Evaluate the firm's procedures for planning audit and accounting engagements. 3. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer may also wish to obtain the most recent report on the review of the design of those materials.) 4. Review and evaluate the following quality control materials developed by the firm and those materials developed by other parties on which there is no separate report on the review of the suitability of their design: <ol style="list-style-type: none"> a. Evaluation and documentation of internal controls, including computer controls. b. Consideration of internal controls in planning the audit. c. Audit risk and materiality considerations. d. Audit sampling techniques. e. Degree of reliance placed on analytical review procedures. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>f. Form and content of working papers.</p> <p>g. Other audit and accounting matters, in the form of an audit and accounting manual.</p> <p>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, D.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the firm.</p> <p>6. Evaluate the firm’s procedures for review of the engagement reports, financial statements, and working papers.</p> <p>7. Evaluate the firm’s procedures for the supervision and control of work, if any, performed by other offices or correspondents.</p> <p>8. Evaluate the firm’s procedures for resolving differences of opinion among members of an engagement team.</p> <p>9. Inquire of the appropriate individual about any unusual accounting or auditing problems related to clients obtained in a merger during the year under review and evaluate the appropriateness of the firm’s assessment and treatment of such matters.</p> <p>10. Review and evaluate the firm’s policies and procedures for:</p> <p>a. Evaluating the quality of a potential merger candidate.</p> <p>b. Training and integrating the professional personnel of the merged-in practice in the reviewed firm’s quality control policies and procedures.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>11. Interview selected staff to confirm their awareness of the firm's supervision policies and procedures. (See separate interview guidelines.)</p> <p>E. Hiring</p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <p>1. Interview the appropriate individual and—</p> <ul style="list-style-type: none"> a. Review the firm's responses to the hiring section (part E) of the questionnaire and clarify those responses, if necessary. b. Inquire into how the firm plans its personnel needs and whether the hiring program satisfies those needs. c. Ask how potential hires are identified and informed about the firm. <p>2. Select a sample (indicate number _____) of new hires, including those joining the firm through mergers or at supervisory levels, obtain each individual's personnel file, and—</p> <ul style="list-style-type: none"> a. Determine whether the background information and other documentation required by firm policy was obtained. b. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience. If not, ascertain from other documentation or from inquiry why an exception was made. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>c. Select one or more of these new hires for an interview. (See separate interview guidelines.)</p> <p>F. Professional Development</p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm’s responses to the professional development section (part F) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire into how the firm ensures that it is complying with the section’s CPE membership requirement and what aspects, if any, it is having difficulty complying with.</p> <p>c. Evaluate the adequacy of the actions being taken to correct situations involving professional personnel, if any, who are not in compliance with CPE requirements (see questionnaire, F.1).</p> <p>d. Discuss the factors considered in planning the CPE program and evaluate the appropriateness of the plan for the year under review, including the allocation of CPE hours by subject area and the nature of the CPE taken (see questionnaire, F.2 and F.3).</p> <p>2. Review the firm’s CPE records on a test basis and consider whether they appear adequate to demonstrate compliance with Section, state board, and state society requirements and whether they indicate that the firm’s plans for the CPE program are being carried out.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>3. If the firm presents a significant amount of in-house training, select a sample (indicate number____) of such programs for review. Examine appropriate documentation to determine whether—</p> <ul style="list-style-type: none"> a. The developer is qualified. b. The course is technically accurate, current, and contributes to the professional competence of the attendees. c. The instructor is qualified. d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable. <p>4. Interview selected staff to obtain their impressions of the firm’s CPE function and their on-the-job training, and to determine whether new professional standards and guidance materials are made available to them on a timely basis. (See separate interview guidelines.)</p>		
<p>G. Advancement</p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <p>1. Interview the appropriate individual and—</p> <ul style="list-style-type: none"> a. Review the firm’s responses to the advancement section (part G) of the questionnaire and clarify those responses, if necessary. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. Inquire into the firm's underlying philosophy with respect to advancement, termination, and partner responsibilities.</p> <p>c. Inquire as to how the firm monitors compliance with its policies and procedures.</p> <p>2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm.</p> <p>3. For a sample of professional personnel (indicate number_____), review personnel files, personnel evaluations, or other documentation to determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy.</p> <p>4. Evaluate the effectiveness of the method used to evaluate partners and whether they fulfill the responsibilities assigned to them. In that connection, consider interviewing selected partners to assist in evaluating the effectiveness of the method used.</p> <p>5. Interview selected staff to determine their awareness of the firm's advancement policies and procedures and whether they are followed. (See separate interview guidelines.)</p>		
<p>H. Acceptance and Continuance of Clients</p>		
<p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the acceptance and continuance section (part H) of the questionnaire and clarify those responses, if necessary.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. Inquire into the circumstances surrounding the termination, if any, of audit or accounting relationships during the year under review.</p> <p>c. Determine the extent to which firm policies and procedures require client acceptance and continuance decisions to be documented, and where such documentation is maintained.</p> <p>2. Evaluate the appropriateness of the firm's policies and procedures for the acceptance and continuance of clients, including procedures to ensure compliance with professional standards on communications between predecessor and successor accountants.</p> <p>3. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its own policies and procedures and with the requirements of professional standards.</p> <p>4. Obtain a list from the firm of those SEC clients accepted since the end of the last peer review year (or for the year under review if the reviewed firm has not previously undergone a peer review) where, as reported in a Form 8-K, in a similar public filing, such as a document filed with the Office of the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, or in a document filed with the Office of Thrift Supervision that is available to the successor auditor, the former accountant resigned (or declined to stand for reelection) or there was a reported disagreement over any matters of accounting principles or prac-</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>tices, financial statement disclosure, or auditing scope or procedure, or there was a "reportable event" as defined in item 304(a)(1)(v) of SEC Regulation S-K. For such engagements:</p> <ol style="list-style-type: none"> a. Review the existing client-acceptance documentation that relates to the matters or procedures that were the subject of the resignation or disagreement. b. Review such current or prior periods' engagement working papers, financial statements, or auditor's reports to the extent considered necessary to be able to evaluate whether the matters or procedures were handled appropriately. c. Determine whether, since the end of the last peer review year (or for the year under review if the reviewed firm has not previously undergone a peer review), any opinions on the application of generally accepted accounting principles were rendered to the entity prior to acceptance (for example, during the proposal process or before). d. If any such opinions were rendered, determine whether they were issued pursuant to the firm's policies relating to the issuance of such opinions. <p>5. Obtain a list from the firm of all new SEC engagements (1) for which there was a predecessor accountant or auditor, and (2) for which the reviewed firm's first report on accounting and auditing services related to a period that ended during</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>the reviewed firm's peer review year. Review the existing client-acceptance documentation for all engagements on this list in the offices selected for review.²</p> <p>6. Interview selected staff and determine whether the firm's policies on client continuance decisions have been adequately communicated to the staff. (See separate interview guidelines.)</p> <p>I. Inspection</p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the inspection section (part I) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Discuss the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures.</p> <p>c. Discuss how the firm monitors whether the corrective actions planned as a result of an inspection are actually carried out.</p> <p>2. Review the available documentation supporting annual inspections conducted since the last quality review, if any, and evaluate whether—</p> <p>a. The inspectors had sufficient training and experience.</p>		

²If there are any engagements in the offices selected for review that are on both this list and the list obtained at step 4. above, those engagements (or portions of those engagements) should be selected for review. In any event, at least one engagement on the list obtained in this step should be reviewed in each office visited.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. The inspection coverage included:</p> <ul style="list-style-type: none"> (i) Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control. (ii) Reviewing an appropriate number of offices. (Reviewers should ask the reviewed firm about any requirements of relevant state boards of accountancy that must be met for the peer review to be accepted by such state boards as meeting its requirements.) (iii) Reviewing an appropriate number and type of engagements for compliance with professional standards. <p>c. The inspection findings are appropriately summarized and documented.</p> <p>d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate.</p> <p>e. Appropriate corrective action was taken on inspection findings, including, if necessary, action pursuant to the requirements of AICPA Professional Standards, AU 390 and AU 561, or supplementing the working papers to document the procedures performed.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> 3. Consider whether inspection findings for the year under review correlate with the findings on the peer review and explain any significant differences. 4. Interview selected staff to determine whether inspection findings have been appropriately communicated and considered. (See separate interview guidelines.) 		
<p>J. Membership Requirements</p>		
<ol style="list-style-type: none"> 1. Obtain reasonable assurance that each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and cancelled checks. 2. Inquire about the existence of present or pending matters that might affect the ability of the firm to engage legally in the practice of public accounting. 3. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected. 4. Review documentation evidencing payment of the applicable Section's dues for the current year. 5. Review the guidelines that have been developed in connection with the concurring partner review requirement and evaluate whether they: <ol style="list-style-type: none"> a. Provide for the required review by a reviewer having sufficient technical expertise and experience. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. Specify the nature, extent, and timing of the review.</p> <p>c. Specify the nature and extent of the documentation required to evidence compliance with the firm's policies and procedures with respect to the concurring partner review requirement.</p> <p>6. Evaluate the adequacy of the firm's system for reporting litigation to the Quality Control Inquiry Committee pursuant to membership requirement SECPS §1000.08(k).</p> <p>7. Determine by inquiry and by inspecting letters to the Quality Control Inquiry Committee that litigation against the firm since the firm's last peer review (or since the firm became a member of the SECPS, whichever is later) was reported on a timely basis pursuant to membership requirement SECPS §1000.08(k)³</p> <p>8. Interview supervisory personnel involved in management advisory services regarding their understanding of the scope of the firm's services in that area and their familiarity with the Section's requirements proscribing the performance of certain management advisory services.</p> <p>9. Evaluate the adequacy of the firm's system for monitoring compliance with membership requirement SECPS §1000.08(e) [partner rotation on SEC engagements].</p>		

³New member firms shall report within 30 days of joining the Section, such litigation, proceedings or investigations, as defined, as may have been filed or announced within the three-year period preceding the firm's admission to the Section.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>10. Evaluate the adequacy of the firm's procedures for communicating at least annually with the audit committee or board of directors of each SEC audit client regarding the matters discussed in membership requirement SECPS §1000.08(i).</p> <p>11. Review the statement of firm philosophy that has been developed pursuant to membership requirement SECPS §1000.08(l) and evaluate whether it is consistent with the firm's quality control policies and procedures. Interview _____ professional staff (including partners) and confirm their awareness of the statement.</p> <p>12. Evaluate the adequacy of the firm's system for notifying the Office of the Chief Accountant of the SEC on a timely basis [pursuant to membership requirement SECPS §1000.08(m)] when the client-auditor relationship with an SEC registrant has ceased.</p> <p>13. Select _____ SEC clients where, since May 1, 1989 or the end of the last peer review year, whichever comes later, the firm ceased to be the auditor, and review the letter notifying the Office of the Chief Accountant of the SEC that the client-auditor relationship has ceased.⁴ [Consider including in this selection any such engagements that were reviewed.]</p>		

[The next page is 13361.]

⁴The reviewer may wish to obtain a list of former clients meeting these criteria.

**AICPA Division For CPA Firms
Private Companies Practice Section***

**Guidelines for Review of Quality Control
Policies and Procedures for Sole Practitioners
With No Professional Staff**

.01 To assist the reviewer in performing a PCPS peer review, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm’s quality control policies and procedures and for testing compliance with them. The suggested procedures for review of a sole practitioner with no professional staff who are members of the PCPS are set forth in the attached guidelines (PRM Section 13360).

.02 The suggested PCPS review procedures are based on typical policies and procedures that a firm may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team’s testing should be documented on the appropriate pages of these guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 These guidelines should not be used for reviews of PCPS member firms with two or more professionals or reviews of SECPS member firms. Suggested review procedures for reviews of these firms are contained elsewhere in this section.

Reviewed Firm	Period Covered
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* These guidelines are to be used on PCPS peer reviews of sole practitioners with no professional staff only.

**AICPA Division For CPA Firms
PCPS Peer Review Program***

**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF**

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>A. Independence</p> <p>1. Interview the CPA and—</p> <p style="margin-left: 20px;">a. Review the CPA's responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary.</p> <p style="margin-left: 20px;">b. Inquire about financial or other relationships that may be prohibited relationships, such as:</p> <p style="margin-left: 40px;">(i) Business relationships with clients or with nonclients that have investor or investee relationships with clients.</p> <p style="margin-left: 40px;">(ii) Loans from financial institutions.</p> <p style="margin-left: 40px;">(iii) Family members in director or manager positions with client entities, including not-for-profit organizations.</p> <p style="margin-left: 40px;">(iv) Past-due fees for professional services.</p> <p style="margin-left: 40px;">(v) Accounting or advisory services that have evolved into situations where the CPA has assumed some of the responsibilities of management.</p>		

* These guidelines are to be used on PCPS peer reviews of sole practitioners with no professional staff only.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>c. Inquire about any situations where the CPA has elected <i>not</i> to be independent and whether the CPA withdrew from the audit or accounting engagement or appropriately modified his or her report.</p> <p>d. Inquire into the procedures the CPA follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice.</p> <p>2. Identify by review of files or by interviewing the CPA all situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</p> <p>3. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the CPA has complied with his or her policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the CPA is the principal auditor or accountant.</p> <p>B. Consultation</p> <p>1. Interview the CPA and—</p> <p>a. Review the CPA's responses to the consultation section (part B) of the questionnaire and clarify those responses, if necessary.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>b. Inquire into and evaluate the CPA's views concerning when outside consultation should take place and the sources that should be used.</p> <p>2. Identify by review of appropriate documentation (see questionnaire, B.1, B.2, and B.3) or by interviewing the CPA, situations in which consultation has taken place and evaluate whether the advice appears appropriate and whether the CPA responded appropriately to that advice.</p> <p>3. Inspect the CPA's library for his or her audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the CPA's specialties and that loose-leaf services are filed on a timely basis.</p>		
<p>C. Supervision</p>		
<p>1. Interview the CPA and review his or her responses to the supervision section (part C) of the questionnaire and clarify those responses, if necessary.</p> <p>2. Evaluate the CPA's procedures for planning audit and accounting engagements.</p> <p>3. If the CPA uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer also may wish to obtain the most recent report of the design of those materials.)</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>4. Review and evaluate the following quality control materials developed by the CPA and those materials developed by other parties on which there is no separate report on the review of the suitability of their design:</p> <ul style="list-style-type: none"> a. Consideration of internal control structure in planning and performing an audit. b. Assessment of control risk. c. Consideration of audit risk and materiality when planning and performing an audit. d. Audit sampling techniques. e. Using analytical procedures instead of, or in combination with, tests of details. f. Form and content of working papers. g. Other audit and accounting matters, in the form of an audit and accounting manual. <p>Generally, a "high-spot" review will be made of these materials because the team captain will usually emphasize engagement review, compared to review of policies and procedures, in the conduct of the review of a sole practitioner.</p> <p>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, C.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the CPA.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>6. Evaluate the CPA's procedures for the supervision and control of work, if any, performed by correspondents.</p> <p>7. Inquire about any unusual accounting or auditing problems related to clients purchased during the year under review and evaluate the appropriateness of the CPA's assessment and treatment of such matters.</p>		
<p>D. Professional Development</p>		
<p>1. Review the CPA's continuing professional education records and determine that those records are adequate to demonstrate compliance with the requirements of the Section, the AICPA, the state board of accountancy, and the state CPA society, if applicable.</p> <p>2. Discuss with the CPA the factors considered in planning his or her CPE activities and evaluate the appropriateness of the plan for the year under review and compliance with the plan. In that connection, consider—</p> <p>a. The allocation of CPE hours among accounting and auditing, tax, and other topics.</p> <p>b. The nature of the CPE obtained (self-study, attendance at conferences, participation in group-study programs).</p>		
<p>E. Inspection</p>		
<p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the inspection section (part I) of the questionnaire and clarify those responses, if necessary.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> b. Discuss the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures. c. Discuss how the firm monitors whether the corrective actions planned as a result of an inspection are actually carried out. <p>2. Review the available documentation supporting annual inspections conducted since the last peer review, if any, and evaluate whether:</p> <ul style="list-style-type: none"> a. The inspectors have sufficient training and experience. b. The inspection coverage included: <ul style="list-style-type: none"> i) Reviewing and testing compliance with applicable firm quality control policies and procedures, relating to all elements of quality control. ii) Reviewing an appropriate number and type of engagements for compliance with professional standards. c. The inspection findings are appropriately documented and summarized. d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>e. Appropriate corrective action was taken, including, if necessary, action pursuant to the requirements of AICPA Professional Standards, AU Sections 390 and 561.</p> <p>3. Consider whether inspection findings for the year under review correlate with the findings on the peer review and explain any significant differences.</p> <p>4. Interview selected staff to determine whether the inspection findings have been appropriately communicated and considered. (See separate interview guidelines.)</p>		
<p>F. Membership Requirements</p>		
<p>1. Obtain reasonable assurance that the CPA is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and cancelled checks.</p> <p>2. Inquire about the existence of present or pending matters that might affect the ability of the CPA to engage legally in the practice of public accounting.</p> <p>3. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected.</p> <p>4. Review documentation evidencing payment of the applicable Section's dues for the current year.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>G. Other Matters</p> <ol style="list-style-type: none">1. Read the CPA's responses to the section of the questionnaire on acceptance and continuance of clients (part E) to obtain a general understanding of the CPA's quality control policies and procedures with respect to this element of quality control. However, no specific compliance test of this broad function is required, provided that the team captain concludes that the review of selected engagements and interviews with the CPA will provide an adequate means of identifying failures, if any, to achieve the objectives inherent in this element of quality control.2. Discuss with the CPA plans, if any, the CPA may have for recruiting professional personnel and review with the CPA the quality control considerations related to the hiring of additional personnel as well as the implications of that for the CPA's quality control system.		

[The next page is 13371.]

**AICPA Division For CPA Firms
Private Companies Practice Section***

**Guidelines for Review of Quality Control
Policies and Procedures for Firms With Two or
More Professionals**

.01 To assist the review team in performing its work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm’s quality control policies and procedures and for testing the firm’s compliance with them. The suggested procedures for reviews of firms with two or more professional staff are set forth in the attached guidelines (PRM Section 13370).

.02 The suggested review procedures are based on typical policies and procedures that a firm may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team’s testing should be documented on the appropriate pages of these guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 Some of the suggested quality review procedures include inquiring about particular quality control functions. The objectives of these inquiries include:

- a. Corroborating the information provided to the reviewer in the questionnaire completed by the reviewed firm; and
- b. Determining whether the firm’s policies and procedures have been effectively communicated to the individual(s) responsible for the particular quality control function.

.05 These guidelines should not be used for reviews of PCPS sole practitioners with no professional staff or reviews of SECPS member firms. Suggested review procedures for reviews of these firms are contained elsewhere in this section.

Reviewed Firm

Period Covered

* These guidelines are to be used on PCPS peer reviews of firms with two or more professionals only.

AICPA Division For CPA Firms
PCPS Peer Review Program*

GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR FIRMS WITH TWO OR MORE PROFESSIONALS

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>A. Independence</p> <p>1. Interview the appropriate individual¹ and—</p> <p>a. Review the firm’s responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary.</p> <p>b. Inquire about financial or other relationships that may be prohibited relationships, such as</p> <ul style="list-style-type: none"> (i) Business relationships with clients or with non-clients that have investor or investee relationships with clients. (ii) Loans from financial institutions. (iii) Family members in director or manager positions with client entities, including not-for-profit organizations. (iv) Past-due fees for professional services. 		

¹The "appropriate individual" would usually be an owner and, depending on the circumstances, may be the managing partner, the individual responsible for the accounting and auditing function, the individual responsible for the quality control function, or other partners or shareholders responsible for specific functions.

* These guidelines are to be used on PCPS peer reviews of firms with two or more professionals only.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none">(v) Accounting or advisory services that have evolved into situations where the firm has assumed some of the responsibilities of management.c. Inquire about any situations where the firm is not independent and whether the firm withdrew from the audit or accounting engagement or appropriately modified its report.d. Inquire into the firm's procedures for monitoring new or revised rules, interpretations, or rulings on independence matters and the firm's procedures to provide reasonable assurance that these matters are considered within the firm's practice. <p>2. Identify by review of files or by interviewing the appropriate individual a selection of situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</p> <p>3. Review the written independence confirmations obtained by the firm for a sample (indicate number _____) of professional personnel, if required by firm policy.</p> <p>4. Determine by review of appropriate documentation (see questionnaire, A.3) and by interviews with selected staff (see separate interview guidelines) that the firm has advised all professional personnel on a timely basis about entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>5. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the firm has complied with its policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the firm is the principal auditor.</p> <p>B. Assigning Personnel to Engagements</p> <p><i>For firms with up to ten professionals (defined as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide not to complete this section of the questionnaire. This would be appropriate when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives of this element of quality control. However, when significant deficiencies are noted in the engagements reviewed, the team captain may need to perform some or all of the procedures described in this section in order to identify corrective actions the firm should consider taking. Moreover, in all reviews the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to this element of quality control; ordinarily, that understanding can be obtained from reading the reviewed firm's responses to the quality control policies and procedures questionnaire.</i></p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>1. Interview the appropriate individual and—</p> <p>a. Review the firm’s responses to the assigning personnel section (part B) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire about the criteria and other factors considered in making personnel assignments and about the relative priorities assigned to:</p> <ul style="list-style-type: none"> (i) Engagement size and complexity. (ii) Personnel availability. (iii) Special expertise required. (iv) Timing of work to be performed. (v) Continuity and periodic rotation of personnel. (vi) Opportunities for on-the-job training. <p>2. Determine by review of appropriate documentation (see questionnaire, B.1.b) and by interviewing the appropriate individual how far in advance staffing requirements for engagements are determined and how far in advance staff are notified of their particular work assignments.</p> <p>3. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate. (See separate interview guidelines.)</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>C. Consultation</p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and— <ol style="list-style-type: none"> a. Review the firm’s responses to the consultation section (part C) of the questionnaire and clarify those responses, if necessary. b. Inquire into and evaluate the firm’s policies and procedures concerning consultation outside the firm, especially those dealing with when consultation should take place and the sources that should be used. 2. Identify by review of documentation (see questionnaire, C.2, C.3, and C.4) or by interviewing the appropriate individual situations in which consultation with outside parties has taken place. Evaluate the advice received and whether the firm acted appropriately on that advice. 3. Inspect the firm’s library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm’s specialties and that loose-leaf services are filed on a timely basis. 4. Interview selected staff to confirm their awareness of the firm’s consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.) 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>D. Supervision</p> <ol style="list-style-type: none"> 1. Interview the appropriate individual and review the firm's responses to the supervision section (part D) of the questionnaire and clarify those responses, if necessary. 2. Evaluate the firm's procedures for planning audit and accounting engagements. 3. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer may also wish to obtain the most recent report on the review of the design of those materials.) 4. Review and evaluate the following quality control materials developed by the firm and those materials developed by other parties on which there is no separate report on the review of the suitability of their design: <ol style="list-style-type: none"> a. Consideration of internal control structure in planning and performing an audit. b. Assessment of control risk. c. Consideration of audit risk and materiality when planning and performing an audit. d. Audit sampling techniques. e. Using analytical procedures instead of, or in combination with, tests of details. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>f. Form and content of working papers.</p> <p>g. Other audit and accounting matters, in the form of an audit and accounting manual.</p> <p>The timing and extent of the review of these materials will depend on the size of the firm and the extent to which the team captain has decided to emphasize engagement review, compared to review of policies and procedures, in the conduct of the review.</p> <p>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, D.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the firm.</p> <p>6. Evaluate the firm’s procedures for review of the engagement reports, financial statements, and working papers.</p> <p>7. Evaluate the firm’s procedures for the supervision and control of work, if any, performed by other offices or correspondents.</p> <p>8. Evaluate the firm’s procedures for resolving differences of opinion among members of an engagement team.</p> <p>9. Inquire of the appropriate individual about any unusual accounting or auditing problems related to clients obtained in a merger during the year under review and evaluate the appropriateness of the firm’s assessment and treatment of such matters.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>10. Interview selected staff to confirm their awareness of the firm's supervision policies and procedures. (See separate interview guidelines.)</p> <p>E. Hiring</p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the hiring section (part E) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire into how the firm plans its personnel needs and whether the hiring program satisfies those needs.</p> <p>c. Ask how potential hires are identified and informed about the firm.</p> <p>2. Select a sample (indicate number _____) of new hires, including those joining the firm through mergers or at supervisory levels, obtain each individual's personnel file, and—</p> <p>a. Determine whether the background information and other documentation required by firm policy was obtained.</p> <p>b. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience. If not, ascertain from other documentation or from inquiry why an exception was made.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>c. Select one or more of these new hires for an interview. (See separate interview guidelines.)</p> <p>F. Professional Development</p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the professional development section (part F) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Evaluate the adequacy of the actions being taken to correct situations involving professional personnel, if any, who are not in compliance with CPE requirements (see questionnaire, F.1).</p> <p>c. Discuss the factors considered in planning the CPE program and evaluate the appropriateness of the plan for the year under review, including the allocation of CPE hours by subject area and the nature of the CPE taken (see questionnaire, F.2 and F.3).</p> <p>2. Review the firm's CPE records on a test basis and consider whether they appear adequate to demonstrate compliance with the Section, AICPA, state board, and state society requirements and whether they indicate that the firm's plans for the CPE program are being carried out.</p> <p>3. If the firm presents a significant amount of in-house training, select a sample (indicate number _____) of such programs for review. Examine appropriate documentation to determine whether—</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> a. The developer is qualified. b. The course is technically accurate, current, and contributes to the professional competence of the attendees. c. The instructor is qualified. d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable. <p>4. Interview selected staff to obtain their impressions of the firm's CPE function and their on-the-job training, and to determine whether new professional standards and guidance materials are made available to them on a timely basis. (See separate interview guidelines.)</p>		
<p>G. Advancement</p>		
<p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p>		
<ol style="list-style-type: none"> 1. Interview the appropriate individual and— <ol style="list-style-type: none"> a. Review the firm's responses to the advancement section (part G) of the questionnaire and clarify those responses, if necessary. b. Inquire into the firm's underlying philosophy with respect to advancement, termination, and partner responsibilities. 2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm. 		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>3. For a sample of professional personnel (indicate number _____), review personnel files, personnel evaluations, or other documentation to determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy.</p> <p>4. Evaluate the effectiveness of the method used to evaluate partners and whether they fulfill the responsibilities assigned to them. In that connection, consider interviewing selected partners to assist in evaluating the effectiveness of the method used.</p> <p>5. Interview selected staff to determine their awareness of the firm's advancement policies and procedures and whether they are followed. (See separate interview guidelines.)</p>		
<p>H. Acceptance and Continuance of Clients</p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the acceptance and continuance section (part H) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire into the circumstances surrounding the termination, if any, of audit or accounting relationships during the year under review.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>c. Determine the extent to which firm policies and procedures require client acceptance and continuance decisions to be documented, and where such documentation is maintained.</p> <p>2. Evaluate the appropriateness of the firm's policies and procedures for the acceptance and continuance of clients, including procedures to ensure compliance with professional standards on communications between predecessor and successor accountants.</p> <p>3. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its own policies and procedures and with the requirements of professional standards.</p> <p>4. Interview selected staff and determine whether the firm's policies on client continuance decisions have been adequately communicated to the staff. (See separate interview guidelines.)</p> <p>I. Inspection</p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the inspection section (part I) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Discuss the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>c. Discuss how the firm monitors whether the corrective actions planned as a result of an inspection are actually carried out.</p> <p>2. Review the available documentation supporting annual inspections conducted since the last quality review, if any, and evaluate whether—</p> <p>a. The inspectors had sufficient training and experience.</p> <p>b. The inspection coverage included:</p> <p style="padding-left: 40px;">(i) Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control.</p> <p style="padding-left: 40px;">(ii) Reviewing an appropriate number of offices. (Reviewers should ask the reviewed firm about any requirements of relevant state boards of accountancy that must be met for the peer review to be accepted by such state boards as meeting its requirements.)</p> <p style="padding-left: 40px;">(iii) Reviewing an appropriate number and type of engagements for compliance with professional standards.</p> <p>c. The inspection findings are appropriately summarized and documented.</p> <p>d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate.</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>e. Appropriate corrective action was taken on inspection findings, including, if necessary, action pursuant to the requirements of AICPA Professional Standards, AU 390 and AU 561.</p> <p>3. Consider whether inspection findings for the year under review correlate with the findings on the quality review and explain any significant differences.</p> <p>4. Interview selected staff to determine whether inspection findings have been appropriately communicated and considered. (See separate interview guidelines.)</p>		
<p>J. Membership Requirements</p> <p>1. Obtain reasonable assurance that each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and canceled checks.</p> <p>2. Inquire about the existence of present or pending matters that might affect the ability of the firm to engage legally in the practice of public accounting.</p> <p>3. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected.</p> <p>4. Review documentation evidencing payment of the applicable Section's dues for the current year.</p>		

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Section 3: Staff Interview
Questionnaire

PRM Section 13400

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AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAM GUIDELINES

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Staff Interview Questionnaire

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***AICPA Division For CPA Firms
Private Companies and SEC Practice Sections****

Staff Interview Questionnaire

.01 The review of a CPA firm's quality control policies and procedures requires that professional personnel be interviewed. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated.

.02 When soliciting information, reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm.

.03 The questionnaire developed to guide the reviewer in conducting interviews is included in this section of the manual. It should be tailored as the interviewer deems appropriate.

.04 The individuals interviewed should have varying levels of experience and background. The number of individuals interviewed will be affected by the size and nature of the reviewed firm's practice.

* This questionnaire is to be used on SECPS and PCPS peer reviews of firms with two or more professionals.

**AICPA Division For CPA Firms
Private Companies and SEC Practice Sections***

STAFF INTERVIEW QUESTIONNAIRE

The review of a CPA firm’s quality control policies and procedures requires that professional personnel be interviewed. Interviews with firm personnel are generally contemplated as a corroborative technique rather than as a means for initially gathering information. Reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm when soliciting information. This questionnaire lists suggested interview questions that may be tailored as the interviewer deems appropriate. Interviews can also elicit reactions or perceptions of which the firm should be, but is not, aware. The interviewee should be advised that no record is kept of his or her name.

Office Code No.	Interviewee Code	Level of Interviewee

Suggested Questions	Responses
<p>A. Independence</p> <ol style="list-style-type: none"> 1. How does the firm inform you of its policies and of those entities to which the firm’s independence policies apply? 2. What kinds of situations might cause you to have a question on an independence matter? If you had such a question, what would you do? 3. Has another firm ever performed a segment of an engagement on which you have been involved and for which your firm was the principal auditor? Yes ____ No _____. If yes, has the independence of that firm been confirmed? Yes ___ No _____. If not, why? <p>B. Assigning Personnel to Engagements</p> <ol style="list-style-type: none"> 1. What types of assignments have you had in the past year? 2. Did you believe that the assignments you have received have been appropriate for your level? 	

* This questionnaire is to be used on SECPS and PCPS peer reviews of firms with two or more professionals.

C. Consultation

1. When you do not know the answer to an accounting or auditing question, with whom do you consult?
2. Has the firm identified any specialized situations requiring consultation?
Yes ____ No _____. If yes, give a few examples. How have you been apprised of situations requiring consultation with a specialist?
3. Has the firm identified any individuals within the firm as (industry) specialists?
Yes ____ No _____. If yes, give a few examples. How have you been apprised of them?
4. What degree of authority is accorded the opinions of specialists, if any, and how are any differences of opinion with such specialists resolved?

D. Supervision

1. Do you believe that the engagements on which you have participated have been properly planned? Yes ____ No _____. If no, explain why.
2. In planning an engagement, what forms should be prepared and what procedures should be performed? (Applicable only to staff with planning responsibility.)
3. To what extent have you been supervised on the engagements on which you have participated and do you believe that the degree of supervision was adequate?
4. To what extent have you supervised other people on engagements on which you have participated? Were you adequately trained to carry out that responsibility?

5. How are differences of professional judgment among members of an engagement team resolved?

E. Hiring

1. How did you learn about the firm?
2. Why did you select this firm? Have your expectations been met?
3. How were you informed about the quality control policies and procedures that are relevant to you?

Staff Involved in Recruiting Process

4. Prior to becoming involved in the hiring process, were you informed about the firm's hiring objectives? Yes ___ No ___. If yes, how were you apprised of this information?
5. 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?
2. Do you believe that the on-the-job training that you received during the year under review was adequate? Yes ___ No _____. If no, briefly describe why.
3. Are new professional standards and guidance materials distributed to you on a timely basis?

G. Advancement

1. What are the responsibilities of your position?
2. What are the qualifications deemed necessary for promotion to the level immediately above yours?
3. To what extent do you receive feedback on your performance? Do you feel that this is satisfactory?
4. How often have you been evaluated during the last year and do you believe that these evaluations, if any, were performed on a timely professional basis?

H. Acceptance and Continuance of Clients

1. What conditions on an engagement would cause you to bring them to the attention of your supervisor so that a decision could be made whether the firm's relationship with the client should be continued?

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 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?

J. Membership Requirements (SECPS only)

1. What does the firm's "statement of philosophy" state?

Date of Interview _____

Interviewer's Signature _____

Date Interview Questionnaire Reviewed by Team Captain _____

Team Captain's Signature _____

[The next page is 13501.]

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Section 4: Conclusions

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAM GUIDELINES

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SECTION 4
AICPA DIVISION FOR CPA FIRMS

Conclusions on the Peer Review

(See PRM §13100.17-.21 of the "Instructions for Use of the Peer Review Program Guidelines")

YES NO

A. INDEPENDENCE

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that:

a. All professional personnel are required to adhere to applicable independence rules, regulations, interpretations, and rulings? _____

b. The policies and procedures relating to independence are communicated to all professional personnel? _____

c. When acting as principal auditor, the firm requires confirmation of the independence of another firm engaged to perform segments of an engagement? _____

d. The firm adequately monitors compliance with its policies and procedures relating to independence on a timely basis? _____

e. The firm complied with its independence policies and procedures during the period and adequately documented its compliance to the extent required by firm policy? _____

IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS

YES NO

2. In your opinion, do the "no" answers indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

INDEPENDENCE (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.* _____

4. In your opinion, do the "no" answers indicate matters that should**:

a. Result in a qualified report? Yes ___ No ___

Briefly explain why. _____

b. Be included in the letter of comments? Yes ___ No ___

Briefly explain why and if "no" whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages if necessary.

** See PCPS §2000.85-.108 of the PCPS Reference Manual and SECPS §2000.81-.105 of the SECPS Reference Manual for guidance on reporting.

<u>B. ASSIGNING PERSONNEL TO ENGAGEMENTS</u>	<u>YES</u>	<u>NO</u>
1. Based on reading the relevant section of the quality control document, and other relevant written firm materials and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:		
a. Identifies on a timely basis the staffing requirements of specific engagements?	_____	_____
b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel?	_____	_____
c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization:		
i. Engagement size and complexity?	_____	_____
ii. Timing of the work to be performed?	_____	_____
iii. Special expertise required?	_____	_____
iv. Continuity and periodic rotation of personnel?	_____	_____
v. Opportunities for on-the-job training?	_____	_____
vi. Personnel availability?	_____	_____
d. Notifies staff of work assignments on a timely basis?	_____	_____
e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy?	_____	_____

IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS

	<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?	_____	_____

ASSIGNING PERSONNEL TO ENGAGEMENTS (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.* _____

4. In your opinion, do the "no" answers indicate matters that should**:

a. Result in a qualified report? Yes ___ No ___

Briefly explain why. _____

b. Be included in the letter of comments? Yes ___ No ___

Briefly explain why and if "no" whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages if necessary.
** See PCPS §2000.85-.108 of the PCPS Reference Manual and SECPS §2000.81-.105 of the SECPS Reference Manual for guidance on reporting.

C. <u>CONSULTATION</u>	<u>YES</u>	<u>NO</u>
1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:		
a. Appropriately identifies areas and specialized situations where consultation is required?	_____	_____
b. Designates, if applicable, appropriate individuals as specialists to serve as authoritative sources?	_____	_____
c. Specifies the authority to be accorded specialists in consultations?	_____	_____
d. Provides adequate procedures for resolving differences of opinion between engagement personnel and specialists?	_____	_____
e. Requires and maintains appropriate documentation of the results of consultations, including, if applicable, considerations involved in the resolution of differences of opinion?	_____	_____
f. Maintains or provides access to an adequate reference library or other authoritative source?	_____	_____
g. Adequately communicates its policies and procedures relating to consultation to all professional personnel?	_____	_____
h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy?	_____	_____

IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS

	<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?	_____	_____

CONSULTATION (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.* _____

4. In your opinion, do the "no" answers indicate matters that should**:

a. Result in a qualified report? Yes ___ No ___

Briefly explain why. _____

b. Be included in the letter of comments? Yes ___ No ___

Briefly explain why and if "no" whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages if necessary.
** See PCPS §2000.85-.108 of the PCPS Reference Manual and SECPS §2000.81-.105 of the SECPS Reference Manual for guidance on reporting.

<u>D. SUPERVISION</u>	<u>YES</u>	<u>NO</u>
1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm:		
a. Has established appropriate procedures for planning engagements?	_____	_____
b. Has established appropriate procedures for maintaining the firm's standards of quality, including:		
i. Guidelines for the form and content of working papers?	_____	_____
ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate?	_____	_____
iii. Adequate supervision at all organizational levels?	_____	_____
iv. Procedures for resolving differences of professional judgment among the engagement team?	_____	_____
c. Has established appropriate procedures for reviewing engagements and for the documentation thereof?	_____	_____
d. Adequately communicates its policies and procedures relating to supervision to all professional personnel?	_____	_____
e. Complied with its policies and procedures for supervision during the period and adequately documents its compliance to the extent required by firm policy?	_____	_____
f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review?	_____	_____

IF ANY OF THE ABOVE QUESTIONS WERE ANSWERED "NO," PLEASE ANSWER THE REMAINING QUESTIONS

	<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?	_____	_____

SUPERVISION (CONTINUED)

3. Briefly describe all "no" answers below. Indicate if the "no" answers represent a lack of performance or inadequate documentation.* _____

4. In your opinion, do the "no" answers indicate matters that should**:

a. Result in a qualified report? Yes ___ No ___

Briefly explain why. _____

b. Be included in the letter of comments? Yes ___ No ___

Briefly explain why and if "no" whether they were communicated orally.

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages if necessary.
** See PCPS §2000.85-.108 of the PCPS Reference Manual and SECPS §2000.81-.105 of the SECPS Reference Manual for guidance on reporting.

***AICPA Division For CPA Firms
SEC Practice Section*
Conclusions on the Peer Review***

.01 Section 13510 sets forth a series of questions designed to assist reviewers of SECPS member firms in reaching overall conclusions on the functional areas. The responses also assist the reviewers in determining whether the appropriate procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of peer reviews. A separate series of questions have been designed to assist reviewers of PCPS member firms only; this series is included at pages 13541 through 13559.

.02 Reviewers should answer the questions asked in this section for each quality control element for which the corresponding section of the Guidelines for Review of Quality Control Policies and Procedures (PRM Sections 13310 or 13330) was completed. If the questions concerning a particular element were not answered in the Guidelines, reviewers should place an "X" in the box directly below the name of the element.

.03 Section 13510 should be completed after the summaries of "no" answers on engagements and the summary of matters for further consideration forms have been prepared.

.04 The conclusions noted in this section should be consistent with the matters discussed in the report and, if applicable, the letter of comments.

* This set of questions is to be used on all SECPS peer reviews.

**AICPA Division For CPA Firms
SECPS Peer Review Program***

CONCLUSIONS OF THE REVIEW TEAM ON THE PEER REVIEW

Reviewers should answer the questions asked on this form concerning each quality control element for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed. If the questions concerning a particular quality control element were not answered in the *Guidelines*, reviewers should place an "X" in the box below the name of that element.

YES NO N/A

A. Independence

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Requires all professional personnel to adhere to applicable independence rules, regulations, interpretations, and rulings?

b. Communicates its policies and procedures relating to independence to all professional personnel?

c. Requires, when acting as principal auditor, confirmation of the independence of another firm engaged to perform segments of an engagement?

d. Adequately monitors compliance with its policies and procedures relating to independence on a timely basis?

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

* This set of questions is to be used on all SECPS peer reviews.

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

B. Assigning Personnel to Engagements

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- | | | | |
|---|-------|-------|-------|
| a. Identifies on a timely basis the staffing requirements of specific engagements? | _____ | _____ | _____ |
| b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel? | _____ | _____ | _____ |
| c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization: | | | |
| i. Engagement size and complexity? | _____ | _____ | _____ |
| ii. Timing of the work to be performed? | _____ | _____ | _____ |
| iii. Special expertise required? | _____ | _____ | _____ |
| iv. Continuity and periodic rotation of personnel? | _____ | _____ | _____ |
| v. Opportunities for on-the-job training? | _____ | _____ | _____ |
| vi. Personnel availability? | _____ | _____ | _____ |
| d. Notifies staff of work assignments on a timely basis? | _____ | _____ | _____ |
| e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy? | _____ | _____ | _____ |

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

C. Consultation

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Appropriately identifies areas and specialized situations where consultation is required? _____
- b. Designates, if applicable, appropriate individuals as specialists to serve as authoritative sources? _____
- c. Specifies the authority to be accorded specialists in consultations? _____
- d. Provides adequate procedures for resolving differences of opinion between engagement personnel and specialists? _____
- e. Requires and maintains appropriate documentation of the results of consultations, including, if applicable, considerations involved in the resolution of differences of opinion? _____
- f. Maintains or provides access to an adequate reference library or other authoritative source? _____
- g. Adequately communicates its policies and procedures relating to consultation to all professional personnel? _____
- h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

D. Supervision

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, and/or discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Has established appropriate procedures for planning engagements? _____

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

i. Guidelines for the form and content of working papers? _____

ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate? _____

iii. Adequate supervision at all organizational levels? _____

iv. Procedures for resolving differences of professional judgment among the engagement team? _____

c. Has established appropriate procedures for reviewing engagements and for the documentation thereof? _____

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

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

f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review? _____

If Any of the Above Questions Were Answered "No," Please Answer the Following Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

E. Hiring

Questions In *Guidelines* Not Answered

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Adequately plans for the firm’s personnel needs and establishes appropriate hiring objectives, based on current clientele, anticipated growth, personnel turnover, etc.?

b. Identifies relevant attributes, achievements and experience to be sought in hirees?

c. Appropriately investigates and evaluates the qualifications of prospective employees to assure that they meet the firm’s requirements and standards?

d. Adequately communicates its policies and procedures relating to hiring to those persons involved in the hiring process?

e. Adequately monitors the effectiveness of its recruiting program?

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

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

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

- a. A deficiency in the design of the system of quality control? _____
- b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

- a. Result in a modified report? Briefly explain why. _____

- b. Be included in the letter of comments? Briefly explain why. _____

- c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

F. Professional Development

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Has established appropriate continuing professional education requirements for personnel at each level within the firm?

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

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

d. Provides personnel with appropriate programs, including to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries?

e. Provides adequate on-the-job training?

f. Adequately communicates its policies and procedures relating to continuing professional education to all professional personnel?

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

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____ Date _____

Team Captain's Signature _____ Date _____

* Attach additional pages as necessary in responding to questions on this form.

G. Advancement

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

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

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

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

d. Appropriately evaluates the performance of partners and other professional personnel on a periodic basis.

e. Provides for appropriate documentation of evaluations of performance?

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

g. Appropriately monitors the firm's advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increasing degrees of responsibility?

h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by firm policy?

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

H. Acceptance and Continuance of Clients

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm, and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Has established appropriate policies and procedures for evaluating and obtaining information about prospective clients?
- b. Requires communication with predecessor auditors, if any, in accordance with auditing standards?
- c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued?
- d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel?
- e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients?
- f. Complied with its policies and procedures relating to acceptance and continuance of clients during the period and adequately documents its compliance to the extent required by firm policy?

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

I. Inspection

1. Based on the reading information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures performed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

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

b. Has established appropriate qualifications for personnel who participate in inspection activities?

c. Has performed and documented a comprehensive inspection:

i. Covering the year under review?

ii. Covering the two preceding years?

d. Has discussed inspection findings with appropriate personnel?

e. Has taken or planned appropriate corrective actions with respect to inspection findings?

f. Adequately monitors the corrective actions taken?

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? Briefly explain why. _____

b. Be included in the letter of comments? Briefly explain why. _____

c. Be discussed at the exit conference only? Briefly explain why. _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

J. Membership Requirements

- 1. Based on reading the relevant section in the quality control document (if any) and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm complied with each of the Section's membership requirements in all material respects?

If the Answer to the Preceding Question Was "No," Please Answer the Remaining Questions

- 2. Briefly describe the reason for the "no" answer.*

YES NO

- 3. In your opinion, does the "no" answer indicate matters that should:**

- a. Result in a qualified report? Briefly explain why.

- b. Be included in the letter of comments? Briefly explain why.

- c. Be discussed at the exit conference only? Briefly explain why.

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

[The next page is 13541.]

*Attach additional pages as necessary in responding to questions on this form.

**See PCPS §2000.84-.99 of the *PCPS Reference Manual* and SECPS §2000.91-.107 of the *SECPS Reference Manual* for guidance on reporting.

***AICPA Division For CPA Firms
Private Companies Practice Section*
Conclusions on the Peer Review***

.01 Section 13540 sets forth a series of questions designed to assist reviewers in reaching overall conclusions on the functional areas. The responses also assist the reviewers in determining whether the appropriate procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of peer reviews. A separate series of questions have been designed to assist reviewers of SECPS member firms only; this series is included at pages 13511 through 13530.

.02 Reviewers should answer the questions asked in this section for each quality control element for which the corresponding section of the Guidelines for Review of Quality Control Policies and Procedures (PRM Sections 13360 or 13370) was completed. If the questions concerning a particular element were not answered in the Guidelines, reviewers should place an "X" in the box directly below the name of the element.

.03 Section 13540 should be completed after the summaries of "no" answers on engagements and the summary of matter for further consideration forms have been prepared.

.04 The conclusions noted in this section should be consistent with the matters discussed in the report and, if applicable, the letter of comments.

* This set of questions is to be used on all PCPS peer reviews.

**AICPA Division For CPA Firms
PCPS Peer Review Program***

CONCLUSIONS OF THE REVIEW TEAM ON THE PEER REVIEW

Reviewers should answer the questions asked on this form concerning each quality control element for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed. If the questions concerning a particular quality control element were not answered in the *Guidelines*, reviewers should place an "X" in the box below the name of that element.

YES NO N/A

A. Independence

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Requires all professional personnel to adhere to applicable independence rules, regulations, interpretations, and rulings? _____
- b. Communicates its policies and procedures relating to independence to all professional personnel? _____
- c. Requires, when acting as principal auditor, confirmation of the independence of another firm engaged to perform segments of an engagement? _____
- d. Adequately monitors compliance with its policies and procedures relating to independence on a timely basis? _____
- e. Complied with its independence policies and procedures during the period and adequately documented its compliance to the extent required by firm policy? _____

* This set of questions is to be used on all PCPS peer reviews.

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

B. Assigning Personnel to Engagements

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- | | | | |
|---|-------|-------|-------|
| a. Identifies on a timely basis the staffing requirements of specific engagements? | _____ | _____ | _____ |
| b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel? | _____ | _____ | _____ |
| c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization: | | | |
| i. Engagement size and complexity? | _____ | _____ | _____ |
| ii. Timing of the work to be performed? | _____ | _____ | _____ |
| iii. Special expertise required? | _____ | _____ | _____ |
| iv. Continuity and periodic rotation of personnel? | _____ | _____ | _____ |
| v. Opportunities for on-the-job training? | _____ | _____ | _____ |
| vi. Personnel availability? | _____ | _____ | _____ |
| d. Notifies staff of work assignments on a timely basis? | _____ | _____ | _____ |
| e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy? | _____ | _____ | _____ |

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

C. Consultation

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Appropriately identifies areas and specialized situations where consultation is required?

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

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

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

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

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

g. Adequately communicates its policies and procedures relating to consultation to all professional personnel?

h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy?

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

D. Supervision

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, and/or discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Has established appropriate procedures for planning engagements? _____
- b. Has established appropriate procedures for maintaining the firm's standards of quality, including:
 - i. Guidelines for the form and content of working papers? _____
 - ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate? _____
 - iii. Adequate supervision at all organizational levels? _____
 - iv. Procedures for resolving differences of professional judgment among the engagement team? _____
- c. Has established appropriate procedures for reviewing engagements and for the documentation thereof? _____
- d. Adequately communicates its policies and procedures relating to supervision to all professional personnel? _____
- e. Complied with its policies and procedures for supervision during the period and adequately documents its compliance to the extent required by firm policy? _____
- f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review? _____

If Any of the Above Questions Were Answered "No," Please Answer the Following Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

E. Hiring

Questions In *Guidelines* Not Answered

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Adequately plans for the firm’s personnel needs and establishes appropriate hiring objectives, based on current clientele, anticipated growth, personnel turnover, etc.?

b. Identifies relevant attributes, achievements and experience to be sought in hirees?

c. Appropriately investigates and evaluates the qualifications of prospective employees to assure that they meet the firm’s requirements and standards?

d. Adequately communicates its policies and procedures relating to hiring to those persons involved in the hiring process?

e. Adequately monitors the effectiveness of its recruiting program?

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

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

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

F. Professional Development

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Has established appropriate continuing professional education requirements for personnel at each level within the firm?

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

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

d. Provides personnel with appropriate programs, including to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries?

e. Provides adequate on-the-job training?

f. Adequately communicates its policies and procedures relating to continuing professional education to all professional personnel?

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

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

G. Advancement

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:
 - a. Has established appropriate qualifications for the various levels of responsibility within the firm? _____
 - b. Has identified relevant criteria for evaluating individual performance and expected proficiency? _____
 - c. Adequately communicates criteria for evaluating individual performance and expected proficiency to professional personnel? _____
 - d. Appropriately evaluates the performance of partners and other professional personnel on a periodic basis. _____
 - e. Provides for appropriate documentation of evaluations of performance? _____
 - f. Appropriately evaluates the data obtained regarding performance and gives proper recognition in advancement decisions to the quality of work performed? _____
 - g. Appropriately monitors the firm's advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increasing degrees of responsibility? _____
 - h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by firm policy? _____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

H. Acceptance and Continuance of Clients

Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm, and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

a. Has established appropriate policies and procedures for evaluating and obtaining information about prospective clients?

b. Requires communication with predecessor auditors, if any, in accordance with auditing standards?

c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued?

d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel?

e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients?

f. Complied with its policies and procedures relating to acceptance and continuance of clients during the period and adequately documents its compliance to the extent required by firm policy?

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature_____

Date_____

Team Captain's Signature_____

Date_____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

I. Inspection

1. Based on the reading information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures performed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in other areas are operating effectively?
- b. Has established appropriate qualifications for personnel who participate in inspection activities?
- c. Has performed and documented a comprehensive inspection:
 - i. Covering the year under review?
 - ii. Covering the two preceding years?
- d. Has discussed inspection findings with appropriate personnel?
- e. Has taken or planned appropriate corrective actions with respect to inspection findings?
- f. Adequately monitors the corrective actions taken?

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

a. A deficiency in the design of the system of quality control? _____

b. Noncompliance with the system of quality control? _____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

YES NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report? _____

b. Be included in the letter of comments? _____

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

* Attach additional pages as necessary in responding to questions on this form.

YES NO N/A

J. Membership Requirements

- 1. Based on reading the relevant section in the quality control document (if any) and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm complied with each of the Section's membership requirements in all material respects?

If the Answer to the Preceding Question Was "No," Please Answer the Remaining Questions

- 2. Briefly describe the reason for the "no" answer.*

YES NO

- 3. In your opinion, does the "no" answer indicate matters that should:**

- a. Result in a qualified report? Briefly explain why.

- b. Be included in the letter of comments? Briefly explain why.

- c. Be discussed at the exit conference only? Briefly explain why.

Reviewer's Signature _____

Date _____

Team Captain's Signature _____

Date _____

[The next page is 13601.]

*Attach additional pages as necessary in responding to questions on this form.

**See PCPS §2000.84-.99 of the *PCPS Reference Manual* and SECPS §2000.91-.107 of the *SECPS Reference Manual* for guidance on reporting.

PRM
13600

Exhibits

AICPA DIVISION FOR CPA FIRMS

EXHIBITS

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<u>Exhibit</u>		<u>Page</u>
A	Matter for Further Consideration	13603
B	Summary of Matter for Further Consideration Forms	13605

(See PRM §13100.14-.19 of the "Instructions for Use of Peer Review Program Guidelines")

MATTER FOR FURTHER CONSIDERATION

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

Check One: Design _____
 Performance _____
 Compliance-Membership _____
 Compliance-Other _____
 Documentation _____

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

REVIEW CAPTAIN'S COMMENTS, IF ANY

REASON:

FIRM _____
OFFICE CODE NO. _____

CONTROL NO. _____

Signatures

Dates

Engagement Partner _____

Reviewer _____

Team Captain _____

Compliance Questionnaire

Engagement

Section Element _____
Program Step _____

No. _____
Checklist Page _____
Program Step _____

INSTRUCTIONS FOR USE OF 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. (For example, an MFC stated that no letter was received from legal counsel, but a letter that meets the requirements of professional standards had been received and misfiled and was subsequently found. On the other hand, if an MFC is prepared for an item which is later determined to be immaterial, it should not be discarded. For example, a representation letter from a SSARS client required by firm policy was not obtained, but the reviewer was satisfied with the engagement partner's reasoning for not obtaining it.)
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)

Summary of Matter for Further Consideration Forms

Exhibit B

_____ *(Name of Reviewed Firm)*

MFC Number	Type of Matter*	Brief Description of Matter	Reference**	Does this matter, individually or collectively, result in a "no" answer in Section 4?	
				Yes/No	Briefly explain reasons
					If yes, indicate Section 4 Reference

*The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either a) design, b) performance, c) compliance — membership, d) compliance — other, or e) documentation.

**The reviewer should indicate the program or engagement checklist step that led to the MFC.

SMFC-1

PRM
14000

Engagement Review
Checklists

AICPA DIVISION FOR CPA FIRMS

ENGAGEMENT REVIEW CHECKLISTS

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PRM
14100

Instructions

INSTRUCTIONS FOR USE OF ENGAGEMENT CHECKLISTS

General

.01 The review of engagements should include review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm.

.02 The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm's quality control policies and procedures.

.03 Since, in most cases, the engagement personnel will not be responsible for establishing firm policies, the reviewer should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the engagement reviews, these matters should be discussed with the team captain.

Engagement Checklists

.04 The following checklists have been developed for use by review teams performing peer reviews and are contained in this section of the manual:

- | | |
|---|---------------------|
| a. General Compilation Engagement Checklist | (PRM Section 14200) |
| b. General Review Engagement Checklist | (PRM Section 14300) |
| c. General Audit Engagement Checklist | (PRM Section 14400) |
| d. Audit Engagement Supplements | (PRM Section 14500) |
| e. Governmental Audit Engagement Checklist | (PRM Section 14600) |
| f. Not-for-Profit Audit Engagement Checklist | (PRM Section 14700) |
| g. Prospective Financial Statement Engagement Checklist | (PRM Section 14800) |
| h. Employee Benefit Plan Engagement Checklist | (PRM Section 14900) |

.05 The general engagement checklists were developed for use in reviewing engagements of "for-profit" companies. Additional checklists for certain specialized industries have been developed as supplements to the general engagement checklists. However, for those specialized industries, such as insurance, for which supplemental checklists have not been developed, the general checklists will require extensive modification. In such cases, reviewers may wish to refer to the specialized industry disclosure checklists and illustrative financial statements published by the AICPA.

.06 The engagement review checklists (which can be used for most engagements) contain the following sections¹ —

- a. The first section of each checklist contains questions on the accountant's report and the related financial statements and footnotes. This section of the checklist ordinarily would be completed for each engagement reviewed. However, on peer reviews of firms that have their own report and financial statement disclosure checklist that is completed by the firm's personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm's checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a "Matter for Further Consideration" (MFC) form.
- b. The second section of the checklist contains questions concerning planning and other general procedures that normally should be performed for the applicable level of service (e.g., audit review or compilation). This section should be completed for each engagement reviewed.
- c. The third section included in the general audit engagement checklist contains questions relating to specific audit areas. It is not ordinarily necessary to answer all parts of this section because of the emphasis on key audit areas. (See PRM §14100.08 below for a discussion of the "key audit area" approach.)
- d. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the nine quality control areas. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm. For example, a number of the questions are not applicable to sole practitioners without full-time professional staff. Each part of this section should be completed for each engagement reviewed.

Techniques for Review of Engagements

.07 Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be

¹ The Governmental Audit Engagement Checklist includes all of the sections discussed herein, as well as an additional section on compliance with the requirements of the Single Audit Act of 1984. In addition, the Compilation Engagement Checklist includes an additional section on Compilations that omit substantially all disclosures.

completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections, memoranda or other working papers describing the company and its business, the firm's audit approach and problem areas.

.08 Most reviewers find it effective to perform the review — that is, read the financial statements and the related report, review the "top files," applicable sections of the audit programs, correspondence files, consolidating working papers and other "key audit area" working papers — and then complete the engagement checklist. Any unanswered questions on the checklist are then completed by additional reference to the engagement files.

.09 The depth of review of working papers for particular engagements is left to the judgment of the reviewers; however, the review should ordinarily include all the key areas of an engagement. A page-by-page review of all working papers is not necessary. Points to be considered in determining the key areas include —

- a. Key areas in the client's industry (for example, revenue recognition for construction companies; inventories and accounts receivable for manufacturing and retail concerns; or loan loss allowances for financial institutions).
- b. Key areas noted during the review of the financial statements and discussions with engagement personnel (for example, review of loan defaults or follow-up of litigation matters).
- c. Key areas identified by the firm in planning or conducting the engagement.
- d. Recent accounting and auditing developments and pronouncements.
- e. Weaknesses noted in other engagements reviewed.
- f. Weaknesses noted by the firm during its inspection program.
- g. Weaknesses noted in the prior quality review or peer review.

.10 Ordinarily, in applying the "key area" concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. In such cases, the reviewer should document in the working papers the reasons why all key areas were not reviewed. The reviewer should also exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement.

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

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (or, if applicable, an other comprehensive basis of accounting).

- b. The firm did not have a reasonable basis under applicable professional standards for the report issued.
- c. The documentation on the engagement did not support the report issued.
- d. The firm did not comply with its quality control policies and procedures in all material respects.

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

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

PRM
14200

Compiled Statement
Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Checklist for Review of a Compilation of Financial Statements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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New York, NY 10036-8775

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Engagement Profile

Engagement Code No. _____ Office _____
 Partner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Date Report Released _____

This engagement involves reporting on:

- 1. () compiled balance sheet () compiled financial statements without statement of cash flows
- () compiled income statement
- () complete set of compiled financial statements
- 2. that (include) (omit) substantially all required disclosures and
- 3. that (include) (do not include) supplementary information.

The financial statements are for an entity that is a (an):

- () independent entity () subsidiary, division or branch
- () consolidated or combined group () other (explain)

The financial statements cover an (annual) (interim) reporting period.

Date that the fee for the prior engagement was paid _____

Key data reported on by this office for this engagement:

Total assets \$ _____
 Equity \$ _____
 Net sales \$ _____
 Net income \$ _____

Major lines of business:

Complex or troublesome engagement areas:

Compilation hours on this engagement:

Partner _____
 Manager (or equivalent) _____
 Senior _____
 Other _____
 Total this office _____

Total budgeted _____

* * * * *

Date Engagement Review Performed _____ Date Checklist Reviewed by Team Captain _____
 Reviewer _____ Signature _____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

CHECKLIST FOR REVIEW OF A COMPILATION OF FINANCIAL STATEMENTS

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NOTE: This checklist has been updated through SSARS No. 7, SFAS No. 117, and FASB Interpretation No. 40.

14206

Explanation of References:

- AC Reference to section number in *FASB Accounting Standards Current Text*
- AR Reference to section number in *AICPA Professional Standards* (vol. 2)
- AU Reference to section number in *AICPA Professional Standards* (vol. 1)
- EITF Emerging Issues Task Force pronouncement
- ET Code of Professional Conduct *AICPA Professional Standards* (vol. 2)
- FAS Reference to Financial Accounting Standards Board Pronouncement
- QC Quality Control Standards in *AICPA Professional Standards* (vol. 2)

I. Report and Financial Statements

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement. *For all engagements which omit substantially all disclosures, Appendix A should be completed in lieu of Section I.*

Accountants' Reports

Is the report dated in conformity with the requirements of professional standards?
(AR Sec. 100.15)

Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.14-.18, .39-.41)

Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?
(AR Secs. 100.20 and 9100.41-.45)

If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)

QUES.	N/A*	YES	NO	REF.**
C101				
C102				
C103				
C104				
C105				

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

Does each page of financial statements that have been compiled include a reference to the accountant's report? (AR Sec. 100.16)

Financial Statements and Footnotes

General

Are the financial statements suitably titled?
(AU Sec. 623.07 and .24)

Do the financial statements appear to be free from material error? (AR Sec. 100.13)

Are the presentations appropriate and disclosures adequate regarding:

 Significant accounting policies?
(AC Sec. A10.105-.108)

 Accounting changes? (AC Sec. A06)

 Comparative financial statements?
(AC Sec. F43)

 Business combinations? (AC Sec. B50)

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?
(AC Sec. C51.102)

If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements? (AC Sec. C51.121)

Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?
(AC Sec. F25.112)

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (AC Sec. F25.115C)

Are required disclosures made concerning related party transactions? (AC Sec. R36)

Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.103, .127 and .145)

QUES.	N/A	YES	NO	REF.
C106				
C107				
C108				
C109				
C110				
C111				
C112				
C113				
C114				
C115				
C116				
C117				
C118				

Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)

Are foreign operations and export sales adequately disclosed? (AC Sec. F65)

Are nonmonetary transactions properly accounted for and disclosed? (AC Secs. N35 and C11)

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued? (AC Sec. C59.104-.114)

Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)

Are the financial statements adjusted where appropriate, and do they disclose uncertainties regarding the entities ability to continue as a going concern? (AU Sec. 341.10-.11)

Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)

Are all other pension plans adequately disclosed? (AC Sec. P16)

Is the required information on defined benefit post-retirement plans adequately disclosed? (AC Sec. P40.169)

If FAS No. 106 has not yet been adopted, are postretirement health care and life insurance benefits properly disclosed under FAS No. 81? (AC Sec. P50.102-.103)

QUES.	N/A	YES	NO	REF.
C119				
C120				
C121				
C122				
C123				
C124				
C125				
C126				
C127				
C128				
C129				

If FAS No. 112 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) and if an obligation for post employment benefits is not accrued because the amount cannot be reasonably estimated, do the financial statements disclose that fact? (FAS No. 112, par. 7)

If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)

Do the financial statements, where required, include appropriate disclosures of futures contracts? (AC Sec. F80)

Balance Sheet

Are the presentations appropriate and disclosures adequate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)

Valuation allowances? (AC Sec. V18)

Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)

Marketable equity securities? (AC Sec. I89)

Other marketable securities? (AC Sec. I89.103)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only), trading, or available-for-sale, and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholders' equity? (FAS No. 115, pars. 6 and 13)

Accounts and Notes Receivable:

Unbilled receivables? (AC Sec. Co5.108)

Loans and related origination fees? (AC Sec. L20.104-.106 and .120)

QUES.	N/A	YES	NO	REF.
C130				
C131				
C132				
C133				
C134				
C135				
C136				
C137				
C138				
C139				
C140				

	QUES.	N/A	YES	NO	REF.
Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)	C141				
Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)	C142				
Other receivables?	C143				
If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are the recorded investment in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed? (FAS No. 114, par. 20)	C144				
Inventories? (AC Secs. B05.105 and I78)	C145				
Investments accounted for on the equity method? (AC Secs. I82.109-.110 and I89.101-.107)	C146				
Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I32)	C147				
Sales-type, direct financing, and operating leases of lessors? (AC Secs. 10.119 and .143-.149)	C148				
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges? (AC Secs. I60, Co2.106-.110 and I27.140)	C149				
Pledged assets? (AC Sec. C59.120)	C150				
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	C151				
Current liabilities? (AC Sec. B05.108-.109 and .118)	C152				

Short-term liabilities expected to be refinanced?
(AC Sec. B05.112-.117 and .138-.139)

Notes payable and other debt:

Maturities and rates? (AC Sec. C32.105)

Other terms and covenants? (AC Sec. C59.120)

Effect of interest rates that do not reflect market rates? (AC Sec. I69)

Effect of troubled debt restructurings?
(AC Sec. D22.121)

Effect of early extinguishment of debt?
(AC Secs. D14 and I17.104)

Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)

Capital leases of lessees?
(AC Sec. L10.106 and .112)

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?
(AC Secs. C44.104 and .108 and I27.140)

Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?

Treasury stock? (AC Sec. C23)

Stock option and stock purchase plans?
(AC Sec. C47)

Stock subscriptions receivable? (EITF 85-1)

Retained earnings, including appropriations thereof and restrictions on dividends?
(AC Secs. R70.103 and C59.120)

Changes in stockholders' equity?
(AC Secs. Co8.102 and A35.103, .105 and .107)

Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)

Income Statement

Are the important components of the income statement separately disclosed?

QUES.	N/A	YES	NO	REF.
C153				
C154				
C155				
C156				
C157				
C158				
C159				
C160				
C161				
C162				
C163				
C164				
C165				
C166				
C167				
C168				
C169				

Are the presentations appropriate and disclosures adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?
(AC Secs. R10 and Co4.110 and .112)

Gains and losses, realized and unrealized from marketable equity securities?
(AC Sec. I89.106 and .110)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) is the information relating to realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented and disclosed in accordance with the statement?
(FAS No. 115, par. 21)

Income and income taxes on investments in securities accounted for on the equity method?
(AC Sec. I82.109)

Research and development costs?
(AC Sec. R50)

Computer software costs?
(AC Sec. Co2.110-.111)

Interest costs? (AC Sec. I67.118)

Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)

Depreciation? (AC Sec. D40.105)

Compensatory stock issuance plans?
(AC Sec. C47)

Deferred compensation agreements?
(AC Sec. C38)

Sales transactions in which the buyer has the right to return the product? (AC Sec. R75.107-.109)

Product financing arrangements?
(AC Sec. D18.106-.107)

Operating leases and rent expense of lessees?
(AC Sec. L10.112)

QUES.	N/A	YES	NO	REF.
C170				
C171				
C172				
C173				
C174				
C175				
C176				
C177				
C178				
C179				
C180				
C181				
C182				
C183				

Income Taxes:

The types of temporary differences and carry forwards that cause significant portions of a deferred tax liability or asset? (AC Sec. 127.142)

Significant components of income tax expense, including the current tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. 127.144)

For publicly held companies, reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items need to be disclosed.) (AC Sec. 127.146)

Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. 127.147)

Other information concerning tax expense, benefits and the effect of income taxes? (AC Sec. 127)

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from customary relationship between income and taxes? (AC Secs. 132, 137 and Appendix E: 124.102-.104 and .548)

Discontinued operations? (AC Sec. 113)

Extraordinary and unusual items? (AC Sec. 117)

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)

Does it report cash provided or used by investing, financing, and operating activities? (AC Sec. C25.112-.122)

QUES.	N/A	YES	NO	REF.
C184				
C185				
C186				
C187				
C188				
C189				
C190				
C191				
C192				
C193				

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

(AC Sec. C25.124)

Does it provide a reconciliation between net income and net cash flow from operating activities?

(AC Sec. C25.126)

Are noncash investing and financing activities disclosed? (AC Sec. C25.134)

If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed?

(AC Sec. C25.132)

Do the components of the cash flow statement appear to have been shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (FASB No.115.18)

Other

If the industry in which the client is practicing is covered by an audit and accounting guide, are the format, statements, and disclosures consistent with the guide?

Summary

Does it appear that disclosures in the financial statements are reasonably adequate?

QUES.	N/A	YES	NO	REF.
C194				
C195				
C196				
C197				
C198				
C199				
C200				
C201				

II. General Procedures

Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing.) (AR Sec. 100.08)

Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)? (AR Sec. 100.10-.12)

If the engagement was originally intended to be an audit or review, rather than a compilation, did the accountant consider (AR Sec. 100.44-.45):

The reason given for the client's request, particularly the implications of a restriction on the scope of the audit or review, whether imposed by the client or by circumstances?

The additional effort required to complete the audit or review?

The estimated additional cost to complete the audit or review?

Did the accountant read the compiled financial statements and consider whether such financial statements appeared to be appropriate in form and free from obvious material errors? (AR Sec. 100.13)

If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information? (AR Sec. 100.12)

QUES.	N/A	YES	NO	REF.
C205				
C206				
C207				
C208				
C209				
C210				
C211				

Have all questions, exceptions or notes posed during the work been followed up and resolved?

If the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AR Sec. 100.42 and AU Sec. 561)

If the prior period accountant's report contains a changed reference to a departure from generally accepted accounting principles, does the current report have an explanatory paragraph indicating the date of the previous report, circumstances or events that caused the reference to be changed, and if applicable, that the financial statements of the prior period have been changed? (AR Sec. 200.13-.15)

QUES.	N/A	YES	NO	REF.
C212				
C213				
C214				

III. Functional Areas

Independence
(QC Sec. 10.07a)

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? If the accountant was not independent was the report appropriately modified? (ET Sec. 101)

Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?
(QC Sec. 90.10)

Were the fees (billed/unbilled) for the prior years services paid prior to issuance of the current year's report? (ET 191.103-.104)

Assigning Personnel to Engagements
(QC Sec. 10.07b)

These steps may not be necessary for recurring compilation engagements with no unusual complexity.

Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?
(QC Sec. 90.12)

Consultation
(QC Sec. 10.07c)

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

QUES.	N/A	YES	NO	REF.
C301				
C302				
C303				
C304				
C305				
C306				
C307				

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Does it appear that engagement planning was appropriate? (QC Sec. 90.16)

Were forms, checklists, or questionnaires, if any, *required by firm policy* (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies for compilation engagements?

Were the firm's guidelines for the form and content of working papers complied with?

Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

QUES.	N/A	YES	NO	REF.
C308				
C309				
C310				
C311				
C312				
C313				
C314				
C315				
C316				
C317				
C318				

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm’s guidelines for acceptance and continuance of clients were complied with?
(QC Sec. 90.24)

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?
(QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
C319				
C320				

**IV. Appendix A - Questions for Use on Compilation Engagements
That Omit Substantially all Disclosures**

Accountants' Reports

Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)

Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards including appropriate language describing any modification from professional standards, if appropriate?
(AR Sec. 100.14-.17, 100.19-.21, and .39-.41)

Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?
(AR Secs. 100.20 and 9100.41-.45)

If supplementary information accompanies the basic financial statements, does the accountants' report describe the degree of responsibility, if any, the accountants are taking? (AR Sec. 100.43)

Does each page of financial statements that have been compiled include a reference to the accountants' report? (AR Sec. 100.16)

Financial Statements

General

Are the financial statements suitably titled?
(AU Sec. 623.07)

Do the financial statements appear to be free from material error? (AR Sec. 100.13)

QUES.	N/A*	YES	NO	REF.**
C101				
C102				
C103				
C104				
C105				
C106				
C107				
C108				

* The N/A column should be used when the item either does not exist or is not material.

** All "No" answers must be explained on the pages provided at the end of this checklist.

Balance Sheet

Is the presentation appropriate regarding:

Segregation of assets and liabilities, if applicable,
into current and noncurrent classifications?
(AC Sec. B05)

Income Statement

Are the important components of the income
statement separately stated?

Is the presentation appropriate regarding:

Gains and losses, realized and unrealized, from
marketable equity securities?
(AC Sec. I89.106 and .110)

Income and income taxes on investments in
securities accounted for on the equity method?
(AC Sec. I82.109)

Discontinued operations? (AC Sec. I13)

Extraordinary and unusual items? (AC Sec. I 17)

Statement of Cash Flows

Is a statement of cash flows presented for each period
for which results of operations are provided?
(AC Sec. C25.101)

Does it report cash provided or used by investing,
financing and operating activities?
(AC Sec. C25.112-.122)

Does it report the net effect of cash flows on cash and
cash equivalents during the period in a manner that
reconciles beginning and ending cash and cash
equivalents and do the amount of cash and cash
equivalents agree with the amounts on the balance
sheet? (AC Sec. C25.124)

Does it provide a reconciliation between net income
and net cash flow from operating activities?
(AC Sec. C25.126)

QUES.	N/A	YES	NO	REF.
C133				
C169				
C171				
C173				
C190				
C191				
C192				
C193				
C194				
C195				

Do components of the cash flow statement appear to have been shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)

Other

If the industry in which the client is practicing is covered by an audit and accounting guide, are the format and statements consistent with the guide?

QUES.	N/A	YES	NO	REF.
C198				
C200				

V. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
--------------------	------------------------	-----------------------------	---------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

14228

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

Note: Attach additional sheets if required.

VI. Conclusions

Explain Below the Reasons for Any "Yes" Answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe:

- The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services (ET 202)?

YES* NO
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the compilation report was not appropriately modified (AR 300.04 and ET 203)?

YES* NO
- The compilation report was not appropriate in the circumstances?

YES* NO
- The documentation on this engagement does not evidence compliance with professional standards?

YES NO
- The firm did not comply with its policies and procedures on this engagement in all material respects?

YES NO

* If this question is answered "yes," see additional guidance contained in SECPS §2000.77-.83 of the *SECPS Reference Manual* and PCPS §2000.69-.76 of the *PCPS Reference Manual*.

PRM
14300

Reviewed Statement
Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Checklist for Review of a Review of Financial Statements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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New York, NY 10036-8775

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Engagement Profile

Engagement Code No. _____ Office _____
 Partner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Senior _____ Date Report Released _____

This engagement involves reporting on a (an):

- () independent entity
- () consolidated or combined group
- () subsidiary, division or branch
- () other (explain)

The financial statements cover an (annual) (interim) reporting period and (do) (do not) include supplemental information.

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total assets	\$ _____	Net sales	\$ _____
Equity	\$ _____	Net income	\$ _____

Major lines of business:

Complex or troublesome engagement areas:

Review hours on this engagement:

Partner _____
 Manager (or equivalent) _____
 Senior _____
 Other _____
 Total this office _____
 Total budgeted _____

Personnel Continuity:

	<u>Partner</u>	<u>Manager (or equivalent)</u>
Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

* * * * *

Date Engagement Review Performed _____ Date Checklist Reviewed _____
 by Team Captain _____
 Reviewer _____ Signature _____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

CHECKLIST FOR REVIEW OF A REVIEW OF FINANCIAL STATEMENTS

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Note: This checklist has been updated through SSARS No. 7, SFAS No. 117, and FASB Interpretation No. 40.

14306

Explanation of References:

- AC Reference to section number in *FASB Accounting Standards Current Text*
- AR Reference to section number in *AICPA Professional Standards* (vol. 2)
- AU Reference to section number of *AICPA Professional Standards* (vol. 1)
- EITF Emerging Issues Task Force Pronouncement
- ET Code of Professional Conduct *AICPA Professional Standards* (vol. 2)
- FAS Financial Accounting Standards Board Pronouncement
- QC Quality Control Standards in *AICPA Professional Standards* (vol. 2)

I. Report and Financial Statements

Note: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

Accountants' Report

Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.33)

Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards if applicable? (AR Secs. 100.32-.41)

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 9100.41-.45)

Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)

If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)

Does each page of financial statements that have been reviewed include a reference to the accountant's report? (AR Sec. 100.34)

QUES.	N/A*	YES	NO	REF.**
R101				
R102				
R103				
R104				
R105				
R106				

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

Financial Statements and Notes

General

Are the financial statements suitably titled?
(AU Secs. 623.07 and .24)

Do the financial statements appear to be free from material error? (AR Sec. 100.13)

Are the presentations appropriate and disclosures adequate regarding:

 Significant accounting policies?
 (AC Sec. A10.105-.108)

 Accounting changes? (AC Sec. A06)

 Comparative financial statements? (AC Sec. F43)

 Business combinations? (AC Sec. B50)

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?
(AC Sec. C51.102)

If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements? (AC Sec. C51.121)

Is information about the financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?
(AC Sec. F25 .112)

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (AC Sec. F25.115c)

Are required disclosures made concerning related party transactions? (AC Sec. R36)

Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.103, .127 and .145)

Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)

QUES.	N/A	YES	NO	REF.
R107				
R108				
R109				
R110				
R111				
R112				
R113				
R114				
R115				
R116				
R117				
R118				
R119				

Are foreign operations and export sales adequately disclosed? (AC Sec. F65)

Are nonmonetary transactions properly accounted for and disclosed? (AC Secs. N35 and C11)

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued? (AC Sec. C59.104-.114)

Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)

Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entities ability to continue as a going concern? (AU Sec. 341.10-.11)

Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)

Are all other pension plans adequately disclosed? (AC Sec. P16)

Is the required information on defined benefit post-retirement plans adequately disclosed? (AC Sec. P40.169)

If FAS 106 has not yet been adopted, are postretirement health care and life insurance benefits properly disclosed under FASB No. 81? (AC Sec. P50.102-.103)

If FAS No. 112 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) and if an obligation for post employment benefits is not accrued because the amount cannot be reasonably estimated, do the financial statements disclose that fact? (FAS No. 112, par. 7)

If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De.104-.109)

QUES.	N/A	YES	NO	REF.
R120				
R121				
R122				
R123				
R124				
R125				
R126				
R127				
R128				
R129				
R130				
R131				

Do the financial statements, where required, include appropriate disclosures of futures contracts?
(AC Sec. F80)

Balance Sheet

Are the presentations appropriate and disclosures adequate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?
(AC Sec. B05)

Valuation allowances? (AC Sec. V18)

Restricted cash, including compensating balances?
(AC Secs. B05.107 and C59.120)

Marketable equity securities? (AC Sec. I89)

Other marketable securities? (AC Sec. I89.103)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only), trading, or available-for-sale and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholders' equity?
(FAS No. 115, pars. 6 and 13)

Accounts and Notes Receivable:

Unbilled receivables? (AC Sec. Co5.108)

Loans and related origination fees?
(AC Sec. L20.104-.106 and .120)

Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)

Receivables related to troubled debt restructurings?
(AC Sec. D22.136-.137 and .501-.505)

Other receivables?

QUES.	N/A	YES	NO	REF.
R132				
R133				
R134				
R135				
R136				
R137				
R138				
R139				
R140				
R141				
R142				
R143				

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are the recorded investment in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed? (FAS No. 114, par. 20)

Inventories? (AC Secs. B05.105 and I78)

Investments accounted for on the equity method? (AC Secs. I82.109-.110 and I89 .101-.107)

Property and equipment, including accounting for assets of discontinued operations and capitalized interest?

(AC Secs. D40.105, I13.108, I67 and I32)

Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)

Other assets, including intangible assets, un-amortized computer software costs, deferred tax assets, and deferred charges?

(AC Secs. I60, Co2.106-.110, and FAS No. 109.43-.44)

Pledged assets? (AC Sec. C59.120)

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?

Current liabilities?

(AC Sec. B05.108-.109 and .118)

Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)

Notes payable and other debt:

Maturities and rates? (AC Sec. C32.105)

Other terms and covenants?

(AC Sec. C59.120)

QUES.	N/A	YES	NO	REF.
R144				
R145				
R146				
R147				
R148				
R149				
R150				
R151				
R152				
R153				
R154				
R155				

Effect of interest rates that do not reflect market rates? (AC Sec. I69)

Effect of troubled debt restructurings? (AC Sec. D22.121)

Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)

Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)

Capital leases of lessees? (AC Sec. L10.106 and .112)

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue? (AC Secs. C44.104 and .108 and I27.140)

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

Treasury stock? (AC Sec. C23)

Stock option and stock purchase plans? (AC Sec. C47)

Stock subscriptions receivable? (EITF 85-1)

Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)

Changes in stockholders' equity? (AC Secs. C08.102 and A35.103, .105 and .107)

Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)

Income Statement

Are the important components of the income statement separately disclosed?

QUES.	N/A	YES	NO	REF.
R156				
R157				
R158				
R159				
R160				
R161				
R162				
R163				
R164				
R165				
R166				
R167				
R168				
R169				

Are the presentations appropriate and disclosures adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

(AC Secs. R10 and Co4.110 and .112)

Gains and losses, realized and unrealized, from marketable equity securities?

(AC Sec. I89.106 and .110)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) is the information relating to realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented and disclosed in accordance with the statement? (FAS No. 115, par. 21)

Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I82.109)

Research and development costs? (AC Sec. R50)

Computer software costs? (AC Sec. Co2.110-.111)

Interest costs? (AC Sec. I67.118)

Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)

Depreciation? (AC Sec. D40.105)

Compensatory stock issuance plans? (AC Sec. C47)

Deferred compensation agreements? (AC Sec. C38)

Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)

Product financing arrangements? (AC Sec. D18 .106-.107)

Operating leases and rent expense of lessees? (AC Sec. L10.112)

QUES.	N/A	YES	NO	REF.
R170				
R171				
R172				
R173				
R174				
R175				
R176				
R177				
R178				
R179				
R180				
R181				
R182				
R183				

Income Taxes:

The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.109-.115)

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I27.144)

For publicly held companies reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items need to be disclosed.) (AC Sec. I27.146)

Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. I27.147)

Other information concerning tax expense, benefits and the effect of income taxes? (AC Sec. I27)

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from customary relationship between income and taxes? (AC Secs. I32, I37 and Appendix E: I24.102-.104 and .548)

Discontinued operations? (AC Sec. I13)

Extraordinary and unusual items? (AC Sec. I17)

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)

QUES.	N/A	YES	NO	REF.
R184				
R185				
R186				
R187				
R188				
R189				
R190				
R191				
R192				

Does it report cash provided or used by investing, financing and operating activities?
(AC Sec. C25.112-.122)

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree to the amounts on the balance sheet?
(AC Sec. C25.124)

Does it provide a reconciliation between net income and net cash flow from operating activities?
(AC Sec. C25.126)

Are noncash investing and financing activities disclosed? (AC Sec. C25.134)

If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?
(AC Sec. C25.132)

Do the components of the cash flow statement appear to have been shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (FAS No. 115, par. 18)

Other

If the industry in which the client is practicing is covered by an audit and accounting guide, are the format, statements, and disclosures consistent with the guide?

Summary

Does it appear that disclosures in the financial statements are reasonably adequate?

QUES.	N/A	YES	NO	REF.
R193				
R194				
R195				
R196				
R197				
R198				
R199				
R200				
R201				

II. General Review Procedures

Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional standards require the accountant to establish an understanding with the entity preferably, though not required to be, in writing.) (AR Sec. 100.08)

Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)? (AR Secs. 100.24-.26)

If the engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider (AR Secs. 100.44-.49):

The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?

The additional audit effort required to complete the audit?

The estimated additional cost to complete the audit?

Did the accountant's inquiries and analytical procedures consist of the following (AR Sec. 100.27):

Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?

Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?

QUES.	N/A	YES	NO	REF.
R205				
R206				
R207				
R208				
R209				
R210				
R211				

Analytical procedures designed to identify relationships and individual items that appear to be unusual?

Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?

Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?

Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?

Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?

If the accountant became aware that information that came to the accountant's attention was incorrect, incomplete, or otherwise unsatisfactory, did the accountant perform additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles? (AR Sec. 100.30)

Do the accountant's working papers adequately reflect (AR Sec. 100.31):

The matters covered in inquiry and analytical procedures?

QUES.	N/A	YES	NO	REF.
R212				
R213				
R214				
R215				
R216				
R217				
R218				

Unusual matters that were considered during the performance of the review, including their disposition?

Did the accountant obtain a representation letter from members of management whom the accountant believes are responsible for and knowledgeable, directly or through others in the organization, about the matters covered in the representation letter?

(AR Sec. 100.28)

If any circumstances were encountered by the accountant that precluded the accountant from performing inquiries and analytical procedures as deemed necessary or the client did not provide the accountant with a representation letter (AR Sec. 100.36):

Did the accountant consider whether these circumstances would have resulted in an incomplete review and therefore afford the accountant an inadequate basis for issuing a review report?

Did the accountant consider whether these same circumstances would also preclude the accountant from issuing a compilation report on the entity's financial statements?

Do such determinations by the accountant appear to be proper?

Have all questions, exceptions, or notes posed during the work been followed up and resolved?

If there is an indication that the accountant became aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?

(AR Sec. 100.42 and AU Sec. 561)

If the prior period accountant's report contains a changed reference to a departure from generally accepted accounting principles, does the current report have an explanatory paragraph indicating the date of the previous report, circumstances or events that caused the reference to be changed and if applicable, that the financial statements of the prior period have been changed? (AR Secs. 200.13-.15)

QUES.	N/A	YES	NO	REF.
R219				
R220				
R221				
R222				
R223				
R224				
R225				
R226				

III. Functional Areas

Independence (QC Sec. 10.07a)

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered?
(ET Sec. 101)

Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?
(QC Sec. 90.10)

Was appropriate assurance of independence obtained from other firms engaged to perform segments of the engagement? (AU Sec. 543.10)

Were the fees (billed/unbilled) for the prior years services paid prior to issuance of the current year's report? (ET Sec. 191.103-.104)

Assigning Personnel to Engagements (QC Sec. 10.07b)

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?
(QC Sec. 90.12)

Consultation (QC Sec. 10.07c)

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

QUES.	N/A	YES	NO	REF.
R301				
R302				
R303				
R304				
R305				
R306				
R307				

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Does it appear that engagement planning was appropriate? (QC Sec. 90.16)

Did the partner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?

Does it appear that the involvement by the partner and manager were both adequate and appropriately timed to provide for any planning and supervision as the job progressed?

Were forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to a review?

Were the firm's guidelines for the form and content of working papers for a review complied with?

QUES.	N/A	YES	NO	REF.
R308				
R309				
R310				
R311				
R312				
R313				
R314				
R315				
R316				
R317				
R318				
R319				

Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
R320				
R321				
R322				
R323				

IV. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
--------------------	------------------------	-----------------------------	---------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

Note: Attach additional sheets if required.

V. Conclusions

Explain Below the Reasons for Any "Yes" Answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe that:

- 1. The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services (ET 202)? YES* _____ NO _____
- 2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (AR 300.04 and ET 203)? YES* _____ NO _____
- 3. The review report was not appropriate in the circumstances? YES* _____ NO _____
- 4. The documentation on this engagement does not evidence compliance with professional standards? YES _____ NO _____
- 5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

* If this question is answered "yes," see additional guidance contained in SECPS §2000.77-.83 of the *SECPS Reference Manual* and PCPS §2000.69-.76 of the *PCPS Reference Manual*.

PRM
14400

Audit Engagement
Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Checklist for Review of Audit Engagements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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Engagement Profile

Engagement Code No. _____ Office _____

Partner _____ Date of Financial Statements* _____

Manager _____ Date of Report _____

Concurring Reviewer _____ Date Report Released _____

Is this an SEC audit client? Yes___ No___

Is the client a part of other related groups? Yes___ No___

This engagement involves reporting on:

- financial statements (single entity)
- consolidated financial statements
- subsidiary, division or branch
- special report
- interim reviews
- unaudited interim statements
- loan agreement compliance letters
- reportable conditions - material weaknesses
- other (explain)

Was the work performed at the request of another office? Yes___ No___

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total assets	\$ _____
Equity	\$ _____
Net sales	\$ _____
Net income	\$ _____

Major lines of business:

Complex or troublesome audit areas:

List any nonaudit services performed for the client during the period of the financial statements being reported on and through the date of the auditor's report:

Personnel Continuity:

Number of years assigned to this job

Number of years in current position on the job

Partner

Manager (or
equivalent)

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

14404

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Concurring Reviewer **	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	=====	Total budgeted		=====

List of Key Audit Areas Selected by Reviewer

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement, and if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

* * * * *

Date Engagement
Review Performed _____

Reviewer _____

Date Checklist Reviewed
by Team Captain _____

Signature _____

** Not applicable on peer reviews of PCPS member firms only and on reviews of non-SEC clients unless required by firm policy.

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS
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Note: This checklist has been updated through SAS No. 72, FAS No. 117, and FASB Interpretation No. 40.

Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1988 revision), referred to as the "Yellow Book." Reviewers of engagements involving HUD projects should use *The Supplemental Checklist for Review of Audits of HUD Engagements* (PRM Section 14570).

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AU	Reference to section number of <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct in <i>AICPA Professional Standards</i> (vol. 2)
FAS	Financial Accounting Standards Board Pronouncement
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SECPS	SEC Practice Section Reference Manual
SOP	AICPA Statement of Position

I. Report and Financial Statements

Note: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

Auditors' Report

QUES. N/A*YES NO REF.**

Is the report dated in conformity with the requirements of professional standards?

(AU Secs. 504.15-.17, 508.08 and .74, .82 and 530)

A101

Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report in the circumstances described in such standards?

(AU Secs. 505.08-.10 and 623)

A102

Does the report cover all periods for which financial statements are presented?

A103

If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)

A104

If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AU Secs. 551 and 558)

A105

QUES.	N/A*	YES	NO	REF.**
A101				
A102				
A103				
A104				
A105				

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

For special reports, have professional standards been complied with regarding:

Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?
(AU Sec. 623.02-.10)

Specified elements, accounts or items of a financial statement? (AU Secs. 622 and 623.11-.18)

Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (AU Sec. 623.19-.21)

Financial presentations to comply with contractual agreements or regulatory provisions?
(AU Sec. 623.22-.30)

Financial information in prescribed forms or schedules? (AU Sec. 623.32-.33)

For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards? (AU Sec. 534)

Financial Statements and Notes

General

Are the financial statements suitably titled?
(AU Sec. 623.07 and .24)

Are the presentations appropriate and disclosures adequate regarding:

Significant accounting policies?
(AC Sec. A10.105-.108)

Accounting changes? (AC Sec. A06)

Comparative financial statements?
(AC Sec. F43.01)

Business combinations? (AC Sec. B50)

QUES.	N/A	YES	NO	REF.
A106				
A107				
A108				
A109				
A110				
A111				
A112				
A113				
A114				
A115				
A116				

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)

If an individual or entity controls a group of related entities, did the auditor consider the need for combined financial statements? (AC Sec. C51.121)

Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed? (AC Sec. F25.112 and .115)

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (AC Sec. F25.115c)

Are required disclosures made concerning related party transactions? (AC Sec. R36)

Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.107, .127 and .145)

Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)

Are foreign operations and export sales adequately disclosed? (AC Sec. F65)

Are nonmonetary transactions properly accounted for and disclosed? (AC Secs. N35 and C11)

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)

Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)

QUES.	N/A	YES	NO	REF.
A117				
A118				
A119				
A120				
A121				
A122				
A123				
A124				
A125				
A126				
A127				
A128				

Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)

Are all other pension plans adequately disclosed?

Is the required information on defined benefit postretirement plans adequately disclosed? (AC Sec. P40.169)

If FAS No. 106 has not yet been adopted, are postretirement health care and life insurance benefits properly disclosed under FAS No. 81? (AC Secs. P50.102-103)

If FAS No. 112 was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) and an obligation for post-employment benefits is not accrued because the amount cannot be reasonably estimated, do the financial statements disclose that fact? (FAS No. 112 par. 7)

If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De.104-.109)

Do the financial statements, where required, include appropriate presentations of:

Segment information? (AC Sec. S20)

Futures contracts? (AC Sec. F80)

If there are prior period adjustments:

Are only corrections of an error in the financial statements of a prior period and adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries reported as prior period adjustments (excluding the manner of reporting accounting changes retroactively)? Is the disclosure adequate? (AC Sec. A35)

If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated? (AC Sec. Q15.111)

QUES.	N/A	YES	NO	REF.
A129				
A130				
A131				
A132				
A133				
A134				
A135				
A136				
A137				
A138				

Balance Sheet

Are the presentations appropriate and disclosures adequate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)

Valuation allowances? (AC Sec. V18)

Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)

Marketable equity securities? (AC Sec. I89)

Other marketable securities? (AC Sec. I89.103)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only), trading, or available-for-sale, and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholders' equity? (FAS No. 115 pars. 6-13)

Accounts and Notes Receivable:

Unbilled receivables? (AC Sec. Co5.108)

Loans and related origination fees? (AC Sec. L20.104-.106 and .120)

Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)

Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)

Other receivables?

QUES.	N/A	YES	NO	REF.
A139				
A140				
A141				
A142				
A143				
A144				
A145				
A146				
A147				
A148				
A149				

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are the recorded investment in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and the creditor's income recognition policy disclosed? (FAS No. 114 par. 20)

Inventories? (AC Secs. B05.105 and I78)

Investments accounted for on the equity method? (AC Sec. I82.109-.110)

Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I32)

Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges? (AC Secs. I60, Co2.106-.110 and I27.140)

Pledged assets? (AC Sec. C59.120)

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10.101)

Current liabilities? (AC Sec. B05.108-.109 and .118)

Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)

Notes payable and other debt:

Maturities and rates? (AC Sec. C32.105)

Other terms and covenants? (AC Sec. C59.120)

QUES. N/A YES NO REF.

QUES.	N/A	YES	NO	REF.
A150				
A151				
A152				
A153				
A154				
A155				
A156				
A157				
A158				
A159				
A160				
A161				

Effect of interest rates that do not reflect market rates? (AC Sec. I69)

Effect of troubled debt restructurings? (AC Sec. D22.121)

Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)

Maturities and sinking fund requirements for the next five years? (AC Sec. 32.105)

Capital leases of lessees? (AC Sec. L10.106 and .112)

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue? (AC Secs. C44.104 and .108 and I27.140)

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

Stock option and stock purchase plans? (AC Sec. C47)

Stock subscriptions receivable? (EITF 85-1)

Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)

Changes in stockholders' equity? (AC Secs. C08.102 and A35.103, .105 and .107)

Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)

Income Statement

Are the important components of the income statement separately disclosed?

QUES.	N/A	YES	NO	REF.
A162				
A163				
A164				
A165				
A166				
A167				
A168				
A169				
A170				
A171				
A172				
A173				
A174				

Are the presentations appropriate and disclosures adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

(AC Secs. R10 and Co4.110 and .112)

Gains and losses, realized and unrealized, from marketable equity securities?

(AC Sec. I82.106 and .110)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), is the information relating to realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments presented and disclosed in accordance with the statement?

(FAS No. 115 par. 21)

Income and income taxes on investments in securities accounted for on the equity method?

(AC Sec. I82.109)

Research and development costs? (AC Sec. R50)

Computer software costs?

(AC Sec. Co2.110-.111)

Interest costs? (AC Sec. I67.118)

Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)

Depreciation? (AC Sec. D40.105)

Compensatory stock issuance plans?

(AC Sec. C47)

Deferred compensation agreements?

(AC Sec. C38)

Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)

Product financing arrangements?

(AC Sec. D18.106-.107)

Operating leases and rent expense of lessees?

(AC Sec. L10.112)

QUES.	N/A	YES	NO	REF.
A175				
A176				
A177				
A178				
A179				
A180				
A181				
A182				
A183				
A184				
A185				
A186				
A187				
A188				

Income Taxes:

The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. 127.142)

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. 127.144)

For publicly held companies, reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items need to be disclosed) (AC Sec. 127.146)

Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. 127.147)

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes? (AC Secs. 132 and 137 and Appendix E: 124.102-.104 and .548)

Discontinued operations? (AC Sec. 113)

Extraordinary and unusual items? (AC Sec. 117)

Earnings per share information? (AC Sec. E09)

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)

QUES.	N/A	YES	NO	REF.
A189				
A190				
A191				
A192				
A193				
A194				
A195				
A196				
A197				

Does it report cash provided or used by investing, financing and operating activities?
(AC Sec. C25.112-.122)

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?
(AC Sec. C25.124)

Does it provide a reconciliation between net income and net cash flow from operating activities?
(AC Sec. C25.126)

Are noncash investing and financing activities disclosed? (AC Sec. C25.134)

If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?
(AC Sec. C25.127)

Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and is the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)

Do the financial statements avoid reporting cash flow per share amount? (AC Sec. C25.135)

Do the components of the cash flow statement appear to have been shown at "gross" and not "net" amounts?
(AC Sec. 25.109-.111A)

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification; and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (FAS No. 115, par. 18)

QUES.	N/A	YES	NO	REF.
A198				
A199				
A200				
A201				
A202				
A203				
A204				
A205				
A206				

Other

If the industry in which the client is operating is covered by an audit and accounting guide, are the format, statements, and disclosures consistent with the guide?

QUES.	N/A	YES	NO	REF.
A207				

II. General Audit Procedures

In planning the audit engagement, did the auditor properly consider:

Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes?
(AU Secs. 311.03 and 801.11)

Matters affecting the entity’s business, such as organization and types of products and services and contractual obligations?
(AU Sec. 311.03-.04)

Preliminary judgment about materiality levels?
(AU Secs. 311.03 and 312.08)

Did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts? (AU Secs. 312.12 and 316.05)

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?
(AU Sec. 316.12)

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?
(AU Sec. 316.05)

Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)

QUES.	N/A	YES	NO	REF.
A300				
A301				
A302				
A303				
A304				
A305				
A306				

If the auditor succeeded a predecessor auditor, did the auditor:

Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)

Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.08)

Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers? (AU Sec. 315.08)

If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with professional standards? (AU Sec. 322)

Did the auditor:

Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Sec. 319.16 and AU Sec. 324.07-.10)

Document the understanding of the internal control structure? (AU Sec. 319.26)

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)

If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the internal control structure relating to the accounting applications at the service organization? (AU Sec. 324.06-.10)

QUES.	N/A	YES	NO	REF.
A307				
A308				
A309				
A310				
A311				
A312				
A313				
A314				
A315				

If the auditor relied on the internal control structure at a service organization, was a service auditor’s report that describes the results of the service auditor’s tests obtained; or were tests performed by the auditor at the service organization?

(AU Sec. 324.14-.16)

If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:

Do the instructions to the other office or firm appear adequate? (AU Sec. 311)

Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)

Was there appropriate follow-up of open matters? (AU Sec. 311)

In those cases where another firm was used, were appropriate inquiries made regarding its independence and professional reputation? (AU Sec. 543.10)

Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA Industry Audit Guide)

Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained during the planning process? (AU Sec. 319.02 and .05)

Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)

If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)

Have all the procedures called for in the audit program been signed? (AU Sec. 339)

QUES.	N/A	YES	NO	REF.
A316				
A317				
A318				
A319				
A320				
A321				
A322				
A323				
A324				
A325				

If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations? (AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures? (AU Sec. 350.40-.43)

In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details:

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatement, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)

Were the misstatement results of the sample projected to the items from which the sample was selected? (AU Sec. 350.26)

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed? (AU Sec. 350.25)

QUES.	N/A	YES	NO	REF.
A326				
A327				
A328				
A329				
A330				
A331				
A332				
A333				
A334				

In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement results from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)

Was the documentation of the foregoing considerations in accordance with firm policy?

During the performance of the engagement, did the auditor:

Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)

Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)

Has the auditor evaluated the reasonableness of significant accounting estimates made by management?⁽¹⁾
(AU Sec. 342)

Did the auditor obtain a timely and appropriate letter of representations from management?
(AU Sec. 333.01)

Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments? (AU Sec. 337.06)

Have all questions, exceptions, or notes posed during the audit been followed up and resolved?

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period?
(AU Sec. 312.27 and .30)

QUES.	N/A	YES	NO	REF.
A335				
A336				
A337				
A338				
A339				
A340				
A341				
A342				
A343				

⁽¹⁾ The auditor has this responsibility under AU Sec. 326 and is given more specific guidance in AU Sec. 342.

During the performance of the engagement, did the auditor:

Follow up on errors and irregularities in accordance with professional standards?
(AU Sec. 316.24-.29)

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations?
(AU Sec. 316.25)

Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)

When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:

Follow up on the illegal acts in accordance with professional standards? (AU Secs. 316.24-.28 and 317.10)

Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)

Communicate directly with the audit committee if the illegal act involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor's attention were adequately communicated? (AU Sec. 317.17)

Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?
(AU Sec. 341.02)

If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))

QUES.	N/A	YES	NO	REF.
A344				
A345				
A346				
A347				
A348				
A349				
A350				
A351				

If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of possible effects, and any mitigating factors, including management's plans? (AU Sec. 341.11)

If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph that adequately communicated the auditor's substantial doubt (i.e., included the terms "substantial doubt" and "going concern")? (AU Sec. 341)

During the performance of the audit:

If the auditor identified reportable conditions, were they communicated to the audit committee, management and others within the organization on a timely basis (if the communication was oral, was it documented in the working papers)? (AU Sec. 325.09)

Do the auditor's conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)

If a report was issued on reportable conditions, did it indicate the purpose of the audit, include the definition of reportable conditions, and include a restriction on distribution? (AU Sec. 325.11)

If the auditor issued a letter that did not include reportable conditions, did it not represent that there were no reportable conditions? (AU Sec. 325.17)

If the auditor was engaged to prepare or perform procedures on interim financial information filed with a specified regulatory agency and the auditor became aware of matters that caused the auditor to believe such information was probably materially misstated as a result of a departure from generally accepted accounting principles, did the auditor:

Discuss the matter with the appropriate level of management? (AU Sec. 722.20)

Timely inform the audit committee or others with equivalent authority and responsibility, if management did not respond appropriately or timely? (AU Sec. 722.21)

QUES.	N/A	YES	NO	REF.
A352				
A353				
A354				
A355				
A356				
A357				
A358				
A359				

Evaluate whether to resign or remain as the client's auditor, if the audit committee did not respond appropriately or timely?
(AU Sec. 722.22)

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?
(AU Sec. 561)

If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)

Where there is a formal oversight committee or the client is an SEC engagement, did the auditor:

Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process?
(AU Sec. 380.01-.02)

If the communication was in writing, include a statement that it was intended solely for the use of the audit committee or the board of directors, and if appropriate, management? (AU Sec. 380.03)

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?
(AU Sec. 380.03)

QUES.	N/A	YES	NO	REF.
A360				
A361				
A362				
A363				
A364				
A365				

III. Working Paper Areas*

Note: In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a *key area* for that engagement, the reviewer should place an "X" in the box next to the name of the working paper area. [As indicated on page 14404, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" next to the area.]

Cash Not a key area

Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period?

Do the working papers indicate that the following were considered:

Confirmation of cash balances?

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

Based on the assessment of control risk, do the substantive tests of cash appear adequate?
(AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A401				
A402				
A403				
A404				
A405				
A406				
A407				

* Complete only the sections for the key audit areas selected for review.

Receivables Not a key area

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures? (AU Sec. 330.24-.30)

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed? (AU Sec. 330.32)

Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers? (AU Sec. 330.33)

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were adequate tests of discounts and allowances made?

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)

Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?

Was receivable work coordinated with the tests of revenue, including cutoff tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

QUES.	N/A	YES	NO	REF.
A408				
A409				
A410				
A411				
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A416				
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A418				

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loan's expected future cash flows discounted at the loan's effective interest rate or at the observable market price or the fair value of the collateral if the loan is collateral dependent? (FAS No. 114 par. 13)

Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)

Inventories Not a key area

Where the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory transactions between the inventory date(s) and the balance sheet date? (AU Sec. 313.08-.09)

Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the counts reflected in the final inventory)? (AU Sec. 331.09)

Were physical inventories observed at all locations where material amounts are located?

Where physical inventory in the hands of others was not observed, were inventory confirmations received [i.e., inventory in public warehouses (AU Sec. 331.14), on consignment, etc.]?

If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the accounts?

Do the working papers indicate that there were adequate tests of:

The clerical accuracy of the inventory?

QUES.	N/A	YES	NO	REF.
A419				
A420				
A421				
A422				
A423				
A424				
A425				
A426				

Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO?

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Were inquiries concerning purchase and sales commitments made, including consideration of any possible adverse effects?

Were appropriate inventory cut-off tests performed?

Where applicable, were analytical procedures employed to check the overall valuation of inventories?

Do the working papers indicate that steps were performed to determine if any inventory is pledged?

Based on the assessment of control risk, do the substantive tests of inventory appear adequate?
(AU Sec. 319)

Investments Not a key area

Was a summary schedule prepared (or obtained) and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc. of investments?

Were securities either examined or confirmed?
(AU Sec. 332.04)

Was the computation of realized gains and losses tested by the auditor?

Do the working papers reflect that consideration was given to the appropriateness of the carrying values of securities and their classification?

Was an investigation of the possible impairment of the carrying value of long-term investments made?
(AU Sec. 332.03)

QUES.	N/A	YES	NO	REF.
A427				
A428				
A429				
A430				
A431				
A432				
A433				
A434				
A435				
A436				
A437				
A438				
A439				
A440				

Do the working papers reflect that consideration was given to whether investments were pledged, restricted, or had limitations on their immediate use?

For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the note disclosures made?

(AU Sec. 332.07-.08 and .15)

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?

Based on the assessment of control risk, do the substantive tests of investments appear adequate?

(AU Sec. 319)

Prepaid Expenses, Intangible Assets,
Deferred Charges, etc. Not a key area

Were adequate tests made for all material:

Prepaid expenses?

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

Were reviews made of the continuing value of goodwill and other intangible assets?

If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether the accounting for the related loans was appropriate?

Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate?

(AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A441				
A442				
A443				
A444				
A445				
A446				
A447				
A448				
A449				
A450				
A451				
A452				

Property, Plant and Equipment Not a key area

Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

Accumulated depreciation?

Do the tests appear adequate and were proper conclusions drawn with respect to:

Additions (e.g., by examining supporting documents and/or physical inspection)?

Retirements, etc. (including examining miscellaneous income, scrap sales)?

The adequacy of the current and accumulated provisions for depreciation and depletion?

Status of idle facilities?

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)

Liabilities Not a key area

Were accounts payable adequately tested for propriety?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was the payables work coordinated with the testing of the purchases cut-off?

Was consideration given to expenses that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated? (AC Secs. P16, C44, P40 and FAS No. 112, par. 6)

QUES.	N/A	YES	NO	REF.
A453				
A454				
A455				
A456				
A457				
A458				
A459				
A460				
A461				
A462				
A463				
A464				

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures performed?

Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rate?

Is there evidence that the company's complying with the covenants in its debt obligations?

Based on the assessment of control risk, do the substantive tests of liabilities appear adequate?
(AU Sec. 319)

Deferred Credits Not a key area

Do the working papers indicate that:

The basis of deferring income is reasonable and consistent from year to year?

Deferrals have been established on a reasonable basis?

Income Taxes Not a key area

Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures performed?

Were adequate auditing procedures performed regarding the adequacy of the valuation allowance related to any deferred tax assets?

Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:

Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?

QUES.	N/A	YES	NO	REF.
A465				
A466				
A467				
A468				
A469				
A470				
A471				
A472				
A473				

Possible assessments, penalties or interest including similar adjustments applicable to years not yet examined?

Based upon the review of the financial statements and working papers, and if necessary, discussions with engagement personnel, does it appear as though substantive tax matters applicable to this engagement were given adequate consideration?

Commitments and Contingencies Not a key area

Do the working papers include indication of the following:

Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?

Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiries of and discussions with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 337.05 and 333)

Procedures regarding other contingent liabilities (such as buy/sell agreements) or guarantees?

Were procedures performed to determine whether events subsequent to the date of the financial statements should be recorded or disclosed? (AU Sec. 560.10-.12)

Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)

Capital Accounts Not a key area

Were changes in capitalization checked to authorizations?

QUES.	N/A	YES	NO	REF.
A474				
A475				
A476				
A477				
A478				
A479				
A480				
A481				
A482				
A483				

Do the working papers indicate that there were adequate inquiries about stock options, warrants, rights, redemptions and conversion privileges?

Based on the assessment of control risk, do the substantive tests of the capital accounts appear adequate? (AU Sec. 319)

Income and Expenses Not a key area

Were tests of payrolls, including account distribution, made, where appropriate?

Do the tests of the pension and profit sharing (including the effects of ERISA), expenses and liabilities appear adequate? (AC Sec. P16)

Were revenue and expenses for the period compared to the budget and the preceding period and reviewed for reasonableness and were significant variances and fluctuations explained? (AU Sec. 329)

Was adequate consideration given to:

The client's revenue recognition policy? (AU Sec. A10.105)

Income recognition on transactions where the earnings process was not complete?

Unusual sales transactions?

Income recognition when the right of return exists? (AC Sec. R75.105-.109)

Based on the assessment of control risk, did the substantive tests (review, analysis, and detailed testing) of revenue and expenses appear adequate? (AU Sec. 319)

Other Not a key area

Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for?

Were appropriate procedures applied to supplemental information? (AU Sec. 551.06 and .08)

QUES.	N/A	YES	NO	REF.
A484				
A485				
A486				
A487				
A488				
A489				
A490				
A491				
A492				
A493				
A494				
A495				

Review of Interim Financial Information:

Were appropriate procedures performed?
(AU Sec. 722.12-.19)

If required by firm policy, was a checklist containing the procedures used?

If the work of a specialist was used, did the auditor apply the guidance in professional standards?
(AU Sec. 336.05-.12)

Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)

If consolidated statements are presented:

Have intercompany balances and transactions been eliminated? (AC Sec. C51.109)

If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effects of intervening events that materially affect financial position or results of operations? (AC Sec. C51.107)

Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion?

Was appropriate consideration given to the accounting for (including the disclosure of) futures, forwards, and standby contracts?

If FAS No. 116 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), did the auditor determine whether:

Contributions made were recognized as expenses in the period made and measured at the fair values of the assets given or, if made in the form of a settlement or cancellation of a donee's liabilities, at the fair value of the liabilities cancelled?
(FAS No. 116, par. 18)

QUES.	N/A	YES	NO	REF.
A496				
A497				
A498				
A499				
A500				
A501				
A502				
A503				
A504				

IV. Functional Areas

Independence
(QC Sec. 10.07a)

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered?
(ET Sec. 101)

Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)

Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)

For non-SEC clients, were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement?
(ET Sec. 191.103-.104)

For SEC clients, if the fees (billed/unbilled) for the prior years' services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?

Assigning Personnel to Engagements
(QC Sec. 10.07b)

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?
(QC Sec. 90.12)

QUES.	N/A	YES	NO	REF.
A601				
A602				
A603				
A604				
A605				
A606				
A607				

Consultation
(QC Sec. 10.07c)

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)

Does it appear that hours charged by the partner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

QUES.	N/A	YES	NO	REF.
A608				
A609				
A610				
A611				
A612				
A613				
A614				
A615				
A616				

Review of internal control structure:

Manual system?

EDP system?

Audit work programs?

Financial statement disclosures?

Working paper and financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm's guidelines for the form and content of audit working papers complied with?

If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas?
(AU Sec. 311.10)

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?
(QC Sec. 90.24)

QUES.	N/A	YES	NO	REF.
A617				
A618				
A619				
A620				
A621				
A622				
A623				
A624				
A625				
A626				
A627				

14442

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
A628				

V. Audits of SEC Engagements

(As defined in SECPS §1000.38 of the *SECPS Reference Manual*)

If required by firm policy, was an SEC checklist or other specialized checklist used?

Were the disclosures required by SEC Regulation S-X appropriate?

Did the auditor, prior to consenting to the inclusion of his or her report in a registration statement (including when a form 10-K is incorporated by reference into a previously filed registration statement)

Obtain and read the document containing the audited financial statements? (AU Sec. 711)

Inquire of and obtain written representations from management about whether any events had occurred that had a material effect on the audited financial statements or that should have been disclosed to keep those financial statements from being misleading? (AU Sec. 711)

Perform the procedures described in AU 560.12?

Was a concurring review by a partner other than the audit partner in charge of the engagement conducted prior to the issuance of the report, in conformity with the firm's requirements? (SECPS Sec. 1000.08f)

If a concurring partner review was performed:

Was the review conducted by a partner with sufficient technical expertise and experience? (SECPS Sec. 1000.38(1a))

Were the nature, extent, and timing of the review procedures adequate in the circumstances? (SECPS Sec. 1000.38(1b))

Did the engagement files contain evidence that the firm's policies and procedures for the concurring review were complied with? (SECPS Sec. 1000.38(1c))

Was the concurring partner review effective?

QUES.	N/A	YES	NO	REF.
A701				
A702				
A703				
A704				
A705				
A706				
A707				
A708				
A709				
A710				

If a comfort letter to an underwriter was issued, is it in accordance with professional standards?
(AU Sec. 634)

Have letters of comments or oral comments received from the SEC or other regulatory agencies been appropriately considered?

Has there been rotation of the audit partner in charge of the engagement in conformity with the requirements of the SEC Practice Section?
(SECPS Sec. 1000.08e)

If management advisory services were performed during the year under audit, was the firm in compliance with the Section's requirements:

Proscribing the performance of certain management advisory services? (SECPS Sec. 1000.08h)

Requiring an annual report to the audit committee or board of directors of the client, describing the types of such services rendered and the amount of the related fees received? (Such matters may be reported orally; if so, is the communication documented in the working papers?)
(SECPS Sec. 1000.08i)

If the client-auditor relationship with an SEC registrant subsequently ceased, was the Office of the Chief Accountant of the SEC notified within 5 business days, in conformity with the requirements of the SEC Practice Section? (SECPS Sec. 1000.08m)

QUES.	N/A	YES	NO	REF.
A711				
A712				
A713				
A714				
A715				
A716				

VI. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments *</u>
------------------------	----------------------------	-----------------------------	--------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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VII. Conclusions

Explain Below the Reasons for Any "Yes" Answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe that:

- | | | |
|--|------------|----------|
| 1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202)? | YES* _____ | NO _____ |
| 2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? | YES* _____ | NO _____ |
| 3. The auditor's report was not appropriate in the circumstances? | YES* _____ | NO _____ |
| 4. The documentation on this engagement does not support the firm's opinion on the financial statements? | YES _____ | NO _____ |
| 5. The firm did not comply with its policies and procedures on this engagement in all material respects? | YES _____ | NO _____ |

* If this question is answered "yes," see additional guidance contained on pages SECPS §2000.77–.83 of the *SECPS Reference Manual* and PCPS §2000.69–.76 of the *PCPS Reference Manual*.

PRM
14500

Audit Engagements
Supplements

AICPA DIVISION FOR CPA FIRMS

SUPPLEMENTAL CHECKLISTS

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As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Supplemental Checklist for Review of Depository Institution Audit Engagements
(i.e., Banks, Savings Institutions)***

(For Peer Reviews Beginning on or after April 1, 1994)

This checklist is designed for the review of audits of the financial statements of depository institutions insured by the Federal Deposit Insurance Corporation through its Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF). However, it may also be used as a supplement to the general checklist for the review of audit engagements of other depository institutions. Where applicable specific industry guides should be consulted.

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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**Instructions for Use of the Supplemental Checklist
for Review of Depository Institution Audit Engagements**

This supplemental checklist was developed for use by reviewers of depository institution audit engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist) and other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (201)938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of the financial statements of a depository institution. All "No" answers must be thoroughly explained in Section VI of the audit checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to the financial statements of depository institutions. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate depository institution engagements. These additional materials include the AICPA Financial Accounting and Reporting Practice Aids *Checklist and Illustrative Financial Statements for Banks, Checklist and Illustrative Financial Statements for Savings Institutions* or other similarly comprehensive disclosure materials, the AICPA Industry Audit Guide *Audits of Banks*, the AICPA Audit and Accounting Guide *Audits of Savings Institutions* and the AICPA Auditing Procedure Study *Auditing the Allowance for Credit Losses of Banks*.

This is part of a series of supplemental checklists which the Institute has developed to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AAG	AICPA Audit and Accounting Guide <i>Audits of Savings Institutions</i> as of May 1, 1992 (for depository institutions insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation)
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force Consensus
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol.2)
IAG	AICPA Industry Audit Guide <i>Audits of Banks</i> as of May 1, 1992 (for depository institutions insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation)
SOP	AICPA Statement of Position

14510.4

SX Securities and Exchange Commission Regulation S-X
FAS Financial Accounting Standards Board Pronouncement
FDICIA Federal Deposit Insurance Corporation Improvement Act

**SUPPLEMENTAL CHECKLIST FOR REVIEW OF
DEPOSITORY INSTITUTION AUDIT ENGAGEMENTS**

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⁽¹⁾ Refer to the AICPA Accounting and Financial Reporting Practice Aids *Checklists and Illustrative Financial Statements for Banks, Checklists and Illustrative Financial Statements for Savings Institutions* or other similarly comprehensive materials, the AICPA Industry Audit Guide *Audits of Banks* and the AICPA Audit and Accounting Guide *Audits of Savings Institutions* (see instructions on 14510.3).

⁽²⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements*.

⁽³⁾ Refer to the AICPA Industry Audit Guide *Audits of Banks*, the AICPA Audit and Accounting Guide *Audits of Savings Institutions* and the AICPA Auditing Procedure Study *Auditing the Allowance for Credit Losses of Banks* (see instructions on 14510.3).

I. Report and Financial Statements

Financial Statements and Notes

Is the presentation appropriate and disclosure adequate regarding:

Cash and Due From Banks? (IAG Ch. 4, pars. 11 and 12)

Loans by category (IAG, Ch. 7, pars. 43-50 and AAG, Ch. 6, pars. 72 and 73):

Commercial?

Real Estate?

Consumer and other loans?

Allowance for loan and credit losses (shown as a deduction from loans and lease receivables; disclose the method of providing reserves and a reconciliation of the balance)? (IAG, Ch. 7, and Ch. 8 and AAG, Ch. 7, pars. 3-10)

Loans on nonaccrual basis and the effect of such loans on income? (IAG, Ch. 7, par. 45)

Domestic and foreign deposits (separately shown and disclosing interest or non-interest-bearing portions, amounts and maturities of certificates of deposit of \$100,000 or greater, large concentrations and related parties)? (IAG, Ch. 12, pars. 17 - 18 and AAG, Ch. 13, par. 26)

Federal fund purchases, securities sold under repurchase agreements and other short-term borrowings (presented at gross amounts)? (IAG, Ch. 9, par. 9 and AAG, Ch. 3, par. 23)

Exclusion of trust assets? (IAG, Ch. 18)

Material interest-bearing deposits in other depository institutions (separately disclosed)? (IAG, Ch. 4, pars. 11 and 12 and AAG, Ch. 10, par. 2)

Federal funds sold and securities purchased under resale agreements (presented at gross amounts)? (IAG, Ch. 9, par. 9 and AAG, Ch. 3, par. 23)

Trading assets and related futures contracts? (IAG, Ch. 6, pars. 12 and 13 and AAG, Ch. 16, pars. 65-84)

Mortgage loans and mortgage-backed securities held for sale? (AC, Sec. Mo4.129-.131 and AAG, Ch. 4, pars. 17-23)

	QUES.	N/A	YES	NO	REF.
B101					
B102					
B103					
B104					
B105					
B106					
B107					
B108					
B109					
B110					
B111					
B112					
B113					

QUES. N/A YES NO REF.

Investment securities (disclosed separately) at the aggregate carrying value, gross unrealized gains, gross unrealized losses and market value? (IAG, Ch. 5, pars. 25-30 and Appendix I and AAG, Ch. 3, pars. 4-35)

B114

Loan commitments and unused lines of credit for short term financing? (IAG, Ch. 22, pars. 23-25 and AAG, Ch. 6, par. 53)

B115

Amount of bank acceptances (separately stated)? (IAG, Ch. 14)

B116

"Other" assets or liabilities that individually exceed 30% of stockholders' equity (separately stated), if applicable? (Reg. S-X 9-03.10)

B117

For financial instruments with off-balance-sheet risks of accounting loss and off-balance-sheet credit risk (i.e., outstanding loan commitments written, standby and commercial letters of credit written, financial guarantees written, recourse obligations on receivables sold, etc.) have the following been disclosed (AC Sec. F25.103):

The face or contract amount? The nature and terms of the instrument (including credit and market risk)? (AC Sec. F25.112)

B118

For instruments with off-balance-sheet credit risk; the potential loss for failure to perform completely, and policies and information regarding collateral requirements? (AC Sec. F25.113)

B119

For group concentrations of credit risk of all financial instruments; information about the shared activity, region, or other characteristics; exposure to loss for the group; policies regarding the requirement and the nature of existing collateral for the group? (AC Sec. F25.115)

B120

Has the client disclosed all significant regulatory supervisory agreements, orders or other regulatory actions? (AC Sec. C59 and AU Sec. 341)

B121

Did the engagement team consider the adequacy of disclosure of related party transactions, including (AU Sec. 334 and AC Sec. R36):

Loans to insiders and affiliates?

B122

Fees or commissions paid to officers and directors, or their affiliates?

B123

Purchases of goods or services from or contracts with officers and directors or their affiliates, or with other such arrangements?

If applicable, were financial instruments for which it is practicable to estimate a fair value disclosed (AC Sec. F25):

Fair value of the financial instrument?

Method(s) and significant assumptions used to estimate the fair value?

If applicable, were financial instruments for which it is not practicable to estimate a fair value disclosed (AC Sec. F25):

Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?

The reasons why it is not practicable to estimate fair value?

For fiscal years beginning after December 31, 1992, if applicable, has the institution complied with the reporting provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA Sec. 112):

Has an attestation report been issued on management's assessment of the effectiveness of the institution's internal control structure and procedures for financial reporting? (FDICIA Sec. 363.2(a))

Has an agreed-upon procedures attestation report been issued relative to management's compliance with designated laws and regulations? (FDICIA Sec. 363.2(a))

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) have the following been disclosed:

The recorded investment in impaired loans and the total allowance for credit losses related to impaired loans?

	QUES.	N/A	YES	NO	REF.
	B124				
	B125				
	B126				
	B127				
	B128				
	B129				
	B130				
	B131				
	B132				
	B133				

The activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off?

The creditor's income recognition policies in accordance with FAS No. 114 par. 17(a) or (b). If method in par. 17(a) is used, was the amount of interest income recognized disclosed?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or early application of the statement) were fair value disclosures presented for certain debt and equity investments? (FAS No. 115 pars. 19-22)

QUES. N/A YES NO REF.

QUES.	N/A	YES	NO	REF.
B134				
B135				
B136				

II. Working Paper Areas—Depository Institutions

General
 (IAG, Ch. 2 and AAG, Ch. 2)

Do the engagement planning and audit working papers consider apparent fraud and insider abuse and the results of inquiries, readings, changes in the economy and concentration of risks, excerpts or other evidence of an understanding of regulatory examinations, their findings and actions?

Did the engagement team consider the institution’s system to control risks associated with violations of regulations and evaluate any known violations with reference to the following:

Bank Secrecy Act?

Legal lending limit regulations and interest rates charged?

Affiliated party transaction regulations?

Current minimum capital ratio requirements?

Did the independent auditor review reports of significant examinations and related communications between examiners and the financial institution and, when appropriate, make inquiries of the examiners? (SOP 90-5 and IAG, Ch. 2, pars. 31-33)

Did the independent auditor’s evaluation of the client’s ability to remain a going concern consider the effects of provisions of the FDICIA that affect the client’s liquidity introducing limitations on:

Acceptance of brokered deposits?

The availability of borrowings through the Federal Reserve discount window?

Exposure to the client posed by transactions with correspondent banks and related interbank liabilities?

Did the engagement team consider independence issues related to loans from the client? (ET Sec. 101.1-1.A.4)

QUES.	N/A	YES	NO	REF.
B301				
B302				
B303				
B304				
B305				
B306				
B307				
B308				
B309				
B310				

Do the working papers indicate that events of noncompliance or expected noncompliance with regulatory requirements—including capital standards—were considered in the auditor’s evaluation of the client’s ability to continue as a going concern? (AU Sec. 341)

If the client uses service bureaus for processing significant information (for example, mortgage servicing, general ledger and trial balances, loan deposit or credit card transactions or investment information), do the working papers indicate that the engagement team considered the effect on the internal control structure and the assessment of control risk? (AU Sec. 324)

Do the working papers indicate that the audit team considered the client’s classification of investment securities according to the client’s intent for those securities, and given any turnover in the investment portfolio? (IAG, Ch. 5, par. 6 and AAG, Ch. 3, par. 28)

Do the working papers indicate that the practitioner considered the client’s evaluation of impairments in the value of investment securities where such impairments are considered "other than temporary?" (SEC Staff Accounting Bulletin No. 59 for publicly-held depository institutions)

Was the agreed-upon procedures engagement, relative to management’s assessment of the effectiveness of the institution’s internal control structure and procedures for financial reporting, conducted in accordance with Statements on Standards for Attestation engagements?

Were agreed-upon procedures relative to management’s assertion about compliance with designated laws performed in accordance with FDICIA guidelines relative to (FDICIA Appendix A to 12 CFR part 363):

Loans to insiders?

Dividend restrictions?

If the client-auditor relationship with an FDIC insured depository institution has subsequently ceased, has a notice of termination been properly filed within 15 days with the FDIC? (FDICIA Sec. 36)

Has the firm submitted its peer review report as required by the FDICIA guidelines?

QUES.	N/A	YES	NO	REF.
B311				
B312				
B313				
B314				
B315				
B316				
B317				
B318				
B319				
B320				

Loans

(IAG, Ch. 7 and Ch. 8 and AAG, Ch. 6 and Ch. 7)

Did the loan evaluation consider or include:

Lending policies and procedures, including control over loan file documentation and maintenance?

The qualifications of the loan officers?

The effectiveness of the internal audit and loan review programs?

The results of prior years' examinations and industry statistics?

Loan loss experience and charge-off policy?

The relative degrees of risk inherent by type of loan; considering, for example, if loans are unsecured, associated with depressed areas or industries, highly concentrated and exposed to political, geographic or economic risks?

Participations purchased or sold?

Overdrafts?

Classification of loans as performing or nonperforming?

Criteria for and controls over returning loans to accrual status?

Application of cash payments from troubled loans?

Related party transactions?

The extent to which loan renewals and extensions are used to maintain loans on a current basis?

Appraisals obtained on foreclosed real estate, including the qualifications, independence and findings of the appraisers?

The use of watch lists, delinquency reports and other sources of potential problems including troubled debt restructurings and in-substance foreclosures?

QUES.	N/A	YES	NO	REF.
B321				
B322				
B323				
B324				
B325				
B326				
B327				
B328				
B329				
B330				
B331				
B332				
B333				
B334				
B335				

Did the work include the review of individual loan files including borrowers' financial statements, evidence of collateral and cash flow information?

Did the work include a determination of whether or not the entity had entered into acquisition, development or construction (ADC) arrangements and that such arrangements were appropriately accounted for?

In the loan area has the audit team given adequate consideration to:

Testing executed notes, loan applications, financial statements of borrowers, chattels and recording of chattels, other credit information and approvals?

And provide evidence of the institution's compliance with the requirements of AC Sec. 125 (FAS No. 91)—Accounting for Nonrefundable Fees and Costs Associated with Origination of Acquiring Loans and Initial Direct Cost of Leases in the engagement working papers?

Confirmation with customers?

Proper accounting recognition of unearned income, interest income, points, recognition of acquisition and other fees and requirements of AC Sec. 125 (FAS No. 91)?

Were audit procedures performed to test accrued interest receivable, unearned discount and interest income on sample groups of loans? (IAG, Ch. 7, par. 58)

The relationship of the total interest income yield for all major loan categories, calculated through the comparison of total interest income to average loan balance, to interest rates in effect for the period?

If negative confirmation requests were used in confirmation of cash, accounts receivable, investments, loans, deposit account balances or other assets or liabilities, do the working papers indicate that (AU Sec. 330):

The combined assessed level of inherent and control risk is low?

A large number of small balances is involved?

QUES.	N/A	YES	NO	REF.
B336				
B337				
B338				
B339				
B340				
B341				
B342				
B343				
B344				
B345				

and,

The practitioner has no reason to believe that the recipients of the requests are unlikely to give them consideration?

If loan servicing assets are significant to the client, do the working papers, document that the engagement team evaluated management's estimates of historical and future prepayments? (AU Sec. 342)

If the client has transferred receivables with recourse, did the obligations recorded under the recourse provisions include all probable credit losses? (EITF 92-2)

Was an appropriate evaluation of the adequacy of the allowance for loan losses and the selection of loans to be evaluated, documented and then performed?

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) was a loan loss reserve for impaired loans recorded in accordance with the provisions of this statement?

Real Estate and Other Assets

(IAG, Ch. 11 and Appendix J and AAG, Ch. 9)

If real estate or other assets acquired through foreclosure are significant to the client, were:

Carrying values properly recorded, classified, and disclosed in the financial statements? (SOP 92-3)

Continuing carrying values assessed, including those for in-substance foreclosures?

Loans restructured by the client properly recorded under the principles of AC Sec. D22? (FAS No. 15)

Were sales of foreclosed real estate and other assets financed by the institution tested for proper accounting treatment? (SOP 92-3 and FAS No. 66)

QUES.	N/A	YES	NO	REF.
B346				
B347				
B348				
B349				
B350				
B351				
B352				
B353				
B354				

Deposits
(IAG, Ch. 12)

Were appropriate audit procedures performed to test the underlying balances of the subsidiary deposit records with the general ledger control accounts? (IAG, Ch. 12, par. 21)

Were deposit accounts confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330 and IAG, Ch. 12, pars. 25-28)

Was accrued interest payable, interest expense and service charge income tested in connection with the audit of deposits? (IAG, Ch. 12, par. 29)

Based on the assessment of control risk, do the substantive tests of deposit accounts appear reasonable? (AU Sec. 319)

Was the relationship of the total interest expense yield for all major deposit categories, calculated through the comparison of total interest expense to average deposit balances, to interest rates in effect for the period? (IAG, Ch. 12, par. 29)

Directors' Examinations
(IAG, Appendix C)

Procedures may be limited in a directors' examination; therefore, were the following considered:

Clearly setting forth in the engagement letter, in advance, the nature and extent of procedures?

State regulations and requirements in the determination of the engagement scope?

Compliance with the provisions of AU Sec. 622 (SAS No. 35), if the examination consisted of performing certain agreed-upon procedures?

QUES.	N/A	YES	NO	REF.
B355				
B356				
B357				
B358				
B359				
B360				
B361				
B362				

Bank Trust Operations
(IAG, Ch. 18)

Were the audit procedures directed to uncover the existence of contingent liabilities arising from trust department operations and the bank's fiduciary responsibilities?

QUES.	N/A	YES	NO	REF.
B363				

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Supplemental Checklist for Review of
Voluntary Health and Welfare Organizations Engagements***

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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**Instructions for Use of the Supplemental Checklist
for Review of Voluntary Health and Welfare Organizations Engagements**

This supplemental checklist was developed for use by reviewers of Voluntary Health and Welfare Organizations engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements of Not-for-Profit Organizations* (audit checklist) or if appropriate the *General Compilation Engagement Checklist* (Compilation checklist) or the *General Review Engagement Checklist* (Review checklist) and other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Voluntary Health and Welfare Organizations. However, when completing section II, "Working Paper Areas," some questions may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

If the entity chose the early adoption of either FAS No. 116 ("Accounting for Contributions Received and Contributions Made") or FAS No. 117 ("Financial Statements of Not-for-Profit Organizations"), the reviewer may need to consult the actual FASB releases for guidance.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Voluntary Health and Welfare Organizations. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate voluntary health and welfare organization engagements. These additional materials include the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

14520.4

Explanation of References:

- AC Reference to section number in *FASB Accounting Standards Current Text*
- AU Reference to section number in *AICPA Professional Standards* (vol. 1)
- FAS Statement of Financial Accounting Standards
- SOP AICPA Statement of Position
- VHW AICPA Audit and Accounting Guide *Audits of Voluntary Health and Welfare Organizations* (as of May 1, 1993)

**SUPPLEMENTAL CHECKLIST FOR REVIEW OF VOLUNTARY HEALTH AND WELFARE
ORGANIZATIONS ENGAGEMENTS**

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II. Working Paper Areas—Voluntary Health and Welfare Organizations ⁽¹⁾	
(Supplement to Section IV of the <i>Checklist for Review of Audit Engagements of Not-For-Profit Organizations</i>) ⁽²⁾	
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Land, Building and Equipment	14520.9
Cash Donations and Pledges	14520.9
Donated Material	14520.10
Donated Services	14520.10
Program and Supporting Services	14520.11

⁽¹⁾ Refer to the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (see instructions on 14520.3).

⁽²⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements of Not-For-Profit Organizations* or the appropriate section of the compilation or review checklist.

I. Report and Financial Statements

Financial Statements and Notes

Is the presentation appropriate and disclosure adequate regarding:

Does the balance sheet show the unrestricted fund and the various types of restricted funds that have been established in response to donor or grantor restrictions?

Do the financial statements contain a statement of functional expenses in support of the total program and supporting services expenses for the period?

Unconditional promises to contribute receivable that is to be collected within one year, in one to five years, in more than five years, and the amount of the allowance for uncollected contributions receivable?
(FAS No. 116 par. 24)⁽³⁾

The total amount conditionally promised to contribute, a description and amount for each group of promises having similar characteristics such as amounts promised conditioned on establishing new programs or completing a new building? (FAS No. 116, par. 25)

Is there separate disclosure on the costs of program services, management and general activities and fund-raising efforts? (VHW, Ch. 6, par. 3)

Is there disclosure of the methods used by the organization in valuing, recording and reporting donated or contributed services including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period?
(VHW, Ch. 5, par. 7)

QUES.	N/A	YES	NO	REF.
VH101				
VH102				
VH103				
VH104				
VH105				
VH106				

⁽³⁾ If FAS No. 116 was applicable to this engagement whether as a result of the FAS's effective date for annual financial statements issued for fiscal years beginning after Dec. 31, 1994 and interim periods within these fiscal years, except for not-for-profit organizations with less than \$5 million in total assets and less than \$1 million in annual expenses, for which the effective date is December 15, 1995, or if early application of the FAS was elected.

Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities?

(VHW, Ch. 6, par. 17)

Is the total support from fund-raising efforts disclosed?

(VHW, Ch. 6, par. 13)

Is the total cost of all fund-raising activities disclosed?

(VHW, Ch. 6, par. 13)

QUES.	N/A	YES	NO	REF.
VH107				
VH108				
VH109				

II. Working Paper Areas—Voluntary Health and Welfare Organizations⁽⁴⁾

General

If reporting on a consolidated financial statement, and if one or more affiliated entities were examined by other independent auditors, was consideration given to AU Sec. 543, Part of Audit Performed by Other Auditors? (VHW, Ch. 7, par. 10)

If auditing a controlled affiliate of a national organization, was written representation obtained from the officers of the national organization that all transactions with its controlled affiliate have been recorded or reported to the independent auditor? (VHW, Ch. 7, par. 11)

Fund Accounting

Were the unrestricted resources of the organization used in accordance with its by laws and stated purposes and actions of its governing board? (VHW, Ch. 1, par. 15)

Were all restricted gifts or grants properly segregated and used in accordance with the restrictions imposed by the donor or grantor, and were all restricted funds clearly reported as such? (VHW, Ch. 1, par. 15)

Investments

Have investment gains (or losses) been recorded in the appropriate fund? (VHW, Ch. 2, par. 17)

If investments are carried at market value, is the unrealized appreciation or depreciation in investments at the beginning and end of the year disclosed? (VHW, Ch. 2, par. 4)

QUES.	N/A	YES	NO	REF.
VH301				
VH302				
VH303				
VH304				
VH305				
VH306				

⁽⁴⁾ Some questions in this section may not apply to compilation and review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

Were restrictions made by the donor or grantor in regards to investment income complied with? (VHW, Ch. 2, par. 17)

If investments were pooled:

Were tests performed on the calculations in determining equity percentages of the various funds used in making additions to or distributions from the pool and in allocating income and realized gains and losses to the participating funds? (VHW, Ch. 2, par. 17)

Was consideration given to any legal instruments that prescribe the nature of the investment policy to be followed or that restrict or prevent the assets or certain funds from being pooled for investment purposes? (VHW, Ch. 2, par. 17)

Land, Building and Equipment

Are fixed assets recorded in a separate plant fund? (VHW, Ch. 3, par. 1)

Are all tangible assets being depreciated in accordance with professional standards? (AC, Sec. D40)

Were donated fixed assets recorded at the fair value at the date of the gift? (VHW, Ch. 3, par. 3)

Has consideration been given to restrictions placed on donated assets by the organization? (VHW, Ch. 3, par. 4)

Cash Donations and Pledges

Have procedures been performed to obtain satisfaction that the amounts reported as contributions are fairly stated? (VHW, Ch. 4, par. 14)

Has the auditor considered whether the internal control procedures relating to voluntary contributions are appropriate in the circumstances and are operating effectively? (VHW, Ch. 4, par. 15)?

If the auditor was not satisfied that all contributions have been received and recorded was a qualified opinion or disclaimer issued on the financial statements? (VHW, Ch. 4, par. 15)

QUES.	N/A	YES	NO	REF.
VH307				
VH308				
VH309				
VH310				
VH311				
VH312				
VH313				
VH314				
VH315				
VH316				

Pledges receivable -

Has pledges receivable been reviewed for both age and collectibility? (VHW, Ch. 4, par. 16)

Was an allowance for uncollectible pledges considered? (VHW, Ch. 4, par. 16)

Were pledges receivable either capitalized retroactively for amounts acquired in previous periods or capitalized on a prospective basis? (FAS No. 116, par. 12)

Donated Material

Was the basis of valuation of donated material reviewed? (VHW, Ch. 5, par. 10)

Was a comparison of contributions and expenditures of materials made with budget or prior years or similar test performed? (VHW, Ch. 5, par. 10)

If significant donated materials are received from relatively few sources, was consideration given to confirming with the donors? (VHW, Ch. 5, par. 10)

Donated Services

Were contributions of services tested to verify that the services received (a) created or enhanced nonfinancial assets or (b) require specialized skills, and provided by individuals possessing these skills and would need to be purchased, if not provided by donation? (FAS No. 116, par. 9)

Was a review on a test basis of the time records or other evidence performed? (VHW, Ch. 5, par. 12)

Was a reasonableness test performed on the valuation of such services in comparison to local labor market conditions? (VHW, Ch. 5, par. 12)

QUES.	N/A	YES	NO	REF.
VH317				
VH318				
VH319				
VH320				
VH321				
VH322				
VH323				
VH324				
VH325				

Program and Supporting Services

Were expenditures tested (or was the system evaluated) to determine whether all expenditures are recorded in the proper period and program?
(VHW, Ch. 6, par. 21)

Has the method of allocating expenses by function been reviewed for reasonableness?
(VHW, Ch. 6, par. 21)

QUES.	N/A	YES	NO	REF.
VH326				
VH327				

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Supplemental Checklist for
Review of Construction Contractor Engagements***

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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Instructions for Use of the Supplemental Checklist for Review of Construction Contractor Engagements

This supplemental checklist was developed for use by reviewers of construction contractor engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist) or, where appropriate, the *General Compilation Engagement Checklist* (compilation checklist) or the *General Review Engagement Checklist* (review checklist) and other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. The instructions to sections I and III of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions, or any other materials, or about the review in general should be directed to the AICPA Quality Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in an audit, review, or compilation of the financial statements of construction contractors. However, when completing section II, "Working Paper Areas," some questions may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in section VI of the audit checklist, or section V of the compilation checklist, or section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosures and audit procedures related to construction contractors. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure, and procedural issues in order to sufficiently evaluate construction contractor engagements. These additional materials include the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide *Construction Contractors*.

This is part of a series of supplemental checklists which the Institute is developing to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

Explanation of References:

- CC AICPA Audit and Accounting Guide *Construction Contractors* (As of May 1, 1992)
SOP AICPA Statement of Position

SUPPLEMENTAL CHECKLIST FOR REVIEW OF CONSTRUCTION CONTRACTOR ENGAGEMENTS

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<p>II. Working Paper Areas—Construction Contractors⁽³⁾</p> <p>(Supplement to Section III of the <i>Checklist for Review of Audit Engagements</i>)⁽²⁾</p> <p style="padding-left: 40px;">General</p> <p style="padding-left: 40px;">Contract Costs, Revenues and Income</p> <p style="padding-left: 40px;">Contracts Receivable</p> <p style="padding-left: 40px;">Other</p>	<p>14530.9</p> <p>14530.9</p> <p>14530.10</p> <p>14530.10</p>

⁽¹⁾ Refer to—the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive materials, and the AICPA Audit and Accounting Guide *Construction Contractors* (see instructions on 14530.3).

⁽²⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements* or the appropriate section of the compilation or review checklist.

⁽³⁾ Refer to—the AICPA Audit and Accounting Guide *Construction Contractors* and AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (see instructions on 14530.3).

I. Report and Financial Statements

Financial Statements and Notes

Is the presentation appropriate and disclosure adequate regarding the following:

General

The method of measuring extent of progress toward completion of contracts when the percentage-of-completion method is used? (SOP 81-1, par. 45)

The reasons for selecting the completed-contract method if that method is used? (CC, Ch. 6, par. 21c,2)

The specific criteria used to determine when a contract is substantially complete when the completed-contract method is used? (SOP 81-1, par. 52)

Policies relating to combining and segmenting contracts, if applicable? (SOP 81-1, pars. 39-42)

Method of reporting affiliated entities? (CC, Ch. 6, par. 21a)

The range of contract durations if the operating cycle exceeds one year? (CC, Ch. 6, par. 21b)

Method of reporting joint venture investments along with other joint venture disclosures? (CC, Ch. 6, par. 21d)

Unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization (CC, Ch. 6, par. 21e,1):

The aggregate amount included in contract costs?

A description of the nature and status of the principal items comprising such aggregate amounts?

QUES.	N/A	YES	NO	REF.
CN101				
CN102				
CN103				
CN104				
CN105				
CN106				
CN107				
CN108				
CN109				

The basis on which such items are recorded?

The policy of deferral and the amounts involved for costs deferred either in anticipation of future sales (precontract costs) or as a result of an unapproved change order? (CC, Ch. 6, par. 21[f])

The amount of progress payments netted against contract costs at the date of the balance sheet? (CC, Ch. 6, par. 21[e,2])

The effect of significant revisions of estimates where the effect is material? (SOP 81-1, par. 84)

Disclosure, if the contractor elects to present backlog information, or supplemental information accompanying the basic financial statements such as contracts in progress and/or completed contracts? (CC, Ch. 6, par. 23 and Appendix G)

Consideration of any state statutory disclosure requirements affecting construction contractors? (CC, Ch. 11, pars. 14-15)

Provisions for losses on a contract where it is material in amount or unusual or infrequent in nature and are the losses shown separately as a component of cost included in the computation of gross profit? (SOP 81-1, par. 88)

Balance Sheet

Was a classified balance sheet properly considered and, if so, were the appropriate contract-related items correctly classified? (CC, Ch. 6, pars. 1-28)

Disclosure of information on revenue and costs arising from claims? (SOP 81-1, pars. 65-67)

For unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization whether billed or unbilled (CC, Ch. 6, par. 24):

The amount included in receivables?

A description of the nature and status of the principal items comprising such amounts?

Amounts expected to be collected after one year?

QUES.	N/A	YES	NO	REF.
CN110				
CN111				
CN112				
CN113				
CN114				
CN115				
CN116				
CN117				
CN118				
CN119				
CN120				
CN121				

Has disclosure been made of the total, and a general description of the prerequisites for billings, of amounts representing the recognized sales value of performance under contracts in which the amounts had not been billed and were not billable to customers at the balance sheet date, including amounts to be collected after one year? (CC, Ch. 6, par. 25)

If receivables include amounts maturing after one year, has the following been disclosed (CC, Ch. 6, par. 27):

The amount maturing after one year and, if practicable, the amounts maturing in each year?

Interest rates on major receivable items, or on classes of receivables, maturing after one year or an indication of the average interest rate or the range of rates on all receivables?

Are amounts billed, but not paid by customers, under retainage provisions in contracts included in receivables properly classified? (CC, Ch. 6, par. 28)

If costs and estimated earnings exceed billings on some contracts, and billings exceed costs and estimated earnings on others, are the contracts segregated so that figures on the asset side include only those on which costs and estimated earnings exceed billings, and those on the liability side include only those on which billings exceed costs and estimated earnings? (CC, Ch. 6, par. 18)

Are billings and related costs and estimated earnings presented separately either by short extension of the amounts on the balance sheet or in the notes to the financial statements? (CC, Ch. 6, par. 18)

Are billings in excess of costs and estimated earnings classified as a current liability, except to the extent billings exceed total estimated costs at completion of the contract plus contract profits earned to date, in which case are they classified as deferred income? (CC, Ch. 6, par. 13)

QUES.	N/A	YES	NO	REF.
CN122				
CN123				
CN124				
CN125				
CN126				
CN127				
CN128				

II. Working Paper Areas—Construction Contractors⁽⁴⁾

General

Did the engagement team consider legal and regulatory requirements affecting the construction contractor, including governmental prequalification reporting? (CC, Ch. 11, pars. 14-15)

Did the auditor consider visiting selected job sites during the audit planning? (CC, Ch. 10, pars. 2-4)

Contract Costs, Revenues, and Income

Is each contract a profit center for revenue recognition, cost accumulation, and income measurement or properly combined or segmented, if appropriate? (SOP 81-1, pars. 34-42)

When accounting for contract costs and revenues, have the appropriate procedures been performed regarding (SOP 81-1, pars. 68-81; CC, Ch. 10, pars. 29-49):

Proper accounting recognition of accumulated contract costs?

Back charges?

Estimated costs to complete?

Proper evaluation of the acceptability of the method of income recognition?

Reasonableness of the amount and timing of income recognized?

Did the work include examining a representative sample of the contractor's outstanding contracts and evaluating the contractor's internal accounting control? (CC, Ch. 9, pars. 2-13)

QUES.	N/A	YES	NO	REF.
CN301				
CN302				
CN303				
CN304				
CN305				
CN306				
CN307				
CN308				
CN309				

⁽⁴⁾ Some questions in this section may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

Contracts Receivable

Did the contract receivable evaluation consider or include (CC, Ch. 10, par. 7):

Unbilled receivables?

Retentions?

Unapproved change orders, extras, and claims?

Contract scope changes?

Contract guarantees and cancellation or postponement provisions?

Collectibility?

Other

Was an appropriate evaluation of the provision for anticipated losses on contracts made? (SOP 81-1, pars. 85-89)

Did the work include an analysis of gross profit margins? (CC, Ch. 10, pars. 54-55)

Has the proper accounting recognition for change orders and claims been followed? (SOP 81-1, pars. 61-63, 65-67)

Has the proper accounting recognition for investments in construction joint ventures been followed, if applicable? (CC, Ch. 3, pars. 1-27)

Have revisions, if any, in revenue, cost or profit estimates been properly accounted for? (SOP 81-1, par. 83)

If the contractor elected to present backlog information on signed contracts in the financial statements, was an appropriate review of the information made and evaluated? (CC, Ch. 10, pars. 58-61)

QUES.	N/A	YES	NO	REF.
CN310				
CN311				
CN312				
CN313				
CN314				
CN315				
CN316				
CN317				
CN318				
CN319				
CN320				
CN321				

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Supplemental Checklist for Review of Common Interest Realty Associations

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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Instructions for Use of the Supplemental Checklist for Review of Common Interest Realty Associations

This supplemental checklist was developed for use by reviewers of Common Interest Realty Associations (CIRAs) audit engagements. It should be used in conjunction with either the *Checklist for Review of Audit Engagements of Not-For-Profit Organizations* or, if the entity does not use fund reporting, the *Checklist for Review of Audit Engagements* (audit checklists) and other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. The instructions to section I and III of the audit checklists should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of CIRAs.⁽¹⁾ It is not intended to be an all-inclusive document containing all disclosure and audit procedures related to CIRAs. It is a summarization of commonly addressed key areas and related concepts or procedures. All "No" answers must be thoroughly explained in Section VI of the audit checklists.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

Explanation of References:

AU Reference to section number in *AICPA Professional Standards* (vol.1)
CIRA AICPA Audit and Accounting Guide *Audits of Common Interest Realty Associations*
SOP AICPA Statement of Position

⁽¹⁾ Reviewers of CIRA review and compilation engagements may find section I of this supplemental checklist useful in addition to the *Checklist for Review of a Compilation of Financial Statements*, and the *Checklist for Review of a Review of Financial Statements*. Reviewers should also refer to Chapter 8 on Review and Compilation Engagements in the AICPA Audit and Accounting Guide *Audits of Common Interest Realty Associations* and SOP 93-5 *Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations* which augments Chapter 8 in the AICPA Audit and Accounting Guide.

SUPPLEMENTAL CHECKLIST FOR REVIEW OF COMMON INTEREST REALTY ASSOCIATIONS AUDIT ENGAGEMENTS

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Insurance	14540.10
Future Major Repairs and Replacements	14540.10

⁽¹⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements for Not-For-Profit Organizations* or the *Checklist for Review of Audit Engagements*.

⁽²⁾ Refer to the AICPA Audit and Accounting Guide *Audits of Common Interest Realty Associations* (see instructions on 14540.3).

I. Report and Financial Statements

Auditor's Report

Does the audit report disclaim an opinion on required supplemental information when presented with audited financial statements in auditor-submitted documents, unless the auditor has been engaged to examine and express an opinion on it?

(AU Sec. 551.15 and CIRA, Ch. 7, par. 38)

Does the audit report include an explanatory paragraph if the required supplemental information is omitted, auditors were unable to complete certain limited procedures on the information, the auditor is unable to remove substantial doubt about whether the information conforms to prescribed guidelines or the auditor has concluded that the information departs from prescribed guidelines? (CIRA, Ch. 7, par. 39)

Does the report disclaim an opinion on expired budget information accompanying the financial statements in auditor-submitted documents?

(AU Sec. 551.11 and CIRA, Ch. 7, par. 22)

If the financial statements include budget information for prospective periods, does the report indicate the auditors' responsibilities governed by the Statement on Standards for Accountants' Services on Prospective Financial Information, Financial Forecasts and Projections? (CIRA, Ch.7, par. 22)

If the disclosure about a CIRA's funding for major repairs and replacements is absent or inadequate, did the auditor modify or consider modifying the report? (CIRA, Ch. 4, par. 27 and Ch. 7, par. 34)

QUES.	N/A	YES	NO	REF.
CR101				
CR102				
CR103				
CR104				
CR105				

Financial Statements and Notes

Is the presentation appropriate and disclosures adequate regarding:

General

If the CIRA uses fund reporting, are resources for particular purposes (long-term major repair and replacement assessments for CIRAs) classified into funds associated with specified activities or objectives? (CIRA, Ch. 4, par. 01)

Is a statement of cash flows presented when a balance sheet and a statement of revenues and expenses are presented? (CIRA, Ch. 4, par. 18)

If the CIRA uses non-fund reporting and assesses for future major repairs and replacements, is there an appropriation of retained earnings for such assessments? (CIRA, Ch. 4, FN. 6 and Ch. 9, par. 12)

Periodic assessments for funding future major repairs and replacements in the replacement fund presented in the periods in which they are assessed? (CIRA, Ch. 4, par. 13)

The CIRA's legal form (corporation or association) and that of the entity for which it provides services, areas it controls, and the number of units? (CIRA, Ch. 4, par. 22)

The number of units (shares for cooperative housing corporations and weeks for time-share associations) owned by the developer? (CIRA, Ch. 4, par. 22)

Services (such as maintenance) and subsidies provided by the developer? (CIRA, Ch. 4, par. 22)

The CIRA'S income tax filing status and its liability for income taxes? (CIRA, Ch. 4, par. 22, Ch. 6, Ch. 9, par. 9.18-.24)

The proposed use for funds collected in special assessments? (CIRA, Ch. 4, par. 22)

Credits from taxing authorities that will be phased out in future reporting periods? (CIRA, Ch. 4, par. 22)

Assessments that were used for purposes other than those for which they were designated? (CIRA, Ch. 4, par. 22)

QUES.	N/A	YES	NO	REF.
CR201				
CR202				
CR203				
CR204				
CR205				
CR206				
CR207				
CR208				
CR209				
CR210				
CR211				

Future Major Repairs and Replacements
(CIRA, Ch. 4, par. 26)

Requirements, if any, in statutes or the CIRA's documents to accumulate funds for future major repairs and replacements and the CIRA's compliance or lack of compliance with them?

A description of the CIRA's funding policy, if any, and compliance with that policy?

A statement that replacement funds, if any, are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material?

Amounts assessed for major repairs and replacements in the current period, if any?

A statement indicating whether a study was conducted to estimate the remaining useful lives of common property components and the costs of future major repairs and replacements?

If the CIRA's policy is to fund future major repairs and replacements by special assessments or borrowings, is there a statement indicating that that is the policy?

Common Property
(CIRA, Ch. 2, par. 13)

The accounting policy for recognition and measurement of common property?

A description of common property recognized as assets in the CIRA's balance sheet?

A description of common property to which the CIRA has title, or other evidence of ownership, that is not recognized as assets in the CIRA's balance sheet?

The CIRA's responsibility to preserve and maintain the common property?

Terms and conditions of existing land or recreation leases?

Restrictions on the use or disposition of common property?

QUES.	N/A	YES	NO	REF.
CR212				
CR213				
CR214				
CR215				
CR216				
CR217				
CR218				
CR219				
CR220				
CR221				
CR222				
CR223				

Related Parties

Description and amount of revenue from each source if 10% or more of revenues are derived from any one source? (CIRA, Ch. 4, par. 24)

Services, such as insurance, maintenance, or management, provided by some individual board members, officers, or developers? (CIRA, Ch. 4, par. 23)

Required Unaudited Supplementary Information on
Future Major Repairs and Replacements
(CIRA, Ch. 4, par. 30)

Estimates of current or future costs of future major repairs and replacements of all existing components, such as roofs, including the following:

Estimated current or future replacement costs?

Methods used to determine the costs?

The basis for the calculations, including assumptions, if any, about interest and inflation rates?

Sources used?

Dates of studies made for that purpose, if any?

Estimates of the remaining useful lives of the components?

Amounts of funds accumulated for each component to the extent designated by the CIRA's board of directors?

QUES.	N/A	YES	NO	REF.
CR224				
CR225				
CR226				
CR227				
CR228				
CR229				
CR230				
CR231				
CR232				

II. Working Paper Areas—CIRAs

General

Did the auditor consider the effects if a managing agent provides the CIRA with bookkeeping and accounting services?

(CIRA, Ch. 7, par. 8 and AU Sec. 324)

If the audit is for the CIRA's first period of operations, did the auditor:

Review closing documents to evaluate the completeness of the recording of initial capital contributions collected from unit owners by the developer or declarant on behalf of the CIRA? (CIRA, Ch. 7, par. 19)

Obtain evidence about whether the developer (declarant) has fulfilled its obligation to pay assessments on unsold units or to fund operating deficits? (CIRA, Ch. 7, par. 19)

Obtain evidence about whether the CIRA has not been paying for developer (declarant) related expenses? (CIRA, Ch. 7, par. 19)

Obtain evidence that assets received from the developer (declarant) are reported in accordance with the guidelines for common property? (CIRA, Ch. 7, par. 19)

Consider the CIRA's budgeting procedures in obtaining an understanding of the internal control structure and assessing control risk? (CIRA, Ch. 7, par. 21)

Assessments
(CIRA, Ch. 7, par. 24)

Did the auditor compare total reported assessments for the period with budgeted amounts and test whether amounts assessed to individual owners have been computed in accordance with the CIRA's documents?

QUES.	N/A	YES	NO	REF.
CR300				
CR301				
CR302				
CR303				
CR304				
CR305				
CR306				

Investments
 (CIRA, Ch. 7, par. 26)

Did the auditor verify that investments conform to the CIRA's legal requirements and its governing documents?

Insurance
 (CIRA, Ch. 7, par. 28)

Did the auditor consider whether a CIRA's insurance coverage complies with statutory or other documentary requirements?

Future Major Repairs and Replacements

Did the auditor review the CIRA's governing documents and relevant state statutes to determine whether the CIRA is required to set aside funds on a systematic basis for future major repairs and replacements? (CIRA, Ch. 7, par. 29)

Did the auditor apply certain limited procedures to the required supplementary information on estimates of current or future costs of future major repairs and replacements? (CIRA, Ch. 7, par. 31)

QUES.	N/A	YES	NO	REF.
CR307				
CR308				
CR309				
CR310				

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Supplemental Checklist for
Review of Providers of Health Care Services Engagements***

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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**Instructions for Use of the Supplemental Checklist
for Review of Providers of Health Care Services Engagements**

This supplemental checklist was developed for use by reviewers of Providers of Health Care Services engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements of Not-for-Profit Organizations* or, where appropriate, the *Checklist for Review of Audit Engagements* if the entity of a for-profit health care provider, the *Governmental Audit Engagement Checklist* for governmental health care providers, the *General Review Engagement Checklist* or *General Compilation Engagement Checklist*. In addition, the reviewer should complete section III of the Not-for-Profit checklist if the entity is contractually required to submit reports prepared in accordance with OMB Circular A-133. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Providers of Health Care Services. Some of the questions are example presentation and disclosures or auditing procedures contained in the AICPA Audit and Accounting Guide **Audits of Providers of Health Care Services** (the Guide). It is not expected that all of the questions in this checklist will be applicable to every engagement. In some instances, the audit objectives described in the Guide may be accomplished by the performance of procedures not included in this checklist. Therefore, reviewers should use judgment and refer to the Guide as necessary when responding to questions. Also, section II, "Working Paper Areas," contains questions that may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Providers of Health Care Services. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate Providers of Health Care Services engagements. These additional materials include the Guide.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

14550.4

Explanation of References:

- FAS Statement of Financial Accounting Standards
- GASB Codification of Governmental Accounting and Financial Reporting Standards (as of May 31, 1990)
- HCS AICPA Audit and Accounting Guide *Audits of Providers of Health Care Services* (as of May 1, 1993)
- SOP AICPA Statement of Position

**SUPPLEMENTAL CHECKLIST FOR REVIEW OF PROVIDERS OF HEALTH CARE SERVICES
ENGAGEMENTS**

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⁽¹⁾ Refer to the AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services*.

⁽²⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements of Not-For-Profit Organizations* or the appropriate section of the compilation or review checklist.

I. Report and Financial Statements

Financial Statements and Notes

Are the presentations appropriate and disclosures adequate regarding:

Donor-imposed restrictions on investment principal and income? (HCS, ch. 6, par. 6.17)

Involvement in any investment pools? (HCS, ch. 6, par. 6.17)

Management's policy for providing charity care and the level of charity care provided? (HCS, ch. 2, par. 2.04)

Significant contractual arrangements with third parties? (HCS, ch. 7, par. 7.22)

Pending claims, appeals or settlements regarding third-party payors? (HCS, ch. 7, par. 7.22)

Contracts with related parties and significant contractual agreements? (HCS, ch. 9, par. 9.35)

The nature of any relationship between the entity and lessors, bailors or other owners of property? (HCS, ch. 8, par. 8.12)

The receipt of donated property and equipment in a restricted fund? (HCS, ch. 8, par. 8.15)

Separately reporting property and equipment not used for health care operations? (HCS, ch. 8, par. 8.15)

The tax-exempt status and tax contingencies? (HCS, ch. 9, par. 9.35)

Liabilities relating to refundable fee arrangements? (HCS, ch. 9, par. 9.35)

Medical malpractice insurance? (HCS, ch. 10, par. 10.51)

The method of revenue recognition and recording unrestricted and restricted donations and investment income of both general and restricted funds? (HCS, ch. 12, par. 12.13)

QUES.	N/A	YES	NO	REF.
HC101				
HC102				
HC103				
HC104				
HC105				
HC106				
HC107				
HC108				
HC109				
HC110				
HC111				
HC112				
HC113				

The identification and explanation of the estimated amounts that are payable or receivable regarding contractual adjustments and third-party settlements? (HCS, ch. 12, par. 12.13)

Separately disclosing expenses incurred in soliciting contributions? (HCS, ch. 12, par. 12.16)

Related entities, investees and affiliates? (HCS, ch. 13, par. 13.09)

The basis for accruing health care costs and significant business and contractual arrangements with hospitals, physicians, and other associated entities? (SOP 89-5, par. 32)

Classification of revenue, expenses, gains and losses? (HCS, ch. 12, par. 12.02)

Unconditional promises to contribute receivable that is to be collected within one year, in one to five years, in more than five years, and the amount of the allowance for uncollected contributions receivable? (FAS No. 116, par. 24)⁽¹⁾

The total amount conditionally promised to contribute, a description and amount for each group of promises having similar characteristics such as amounts promised conditioned on establishing new programs or completing a new building? (FAS No. 116, par. 25)⁽³⁾

Unpaid debt that has been fully defeased? [(Only applicable to governmental health care entities) GASB Sec. D20.111-.114]

QUES.	N/A	YES	NO	REF.
HC114				
HC115				
HC116				
HC117				
HC118				
HC119				
HC120				
HC121				

⁽³⁾ If FAS No. 116 was applicable to this engagement either as a result of the FAS's effective date for annual financial statements issued for fiscal years beginning after December 15, 1994 and interim periods within these fiscal years, except for not-for-profit organizations with less than \$5 million in total assets and less than \$1 million in annual expenses, which the effective date is December 15, 1995, or if early application of the FAS was elected.

II. Working Paper Areas - Providers of Health Care Services⁽⁴⁾

Cash and Cash Equivalents

Did the auditor review donor correspondence (and/or board and board meeting minutes) to determine the presence or absence of donor restrictions? (HCS, ch. 5, par. 5.07)

Investments

Did the auditor review board, investment committee or other committee minutes for evidence of donated securities? (HCS, ch. 6, par. 6.17)

Do the working papers indicate that donated securities were properly reported at fair market value at the date of the gift and in the proper fund? (HCS, ch. 6, par. 6.17)

Did the auditor review documentation related to donor restrictions and that compliance was tested for restrictions, if any? (HCS, ch. 6, par. 6.17)

Do the working papers indicate that restricted funds are pooled only in accordance with donor, grantor, or other restrictions? (HCS, ch. 6, par. 6.17)?

Did the auditor verify that income and gains or losses from investment pools are distributed equitably among the participating funds? (HCS, ch. 6, par. 6.17)

Receivables

Did the auditor verify that the entity has a policy to distinguish bad-debt expense from charity care? (HCS, ch. 7, par. 7.02)

QUES.	N/A	YES	NO	REF.
HC301				
HC302				
HC303				
HC304				
HC305				
HC306				
HC307				

⁽⁴⁾ Some questions in this section may not apply to compilation and review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

Were any procedures performed to verify that information for billing and collection is accurate, such as review of admission and registration documents? (HCS, ch. 7, par. 7.22)

If the entity was reimbursed under a case-payment system, did the auditor verify that regulatory denials and the costs of providing services for patient stays longer than established means, were appropriately considered in determining contracted allowances and third party settlements? (HCS, ch. 7, par. 7.05)

If third-party programs have provisions limiting the amounts of reimbursable costs, did the auditor consider these limitations in regards to the third-party accruals? (HCS, ch. 7, par. 7.22)

Did the auditor verify that there is appropriate information and analysis to support each significant third party payment settlement amount (receivable or liability) and collectibility? (HCS, ch. 7, par. 7.22)

Was a determination made with respect to uncollectible accounts reserve regarding consideration of historical trends, reviews of accounts and appropriate aging of accounts by major payor (self-pay vs. third party) category? (HCS, ch. 7, par. 7.22)

Did the auditor obtain a general understanding of the various contractual arrangements with third party payers? (HCS, ch. 7, par. 7.22)

Did the auditor give consideration to changes in the reimbursement program provisions (such as limits on increases in reimbursable costs and the implementation of prospective payment systems) in the recovery of deferred debits and the realization of deferred credits recorded for reimbursement timing differences? (HCS, ch. 3, par. 3.18)

Did the auditor verify that receivables reported in the financial statements are at net realizable value? (HCS, ch. 7, par. 7.22)

Are interfund receivables properly reported at net realizable amounts? (HCS, Ch. 7, par. 7.22)

Did the auditor investigate any differences between total interfund receivables and total interfund payables? (HCS, Ch. 7, par. 7.22)

QUES.	N/A	YES	NO	REF.
HC308				
HC309				
HC310				
HC311				
HC312				
HC313				
HC314				
HC315				
HC316				
HC317				

Property and Equipment, Supplies and Other Assets

Was donated property reported at fair market value at the date of donation? (HCS, ch. 8, par. 8.15)

For the purposes of cost reimbursement and revenue recognition, did the auditor verify that the entity received appropriate health care planning agency or other regulatory agency approvals, if required, for property and equipment additions? (HCS, ch. 8, par. 8.15)

Current Liabilities and Long-Term Obligations

Did the auditor verify that health care costs are accrued as the services are rendered, including estimates of the costs of services rendered but not yet reported? (SOP 89-5, par. 30)

If the provider of prepaid health care services is obliged to render services to specific members beyond the premium period due to provisions in the contract or regulatory requirement, did the auditor verify that those costs were accrued currently? (SOP 89-5, par. 30)

Did the auditor review if amounts payable to hospitals, physicians, or other health care providers under risk-retention, bonus, or similar programs are accrued during the contract period? (SOP 89-5, par. 31)

Are all liabilities in regard to contracts with Physicians, Specialists, Related Parties and others properly reported? (HCS, ch. 9, par. 9.35)

Did the auditor perform any procedures to verify that third-party advances are properly reported? (HCS, ch. 9, par. 9.35)

Were deferred debits or credits that relate to third-party timing differences properly reported? (HCS, ch. 9, par. 9.35)

Did the auditor verify that deferred revenue and the obligation to provide future services to, and use of facilities by, current residents of continuing care retirement communities are recognized and properly reported? (HCS, ch. 9, par. 9.35)

QUES.	N/A	YES	NO	REF.
HC318				
HC319				
HC320				
HC321				
HC322				
HC323				
HC324				
HC325				
HC326				

Did the auditor verify that the not-for-profit entity obtained a qualifying income tax exemption from a government authority? (HCS, ch. 9, par. 9.35)

Was a determination made regarding possible transactions that would affect both the entities' tax status and tax liability? (HCS, ch. 9, par. 9.35)

Commitments and Contingencies

Was a review of the amount of insurance coverage, type of coverage and deductible provisions performed to determine the level of risk that is retained by the entity? (HCS, ch. 10, par. 10.51)

Did the auditor obtain an understanding on the accuracy and completeness of the incident reporting and monitoring system? (HCS, ch. 10, par. 10.32)

Did the auditor send letters of inquiry to malpractice insurance carriers and legal counsel? (HCS, ch. 10, par. 10.51)

Did the auditor review of prior estimates and historical loss experience? (HCS, ch. 10, par. 10.51)

Net Assets (Equity or Fund Balance)

Did the auditor examine documentation of contributions of assets for evidence of restrictions? (HCS, ch. 11, par. 11.03)

Did the auditor verify that each fund is in balance? (HCS, ch. 11, par. 11.03)

Revenue, Expenses, Gains, and Losses

Did the auditor perform any procedures to ensure that the charges for services and supplies provided to patients, residents and others were properly recorded? (HCS, ch. 12, par. 12.17)

Was current period revenue and expenses compared with prior periods and budgets and were any unusual variances explained? (HCS, ch. 12, par. 12.17)

QUES.	N/A	YES	NO	REF.
HC327				
HC328				
HC329				
HC330				
HC331				
HC332				
HC333				
HC334				
HC335				
HC336				

Did the auditor perform procedures to verify the accuracy and completeness of medical records information for DRG assignment? (HCS, ch. 12, par. 12.17)

Was the accuracy of revenue compared to the results of any peer review organization DRG validation audits, review of the appropriateness of admissions and related denials, and the necessity of outlier services including days and costs? (HCS, ch. 12, par. 12.17)

Did the auditor verify that revenue from health care services is reported net of contractual adjustments and other adjustments? (HCS, ch. 12, par. 12.17)

Did the auditor give adequate consideration to revenue cutoff? (HCS, ch. 12, par. 12.17)

Did the auditor verify that unrestricted gifts, donations, and bequests were properly reported? (HCS, ch. 12, par. 12.17)

Reporting Entity and Related Organizations

Did the auditor consider if any procedures were performed to verify that the reporting entity is appropriate (all investees, affiliates and other related parties are appropriately accounted for)? (HCS, ch. 13, par. 13.09)

Continuing Care Retirement Communities

Did the auditor verify that the estimated amount of advance fees expected to be refunded to current residents under terms of contracts was accounted for as a liability? (SOP 90-8, par. 22)

Did the auditor verify that the fees that will be paid to current residents or their designees, only to the extent of the proceeds of reoccupancy of a contract holder's unit, are accounted for as deferred revenue? (SOP 90-8, par. 31)

Were nonrefundable advance fees accounted for as deferred revenue? (SOP, 90-8, par. 43)

Was an annual calculation made regarding the obligation to provide future services to current residents? (SOP 90-8, par. 53)

QUES.	N/A	YES	NO	REF.
HC337				
HC338				
HC339				
HC340				
HC341				
HC342				
HC343				
HC344				
HC345				
HC346				

14550.14

Did the auditor verify that the costs of acquiring initial continuing-care contracts were capitalized?
(SOP 90-8, par. 63)

QUES.	N/A	YES	NO	REF.
HC347				

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Supplemental Checklist for
Review of Audits of HUD Engagements***

(For Peer Reviews Beginning on or after April 1, 1994)

Note: Reviewers of audits of HUD engagements **with fiscal years ended prior to September 30, 1993** should complete **Appendix 1** of this checklist. These engagements should be completed in accordance with the October 1991 Consolidated Audit Guide.

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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Instructions for Use of the Supplemental Checklist for Review of Audits of HUD Engagements

This supplemental checklist was developed for use by reviewers of HUD Programs performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist). The Consolidated Audit Guide for Audits of HUD Programs Handbook IG 2000.04 REV-1 (July 1993) is effective for audits of fiscal years ending on or after September 30, 1993. Audits of fiscal years ended prior to September 30, 1993 should be completed in accordance with the October 1991 Consolidated Audit Guide. The peer reviewer should complete Appendix 1 only for audits conducted in accordance with the October 1991 Consolidated Audit Guide. The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of HUD Programs. All "No" answers must be thoroughly explained in section V of the audit checklist.

This checklist reflects guidance issued through July 1993 and is not intended to be an all inclusive document containing all disclosures and audit procedures related to HUD Programs. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedures issues in order to sufficiently evaluate HUD engagements. These additional materials include the Consolidated Audit Guide for Audits of HUD Programs IG 2000.04 Rev-1. Peer reviewers may wish to consider the guidance in SOP 92-9 "Audits of Not-for-Profit Organizations Receiving Federal Awards" for illustrations of departures/modifications from standard audits reports.

Note: Use of the HUD Audit Guide is mandatory for audits of all participants in the HUD programs identified in Ch. 1, par. 1-4. In accordance with HUD regulations implementing OMB Circular A-133, effective August 26, 1992, nonprofit organizations receiving HUD assistance under any of the housing programs listed in Ch.1, par. 1-4 are required to complete project-specific audits because each project is deemed to be a separate entity. Audits conducted under the HUD Audit Guide shall serve as the organizationwide audit required by Circular A-133. Nonprofit institutions having outstanding HUD direct, guaranteed, or insured loans that are made/guaranteed/insured prior to the effective date of the regulation are also required to have audits performed in accordance with the HUD Audit Guide.

14560.4

Explanation of References:

AU AICPA Professional Standards Volume 1 (As of June 1, 1993)
CFR Code of Federal Regulations
GAAP Generally Accepted Accounting Principles
GAAS Generally Accepted Auditing Standards
GAO Government Auditing Standards (1988) Revision, United States General Accounting Office
GNMA Government National Mortgage Association
HUD Handbook IG 2000.04 Rev-1 Consolidated Audit Guide for Audits of HUD Programs (1993)
OMB The Office of Management and Budget

**SUPPLEMENTAL CHECKLIST FOR REVIEW OF
AUDITS OF HUD ENGAGEMENTS**

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I. Report and Financial Statements

General

The auditor’s report on compliance should include an opinion on the auditee’s compliance with specific requirements applicable to each of its major programs. The term "major programs" as defined by the Consolidated Audit Guide for Audits of HUD Programs means an individual assistance program or a group of programs in a category of Federal Financial Assistance for which total expenditures exceeds \$300,000 during the applicable year. A project which has an outstanding HUD-insured, guaranteed or direct loan balance exceeding \$300,000 as of the reporting date shall be considered a major program. A mortgagee or loan correspondent which originate and/or services an aggregate of FHA – insured loans exceeding \$300,000 under the period under audit is considered a major program. In addition, a Government National Mortgage Association (GNMA) Issuer with a remaining principal balance exceeding \$300,000 is considered a major program.

Does the audit report cover clearly indicate the HUD-assisted activities and period(s) which was (were) audited? (HUD, Ch. 2, par. 2-1)

Did the auditor include in the audit report or an accompanying transmittal letter:

A Federal Employer ID Number?

Identification of the Audit Partner?

Did the auditor promptly prepare a separate written report concerning illegal acts or indications of such acts and include all questioned costs as the result of the acts? (HUD, Ch. 1, par. 1-5 and GAO, Ch. 5, par. 16)

QUES.	N/A	YES	NO	REF.
H101				
H102				
H103				
H104				

Program Specific Requirements

**A. Chapter 3, Section 8 Audit Guidance—
Reporting Requirements**

Did the auditor’s report on Section 8 programs include the following reports and were the reports worded in accordance with professional standards (HUD Ch. 3, par. 3-4 and AU Sec. 801):

Report on Audited Financial Statements and Supplemental Information? (HUD, Ch. 2, Example A)

Combined report on Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)

Opinion on compliance with specific requirements applicable to major HUD programs? (HUD, Ch. 2, Example C)

Report on Compliance with Specific Requirements applicable to nonmajor HUD program? (HUD, Ch. 2, Example D)

A report on the Compliance with Specific Requirements applicable to Affirmative Fair Housing? (HUD, Ch. 2, Example E)

Report on Compliance with Laws and Regulations, based upon an audit if the financial statements performed in accordance with Government Auditing Standards? (HUD, Ch. 2, par. 2-1)

QUES.	N/A	YES	NO	REF.
H105				
H106				
H107				
H108				
H109				
H110				

Note: It is expected that specific compliance requirements identified in the HUD Audit Guide will cover those laws and regulations that, if not complied with, could have a direct and material effect on the financial statements. In such cases, the compliance reports listed in Ch. 2 of the guide are the only reports necessary for reporting on the auditee’s compliance with laws and regulations. However, if the auditor, as part of the audit of the financial statements, considered laws and regulations in addition to those noted in the guide, for which noncompliance could have a direct and material effect on the financial statements, as required by SAS No. 54, the auditor should also issue the compliance report in accordance with Government Auditing Standards as noted in SAS No. 68, pars. 20-25.

Schedule of Findings and Questioned Costs?
(HUD, Ch. 2, Example F)

The Auditor’s Comments on Audit Resolution Matters relating to HUD Programs?
(HUD, Ch. 2, Example G)

B. Chapter 4, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 202 Direct Loans, 811 Capital Advances, and Section 236 Subsidized Projects, Audit Guidance and Sample Financial Statements—Reporting Requirements

Note: Any unallowable distribution from a project with an insured, coinsured, or HUD-held multi-family mortgage must be noted as an instance of noncompliance regardless of materiality.

QUES.	N/A	YES	NO	REF.
H111				
H112				

Did the auditor’s report on Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 202 Direct Loans, 811 Capital Advances, and Section 236 subsidized projects include the following reports and were the reports worded in accordance with professional standards (HUD Ch. 4, pars. 4-4a and 4b and AU Sec. 801):

Report on Audited Financial Statements and Supplemental Information? (HUD, Ch. 2, Example A)

Combined report on Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)

Opinion on compliance with specific requirements applicable to major HUD programs? (HUD, Ch. 2, Example C)

A Report on Compliance with Specific Requirements applicable to nonmajor HUD programs? (HUD, Ch. 2, Example D)

A report on the Compliance with Specific Requirements applicable to Affirmative Fair Housing? (HUD, Ch. 2, Example E)

Report on Compliance with Laws and Regulations, based upon an audit if the financial statements performed in accordance with Government Auditing Standards? (HUD, Ch. 2, par. 2-1)

QUES.	N/A	YES	NO	REF.
H113				
H114				
H115				
H116				
H117				
H118				

Note: It is expected that specific compliance requirements identified in the HUD Audit Guide will cover those laws and regulations that, if not complied with, could have a direct and material effect on the financial statements. In such cases, the compliance reports listed in Ch. 2 of the guide are the only reports necessary for reporting on the auditee’s compliance with laws and regulations. However, if the auditor, as part of the audit of the financial statements, considered laws and regulations in addition to those noted in the guide, for which noncompliance could have a direct and material effect on the financial statements, as required by SAS No. 54, the auditor should also issue the compliance report in accordance with Government Auditing Standards as noted in SAS No. 68, pars. 20-25.

Schedule of Findings and Questioned Costs?
(HUD, Ch. 2, Example F)

The Auditor’s Comments on Audit Resolution Matters relating to HUD Programs? (HUD, Ch. 2, Example G)

C. Chapter 5, Insured Development
Cost Certification Audit Guidance—
Reporting Requirements

Did the auditor’s report on Insured Development Cost Certification include the following reports and were the reports worded in accordance with professional standards (HUD Ch. 5, par. 5-4 and AU Sec. 801):

A Report on the Balance Sheet and Operating Statement and the Mortgage Certificate of Actual Cost (Form HUD-92330)?

A Report on the Consideration of the Mortgage’s Internal Control Structure?

A report on the Mortgage’s Compliance with Specific Requirements?

QUES.	N/A	YES	NO	REF.
H119				
H120				
H121				
H122				
H123				

D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities—Reporting Requirements

Did the auditor’s report on GNMA issues of mortgage-backed securities include the following reports and were the reports worded in accordance with professional standards (HUD Ch. 6, par. 6-4 and AU Sec. 801):

Report on Audited Financial Statements and Supplemental Information? (HUD, Ch. 2, Example A)

Combined report on Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)

Opinion on compliance with specific requirements applicable to major HUD programs? (HUD, Ch. 2, Example C)

A Report on Compliance with Specific Requirements applicable to nonmajor HUD programs? (HUD, Ch. 2, Example D)

E. Chapter 7, HUD-Approved Title II Nonsupervised Mortgages and Loan Correspondents Audit Guidance—Reporting Requirements

Note: Entities subject to Ch. 7 of the HUD Audit Guide must note all instances of noncompliance.

Did the auditor’s report on Title II nonsupervised mortgagees and loan correspondents include the following reports and were the reports worded in accordance with professional standards (HUD, Ch. 7, par. 7-4 and AU Sec. 801):

A Report on the basic financial statements?

A Report on Internal Control Structure with specific requirements that have a direct and material effect on HUD-insured loans?

QUES.	N/A	YES	NO	REF.
H124				
H125				
H126				
H127				
H128				
H129				

An opinion on the Compliance with Specific Requirements applicable to HUD-assisted major programs or a Report on Compliance with Specific Requirements applicable to nonmajor HUD-assisted programs?

F. Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Reporting Requirements

Did the auditor’s report for a Title I lender or loan correspondent include the following reports and were the reports worded in accordance with professional standards (HUD, Ch. 8, par 8-4 and AU Sec. 801):

A Report on the basic financial statements?

A Report on Internal Control Structure with specific requirements that have a direct and material effect on HUD-insured loans?

An opinion on the Compliance with Specific Requirements applicable to HUD-assisted major programs or a Report on Compliance with Specific Requirements applicable to nonmajor HUD-assisted programs?

QUES.	N/A	YES	NO	REF.
H130				
H131				
H132				
H133				

II. Working Paper Areas—HUD Engagements

General

Does the engagement letter required by HUD specify the following:

- that the audit was being performed in accordance with GAAS, *Government Auditing Standards* and the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)
- that the scope of the audit and contents of the financial report to be issued will meet the requirements of the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)
- that the Secretary of HUD, the HUD Inspector General and GAO/GAO representatives have access to the working papers? (HUD, Ch. 1, par. 1-6)

Did the auditor’s working papers indicate:

A cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO Ch. 4, par. 22)

For multifamily mortgagors only, that the auditor considered whether the firm performs manual or automated bookkeeping services and/or maintains official accounting records? If the auditor was not independent, is there evidence that the auditor resigned from the engagement? (HUD, Ch. 1, par. 1-2)

If the auditee is subject to OMB Circular A-133 (Non-Profit Organizations) and owns a HUD-assisted project subject to the HUD Audit Guide, were procedures and reports relating to the specific HUD engagement performed and reported on in accordance with the HUD Audit Guide? (HUD, Ch. 1, pars. 1-1 and 1-4)

QUES.	N/A	YES	NO	REF.
H201				
H202				
H203				
H204				
H205				
H206				

Did the firm document evidence of meeting out of state licensing requirements, if necessary?

That appropriate personnel are in compliance with the 1988 Yellow Book CPE requirements and related interpretations?

That the firm met the independence and quality control requirements of the 1988 Yellow Book?

That the client considered and identified all major and nonmajor programs?

Note: The working papers should clearly demonstrate the auditor's understanding and assessment of control risks related to the internal control policies and procedures established for HUD-assisted activities. Tests of controls may be omitted only in areas when the internal control policies and procedures are likely to be ineffective in preventing or detecting noncompliance, in which case a reportable condition or material weakness should be reported.

In the event that the auditor decided to omit the test of controls did the auditor document the reasons for this omission?

Reference to a separate letter, if applicable, describing immaterial differences of non-compliance? (AU Sec. 801.30)

If appropriate, that the scope section of the reports were properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results? (GAO Ch. 5, par. 4)

When appropriate, that the auditor issued a separate report on fraud, abuse, or illegal acts, or indications of such acts? (AU Sec. 801.32)

QUES.	N/A	YES	NO	REF.
H207				
H208				
H209				
H210				
H211				
H212				
H213				
H214				

Tests of controls were performed to evaluate effectiveness of design and operation of internal control structure policies and procedures in preventing or detecting material noncompliance with the requirements of HUD programs regardless of whether the auditor assesses internal control risk below the maximum? In instances where controls were not tested, was the report properly modified? (HUD, Ch. 1, par. 1-7)

Did the auditor obtain a representation letter from management that (AU Sec. 801 pars. .19 and .91-.92):

- represented that they identified all laws and regulations that have a direct and material effect on the determination of financial statement amounts and the requirements of each HUD program? (HUD, Ch. 1, par. 1-6)
- represented that management is responsible for the company's compliance with the laws and regulations applicable to the organization and the requirements of each HUD program and that they have complied with them? (HUD, Ch. 1, par. 1-6)

Program Specific Requirements

The specific requirements for the following programs are contained in separate chapters of the HUD Audit Guide IG 2000.04 Rev-1

- Chapter 3, Section 8 Guidance
- Chapter 4, Insured and Coinsured Multi-family Projects, HUD-Held Mortgages, Section 202 Loans, 811 Capital Advances, and Section 236 Subsidized Projects, Audit Guidance and Sample Financial Statements — and Sample Financial Statements
- Chapter 5, Insured Development Cost Certification Audit Guidance

QUES.	N/A	YES	NO	REF.
H215				
H216				
H217				

- Chapter 6, GNMA Issuers of Mortgage-Backed Securities Audit Guidance
- Chapter 7, HUD-Approved Title II Non-supervised Mortgagees and Loan Correspondents Audit Guidance
- Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance

Note: The HUD Audit Guide (the "guide") is not intended to be a complete manual of procedures, nor is the guide intended to supplant the auditor's judgment of audit work required. Suggested audit procedures contained in the guide may not cover all circumstances or conditions encountered in a particular audit. The auditor should use professional judgment to tailor the procedures so that the audit objective may be achieved. However, all applicable compliance requirements in the guide must be addressed by the auditor.

Do the working papers indicate that all appropriate procedures been performed and that appropriate conclusions have been drawn? (The auditor should justify why he/she did not test a particular compliance requirement)

A. Chapter 3, Section 8
Audit Guidance—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Affirmative Fair Housing?

Federal Financial Reports?

Management, Maintenance and Replacement Reserve of Capital Items?

Application, Eligibility, and Reexamination of Tenants?

Security Deposits?

QUES.	N/A	YES	NO	REF.
H218				
H219				
H220				
H221				
H222				
H223				

B. Chapter 4, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 202 Direct Loans, 811 Capital Advances, and Section 236 Subsidized Projects, Audit Guidance and Sample Financial Statements – Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Affirmative Fair Housing?

Federal Financial Reports?

Mortgage Status?

Replacement Reserve?

Residual Receipts?

Security Deposits?

Cash Receipts and Disbursements?

Distributions to Owners?

Tenant Application, Eligibility, and Recertification?

Management Functions?

C. Chapter 5, Insured Development Cost Certification Audit Guidance – Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Federal Financial Reports?

Accounting System?

Cut-Off Timing and Eligibility of Costs?

Identity of Interest?

QUES.	N/A	YES	NO	REF.
H224				
H225				
H226				
H227				
H228				
H229				
H230				
H231				
H232				
H233				
H234				
H235				
H236				
H237				

D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities— Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

- Federal Financial Reports?
- Eligibility to Issue Mortgage-Backed Securities?
- Review of Custodial Documents?
- Issuer’s Administration of Pooled Mortgages?
- Review of Monthly Accounting Reports and Quarterly Submissions?
- Securities Marketing and Trading Practices?
- GNMA Adjusted Net Worth?

E. Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

- Federal Financial Reports?
- Quality Control Plan?
- Branch Office Operations?
- Loan Origination?
- Loan Settlement?
- Loan Servicing?
- Escrow Accounts?
- Section 235 Assistance Payments?
- Kickbacks?
- Financial Approval?

QUES.	N/A	YES	NO	REF.
H238				
H239				
H240				
H241				
H242				
H243				
H244				
H245				
H246				
H247				
H248				
H249				
H250				
H251				
H252				
H253				
H254				

F. Chapter 8, HUD-Approved Title I
Nonsupervised Lenders and Loan
Correspondents Audit Guidance—
Working Paper Areas

Have the *specific* compliance requirements
been *addressed*:

Federal Financial Reports?

Branch Office Operations?

Loan Origination?

Loan Disbursement?

Loan Servicing?

Eligible Fees and Charges?

Financial Approval?

QUES.	N/A	YES	NO	REF.
H255				
H256				
H257				
H258				
H259				
H260				
H261				

Appendix 1

Instructions for Use of the Supplemental Checklist for Review of Audits of HUD Engagements

NOTE: For use on Engagements with Fiscal Years ending prior to September 30, 1993

This supplemental checklist was developed for use by reviewers of HUD Programs performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist). The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of HUD Programs. All "No" answers must be thoroughly explained in section V of the audit checklist.

This checklist reflects guidance issued through November 1992 and is not intended to be an all inclusive document containing all disclosures and audit procedures related to HUD Programs. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedures issues in order to sufficiently evaluate HUD engagements. These additional materials include the "Consolidated Audit Guide for Audits of HUD Programs" IG 2000.4, the AICPA TPA Sec. 6985 issued in November 1992, the Unofficial Questions and Answers on HUD Handbook IG 2000.4—CPA Letter January/February 1992, SOP 92-7 "Audits of State and Local Governmental Entities Receiving Federal Financial Assistance" and the HUD Handbook 4370.2 Rev-1 "Financial Operations and Accounting Procedures for Insured Multifamily Projects".

Note: Reference to SAS No. 63 in the HUD Guide, Ch.1, should be considered a reference to SAS No. 68 (AU Sec. 801)

Explanation of References:

AU	AICPA Professional Standards Volume 1 (As of June 1, 1992)
CFR	Code of Federal Regulations
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAO	Government Auditing Standards (1988) Revision, United States General Accounting Office
GNMA	Government National Mortgage Association
HUD	Handbook IG 2000.4—Consolidated Audit Guide for Audits of HUD Programs (1991)
OMB	The Office of Management and Budget

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AUDITS OF HUD ENGAGEMENTS**

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⁽¹⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements*.

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- B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans—Working Paper Areas 14560.40
- C. Chapter 6, Insured Development Cost Certification Audit Guidance—Working Paper Areas 14560.40
- D. Chapter 7, GNMA Issuers of Mortgage-Backed Securities—Working Paper Areas 14560.40
- E. Chapter 8, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements—Working Paper Areas 14560.41
- F. Chapter 9, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Working Paper Areas 14560.41

I. Report and Financial Statements

General

The term "major programs" as defined by the Consolidated Audit Guide for Audits of HUD Programs means an individual assistance program or a group of programs in a category of Federal Financial Assistance for which total expenditures exceed the larger of three percent of total Federal funds expended or \$300,000. A mortgagee with an FHA-insured portfolio balance exceeding \$300,000 is considered a major program. A program consisting of an outstanding HUD-insured, guaranteed or direct loan balance exceeding \$300,000 as of the reporting date shall be considered a major program. In addition, a Government National Mortgage Association (GNMA) Issuer with a remaining principal balance exceeding \$300,000 is considered a major program. (HUD, Ch. 1, par. 1-3) Furthermore, although organizations subject to Ch. 8 may not have major programs, HUD still requires a report on compliance with specific requirements. (HUD, Ch. 8, par 8-4)

Note: The materiality standard mentioned in questions H101-H109 is that required by the Yellow Book with the following exceptions—entities subject to Ch. 8 of the HUD Audit Guide—where all instances of noncompliance must be noted or in the case of any distribution from a project with an insured, coinsured, or HUD-held multifamily mortgage where the project is not in a surplus cash position.

Does the audit report cover clearly indicate the HUD programs (major and nonmajor) and the periods for which compliance testing was performed for those programs? (HUD, ch. 3, par. 3-1)

QUES.	N/A	YES	NO	REF.
H101				

Did the auditor issue the following reports in connection with the audit of HUD programs (HUD, Ch. 3, par. 3-3):

Report on Audited Financial Statements and Supplemental Information?
(HUD, Ch. 3, Example A)

Combined Report on Internal Control Structure as it relates to both financial reporting and administering HUD-Assisted Programs? (Note: There may be two reports issued on the internal control structure—one in accordance with *Government Auditing Standards* and one on the internal control structure used to administer the HUD Program) (HUD, Ch. 3, Example B as modified in AICPA TPA Sec. 6985 and AICPA TPA Sec. 6985, par. .01)

Opinion on compliance with specific requirements (other than Civil Rights—Nondiscrimination and Marketing) applicable to major HUD-Assisted Programs? (HUD, Ch. 3, Example C as modified in AICPA TPA Sec. 6985 and AU Sec. 801.53-.86)

A Report on Compliance with Specific Requirements for nonmajor programs (other than Civil Rights—Nondiscrimination and Marketing) which includes statements of positive assurance regarding compliance with laws and regulations for transactions tested, and negative assurance as to transactions not tested, as well as, a disclaimer of an opinion on compliance with the specific requirements identified? (AU Sec. 801.87-.90, HUD, Ch. 3, Example D as modified in AICPA TPA Sec. 6985)

A Report on the Results of Procedures used to Test Compliance with the Common Requirements (Cash Management and Federal Financial Reports) as well as certain Specific Requirements (relating to Civil Rights—Nondiscrimination and Marketing)? (HUD Ch. 4, par. 4-5A and Ch. 5, par. 5-5B, AU Sec. 801.50-.52 and AICPA TPA Sec. 6985)

QUES.	N/A	YES	NO	REF.
H102				
H103				
H104				
H105				
H106				

Report on Compliance with Laws and Regulations, based upon an audit of the financial statements performed in accordance with *Government Auditing Standards?* (AU Sec. 801.21-.32 and AICPA TPA Sec. 6985)

Note: There may be other laws and regulations that affect a HUD program (including but not limited to IRS regulations). The auditor should consider these laws and regulations in performing the engagement. Violation of applicable laws and regulations could have a material effect on the appropriateness of the report.

Schedule of Findings and Questioned Costs? (HUD, Ch. 3, Example E)

Auditor’s schedule of outstanding, unresolved audit and program review findings? (HUD, Ch. 3, Example F)

Did the auditor promptly prepare a separate written report concerning illegal acts or indications of such acts and include all questioned costs as the result of the acts? (HUD, Ch. 1, par. 1-5)

Did the auditor include in the audit report or an accompanying transmittal letter:

A Federal Employer ID Number?

Evidence of licensing in the jurisdiction where the audit was conducted?

Identification of the Lead Auditor?

QUES.	N/A	YES	NO	REF.
H107				
H108				
H109				
H110				
H111				
H112				
H113				

Program Specific—Additional Requirements

A. Chapter 4, Section 8 Audit Guidance—Reporting Requirements

Have the following additional reporting requirements been met:

Audited financial statements must be submitted to the contract administrator within 60 days after the end of the project fiscal year in accordance with 24 CFR Part 880 Section 8, and Part 881 Section 8? (HUD, Ch. 4, par. 4-4)

Note: For financial reporting required by the owner and applicable procedures, see the Federal Financial Reports Section in Section III. (HUD, Ch. 4, par. 5C)

B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans—Reporting Requirements

Have the following additional reporting requirements been met:

The regulatory agreement incident to the insured mortgage requires the annual submission of the audited financial statements prepared in accordance with the requirements of the Secretary, within 60 days after the end of the fiscal year? (HUD, Ch. 5, par. 5-4)

The statements must be certified to be accurate by the mortgagor (and the managing agent, if applicable) when the project is owned by an individual and by two general partners, when it is owned by a partnership or by two officers, when owned by a corporation? (HUD, Ch. 5, par. 5-4 and HUD HB 4370.2 Rev. 1, Ch. 3, par. 3-8)

QUES.	N/A	YES	NO	REF.
H114				
H115				
H116				

C. Chapter 6, Insured Development
Cost Certification Audit Guidance –
Reporting Requirements

Have the following additional reporting requirements been met:

The Mortgagors Certificate of Actual Cost (Form HUD-92330) should be supported by the information contained in the required financial statements (HUD Ch. 6 pars. 6-4 and 6-6). The Certificate of Actual Cost, auditor’s reports and required financial statements should be submitted to the applicable HUD Field Office. (HUD, Ch. 6, par 6-4)

Federal Financial Reports

For compliance requirements and working paper areas, see the Federal Financial Reports section of the Common Compliance Requirements in Section III. (HUD, Ch. 6, par. 6-5A)

D. Chapter 7, GNMA Issuers
of Mortgage-Backed Securities –
Reporting Requirements

Have the following additional reporting requirements been met:

GNMA issuers of mortgage-backed securities are required to submit an annual audit report to GNMA within 90 days of the close of its fiscal year in accordance with GNMA Handbook 5500.1 Rev. 6.? (HUD, Ch. 7, par. 7-4)

That the audit report includes a GNMA computation of adjusted net worth and the auditor’s report thereon? (HUD, Ch. 7, par. 7-4)

That a computation of the GNMA required fidelity bond coverage and mortgage servicing error and omission policy amounts should be submitted? (HUD, Ch. 7, par. 7-4)

QUES.	N/A	YES	NO	REF.
H117				
H118				
H119				
H120				

Federal Financial Reports

Note: For compliance requirements and working paper areas, see the Federal Financial Reports section of the Common Compliance Requirements in Section III. (HUD, Ch. 7, par. 7-5A)

E. Chapter 8, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements—Reporting Requirements

Have the following additional reporting requirements been met:

Title II lenders, nonsupervised mortgagees and loan correspondents are required annually to submit an audit report to the Commissioner within 90 days of the close of its fiscal year end? (HUD, Ch. 8, par. 8-4)

An analysis of the mortgagee’s net worth that is required for all mortgagees and lenders? (HUD, Ch. 8, par. 8-4)

Net worth must be adjusted to reflect only those assets acceptable to the Commissioner and the audit must include an analysis of the escrow funds? Guidance for the analysis of net worth and unacceptable assets is contained in HUD Ch. 8, par. 8-6? (HUD, Ch. 8, par. 8-4)

The auditor’s opinion on compliance and report on the internal control structure are required for every Title II lender, nonsupervised mortgagee, or loan correspondent regardless of the number of loans originated during the audit period? (HUD, Ch. 8, par. 8-4)

All instances of noncompliance, regardless of materiality, identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period? (HUD, Ch. 8, par. 8-4)

QUES.	N/A	YES	NO	REF.
H121				
H122				
H123				
H124				
H125				

F. Chapter 9, HUD-Approved Title I
Nonsupervised Lenders and Loan
Correspondents Audit Guidance—
Reporting Requirements

Have the following additional reporting requirements been met:

Every nonsupervised Title I lender or loan correspondent is required annually to submit an audit report to the Secretary within 75 days of the close of its fiscal year end? (HUD, Ch. 9, par. 9-4)

An analysis of the lender’s net worth is required? (HUD, Ch. 9, par. 9-4)

Net worth has been adjusted to reflect only those assets acceptable to the Secretary? Guidance for the analysis of net worth and unacceptable assets is contained in HUD Chapter 9, par. 9-6? (HUD, Ch. 9, par. 9-4)

The auditor’s opinion on compliance and report on the internal control structure are required for every Title I lender, or loan correspondent regardless of the number of loans originated during the audit period? (HUD, Ch. 9, par. 9-4)

Material instances of noncompliance identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period? (HUD, Ch. 9, par. 9-4)

QUES.	N/A	YES	NO	REF.
H126				
H127				
H128				
H129				
H130				

II. Working Paper Areas—HUD Engagements

General

Does the engagement letter required by HUD specify the following:

- that the audit was being performed in accordance with GAAS, *Government Auditing Standards* and the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)
- that the scope of the audit and contents of the financial report to be issued will meet the requirements of the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)
- that the Secretary of HUD, the HUD Inspector General and GAO/GAO representatives have access to the working papers? (HUD, Ch. 1, par. 1-6)

Did the auditor’s working papers indicate:

A cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO Ch. 4, par. 22)

For multifamily mortgagors only, that the auditor considered whether the firm performs manual or automated bookkeeping services and/or maintains official accounting records? If the auditor was not independent, is there evidence that the auditor resigned from the engagement? (HUD, Ch. 1, par. 1-2)

If the auditee is subject to OMB Circular A-133 (Non-Profit Organizations) and owns a HUD-assisted project subject to the HUD Audit Guide, were procedures and reports relating to the specific HUD engagement performed and reported on in accordance with the HUD Audit Guide? (HUD, Ch. 1, par. 1-1)

QUES.	N/A	YES	NO	REF.
H201				
H202				
H203				
H204				
H205				
H206				

If the subject property is out of state, and substantial audit work was performed out of state did the firm document evidence of meeting the licensing requirements for the state, if necessary?

That appropriate personnel are in compliance with the 1988 Yellow Book CPE requirements and related interpretations?

That the firm met the independence and quality control requirements of the 1988 Yellow Book?

That the client considered and identified all major and nonmajor programs?

Compliance with applicable laws and regulations, including a summary of all material instances of non-compliance and/or instances or indications of illegal acts (AU Sec. 801.21 and GAO, Ch. 5) that includes, when appropriate:

A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (AU Sec. 801.26 and GAO, Ch. 5, par. 6)

Presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding the issuance of a report on compliance? (AU Sec. 801.27-.30 and GAO, Ch. 5, par 5)

Reference to a separate letter, if applicable, describing immaterial differences of non-compliance? (AU Sec. 801.30)

If appropriate, that the scope section of the reports were properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results? (GAO Ch. 5, par. 4)

QUES.	N/A	YES	NO	REF.
H207				
H208				
H209				
H210				
H211				
H212				
H213				
H214				

When appropriate, that the auditor issued a separate report on fraud, abuse, or illegal acts, or indications of such acts? (AU Sec. 801.32)

Tests of controls were performed to evaluate effectiveness of design and operation of internal control structure policies and procedures in preventing or detecting material noncompliance with the requirements of HUD programs regardless of whether the auditor assesses internal control risk below the maximum? In instances where controls were not tested, was the report properly modified? (HUD, Ch. 1, par. 1-7)

Did the auditor obtain a representation letter from management that (AU Sec. 801 pars. .19 and .91-.92):

- represented that they identified all laws and regulations that have a direct and material effect on the determination of financial statement amounts and the requirements of each HUD program? (HUD, Ch. 1, par. 1-6)
- represented that management is responsible for the company's compliance with the laws and regulations applicable to the organization and the requirements of each HUD program and that they have complied with them? (HUD, Ch. 1, par. 1-6)

Common Compliance Requirements

The compliance requirements for HUD Programs are divided into two parts. This section contains the first part which are general requirements pertaining to more than one program area. These areas (i.e., Cash Management, Federal Financial Reports, and Marketing and Nondiscrimination) should be tested if they are applicable to the audited entity. It is essential that the auditor review these requirements because failure to comply, could have a material impact on an organization's financial statements including those prepared for Federal programs. (HUD, Ch. 2, par. 2-1 and AICPA TPA Sec. 6985 par. .01)

QUES.	N/A	YES	NO	REF.
H215				
H216				
H217				
H218				

The procedures indicated below are only recommended. They may or may not be appropriate to all programs. Auditors should test all key attributes of programs for compliance and justify in the working papers why a particular attribute has not been tested.

Do the working papers document the procedures performed and provide appropriate and adequate conclusions for procedures performed on the compliance requirements for:

Cash Management? (HUD, Ch. 2, pars. 2-2b.1-7)

Federal Financial Reports? (HUD, Ch. 2, par. 2-3A)

Marketing? (HUD, Ch. 4, par. 4-5A)

Nondiscrimination? (HUD, Ch. 5, par. 5-5B)

Program Specific Compliance

The specific compliance requirements for the following programs are contained in separate chapters of the HUD Audit Guide IG 2000.4

- Chapter 4, Section 8 Guidance
- Chapter 5, Insured and Coinsured Multi-family Projects, HUD-Held Mortgages and Section 202, Direct Loans Audit Guidance and Sample Financial Statements
- Chapter 6, Insured Development Cost Certification Audit Guidance
- Chapter 7, GNMA Issuers of Mortgage-Backed Securities Audit Guidance
- Chapter 8, HUD-Approved Title II Non-supervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements

QUES.	N/A	YES	NO	REF.
H219				
H220				
H221				
H222				

- Chapter 9, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance

The procedures indicated in these chapters are only recommended. They may or may not be appropriate to all programs. Auditors should test all key attributes of programs for compliance and justify in the working papers why a particular attribute has not been tested.

Has the auditor appropriately determined which chapter applies to the audit and considered the procedures and key areas in those chapters? (HUD, Chs. 4 through 9)

Do the working papers indicate that all specific compliance requirements have been:

Identified?

Evaluated?

Do the working papers indicate that all appropriate procedures been performed and that appropriate conclusions have been drawn? (The auditor should justify why he/she did not test a particular compliance requirement)

A. Chapter 4, Section 8
Audit Guidance—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Management, Maintenance and Replacement Reserve of Capital Items?

Application, Eligibility, and Reexamination of Tenants?

Security Deposits?

QUES.	N/A	YES	NO	REF.
H223				
H224				
H225				
H226				
H227				
H228				
H229				

B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans— Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Mortgage Status?

Replacement Reserve?

Residual Receipts?

Security Deposits?

Cash Receipts?

Cash Distributions?

Tenant Application, Eligibility, and Recertification?

Management Functions?

C. Chapter 6, Insured Development Cost Certification Audit Guidance— Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Cash Management?

Accounting System?

Cut-Off Timing and Eligibility of Costs?

Identity of Interest?

D. Chapter 7, GNMA Issuers of Mortgage-Backed Securities— Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Eligibility to Issue Mortgage-Backed Securities?

Review of Custodial Documents?

QUES.	N/A	YES	NO	REF.
H230				
H231				
H232				
H233				
H234				
H235				
H236				
H237				
H238				
H239				
H240				
H241				
H242				
H243				

Issuer’s Administration of Pooled Mortgages?
 Review of Monthly Accounting Reports and
 Quarterly Submissions?
 Securities Marketing and Trading Practices?
 GNMA Adjusted Net Worth?

E. Chapter 8, HUD-Approved Title II
 Nonsupervised Mortgagees and Loan
 Correspondents Audit Guidance and
 Analysis of Net Worth Requirements—
 Working Paper Areas

Have the *specific* compliance requirements
 been *addressed*:

Quality Control Plan?

Branch Office Operations?

Loan Origination?

Loan Settlement?

Loan Servicing?

Escrow Accounts?

Section 235 Assistance Payments?

Kickbacks?

F. Chapter 9, HUD-Approved Title I
 Nonsupervised Lenders and Loan
 Correspondents Audit Guidance—
 Working Paper Areas

Have the *specific* compliance requirements
 been *addressed*:

Branch Office Operations?

Loan Origination?

Loan Disbursement?

Loan Servicing?

Referral Fees?

QUES.	N/A	YES	NO	REF.
H244				
H245				
H246				
H247				
H248				
H249				
H250				
H251				
H252				
H253				
H254				
H255				
H256				
H257				
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H260				

As Revised March 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Supplemental Checklist for
Review of Audits of HUD Engagements***

(For Peer Reviews Beginning on or after April 1, 1993)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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**Instructions for Use of the Supplemental Checklist
for Review of Audits of HUD Engagements**

This supplemental checklist was developed for use by reviewers of HUD Programs performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist). The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of HUD Programs. All "No" answers must be thoroughly explained in section V of the audit checklist.

This checklist reflects guidance issued through November 1992 and is not intended to be an all inclusive document containing all disclosures and audit procedures related to HUD Programs. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedures issues in order to sufficiently evaluate HUD engagements. These additional materials include the "Consolidated Audit Guide for Audits of HUD Programs" IG 2000.4, the AICPA TPA Sec. 6985 issued in November 1992, the Unofficial Questions and Answers on HUD Handbook IG 2000.4—CPA Letter January/February 1992, SOP 92-7 "Audits of State and Local Governmental Entities Receiving Federal Financial Assistance" and the HUD Handbook 4370.2 Rev-1 "Financial Operations and Accounting Procedures for Insured Multifamily Projects".

Note: Reference to SAS No. 63 in the HUD Guide, Ch.1, should be considered a reference to SAS No. 68 (AU Sec. 801)

Explanation of References:

AU	AICPA Professional Standards Volume 1 (As of June 1, 1992)
CFR	Code of Federal Regulations
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAO	Government Auditing Standards (1988) Revision, United States General Accounting Office
GNMA	Government National Mortgage Association
HUD	Handbook IG 2000.4—Consolidated Audit Guide for Audits of HUD Programs (1991)
OMB	The Office of Management and Budget

**SUPPLEMENTAL CHECKLIST FOR REVIEW OF
AUDITS OF HUD ENGAGEMENTS**

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⁽¹⁾ Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements*.

- B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans—Working Paper Areas 14570.20
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- D. Chapter 7, GNMA Issuers of Mortgage-Backed Securities—Working Paper Areas 14570.20
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I. Report and Financial Statements

General

The term "major programs" as defined by the Consolidated Audit Guide for Audits of HUD Programs means an individual assistance program or a group of programs in a category of Federal Financial Assistance for which total expenditures exceed the larger of three percent of total Federal funds expended or \$300,000. A mortgagee with an FHA-insured portfolio balance exceeding \$300,000 is considered a major program. A program consisting of an outstanding HUD-insured, guaranteed or direct loan balance exceeding \$300,000 as of the reporting date shall be considered a major program. In addition, a Government National Mortgage Association (GNMA) Issuer with a remaining principal balance exceeding \$300,000 is considered a major program. (HUD, Ch. 1, par. 1-3) Furthermore, although organizations subject to Ch. 8 may not have major programs, HUD still requires an opinion on compliance with specific requirements. (HUD, Ch. 8, par 8-4)

Note: The materiality standard mentioned in questions H101-H109 is that required by the Yellow Book with the following exceptions—entities subject to Ch. 8 of the HUD Audit Guide—where all instances of noncompliance must be noted or in the case of any distribution from a project with an insured, coinsured, or HUD-held multifamily mortgage where the project is not in a surplus cash position.

Does the audit report cover clearly indicate the HUD programs (major and nonmajor) and the periods for which compliance testing was performed for those programs? (HUD, ch. 3, par. 3-1)

QUES.	N/A	YES	NO	REF.
H101				

Did the auditor issue the following reports in connection with the audit of HUD programs (HUD, Ch. 3, par. 3-3):

Report on Audited Financial Statements and Supplemental Information?
(HUD, Ch. 3, Example A)

Combined Report on Internal Control Structure as it relates to both financial reporting and administering HUD-Assisted Programs? (Note: There may be two reports issued on the internal control structure—one in accordance with *Government Auditing Standards* and one on the internal control structure used to administer the HUD Program) (HUD, Ch. 3, Example B as modified in AICPA TPA Sec. 6985 and AICPA TPA Sec. 6985, par. .01)

Opinion on compliance with specific requirements (other than Civil Rights—Nondiscrimination and Marketing) applicable to major HUD-Assisted Programs? (HUD, Ch. 3, Example C as modified in AICPA TPA Sec. 6985 and AU Sec. 801.53-.86)

A Report on Compliance with Specific Requirements for nonmajor programs (other than Civil Rights—Nondiscrimination and Marketing) which includes statements of positive assurance regarding compliance with laws and regulations for transactions tested, and negative assurance as to transactions not tested, as well as, a disclaimer of an opinion on compliance with the specific requirements identified? (AU Sec. 801.87-.90, HUD, Ch. 3, Example D as modified in AICPA TPA Sec. 6985)

A Report on the Results of Procedures used to Test Compliance with the Common Requirements (Cash Management and Federal Financial Reports) as well as certain Specific Requirements (relating to Civil Rights—Nondiscrimination and Marketing)? (HUD Ch. 4, par. 4-5A and Ch. 5, par. 5-5B, AU Sec. 801.50-.52 and AICPA TPA Sec. 6985)

QUES.	N/A	YES	NO	REF.
H102				
H103				
H104				
H105				
H106				

Report on Compliance with Laws and Regulations, based upon an audit of the financial statements performed in accordance with *Government Auditing Standards?* (AU Sec. 801.21-.32 and AICPA TPA Sec. 6985)

Note: There may be other laws and regulations that affect a HUD program (including but not limited to IRS regulations). The auditor should consider these laws and regulations in performing the engagement. Violation of applicable laws and regulations could have a material effect on the appropriateness of the report.

Schedule of Findings and Questioned Costs? (HUD, Ch. 3, Example E)

Auditor's schedule of outstanding, unresolved audit and program review findings? (HUD, Ch. 3, Example F)

Did the auditor promptly prepare a separate written report concerning illegal acts or indications of such acts and include all questioned costs as the result of the acts? (HUD, Ch. 1, par. 1-5)

Did the auditor include in the audit report or an accompanying transmittal letter:

A Federal Employer ID #?

Evidence of licensing in the jurisdiction where the audit was conducted?

Identification of the Lead Auditor?

QUES.	N/A	YES	NO	REF.
H107				
H108				
H109				
H110				
H111				
H112				
H113				

Program Specific—Additional Requirements

A. Chapter 4, Section 8 Audit Guidance—
Reporting Requirements

Have the following additional reporting requirements been met:

Audited financial statements must be submitted to the contract administrator within 60 days after the end of the project fiscal year in accordance with 24 CFR Part 880 Section 8, and Part 881 Section 8? (HUD, Ch. 4, par. 4-4)

Note: For financial reporting required by the owner and applicable procedures, see the Federal Financial Reports Section in Section III. (HUD, Ch. 4, par. 5C)

B. Chapter 5, Insured and Coinsured
Multifamily Projects, HUD-Held Mortgages
and Section 202 Direct Loans—
Reporting Requirements

Have the following additional reporting requirements been met:

The regulatory agreement incident to the insured mortgage requires the annual submission of the audited financial statements prepared in accordance with the requirements of the Secretary, within 60 days after the end of the fiscal year? (HUD, Ch. 5, par. 5-4)

The statements must be certified to be accurate by the mortgagor (and the managing agent, if applicable) when the project is owned by an individual and by two general partners, when it is owned by a partnership or by two officers, when owned by a corporation? (HUD, Ch. 5, par. 5-4 and HUD HB 4370.2 Rev. 1, Ch. 3, par. 3-8)

QUES.	N/A	YES	NO	REF.
H114				
H115				
H116				

C. Chapter 6, Insured Development
Cost Certification Audit Guidance—
Reporting Requirements

Have the following additional reporting requirements been met:

The Mortgagors Certificate of Actual Cost (Form HUD-92330) should be supported by the information contained in the required financial statements (HUD Ch. 6 pars. 6-4 and 6-6). The Certificate of Actual Cost, auditor’s reports and required financial statements should be submitted to the applicable HUD Field Office. (HUD, Ch. 6, par 6-4)

Federal Financial Reports

For compliance requirements and working paper areas, see the Federal Financial Reports section of the Common Compliance Requirements in Section III. (HUD, Ch. 6, par. 6-5A)

D. Chapter 7, GNMA Issuers
of Mortgage-Backed Securities—
Reporting Requirements

Have the following additional reporting requirements been met:

GNMA issuers of mortgage-backed securities are required to submit an annual audit report to GNMA within 90 days of the close of its fiscal year in accordance with GNMA Handbook 5500.1 Rev. 6.? (HUD, Ch. 7, par. 7-4)

That the audit report includes a GNMA computation of adjusted net worth and the auditor’s report thereon? (HUD, Ch. 7, par. 7-4)

That a computation of the GNMA required fidelity bond coverage and mortgage servicing error and omission policy amounts should be submitted? (HUD, Ch. 7, par. 7-4)

QUES.	N/A	YES	NO	REF.
H117				
H118				
H119				
H120				

Federal Financial Reports

Note: For compliance requirements and working paper areas, see the Federal Financial Reports section of the Common Compliance Requirements in Section III. (HUD, Ch. 7, par. 7-5A)

E. Chapter 8, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements—Reporting Requirements

Have the following additional reporting requirements been met:

Title II lenders, nonsupervised mortgagees and loan correspondents are required annually to submit an audit report to the Commissioner within 90 days of the close of its fiscal year end? (HUD, Ch. 8, par. 8-4)

An analysis of the mortgagee’s net worth that is required for all mortgagees and lenders? (HUD, Ch. 8, par. 8-4)

Net worth must be adjusted to reflect only those assets acceptable to the Commissioner and the audit must include an analysis of the escrow funds? Guidance for the analysis of net worth and unacceptable assets is contained in HUD Ch. 8, par. 8-6. (HUD, Ch. 8, par. 8-4)

The auditor’s opinion on compliance and report on the internal control structure are required for every Title II lender, nonsupervised mortgagee, or loan correspondent regardless of the number of loans originated during the audit period? (HUD, Ch. 8, par. 8-4)

All instances of noncompliance, regardless of materiality, identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period? (HUD, Ch. 8, par. 8-4)

QUES.	N/A	YES	NO	REF.
H121				
H122				
H123				
H124				
H125				

F. Chapter 9, HUD-Approved Title I
Nonsupervised Lenders and Loan
Correspondents Audit Guidance—
Reporting Requirements

Have the following additional reporting requirements been met:

Every nonsupervised Title I lender or loan correspondent is required annually to submit an audit report to the Secretary within 75 days of the close of its fiscal year end? (HUD, Ch. 9, par. 9-4)

An analysis of the lender’s net worth is required? (HUD, Ch. 9, par. 9-4)

Net worth has been adjusted to reflect only those assets acceptable to the Secretary? Guidance for the analysis of net worth and unacceptable assets is contained in HUD Chapter 9, par. 9-6? (HUD, Ch. 9, par. 9-4)

The auditor’s opinion on compliance and report on the internal control structure are required for every Title I lender, or loan correspondent regardless of the number of loans originated during the audit period? (HUD, Ch. 9, par. 9-4)

Material instances of noncompliance identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period? (HUD, Ch. 9, par. 9-4)

QUES.	N/A	YES	NO	REF.
H126				
H127				
H128				
H129				
H130				

II. Working Paper Areas—HUD Engagements

General

Does the engagement letter required by HUD specify the following:

- that the audit was being performed in accordance with GAAS, *Government Auditing Standards* and the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)
- that the scope of the audit and contents of the financial report to be issued will meet the requirements of the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)
- that the Secretary of HUD, the HUD Inspector General and GAO/GAO representatives have access to the working papers? (HUD, Ch. 1, par. 1-6)

Did the auditor’s working papers indicate:

A cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO Ch. 4, par. 22)

For multifamily mortgagors only, that the auditor considered whether the firm performs manual or automated bookkeeping services and/or maintains official accounting records? If the auditor was not independent, is there evidence that the auditor resigned from the engagement? (HUD, Ch. 1, par. 1-2)

If the auditee is subject to OMB Circular A-133 (Non-Profit Organizations) and owns a HUD-assisted project subject to the HUD Audit Guide, were procedures and reports relating to the specific HUD engagement performed and reported on in accordance with the HUD Audit Guide? (HUD, Ch. 1, par. 1-1)

QUES.	N/A	YES	NO	REF.
H201				
H202				
H203				
H204				
H205				
H206				

If the subject property is out of state, and substantial audit work was performed out of state did the firm document evidence of meeting the licensing requirements for the state, if necessary?

That appropriate personnel are in compliance with the 1988 Yellow Book CPE requirements and related interpretations?

That the firm met the independence and quality control requirements of the 1988 Yellow Book?

That the client considered and identified all major and nonmajor programs?

Compliance with applicable laws and regulations, including a summary of all material instances of non-compliance and/or instances or indications of illegal acts (AU Sec. 801.21 and GAO, Ch. 5) that includes, when appropriate:

A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (AU Sec. 801.26 and GAO, Ch. 5, par. 6)

Presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding the issuance of a report on compliance? (AU Sec. 801.27-.30 and GAO, Ch. 5, par 5)

Reference to a separate letter, if applicable, describing immaterial differences of non-compliance? (AU Sec. 801.30)

If appropriate, that the scope section of the reports were properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results? (GAO Ch. 5, par. 4)

QUES.	N/A	YES	NO	REF.
H207				
H208				
H209				
H210				
H211				
H212				
H213				
H214				

When appropriate, that the auditor issued a separate report on fraud, abuse, or illegal acts, or indications of such acts? (AU Sec. 801.32)

Tests of controls were performed to evaluate effectiveness of design and operation of internal control structure policies and procedures in preventing or detecting material noncompliance with the requirements of HUD programs regardless of whether the auditor assesses internal control risk below the maximum? In instances where controls were not tested, was the report properly modified? (HUD, Ch. 1, par. 1-7)

Did the auditor obtain a representation letter from management that (AU Sec. 801 pars. .19 and .91-.92):

- represented that they identified all laws and regulations that have a direct and material effect on the determination of financial statement amounts and the requirements of each HUD program? (HUD, Ch. 1, par. 1-6)
- represented that management is responsible for the company's compliance with the laws and regulations applicable to the organization and the requirements of each HUD program and that they have complied with them? (HUD, Ch. 1, par. 1-6)

Common Compliance Requirements

The compliance requirements for HUD Programs are divided into two parts. This section contains the first part which are general requirements pertaining to more than one program area. These areas (i.e., Cash Management, Federal Financial Reports, and Marketing and Nondiscrimination) should be tested if they are applicable to the audited entity. It is essential that the auditor review these requirements because failure to comply, could have a material impact on an organization's financial statements including those prepared for Federal programs. (HUD, Ch. 2, par. 2-1 and AICPA TPA Sec. 6985 par. .01)

QUES.	N/A	YES	NO	REF.
H215				
H216				
H217				
H218				

The procedures indicated below are only recommended. They may or may not be appropriate to all programs. Auditors should test all key attributes of programs for compliance and justify in the working papers why a particular attribute has not been tested.

Do the working papers document the procedures performed and provide appropriate and adequate conclusions for procedures performed on the compliance requirements for:

Cash Management? (HUD, Ch. 2, pars. 2-2b.1-.7)

Federal Financial Reports? (HUD, Ch. 2, par. 2-3A)

Marketing? (HUD, Ch. 4, par. 4-5A)

Nondiscrimination? (HUD, Ch. 5, par. 5-5B)

Program Specific Compliance

The specific compliance requirements for the following programs are contained in separate chapters of the HUD Audit Guide IG 2000.4

- Chapter 4, Section 8 Guidance
- Chapter 5, Insured and Coinsured Multi-family Projects, HUD-Held Mortgages and Section 202, Direct Loans Audit Guidance and Sample Financial Statements
- Chapter 6, Insured Development Cost Certification Audit Guidance
- Chapter 7, GNMA Issuers of Mortgage-Backed Securities Audit Guidance
- Chapter 8, HUD-Approved Title II Non-supervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements

QUES.	N/A	YES	NO	REF.
H219				
H220				
H221				
H222				

- Chapter 9, HUD-Approved Title I Nonsuper-vised Lenders and Loan Correspondents Audit Guidance

The procedures indicated in these chapters are only recommended. They may or may not be appropriate to all programs. Auditors should test all key attributes of programs for compliance and justify in the working papers why a particular attribute has not been tested.

Has the auditor appropriately determined which chapter applies to the audit and considered the procedures and key areas in those chapters? (HUD, Chs. 4 through 9)

Do the working papers indicate that all specific compliance requirements have been:

Identified?

Evaluated?

Do the working papers indicate that all appropriate procedures been performed and that appropriate conclusions have been drawn? (The auditor should justify why he/she did not test a particular compliance requirement)

A. Chapter 4, Section 8
Audit Guidance—Working Paper Areas

Have the specific compliance requirements been addressed:

Management, Maintenance and Replacement Reserve of Capital Items?

Application, Eligibility, and Reexamination of Tenants?

Security Deposits?

QUES.	N/A	YES	NO	REF.
H223				
H224				
H225				
H226				
H227				
H228				
H229				

B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Mortgage Status?

Replacement Reserve?

Residual Receipts?

Security Deposits?

Cash Receipts?

Cash Distributions?

Tenant Application, Eligibility, and Recertification?

Management Functions?

C. Chapter 6, Insured Development Cost Certification Audit Guidance—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Cash Management?

Accounting System?

Cut-Off Timing and Eligibility of Costs?

Identity of Interest?

D. Chapter 7, GNMA Issuers of Mortgage-Backed Securities—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Eligibility to Issue Mortgage-Backed Securities?

Review of Custodial Documents?

QUES.	N/A	YES	NO	REF.
H230				
H231				
H232				
H233				
H234				
H235				
H236				
H237				
H238				
H239				
H240				
H241				
H242				
H243				

Issuer’s Administration of Pooled Mortgages?
 Review of Monthly Accounting Reports and Quarterly Submissions?
 Securities Marketing and Trading Practices?
 GNMA Adjusted Net Worth?

E. Chapter 8, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Quality Control Plan?
 Branch Office Operations?
 Loan Origination?
 Loan Settlement?
 Loan Servicing?
 Escrow Accounts?
 Section 235 Assistance Payments?
 Kickbacks?

F. Chapter 9, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

Branch Office Operations?
 Loan Origination?
 Loan Disbursement?
 Loan Servicing?
 Referral Fees?

QUES.	N/A	YES	NO	REF.
H244				
H245				
H246				
H247				
H248				
H249				
H250				
H251				
H252				
H253				
H254				
H255				
H256				
H257				
H258				
H259				
H260				

PRM
14600

Governmental Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

***Checklist for Review of Audit Engagements
of State or Local Governmental Entities,
Including Those Receiving Federal Financial Assistance***

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS FOR USE OF THIS CHECKLIST)

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**Instructions for Use of Checklist for Review
of Audit Engagements of State or Local Governmental Entities,
Including Those Receiving Federal Financial Assistance**

This checklist was developed for use by reviewers of audits of state and local governments, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division staff member who initially contacted you or to the Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of state and local governmental units. This checklist can be used in reviewing the audit of the general purpose financial statements, the comprehensive annual financial report, or component unit financial statements. The reviewer, however, should recognize that this checklist does not address certain items contained in the comprehensive annual financial report, such as the introductory section and nonfinancial statistical information.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the Governmental Accounting Standards Board, the U.S. General Accounting Office's *Government Auditing Standards*, the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* (Fifth Edition), SOP 92-7—Audits of State and Local Governmental Entities Receiving Federal Financial Assistance and SAS No. 68—*Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*.

This checklist contains Appendix A which is devoted solely to the unique requirements of *Government Auditing Standards*. The checklist also contains Appendix B devoted solely to the special requirements of the Single Audit Act of 1984 (the Single Audit Act) and is based on the requirements established in the Office of Management and Budget's Circular No. A-128 (OMB A-128). Appendix A should always be completed when Appendix B is completed because the Single Audit Act requires that the audit be conducted in accordance with *Government Auditing Standards*.

To assist the reviewer in summarizing "no" answers in the *Summary Checklist for Reviews of Audit Engagements*, a column has been added containing sequential numbers referring to each question. Question numbers prefixed with the letter "A," such as "A101," refer to questions so numbered in the *Checklist for Review of Audit Engagements*. Question numbers prefixed with the letter "G," such as "G101," refer to questions on matters unique to governmental entities. Reviewers should summarize the "no" answers of the "A" prefixed questions with those drawn from the *Checklist for Review of Audit Engagements* in the *Summary Checklist for Reviews of Audit Engagements*. Reviewers should summarize the "G" prefixed questions in the appropriate appendix at the end of each section in the Summary Checklist.

Reviewers may adapt this checklist to fit specific engagements. If a not-for-profit entity is required to submit reports prepared in accordance with OMB Circular A-133, the reviewer should complete the *Checklists for Review of Audit Engagements of Not-for-Profit Organizations*. In addition, certain entities which are neither governmental nor not-for-profit organizations may have to submit reports prepared in accordance with either the Single Audit Act or A-133. In reviewing those engagements, reviewers should use either Appendices A and B of this checklist or Section III of the not-for-profit checklists respectively.

Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1988 revision), referred to as the "Yellow Book." Reviewers of HUD engagements should use the general audit checklist and the *Supplemental Checklist for Review of Audits of HUD Engagements*.

The Governmental Accounting Standards Board has voted to delay indefinitely the effective date of GASB No. 11. The statement would have gone into effect for financial statements for periods beginning after June 15, 1994.

Explanation of References

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
ACNO	AICPA Audit and Accounting Guide <i>Audits of Certain Nonprofit Organizations</i>
ASGLU	AICPA Audit and Accounting Guide <i>Audits of State and Local Government (Fifth Edition)</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
GA	Generally Accepted Accounting Practices
GAO	<i>Government Auditing Standards</i> Revision (1988), United States General Accounting Office
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (as of June 30, 1992)
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SECPS	<i>SEC Practice Section Reference Manual</i>
SOP	AICPA Statement of Position

Engagement Profile

Engagement Code No. _____ Office _____
 Partner _____ Date of Financial Statement* _____
 Manager _____ Date of Report _____
 Concurring Reviewer** _____ Date Report Released _____

This engagement involves reporting on:

- Comprehensive Annual Financial Report (CAFR)
- General Purpose Financial Statements (GPFS)
- Component Unit Financial Report (CUFR)
- Component Unit Financial Statements (CUFS)
- Special reports
- Other (e.g., Program Specific Audit Requirement)
- Internal Control and Compliance (pursuant to the Single Audit Act)

Was the work performed at the request of another office? Yes____ No____

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total combined governmental fund type revenues (Memorandum total)	\$ _____
Total combined proprietary fund type revenues (Memorandum total)	\$ _____
Total combined assets (Memorandum total)	\$ _____
Total amount of federal assistance received***	\$ _____

General description of audited entity:

Complex or troublesome audit areas:

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

** Not applicable unless required by firm policy.

*** This amount should include "pass through" federal assistance received indirectly from another state or local government.

14606

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Senior	_____	_____	_____	_____
Concurring Reviewer **	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	=====	_____	_____	_____
Total budgeted	=====	_____	_____	_____

List of Key Audit Areas Selected by Reviewer

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement, and if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

* * * * *

Date Engagement
Review Performed _____

Date Checklist Reviewed
by Team Captain _____

Reviewer _____

Signature _____

** Not applicable unless required by firm policy.

**CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS
OF STATE OR LOCAL GOVERNMENTAL ENTITIES**

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Note: This checklist has been updated through SAS No. 72, SFAS No. 117, FASB Interpretation No. 38, GASBS No. 16, and the GAO’s *Government Auditing Standards* (1988 Revision).

I. Report and Financial Statements

Note: This checklist is derived from the pronouncements of the Governmental Accounting Standards Board (GASB), the U.S. General Accounting Office (GAO) and the AICPA. For detailed information concerning these requirements, the reviewer may wish to consult the authoritative literature of the above noted organizations as well as the AICPA financial reporting aid, *Disclosure Checklists and Illustrative Financial Statements for State and Local Governmental Units*. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

Auditor's Reports

Do(es) the auditor's report(s) on the general purpose or component unit financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and cash flows of proprietary and nonexpendable trust funds? (ASLGU, Ch. 18 and SOP 89-6)

Is the report dated in conformity with the requirements of professional standards?
(AU Secs. 504.15-.17, 508.08 and 508.74, .82 and 530)

Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards?
(AU Secs. 508.08-.10 and 623)

Does the report cover all periods for which financial statements are presented?

If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph (AU Sec. 508.83)

QUES. N/A * YES NO REF. **

QUES.	N/A *	YES	NO	REF. **
G101				
A101				
A102				
A103				
A104				

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)

For engagements subject to Government Auditing Standards, has the reviewer completed Appendix A?

For engagements subject to the Single Audit Act, has the reviewer completed Appendix B?

Financial Statements and Notes

General

Are the financial statements suitably titled?
(AU Sec. 623.07 and .24)

Are the following general purpose or component unit financial statements presented:

Combined Balance Sheet - All Fund Types and Account Groups? [GASB Sec. 2200.105b.(2)(a)]

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and expendable trust funds?
[GASB Sec. 2200.105b.(2)(b)]

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual — General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted)?
[GASB Sec. 2200.105b.(2)(c)]

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) - All Proprietary Fund Types and similar trust funds?
[GASB Sec. 2200.105b.(2)(d)]

Combined Statement of Cash Flows — All Proprietary Fund Types and Nonexpendable Trust Funds? [GASB Sec. 2200.105b.(2)(e)]

QUES.	N/A	YES	NO	REF.
A105				
A112				
G102				
G103				
G104				
G105				
G106				

Do the combined financial statements contain all funds and account groups that comprise the financial reporting entity, as defined in the notes?

(GASB Sec. 2100 and GASB No. 14)⁽¹⁾

If totals by account are presented in the General Purpose Financial Statements, are the totals noted as memorandum only? (GASB Sec. 2200.113)

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles?

(AU Sec. 508.74)

Do interfund receivables equal interfund payables or are the differences explained in the notes? (GA)

Are transfers to other funds recorded either as residual equity or operating transfers, as appropriate?

(GASB Sec. 1800.106)

Are special assessment receivables offset by deferred revenue when appropriate? (GASB Sec. S40.115)

Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectible receivables?

(GASB Sec. P70 and S10)

If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed?

(GASB Sec. 2600.109 and GASB No. 14, par. 65⁽¹⁾)

If a general fund is presented:

Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)

Are significant sources of general fund revenues disclosed? (GASB Sec. 1800.114)

Are expenditures classified by function? (GASB Sec. 1800.115-.116)

QUES.	N/A	YES	NO	REF.
G107				
G108				
G109				
G110				
G111				
G112				
G113				
G114				
G115				
G116				
G117				

(1) GASB No. 14 is effective for fiscal years beginning after December 15, 1992.

If special revenue funds are presented:

Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)

Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.120)

If debt service funds are presented:

Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)

Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-120)

If capital project funds are presented:

Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)

Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.120)

If enterprise funds are presented:

Are the statements prepared on the accrual basis? (GASB Sec. 1600.125)

Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements? (GASB Sec. S40.123)

Are the restricted assets, liabilities payable from restricted assets, and portion of retained earnings required to be segregated for debt service separately disclosed? (ASLGU, Ch. 11, par. 27)

Are operating and nonoperating revenues and expenses separately classified? (GASB Sec. 1800.121)

Are property, plant and equipment properly reported on the balance sheet? (GASB Sec. 1300.102b., 1400.102-.103)

QUES.	N/A	YES	NO	REF.
G118				
G119				
G120				
G121				
G122				
G123				
G124				
G125				
G126				
G127				
G128				

If internal service funds are presented:

Are the statements prepared on the accrual basis?
(GASB Sec. 1600.125)

Do the financial statements present the net billings to other funds as revenues and the related costs as expenses? (GASB Sec. 1800.102)

Are long-term advances segregated from current amounts payable to other funds?
(GASB Sec. 1800.106)

Are property, plant and equipment properly reported on the balance sheet?
(GASB Secs. 1300.102b., 1400.102-.103)

If nonexpendable and/or pension trust funds are presented:

Are the statements prepared on the accrual basis?
(GASB Sec. 1600 - Statement of Principle—
Accrual Basis in Governmental Accounting)

Are the principal and income portions of trust fund equity classified in accordance with the trust document? (GA)

If agency funds are presented:

Are the balance sheets prepared on the modified accrual basis? (GASB Sec. 1600.105)

If expendable trust funds are presented:

Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)

Do the financial statements disclose the significant revenues and expenditures of each fund? (GASB Sec. 1800.114-.120)

If a general fixed assets account group is presented:

Are land, buildings, equipment, and construction-in-progress separately classified?
(ASLGU, Ch. 9, par. 22)

Where general fixed assets are depreciated, does the statement show the accumulated depreciation? (GASB Sec. 1400.118)

QUES.	N/A	YES	NO	REF.
G129				
G130				
G131				
G132				
G133				
G134				
G135				
G136				
G137				
G138				
G139				

If a general long-term debt account group is presented:

Are general obligation term bonds and serial bonds separately disclosed?
(GASB Sec. 1500.105)

Are other long-term liabilities (accrued vacation, leases, workers' compensation, etc.) separately disclosed? (GASB Sec. 1500.111-.123)

Are the amounts reported as amounts available for long-term debt and amounts to be provided properly stated? (GASB Sec. 1500.105)

Questions G143 through G170 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate if the fund statements were complete in presentation for each fund or account group. (GASB Sec. 2200)

Are the following financial statements presented, if necessary:

General fund:

Balance sheet?

Statement of revenues, expenditures and changes in fund balance?

Statement of revenues, expenditures and changes in fund balance — budget vs. actual?

Special revenue funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balance?

Statement of revenues, expenditures and changes in fund balances — budget vs. actual?⁽²⁾

Debt service funds:

Balance sheet?

QUES.	N/A	YES	NO	REF.
G140				
G141				
G142				
G143				
G144				
G145				
G146				
G147				
G148				
G149				

(2) This question is applicable for those funds required to adopt an annual budget.

	QUES.	N/A	YES	NO	REF.
Statement of revenues, expenditures and changes in fund balances?	G150				
Statement of revenues, expenditures and changes in fund balances — budget vs. actual? ⁽²⁾	G151				
Capital project funds:					
Balance sheet	G152				
Statement of revenues, expenditures and changes in fund balances?	G153				
Statement of revenues, expenditures and changes in fund balances — budgeted vs. actual? ⁽²⁾	G154				
Enterprise funds:					
Balance sheet?	G155				
Statement of revenues, expenses and changes in retained earnings?	G156				
Statement of cash flows?	G157				
Internal service funds:					
Balance sheet?	G158				
Statement of revenues, expenses and changes in retained earnings?	G159				
Statement of cash flows?	G160				
Nonexpendable and pension trust funds:					
Balance sheet?	G161				
Statement of revenues, expenses and changes in fund balances?	G162				
Statement of cash flows? ⁽³⁾	G163				
Agency funds:					
Balance Sheet?	G164				

(2) This question is applicable for those funds required to adopt an annual budget.

(3) GASB No. 9 does not require a statement of cash flows by pension trust funds.

Combining statement of changes in assets and liabilities, if appropriate?

Expendable trust funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances – budget vs. actual?⁽⁴⁾

If required, is a statement of changes in general fixed assets presented? [GASB Sec. 2200.106b.(4)]

If required, is a statement of changes in general long-term debt presented? [GASB Sec. 2200.106b.(4)]

Other Note Disclosures

Are the presentations appropriate and are disclosures adequate regarding the following significant accounting policies:

Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity and specific reasons for excluding agencies that meet those criteria?
(GASB Sec. 2100.121-.122)

If GASB No. 14 was applicable to this engagement (either as a result of the GASB’s effective date or an early applicable of the GASB), are individual component unit disclosures included within the General Purpose Financial Statements, as well as a brief description of the component units, their relationship to the primary government and how the separate financial statements for the individual component units may be obtained.
(GASB No. 14, pars. 51 and 61)

Basis of accounting applied to each fund type?
(GASB Sec. 1600)

QUES.	N/A	YES	NO	REF.
G165				
G166				
G167				
G168				
G169				
G170				
G171				
G172				
G173				

(4) This question is applicable for those funds required to adopt an annual budget.

Revenue recognition policies, including:

Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types?
(GASB Sec. 1600.102-.105)

Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not? (GASB Sec. 1600.106-.108)

Accounting for fixed assets concerning:

Classification in proprietary funds or general fixed assets account group?
(GASB Sec. 1400.106)

Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?
(GASB Secs. 1400.109, and .111-.113 and 2300.105m)

Depreciation methods and lives, including whether depreciation is reported on general fixed assets?
(GASB Sec. 1400 — Statement of Principle — Depreciation of Fixed Assets)

Capitalization of interest costs during construction? (GASB Sec. 2300.104a.(5))

Method of accounting and reporting for encumbrances? [GASB Sec. 2300.104a.(3)]

Claims and judgments? (GASB Sec. C50)

Interfund eliminations not apparent?
[GASB Sec. 2300.105(o)]

Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, and special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.)
(GASB Sec. 1500 — Statement of Principle — Accounting for Long-Term Liabilities)

QUES.	N/A	YES	NO	REF.
G174				
G175				
G176				
G177				
G178				
G179				
G180				
G181				
G182				
G183				

Valuation basis and significant or unusual accounting treatment for other assets, liabilities, and fund equity? (GASB Sec. 2300.106)

Significant accounting policies on expenditures? (AC Sec. A10)

Statement that the "total" columns, if any, on GPFS or CUFS are presented for analytical purposes only? [GASB Sec. 2300.105(l)]

Basis on which each budget is prepared, including:

Treatment of encumbrances?
[GASB Sec. 2300.104a.(3)]

Whether appropriations lapse at year end?
(GASB Sec. 1700.129d-e)

Explanation of the differences, if any, between the budgetary basis and the basis used for financial reporting of governmental funds?
[GASB Secs. 2400.104 and 2300.105(d)]

Whether presented budgetary information has been amended? (GA)

Separate summary of significant accounting policies for discrete presentations?
[GASB Sec. 2300.105(s)]

Are the presentations appropriate and are disclosures adequate regarding the following:

Classified balance sheets, where appropriate?

Accounting changes? (AC Sec. A06)

Retirement plans?
[GASB Sec. 2300.104(g) and .105(p)]

Postemployment benefits other than pensions?
(GASB Sec. P50.105-.107)

Deferred compensation plans adopted under IRC 457? [GASB Sec. 2300.105(u)]

QUES.	N/A	YES	NO	REF.
G184				
G185				
G186				
G187				
G188				
G189				
G190				
G191				
G192				
A114				
A130				
A131				
G193				

Related party transactions?
[GASB Sec. 2300.105(f)]

Nonmonetary transactions?
(AC Sec. N35 and C11)

Segment information for enterprise funds?
[GASB Sec. 2500.105(c)]

Capital leases of lessees?
[GASB Sec. 2300.105(g)]

Operating leases and rent expense of lessees?
[GASB Sec. 2300.104(j)]

Detail of the government's property tax calendar,
including the lien, levy, due and collection dates?
[GASB Secs. 2300.105(b) and P70.109]

Material noncompliance with finance-related legal
and contractual provisions, including instances
concerning budget amendments, expenditures
exceeding appropriations, and debt exceeding
legal limitations? (GASB Sec. 2300.104h and n)

Valuation allowances? (AC Sec. V18)

Restricted cash, including compensating balances?
(AC Secs. B05.107 and C59.120)

Deposits with financial institutions and invest-
ments, including risk categories, uninsured
deposits, and other disclosures required by
professional standards?
(GASB Sec. 2300.104b and c)

Terms or circumstances concerning repurchase or
reverse repurchase agreements?
(GASB Secs. 2300.104c and 2300.105v)

Receivables:

Loans or advances to other funds of the
governmental units? (GASB Sec. 1300.110)

Taxes receivable?
(GASB Secs. P70.106-.107 and S10.102-
.104)

Grant and other receivables from other
governments? (GASB Sec. G60.112)

QUES.	N/A	YES	NO	REF.
A121				
A125				
A135				
G194				
G195				
G196				
G197				
A140				
A141				
G198				
G199				
G200				
G201				
G202				

Effect of interest rates that do not reflect market rates? (AC Sec. I 69.109)

Receivables related to troubled debt restructurings?
(AC Sec. D22.136-.137 and .501-.505)

Other receivables?

Inventories? (AC Secs. B05.105 and I 78)

Joint ventures and other investments?
(GASB Sec. 2300.105h)

Pooled cash and investment accounts?
(GASB Sec. 2300.104c)

If this entity has public entity risk pools (co-operative group governmental entities) did the entity:

Recognize pool premiums as revenue over the contract period? (GASB Sec. Po20.115-.117)

Recognize claims costs in the period in which the event triggers coverage under the policy?
(GASB Sec. Po20.118-.122)

Report the estimated loss of a claim if it is both probable and reasonably estimable?
(GASB Sec. Po20.123)

Fixed assets, including changes during the period and capitalized interest?
(GASB Secs. 2300.104l and 1400.111)

Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)

Are the operating lease revenues accounted for under the accrual method? (GASB Sec. L20)

For leases entered into beginning June 30, 1990, are operating leases with scheduled rent increases accounted for in a systematic and rational manner? If terms are artificially low has the entity used either straightline or estimated fair value method? (GASB Sec. L20)

QUES.	N/A	YES	NO	REF.
A147				
A148				
A149				
A151				
G203				
G204				
G205				
G206				
G207				
G208				
A154				
G209				
G210				

Other assets, including intangible assets and deferred charges?

(AC Secs. I 60, Co2.106-.110, I 24 and I 25)

Pledged assets? (AC Sec. C59.120)

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10.101A)

Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)

Notes payable, bond, tax, and revenue anticipation notes, and other debt:

Maturities and rates? (AC Sec. C32.105)

Other terms and covenants?
(AC Sec. C59.120)

Special assessment debt and related activities?
(GASB Sec. 2300.105w)

Effect of interest rates that do not reflect market rates? (AC Sec. I 69)

Effect of troubled debt restructurings?
(AC Sec. D22.121)

Effect of early extinguishment of debt?
(AC Sec. D14 and I 17.104)

Loans or advances from other funds of the governmental unit?
(GASB Sec. 1300.110 and ASLGU, Ch. 8, par. 21)

Debt service requirements to maturity? (GASB Sec. 2300.104i)

Changes during the period including advance refundings resulting in defeasance of debt?
(GASB Sec. 2300.104m)

Unpaid debt that has been fully defeased?
(GASB Sec. D20.111-.114)

QUES.	N/A	YES	NO	REF.
A155				
A156				
A157				
A159				
A160				
A161				
G211				
A162				
A163				
A164				
G212				
G213				
G214				
G215				

Sinking fund contributions required as of year end? (ASLGU, Ch. 11, par. 27)

Demand notes? (GASB Sec. 2300.105x)

Compensation for future absences and special termination benefits for employees? (GASB Sec. 2300.105i and GASB No. 16)

Designation or reservations or other restrictions of fund balances or retained earnings? (ASLGU, Ch. 12)

Revenues, expenses and expenditures:

Grants, entitlements, and shared revenue? (GASB Sec. 2300.105k)

Investment income?

Interest cost? (AC Sec. I 67.118)

Depreciation? (AC Sec. D40.105)

Discontinued operations? (AC Sec. I 13)

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)

Are significant commitments and contingencies and construction commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)

Deficit fund balances or retained earnings of individual funds? (GASB Sec. 2300.104o)

Interfund receivables and payables? (GASB Sec. 2300.104p)

Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed? (GASB Sec. 2300.105r)

Are the financial statements adjusted, where appropriate, for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (GASB Sec. 2300.104f)

QUES.	N/A	YES	NO	REF.
G216				
G217				
G218				
G219				
G220				
G221				
A181				
A183				
A194				
A126				
A127				
G222				
G223				
G224				
G225				

Statement of Cash Flows

Is a statement of cash flows presented for each period as appropriate? (GASB Sec. 2450.103)

If the statement of cash flows is presented, does it report cash provided by investing, noncapital financing, capital and related financing and operating activities? (GASB Sec. 2450.104)

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (GASB Sec. 2450.105)

Does it provide a reconciliation between operating income and net cash flow from operating activities? (GASB Sec. 2450.129)

Are noncash investing, capital and financing activities disclosed? (GASB Sec. 2450.134)

Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and the enterprise's policy for determining which items are treated as cash equivalents disclosed? (AC Sec. C25.106-.108)

Do the components of the cash flow statement appear to have been shown at "gross" and not "net" amounts including cash flows? (AC Sec. C25.109-.111A and GASB Sec. 2450.109)

Other

Are the statement presentations and disclosures generally consistent with GASB pronouncements and the AICPA's *Audits of State and Local Governmental Units*?

QUES.	N/A	YES	NO	REF.
A197				
G226				
A199				
A200				
A201				
A203				
A205				
A207				

II. General Audit Procedures

In planning the audit engagement, did the auditor properly consider:

That the engagement letter, proposal or contract, if such documents were prepared, include a statement as to:

What type of engagement is being performed and whether the engagement is intended to meet governmental oversight agency's audit requirements? (AU Sec. 801.03)

The firm's responsibility to conform with professional standards with respect to the detection of errors and irregularities? (AU Sec. 316)

Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, contractual obligations and technological changes? (AU Secs. 311.03 and 801.11 and GAO, Ch. 4, pars. 10-12)

Definition of the reporting entity indicating the related organizations, functions, and activities that are either included or excluded from the financial statements in accordance with professional standards? (GASB Sec. 2100, GASB No. 14 and ASLGU, Ch. 5, par. 7)

Preliminary judgment, by fund type (if opinion on general purpose financial statements), about materiality levels? (AU Secs. 311.03 and 312.08)

Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service? (AU Sec. 341)

Did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts? (AU Secs. 312.12 and 316.05)

QUES.	N/A	YES	NO	REF.
G250				
G251				
A300				
G252				
A302				
G253				
A303				

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?
(AU Sec. 316.12)

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?
(AU Sec. 316.15)

Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)

If the auditor succeeded a predecessor auditor, did the auditor:

Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)

Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.06)

Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers?
(AU Sec. 315.08)

If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with professional standards?
(AU Sec. 322)

Did the auditor:

Obtain a sufficient understanding of the entity's internal control structure to plan the audit?
(AU Sec. 319.16 and AU Sec. 324.07-.10)

Document the understanding of the internal control structure? (AU Sec. 319.26)

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)

QUES.	N/A	YES	NO	REF.
A304				
A305				
A306				
A307				
A308				
A309				
A310				
A311				
A312				
A313				

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)

If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the internal control structure relating to the accounting applications at the service organization? (AU Sec. 324.06-.10)

If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report that describes the results of the service auditor's tests obtained; or were tests performed by the auditor at the service organization? (AU Sec. 324.14-.16)

If the engagement included work performed by joint auditors or by another office, correspondent, or affiliate:

Do the instructions to the other office or firm appear adequate? (AU Sec. 311)

Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)

Was there appropriate follow-up of open matters? (AU Sec. 311)

In those cases where another firm was used, were appropriate inquiries made regarding its independence and professional reputation? (AU Sec. 543.10)

For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity? (ASLGU, Ch. 18, par. 42)

If the principal auditor did not refer to the other auditor in his or her report, did the principal auditor perform one or more of the additional procedures contained in AU Sec. 543.12 to assess the adequacy of the work performed by the other auditor? (AU Sec. 543.12)

QUES.	N/A	YES	NO	REF.
A314				
A315				
A316				
A317				
A318				
A319				
A320				
G254				
G255				

Was an appropriately tailored, written audit program prepared?

[AU Sec. 311.05 and ASLGU, Ch. 5, par. 19]

Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained, during the planning process? (AU Sec. 319.02 and .05)

Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)

If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)

Have all the procedures called for in the audit program been signed? (AU Sec. 339)

If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations?

(AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?

(AU Sec. 350.40-.43)

In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing?

(AU Sec. 350.40)

Was the documentation of the foregoing considerations in accordance with firm policy?

QUES.	N/A	YES	NO	REF.
G256				
A322				
A323				
A324				
A325				
A326				
A327				
A328				
A329				
A330				

If statistical or nonstatistical sampling was used for substantive tests of details and tests of applicable laws and regulations, if appropriate:

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatement, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)

Were the misstatements results of the sample projected to the items from which the sample was selected? (AU Sec. 350.26)

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed? (AU Sec. 350.25)

In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements results from all audit sampling applications and to known misstatements from non-sampling applications? (AU Sec. 350.30)

Was the documentation of the foregoing considerations in accordance with firm policy?

During the performance of the engagement, did the auditor:

Consider the guidelines of professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)

Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)

Has the auditor evaluated the reasonableness of significant accounting estimates made by management? (AU Sec. 342)

QUES.	N/A	YES	NO	REF.
A331				
A332				
A333				
A334				
A335				
A336				
A337				
A338				
A339				

Did the auditor obtain a timely and appropriate (industry specific and/or Single Audit Act) letter of representations from management?
(AU Secs. 333.01 and 801.91)

Did the auditor obtain timely and appropriate responses from the entity’s attorney concerning litigation, claims, and assessments?
(AU Sec. 337.06)

Have all questions, exceptions, or notes, posed during the audit been resolved, including consideration of views obtained from responsible officials of the entity concerning the auditor’s findings?

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period’s financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)

If applicable, were adequate tests of compliance with applicable laws and regulations that have a direct and material effect on the financial statements performed and documented? (AU Sec. 801.08 and .23)

During the performance of the engagement, did the auditor:

If the auditor became aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement, did the auditor communicate to management and the audit committee (or others with equivalent authority) that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing – if the communication is oral the auditor should document the communication in the working papers) (AU Sec. 801.05)

Follow up on errors and irregularities in accordance with professional standards?
(AU Sec. 316.24-.29)

QUES.	N/A	YES	NO	REF.
A340				
A341				
A342				
A343				
G257				
G258				
A344				

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations?
(AU Sec. 316.25)

Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)

When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:

Follow up on the illegal acts in accordance with professional standards? (AU Secs. 316.24-.28 and 317.10)

Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)

Communicate directly with the audit committee if the illegal act involved senior management and document that communication, and obtain assurance that all other illegal acts that came to the auditors attention were adequately communicated?
(AU Sec. 317.17)

If evidence exists of situations or transactions that could be indicative of errors, irregularities, or illegal acts, did the auditor:

Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation and disclose any reservations regarding compliance with applicable laws and regulations?
(AU Sec. 801.84)

Give prompt notice to the appropriate management officials above the level of involvement?
(AU Secs. 317.17 and 801.31-.32)

QUES.	N/A	YES	NO	REF.
A345				
A346				
A347				
A348				
A349				
G259				
G260				

Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (AU Sec. 341)

If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))

If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of possible effects, and any mitigating factors, including management's plans? (AU Sec. 341.11)

If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph that adequately communicated the auditor's substantial doubt (i.e., included the terms "substantial doubt" and "going concern")? (AU Sec. 341)

Were all reportable conditions and material weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented?
(AU Sec. 801.18)

Appropriately reported in accordance with the applicable standards? (AU Sec. 325)

If the auditor, subsequent to the date of the report, became aware of facts which may have existed at that date and which might have affected the report had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?⁽⁵⁾
(AU Sec. 561)

QUES.	N/A	YES	NO	REF.
A350				
A351				
A352				
A353				
G261				
G262				
A361				

⁽⁵⁾ This question also applies to circumstances when, subsequent to the date of the audit report on the general purpose financial statements, the auditor, while performing procedures to support the other reports required by the Single Audit Act, identifies additional information that existed at the report date.

If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from his audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)

Where there is a formal oversight committee did the auditor:

Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)

If the communication was in writing, include a statement that it was intended solely for the use of the audit committee or the board of directors, and if appropriate, management? (AU Sec. 380.03)

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers? (Au Sec. 380.03)

QUES.	N/A	YES	NO	REF.
A362				
A363				
A364				
A365				

III. Working Paper Areas

Note: In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box next to the name of the working paper area. (As indicated on page 14606, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" next to the area.)

Cash Not a key area

Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period? (AU Secs. 313.07 and 560.10-.11)

Do the working papers indicate that the following were considered:

- Confirmation of cash balances?
- Restrictions on cash balances?
- Confirmation of bank credit arrangements such as compensating balances?
- Confirmation of liabilities and contingent liabilities to banks?
- Approval of interfund cash transactions?
- Verification of collateral required of depository institutions for public funds?
(GASB Sec. I 50.107-.111)
- Compliance with the laws and regulations governing the deposit of public funds?
(GASB Sec. C20)

QUES.	N/A	YES	NO	REF.
A401				
A402				
A403				
A404				
A405				
A406				
G301				
G302				
G303				

Determination that all cash accounts have been identified and appropriately recorded?
(ASLGU, Ch. 7, pars. 6-16)

Review of repurchase security transactions for consistency with the disclosures of the terms or circumstances of the transactions?
(GASB Sec. 150.159-.160)

Based on the assessment of control risk, do the substantive tests of cash appear adequate?
(AU Sec. 319)

Receivables Not a key area

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures? (AU Sec. 330.24-.30)

If confirmation work was performed prior to year end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?
(AU Sec. 330.32)

Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?
(AU Sec. 330.33)

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were procedures performed to provide evidence that taxes receivable and the related revenues were recorded in the correct period?
(ASLGU, Ch. 8, par. 22)

Were adequate tests of discounts and allowances made?

QUES.	N/A	YES	NO	REF.
G304				
G305				
A407				
A408				
A409				
A410				
A411				
A412				
A413				
G306				
A414				

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectability of receivables, including interfund receivables, adequately considered? (AU Sec. 312.29)

Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are pledged, assigned or otherwise encumbered?

Was receivable work coordinated with tests of revenues, including cut-off tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)

Inventories Not a key area

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Do the working papers indicate that there were adequate tests of:

Physical observation, if material?
(AU Sec. 331.09-.12)

The clerical accuracy of the inventory?

Costing methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

Based on the assessment of control risk, do the substantive tests of inventory appear adequate? (AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A415				
A416				
A417				
A418				
A420				
A430				
G307				
A426				
A427				
A428				
A435				

Investments Not a key area

Was a summary schedule prepared (or obtained) and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc., of investments?

Were securities either examined or confirmed?
(AU Sec. 332.04)

Was the computation of realized gains and losses tested by the auditor?

Do the working papers reflect that consideration was given to the appropriateness of the carrying values of securities and their classification into categories in conformity with professional standards?
(GASB Sec. I50)

Was an investigation of the possible impairment of the carrying value of long-term investments made?
(AU Sec. 332.03)

Do the working papers reflect that consideration was given to whether investments were pledged, restricted, or had limitations on their immediate use?

For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related note disclosures?
(GASB Sec. J50)

Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policies? (ASLGU, Ch. 7, pars. 4 and 10)

Were income, gains and losses from investments examined for proper allocation to the individual funds?
(GASB Sec. I50.104-.105)

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?
(ASLGU, Ch. 7, pars. 15-16)

Based on the assessment of control risk, do the substantive tests of investments appear adequate?
(AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A436				
A437				
A438				
A439				
A440				
A441				
G308				
G309				
G310				
A443				
A444				

Prepaid Expenses, Intangible Assets,
Deferred Charges, etc. Not a key area

Were adequate tests made and/or confirmations received for all material:

Prepaid expenses?

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc. appear adequate?
(AU Sec. 319)

Fixed Assets Not a key area

Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

Accumulated depreciation (where applicable)?

Do tests appear adequate and were proper conclusions drawn with respect to:

Additions (e.g., by examining supporting documents and/or physical inspection)?

Retirements, etc. (including examining miscellaneous income, scrap sales)?

The adequacy of the current and accumulated provisions for depreciation (where applicable)?

Status of idle facilities?

Do working papers indicate that the auditor considered the possibility that property was subject to liens?

QUES.	N/A	YES	NO	REF.
A445				
A446				
A447				
A448				
A449				
A452				
A453				
A454				
A455				
A456				
A457				
A458				
A459				

Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements? (GASB Secs. 1800.115-.120 and 1700.118-.119)

Based on the assessment of control risk do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)

Liabilities Not a key area

Were accounts and warrants payable adequately tested for propriety?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was the payables work coordinated with the testing of the purchases cut-off?

Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences or postemployment provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated? (GASB Secs. P20, C60, P50 and GASB16)

Were procedures performed to determine whether deferred compensation plans are appropriately disclosed? (GASB Sec. D25)

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures performed?

Were audit procedures performed to verify whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?

Is there evidence that the entity's complying with the covenants in its obligations?

Was an examination made to determine that:

New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group? (ASLGU, Ch. 11, par. 29)

QUES.	N/A	YES	NO	REF.
G311				
A460				
A461				
A462				
A463				
A464				
G312				
A465				
A466				
A467				
G313				

Debt restrictions, guarantees and other debt commitments are properly disclosed?
(ASLGU, Ch. 11, pars. 26-28)

Do the tests of interfund borrowings appear adequate with respect to:

Legal restrictions, if any, on such borrowings?
(GASB Sec. 1300.110)

Authorization? (GASB Sec. 1300.110)

Classification? (ASLGU, Ch. 8, par. 18)

Appropriateness of interest accruals and payments? (ASLGU, Ch. 11, par. 29)

Based on the assessment of control risk, do the substantive tests of liabilities appear adequate?
(AU Sec. 319)

Deferred Revenue Not a key area

Do the working papers reflect consideration of whether the basis of deferring revenue is reasonable?
(GASB Sec. 1600.116 and .125)

Where applicable, was consideration given to matching requirements, if any? (AU Sec. 801.58c)

If there were grants, entitlements or shared revenues received but not expended, where expenditure is the prime factor for determining eligibility, were the funds properly reported as deferred revenue? (G60.109)

Commitments and Contingencies Not a key area

Do the working papers include indication of the following:

Inspection of minutes of meetings of the oversight unit, provisions of the governmental unit's charter, and applicable statutes and changes therein?

Inspection of contracts, loan agreements, leases and correspondence from taxing and other governmental agencies, and similar documents?

QUES.	N/A	YES	NO	REF.
G314				
G315				
G316				
G317				
G318				
A468				
A469				
G319				
G320				
A476				
A477				

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiries of and discussions with management including management's written representations concerning liabilities and litigation, claims, assessments, and regulatory requirements as applicable?

(AU Secs. 337.05 and 333)

Consideration of prior audits of federal financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance? (ASLGU, Ch. 22, par. 35 and Ch. 21, par. 25)

Inspection of long-term contracts with non-governmental entities, such as construction contractors?

Were procedures performed to determine whether events subsequent to the date of the financial statements should be recorded or disclosed?

(AU Sec. 560.10-.12)

Have all material contingencies been properly considered, documented, and reported?

(AC Sec. C59)

Fund Equity Not a key area

Where applicable, were authorizations of changes in reserves and designated balances examined?

(ASLGU, Ch. 12, pars. 4 and 19-20)

Do the working papers indicate that there were appropriate inquiries, where applicable, as to proper classification, description and disclosures of components of fund equity?

(ASLGU, Ch. 12, par. 11)

Do the working papers indicate that fund transfers were properly approved and recorded?

(GASB Sec. 1300.110)

QUES.	N/A	YES	NO	REF.
A478				
A479				
G321				
G322				
A481				
A482				
G323				
G324				
G325				

Revenues and Expenditures/
Expenses Not a key area

Were revenues and expenditures and/or expenses for the period compared to the budget and the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained?
 (AU Sec. 329)

Was adequate consideration given to:

The entity's revenue recognition policy?
 (AC Sec. A10.105)

Income recognition on transactions where the earnings process was not complete?

Do the working papers indicate that revenues and interfund transactions were recognized in the accounting period in which they became available and measurable for fund types using the modified accrual basis of accounting? (GASB Sec. 1600.106-.116)

Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities?
 (ASLGU, Ch. 8, par. 28 and Ch. 17, par. 12)

Has it been determined that:

Expenditures are in accordance with the approved budget as to amounts and purpose?
 (ASLGU, Ch. 6, par. 24 and Ch. 10, par. 27)

Encumbrances are properly identified, supported and recorded?
 (GASB Secs. 1700.129-.130 and 2400.106)

Indirect cost allocations are in accordance with OMB A-87?
 (OMB Circular A-128, Questions and Answers, par. 17)

Were tests of payrolls, including account distribution, made, where appropriate?

QUES.	N/A	YES	NO	REF.
A488				
A489				
A490				
G326				
G327				
G328				
G329				
G330				
A486				

Do the tests of the pension expenses and liabilities appear adequate? (GASB Sec. P20)

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement? (ASLGU, Ch. 8, par. 28)

Were cost reimbursement reports and the underlying support reviewed?
(ASLGU, Ch. 8, par. 28)

Was the reasonableness of the indirect cost allocation plan reviewed and the propriety of the amounts allocated to grant programs determined?
(ASLGU, Ch. 8, par. 28)

Was the effect of audits, either required or performed by third party grantors, considered?
(ASLGU, Ch. 17, par. 13)

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

The effects of the grantees' compliance or non-compliance with performance requirements?
(ASLGU, Ch. 10, par. 27)

Based on the assessment of control risk, did the substantive tests (review, analysis, and detailed testing) of revenues and expenditures/expenses appear adequate?
(AU Sec. 319)

Other Not a key area

Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for? (GASB Sec. L20)

Were appropriate procedures applied to supplemental information? (AU Sec. 551.06 and .08)

QUES.	N/A	YES	NO	REF.
A487				
G331				
G332				
G333				
G334				
G335				
G336				
A493				
A494				
A495				

If the work of a specialist was used, did the auditor apply the guidance in professional standards?
(AU Sec. 336.05-.12)

Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)

QUES.	N/A	YES	NO	REF.
A498				
A499				

IV. Functional Areas

Independence (QC Sec. 10.07a)

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered?
(ET Sec. 101)

Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)

Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)

Assigning Personnel to Engagements (QC Sec. 10.07b)

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?
(QC Sec. 90.12)

Consultation (QC Sec. 10.07c)

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Were the firm's conclusions consistent with professional standards?

QUES.	N/A	YES	NO	REF.
A601				
A603				
A604				
A606				
A607				
A608				
A609				
A610				

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)

Does it appear that the hours charged by the partner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

 Planning checklist?

 Review of internal control structure:

 Manual system?

 EDP system?

 Audit work programs?

 Financial statement disclosures?

 Working paper and financial statement reviews?

QUES.	N/A	YES	NO	REF.
A611				
A612				
A613				
A614				
A615				
A616				
A617				
A618				
A619				
A620				
A621				

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm's guidelines for the form and content of audit working papers complied with?

If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas?
(AU Sec. 311.10)

If required by firm policy, was an appropriate preissuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy, and was that review documented?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated?
(QC Sec. 90.22)

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?
(QC Sec. 90.24)

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, etc.)? (QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
A622				
A623				
A624				
A625				
A626				
A627				
A628				

V. Appendix A—Questions for Use When the Engagement Is Subject to Government Auditing Standards

Does the language in the auditor’s reports conform with professional standards (optional for reports on basic financial statements), including references to *Government Auditing Standards* (GAO, Ch. 5, par. 3 and SOP 92-7, Ch. 6, Appendix D, par. D-2) and appropriately cover the following for the entity as a whole:

The internal control structure related matters based solely on the auditor’s understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (GAO, Ch. 5, par. 17, AU Sec. 801.33 and SOP 89-6) that includes, when appropriate:

The controls that were evaluated?
(SOP 89-6, Example 25 and GAO, Ch. 5, pars. 21 and 22)

Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, Ch. 5, par. 25)

Which matters are reportable conditions and which of the reportable conditions are material weaknesses?
(GAO, Ch. 5, pars. 17 and 23)

Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts (AU Sec. 801.21 and GAO, Ch. 5, par. 5) that includes, when appropriate:

A presentation of a reasonable basis for the auditor’s conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations?
(AU Sec. 801.26 and GAO, Ch. 5, par. 6)

QUES.	N/A	YES	NO	REF.
G401				
G402				
G403				
G404				
G405				
G406				
G407				

Presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding issuance of a report on compliance?
 (GAO, Ch. 5, par. 5 and AU Sec. 801.27-.30)

Reference to a separate letter, if applicable, describing immaterial instances of noncompliance?
 (AU Sec. 801.30 and GAO, Ch. 5, par. 8)

When illegal acts involve funds received from other governmental entities did the auditors assure themselves that the audited entity notified the proper official, of those entities, within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities? (GAO, Ch. 5, par. 13 and AU Sec. 801.32)

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefor, and the known effect of not following the standard on the audit results?
 (GAO, Ch. 5, par. 4)

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (AU Sec. 801.32)

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (AU Sec. 801.20)

Did the auditor document his/her communication of those nonreportable conditions in the internal control structure not included in the required reports?
 (AU Sec. 801.38-.39 and GAO, Ch. 5, par. 25)

If required by contractual obligations, were findings presented in accordance with the guidance in the *Government Auditing Standards* regarding reporting on performance audits? (GAO, Ch. 7)

QUES.	N/A	YES	NO	REF.
G408				
G409				
G410				
G411				
G412				
G413				
G414				
G415				

Do the working papers contain sufficient information so that supplementary oral explanations are not required, include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer and include documentation of supervisory review? (GAO, Ch. 4, par. 22)

Are appropriate personnel in compliance with the 1988 Yellow book CPE requirements? (GAO, Ch. 3, pars. 6-9 and GAO, Interpretation of Continuing Education and Training Requirements)

Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance? (GAO, Ch. 3, pars. 11-25)

If the auditor (firm) is a CPA or PA, did he/she meet the licensing requirements of the jurisdiction where the auditee is located? (GAO, Ch. 3, par. 10)

Program Specific Audits

Where an auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements for that particular program? (AU Sec. 801.96)

QUES.	N/A	YES	NO	REF.
G416				
G417				
G418				
G419				
G420				

VI. Appendix B—Questions for Use When the Engagement Is Subject to the Single Audit Act of 1984

Note: Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

SOP 92-7, *Audits of State and Local Governmental Entities Receiving Federal Financial Assistance* is effective for audits done in accordance with the Single Audit Act and OMB Circular A-128 for audits of fiscal years ending on or after December 15, 1992. Earlier application is encouraged.

Does the language in the auditor’s reports conform with professional standards, including references to *Government Auditing Standards* and OMB Circular A-128?

Do the Single Audit Act Reports also include:

Auditor’s report on the schedule of federal financial assistance? (ASLGU, Ch. 17, par. 29 and Ch. 23, par. 1)

Auditor’s report on internal controls over federal financial assistance program identifying the entity’s internal control structure and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (SOP 90-9, Appendix A):

The controls that were evaluated (considered and tested)? [OMB Circular A-128 13a(2)]

The controls that were not evaluated (tested)? [OMB Circular A-128 13a(2)]

The material weaknesses identified as a result of the evaluation (considered and tested)? [OMB Circular A-128 13a(2)]

QUES.	N/A	YES	NO	REF.
G501				
G502				
G503				
G504				
G505				
G506				

Major programs – Compliance reports – Specific requirements:

An opinion that the entity complied, in all material respects, with specific requirements that, if not complied with, could have a material effect? (AU Sec. 801.80)

Nonmajor programs – Compliance report – Specific requirements:

A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (AU Sec. 801.89)

Major and nonmajor programs – Compliance auditing – General requirements:

A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements? (AU Sec. 801.51e-f)

When appropriate, did the auditor properly modify the report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding reporting on performance audits? (AU Sec. 801.51g and .79)

Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (AU Sec. 801.56 and ASLGU, Ch. 21, par. 31)

Does the schedule of federal financial assistance program expenditures present the following (ASLGU, Ch. 23, par. 7):

Identification of each program as indicated in the *Catalog of Federal Domestic Assistance* (CFDA)?

QUES.	N/A	YES	NO	REF.
G507				
G508				
G509				
G510				
G511				
G512				

Other federal assistance from programs not included in the CFDA?

Total expenditures for each federal financial assistance program by grantor, department, or agency?

Total federal financial assistance?

Other information, either required by federal program managers or otherwise deemed appropriate?

Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 (Audits of State and Local Governments), A-87 (Cost Principles Applicable to Grants and Contracts), and "common rule" under A-102 (Uniform Requirements for Assistance to State and Local Governments)?

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance?
(AU Sec. 801.20 fn. 10 and GAO, Ch. 3, par. 41)

Did the auditor perform and document the required level of internal control structure review, to include:

The consideration and testing of those internal control structure policies and procedures, relating to both specific and general requirements, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level?
(SOP 92-7, Ch. 4, par. 4.8)

If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering non-major programs, to the same extent as in Question G519 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested? (SOP 92-7, Ch. 4, par. 4.9)

A sufficient understanding of the internal control structure for the systems used in administering other non-major federal financial assistance programs? (SOP 92-7, Ch. 4, par. 4.10)

QUES.	N/A	YES	NO	REF.
G513				
G514				
G515				
G516				
G517				
G518				
G519				
G520				
G521				

For the categories of controls for which the tests of controls were performed:

Do the working papers document the auditor's understanding of the structure?
(AU Sec. 319.26)

In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?
(AU Sec. 319)

Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports?
(AU Sec. 801.74-.75)

Do the working papers adequately document the work performed and the conclusions reached?
(AU Sec. 319)

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:

Consult appropriate sources, such as the Compliance Supplement for Single Audits of State and Local Governments (revised September 1990), statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (AU Sec. 801.58-.62)

Consider materiality in relation to each major federal assistance program?
(AU Sec. 801.57)

Select a representative number of charges from each major program? (ASLGU, Ch. 22, par. 4)

Perform and document tests to determine whether (AU Sec. 801.58):

The amounts reported as expenditures were allowable under federal regulations and contracts? (AU Sec. 801.58a)

QUES.	N/A	YES	NO	REF.
G522				
G523				
G524				
G525				
G526				
G527				
G528				
G529				

Only eligible persons or organizations received services or benefits?
(AU Sec. 801.58b)

Matching requirements were met?
(AU Sec. 801.58c)

Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?
(AU Sec. 801.58d and ASLGU, Ch. 22, par. 24)

The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program? (AU Sec. 801.58e)

Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (AU Sec. 801.47):

Political activity? (AU Sec. 801.47a)

Civil rights? (AU Sec. 801.47c)

Davis-Bacon Act? (AU Sec. 801.47b)

Cash management? (AU Sec. 801.47d)

Relocation assistance and real property acquisition? (AU Sec. 801.47e)

Federal financial reports? (AU Sec. 801.47f)

Allowable costs/cost principles?
(AU Sec. 801.47g)

Drug-free workplace act?
(AU Sec. 801.47h)

Administrative requirements?
(AU Sec. 801.47i)

Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (AU Sec. 801.76-.79)

QUES.	N/A	YES	NO	REF.
G530				
G531				
G532				
G533				
G534				
G535				
G536				
G537				
G538				
G539				
G540				
G541				
G542				
G543				

Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance?
(AU Secs. 801.53 and .87)

Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs?
(OMB Cir. A-128, Questions and Answers, par. 20)

Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested?
(AU Secs. 801.87 and .90)

If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems?
(ASLGU, Ch. 21, pars. 40 and 41)

Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time? (GAO, Ch. 5, par. 34)

Has the auditor established policies or procedures for complying with the additional requirements concerning (ASLGU, Ch. 21, par. 27):

Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?

Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?

QUES.	N/A	YES	NO	REF.
G544				
G545				
G546				
G547				
G548				
G549				
G550				

VII. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate, but that the matter is not significant enough to warrant the preparation of an MFC form.

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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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VIII. Conclusions

Explain Below the Reasons for Any "Yes" Answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of *Government Auditing Standards* and the Single Audit Act? YES* _____ NO _____
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (see AU 561 and ET 203)? YES* _____ NO _____
3. The auditor's reports, including all reports required under *Government Auditing Standards* or by the Single Audit Act, were not appropriate in the circumstances? YES* _____ NO _____
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES _____ NO _____
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES _____ NO _____

* If this question is answered "yes," see additional guidance contained in SECPS §2000.77-.83 of the *SECPS Reference Manual* and PCPS §2000.69-.76 of the *PCPS Reference Manual*.

PRM
14700

Not-for-Profit Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Checklist for Review of Audit Engagements of Not-For-Profit Organizations

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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**Instructions for Use of Checklist
for a Review of Audit Engagements of Not-For-Profit Organizations**

This checklist was developed for use by reviewers of audits of not-for-profit organizations, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division staff member who initially contacted you or to the Quality Review Division at 201/938-3030.

The questions in the checklist are intended to emphasize the general procedures that an independent auditor would ordinarily perform in auditing and reporting on financial statements of not-for-profit organizations. Accordingly, the matters covered in this checklist concentrate primarily on the accounting and auditing procedures that are unique to those not-for-profit audits and that extend the auditor's responsibilities beyond compliance with the AICPA's GAAS.

Reviewers may adapt this checklist to fit specific engagements. If the not-for-profit entity is contractually required to submit reports prepared in accordance with the OMB Circular A-133, the reviewer should complete Section III ("Audits of Government Grantees"). Likewise, individuals reviewing review or compilation engagements of not-for-profit organizations should combine Sections I ("Report and Financial Statements") and III ("Audits of Governmental Grantees") of this checklist with Sections II ("General Procedures"), III ("Functional Areas") and V ("Conclusions") of the review and compilation checklists.

If the reviewer is reviewing an organization that follows the AICPA Audit and Accounting Guide *Audits of Voluntary Health and Welfare Organizations*, the reviewer should complete this checklist and the supplemental checklist for review of voluntary health and welfare organizations.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the AICPA's *Statement of Position 78-10 Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, AICPA's *Statement of Position 87-2 Accounting for Joint Costs of Informational Materials and Activities for Not-for-Profit Organizations that include Fund-Raising Appeal* and AICPA's *Statement of Position 92-9 Audit of Not-for-Profit Organizations Receiving Federal Awards*, the AICPA Audit and Accounting Guide *Audits of Certain Nonprofit Organizations*, the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*, the AICPA financial reporting practice aid *Disclosure Checklists for Nonprofit Organizations*, OMB Circular A-133 *"Audits of Institutions of Higher Education and Other Nonprofit Institutions"* and the 1988 *Government Auditing Standards* (Section III of this checklist).

Reviewers should be aware that *Statement of Position 78-10* has a unique position compared to other statements of position and audit guides as it does not have an effective date (paragraph 124). However, *FASB No. 32* indicates that the specialized accounting and reporting principles and practices contained in *SOP 78-10* are preferable accounting principles for applying *APB Opinion No. 20*. The common interpretation of this situation is that an

entity is not required to adopt the accounting principles advocated in *SOP 78-10*; however, if an organization changes its accounting principles, it should adopt the principles enumerated in that document.

By comparison, the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* is effective and, as noted in the notice to readers, members are on notice that they may be called upon to justify departures from the accounting principles in the guide.

SOP 92-9 Audit Requirements for Not-for-Profit Organizations Receiving Federal Awards is effective for fiscal years ending on or after December 31, 1992.

OMB Circular A-133 establishes audit requirements and defines Federal responsibilities for implementing and monitoring such requirements for institutions of higher education and other not-for-profit institutions receiving awards. The provisions of OMB Circular A-133 are effective for all audits of not-for-profit institutions for fiscal years that begin on or after January 1, 1990.

The Federal Office of Management and Budget issued a nonprofit compliance supplement to provide guidance for implementing OMB Circular A-133.

Explanation of References

AEBP	Audit and Accounting Guide <i>Audit of Employee Benefit Plans</i> (As of March 31, 1991)
AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
ACNO	AICPA Audit and Accounting Guide <i>Audits of Certain Nonprofit Organizations</i> [with conforming changes (As of May 1, 1993)]
ASGLU	AICPA Audit and Accounting Guide <i>Audits of State and Local Governmental Units</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
GA	Generally Accepted Accounting Practice
GAO	<i>Government Auditing Standards</i> (1988 Revision), United States General Accounting Office
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (As of June 30, 1992)
OMB	Office of Management and Budget Circular
SOP	AICPA Statement of Position
QC	Quality Control Standards <i>AICPA Professional Standards</i> (vol. 2)
VHW	AICPA Audit and Accounting Guide <i>Audits of Voluntary Health and Welfare Organizations</i> (As of May 1, 1992)

Engagement Profile

Engagement Code No. _____ Office _____
 Partner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Concurring Reviewer** _____ Date Report Released _____

This engagement involves reporting on:

- () Financial statements (single entity)
- () Combined financial statements of financially interrelated not-for-profit organizations
- () Consolidated or combined financial statements of voluntary health and welfare organizations
- () Financial statements of a component of the organization
- () Special reports (SAS No. 62)
- () Internal Control and Compliance (pursuant to OMB Circular A-133)
- () Other (explain)

Was the work performed at the request of another office? Yes___ No___

Date that the fee for the prior engagement was paid _____

Key data reported on by this office for this engagement:

Total revenues (Memorandum total) \$ _____
 Total assets \$ _____
 Total fund balances \$ _____
 Total amount of federal assistance received*** \$ _____

General description of audited entity (type of entity, services provided, etc.)

Complex or troublesome audit areas:

Audit hours on this engagement:

	Total	Prior to Commencement of Field Work	During Field Work	After Completion of Field Work
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Concurring Reviewer**	_____	_____	_____	_____
Senior	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total this office	_____	_____	_____	_____
Total budgeted	_____	_____	_____	_____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

** Not applicable unless required by firm policy.

*** This amount should include "pass through" federal financial assistance received indirectly from a state or local government.

List of Key Audit Areas Selected by Reviewer

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement, and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed _____

Reviewer _____

Date Checklist Reviewed
by Team Captain _____

Signature _____

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS**CONTENTS**

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NOTE: This checklist has been updated through SAS No. 72, SFAS No. 117, FASB Interpretation No. 38, and the GAO's *Government Auditing Standards* (1988 Revision).

I. Report and Financial Statements

NOTE: This condensed checklist has been extracted from the AICPA financial reporting aid, *Disclosure Checklists for Nonprofit Organizations*. Reviewers may wish to consult that checklist for detailed information about the applicable professional standards and related citations. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

Auditor's Reports

Is the report dated in conformity with the requirements of professional standards?

(AU Secs. 504.15-.17, 508.08 and .74 and 530)

Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report in the circumstances described in such standards?

(AU Secs. 508.08-.10 and 623)

Does the report cover all periods for which financial statements are presented? (AU Sec. 508.74)

If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)

If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)

For special reports, have professional standards been complied with regarding:

Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.02-.10)

QUES.	N/A*	YES	NO	REF.**
A101				
A102				
A103				
A104				
A105				
A106				

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.

Specified elements, accounts or items of a financial statement? (AU Secs. 622 and 623.11-.18)

Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (AU Sec. 623.19-.21)

Financial presentations to comply with contractual agreements or regulatory provisions? (AU Sec. 623.22-.30)

Financial information in prescribed forms or schedules? (AU Sec. 623.32-.33)

For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards? (AU Sec. 534)

Financial Statements and Notes

General

Are the financial statements suitably titled? (AU Sec. 623.07 and .24)

Are the presentations appropriate and disclosures adequate regarding:

Significant accounting policies, including a description of the nature of each fund, if applicable (i.e., general, plant, endowment, unrestricted, temporarily restricted, permanently restricted)? (AC Sec. A10.105-.108)

Accounting changes? (AC Sec. A06)

If FAS No. 116 *Accounting for Contributions Received and Contributions Made* was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the financial statements disclose:

Collection items not capitalized?

Receipts of contributed services?

Promises to give?

QUES.	N/A	YES	NO	REF.
A107				
A108				
A109				
A110				
A111				
A112				
A113				
A114				
N101				
N102				
N103				

If FAS No. 117 *Financial Statements of Not-for-Profit Organizations* was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the financial statements include the following statements:

A statement of financial position presenting total assets, total liabilities and net assets?

A statement of activity containing the changes in the organization's net assets?

A statement of cash flows containing the changes in the cash and cash equivalents?

Are the net assets classified based on donor restriction or unrestriction?

Are the three categories of net assets (permanently restricted, temporarily restricted and unrestricted) disclosed on the statement of financial position and changes in the statement of activities?

Is there a classification of revenues, expenses, gains and losses based on donor restriction or unrestriction?

Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?
(AC Sec. F25.112 and .115)

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles?
(AU Sec. 508.76, fn. 27)

Are nonmonetary transactions properly accounted for and disclosed? (AC Secs. N35 and C11)

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)

Are other contingencies and commitments adequately disclosed?
(AC Secs. C32.102-.105 and C59.118-.120)

QUES.	N/A	YES	NO	REF.
N104				
N105				
N106				
N107				
N108				
N109				
A119				
N110				
A125				
A126				
A127				

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?
(AC Secs. C59.105 and .112 and AU Secs. 560.03-.09 and 561)

Is the required information on defined benefit pension plans adequately disclosed?
(AC Sec. P16.150)

Are all other pension plans adequately disclosed?
(AC Sec. P16)

Is the required information on defined benefit postretirement plans adequately disclosed?
(AC Sec. P40.169)

If FAS No. 106 has not yet been adopted are postemployment health care and life insurance benefits properly disclosed under FAS No. 81? (AC Sec. P50.102-.103)

If the financial statements represent a component, such as a branch of an existing organization, a separate operation, or a separate fund, do the financial statements or footnotes disclose the following (ACNO, Ch. 8, pars. 8.20-8.24):

Existence and nature of affiliated or controlling entities?

Nature and volume of material transactions (individually or in the aggregate) with related entities?

Allocations of common expenses?

Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed? (SOP 78-10, par. 47)

If appropriate, are the financial statements prepared on a fund accounting basis and adequate disclosures made of the following (SOP 78-10, pars. 15 and 20-24):

Unrestricted resources? (SOP 78-10, par. 63)

Resources restricted by the donor?
(SOP 78-10, pars. 54-62)

QUES.	N/A	YES	NO	REF.
A128				
A129				
A130				
A131				
A132				
N111				
N112				
N113				
N114				
N115				
N116				

Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Segregation of assets and liabilities into current and noncurrent classifications (if only unrestricted funds exist, a segregated balance sheet is recommended, but not required, by SOP 78-10)

Valuation allowances? (AC Sec. V18)

Cash? (AC B05.107 and C59.120)

Investments?
(AC Secs. I82.109-.110 and I89.101-.107 and FAS No. 107.10-.14)

Terms or circumstances concerning repurchase or reverse repurchase agreements?
(SOP 85-2, par. 13)

Accounts and Notes Receivable:

Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)

Legally enforceable pledges?
(SOP 78-10, pars. 64-.66; VHW p. 18)

Interfund receivables?
(SOP 78-10, pars. 118-119)

Other receivables?

Inventories? (AC Secs. B05.105 and I78)

Collections of works of art and similar items?
(AC Secs. D40.101-.101A and 5.101-.103 and ACNO, p. 22)

Fixed Assets:

Purchased fixed assets?
(SOP 78-10, par. 105 and VHW p. 10)

Donated fixed assets?
(SOP 78-10, par. 105 and VHW pp. 10-11)

QUES.	N/A	YES	NO	REF.
A139				
A140				
N117				
A152				
N118				
A147				
N119				
N120				
A149				
A151				
N121				
N122				
N123				

Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets?
(SOP 78-10, pars. 106-112 and VHW pp. 11-13)

Major classes of depreciable assets?

Accumulated depreciation, as well as a general description of the method used in computing depreciation?

Capitalized interest? (AC Sec. I67)

Restrictions on use or disposal imposed by donor? (SOP 78-10, pars. 59-62)

Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)

Other assets including intangible assets, deferred tax assets and deferred charges?
(AC Secs. I60, Co2.106-.110, I27.140)

Pledged assets? (AC Sec. C59.120)

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10.101A)

Current liabilities?
(AC Sec. B05.108-.109 and .118)

Short-term liabilities expected to be refinanced?
(AC Sec. B05.112-.117 and .138-.139)

Notes payable and other debt:

Maturities and rates? (AC Sec. C32.105)

Effect of interest rates that do not reflect market rates? (AC Sec. I69)

Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)

Interfund payables? (SOP 78-10, pars. 118-119)

QUES.	N/A	YES	NO	REF.
N124				
N125				
N126				
N127				
N128				
A154				
A155				
A156				
A157				
A158				
A159				
A160				
A162				
A165				
N129				

Capital leases of lessees?
(AC Sec. L10.106 and .112)

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue and support?
(AC Secs. I24, I25 and C44.104 and .108 and FAS No. 109.43-.44)

Statement of Activity

Are unrestricted revenues, expenses, and fund balances clearly distinguishable from restricted items?
(SOP 78-10, pars. 20 and 63 and VHW p. 2)

If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and supporting activity)?
(SOP 78-10, pars. 85-86 and VHW p. 27)

Does the Activity Statement include all the funds of the organization? (SOP 78-10, pars. 26 and 87)

Is the presentation appropriate and disclosure adequate regarding:

Service fees, such as subscription and membership income? (SOP 78-10, par. 84)

Sales of publications and other items?
(SOP 78-10, par. 84)

Third-party reimbursements of costs for services provided? (ACNO, Ch. 3, pars. 3.14-3.18)

Investment income? (SOP 78-10, pars. 72-74)

Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any? (SOP 78-10, pars. 80-83 and p. 141)

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?
(FASB No. 107, pars. 10-13)

Contributions? (SOP 78-10, par. 28)

QUES.	N/A	YES	NO	REF.
A166				
A167				
N130				
N131				
N132				
N133				
N134				
N135				
N136				
N137				
N138				
N139				

Donated services, materials and facilities?
(SOP 78-10, pars. 67-71)

Gifts of future interests?
(ACNO, Ch. 4, p. 25 and SOP 78-10, par. 121)

Other gifts, grants, pledges, etc.?
(SOP 78-10, pars. 64 and 101)

Interfund transfers?
(ACNO, Ch. 6, pars. 6.04-6.08 and SOP 78-10, pars. 118-119)

Other revenue or capital additions?
(ACNO, Ch. 4, pars. 4.01-4.05 and SOP 78-10, pars. 51-53)

Allocation of functional expenses to programs and supporting services? (SOP 78-10, pars. 97 and 100 and VHW, Ch. 6 and SOP 87-10, par. 22)

Fund raising expenses, including joint costs of informational materials and activities allocated between fund raising and other functional expense categories?
(SOP 78-10, pars. 92-97, VHW, Ch. 6, p. 26 and SOP 87-2 and ACNO, Appendix B)

Depreciation? (AC Sec. D40.105)

Deferred compensation agreements? (AC Sec. C38)

Grants to other organizations?
(SOP 78-10, pars. 101-102)

Remittances to national organizations?
(SOP 78-10 par. 90 and VHW, p. 29)

Prior period adjustments?
(AC Secs. A35.103 and C35.107)

Operating leases and rent expense of lessees?
(AC Sec. L10.112)

Extraordinary and unusual items? (AC Sec. I17)

QUES.	N/A	YES	NO	REF.
N140				
N141				
N142				
N143				
N144				
N145				
N146				
A183				
A184				
N147				
N148				
N149				
A188				
A195				

Additional Financial Statements

For not-for-profit organizations accounted for under SOP 78-10, is a statement of changes in financial position, or cash flows, presented as a basic financial statement for each period for which an activity statement and balance sheet are presented?

(AC Sec. F43.101 and SOP 78-10, par. 17, Appendix C)

If a statement of changes in financial position was presented, does it disclose all important aspects of financing and investing activities?

(AC Sec. F43.101-.102 and SOP 78-10, pars. 32-34)

For voluntary health and welfare organizations, is a statement of functional expenses presented as a basic financial statement for each period for which an activity statement is presented?

(VHW, Ch. 6, Exhibit B)

If a statement of cash flows was presented, does it disclose:

Cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.122)

The net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)

Does it provide a reconciliation between excess of revenue over expenditures and net cash flow from operating activities? (AC Sec. C25.126)

Noncash investing and financing activities? (AC Sec. C25.134)

If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?

(AC Sec. C25.132)

Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity of three months or less, and the enterprise's policy for determining which items are treated as cash equivalents disclosed?

QUES.	N/A	YES	NO	REF.
N150				
N151				
N152				
A198				
A199				
A200				
A201				
A202				
A203				

14718

Do the components of the cash flow statement appear to have been shown at "gross" and not "net" amounts? (AC Sec. C25.109-111A)

Other

Are the statement formats and disclosures generally consistent with the appropriate industry audit guides and statements of position?

If the organization's tax-exempt status is in question by the IRS, is the potential impact disclosed in a footnote?
(AC Sec. C59.101 and .145)

QUES.	N/A	YES	NO	REF.
A205				
A207				
N153				

II. General Audit Procedures

In planning the audit engagement, did the auditor properly consider:

Matters affecting the environment in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, and technological changes?
(AU Secs. 311.03 and 801.11)

Matters affecting the entity's operations, such as legal organization and types of services and contractual obligations? (AU Sec. 311.03-.04)

Preliminary judgment about materiality levels?
(AU Secs. 311.03 and 312.08)

Did the auditor consider the applicability of OMB Circular A-133?

Did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from inadequate control of contributions and violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?
(AU Secs. 312.12 and 316.05)

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?
(AU Sec. 316.12)

Design the audit to provide reasonable assurance of detecting errors and irregularities and direct effect illegal acts that are material to the financial statements? (AU Sec. 316.05)

Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)

If the auditor succeeded a predecessor auditor, did the auditor:

Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management

QUES.	N/A	YES	NO	REF.
A300				
A301				
A302				
N201				
A303				
A304				
A305				
A306				

on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)

Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.06)

Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers? (AU Sec. 315.08)

Did the auditor:

Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Sec. 319.16)

Document the understanding of the internal control structure? (AU Sec. 319.26)

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)

Document the basis of the conclusion (i.e., tests of control) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)

If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the internal control structure relating to the accounting applications, at the service organization? (AU Sec. 324.06-.10)

If the auditor relied on the internal control structure at a service organization, was a service auditor's report that describes the results of the Service Auditor's tests obtained, or were tests performed by the auditor at the service organization? (AU Sec. 324.14-.16)

Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA Industry Audit Guides)

Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained, during the planning process? (AU Sec. 319.02 and .05)

QUES.	N/A	YES	NO	REF.
A307				
A308				
A309				
A311				
A312				
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A315				
A316				
N202				
A322				

Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)

If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)

Have all the procedures called for in the audit program been signed? (AU Sec. 339)

If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations?
(AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population?
(AU Sec. 350.29)

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures? (AU Sec. 350.40-.43)

In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details:

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatement, acceptable level of risk of incorrect acceptance, and characteristics of the population?
(AU Sec. 350.16)

Was the sample selected in such a way that it could be expected to be representative of the population?
(AU Sec. 350.24)

QUES.	N/A	YES	NO	REF.
A323				
A324				
A325				
A326				
A327				
A328				
A329				
A330				
A331				
A332				

Were the misstatements results of the sample projected to the items from which the sample was selected?

(AU Sec. 350.26)

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed? (AU Sec. 350.25)

In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements results from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)

Was the documentation of the foregoing considerations in accordance with firm policy?

During the performance of the engagement, did the auditor:

Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)

Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)

Has the auditor evaluated the reasonableness of accounting estimates made by management? (AU Secs. 326.23 and 342)

Did the auditor obtain a timely and appropriate letter of representation from management? (AU Secs. 333.01 and 801.19 and ACNO, Ch. 7, par. 7.05)

Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (AU Sec. 337.06)

Have all questions, exceptions, or notes, posed during the audit been followed up and resolved, including consideration of the views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?

QUES.	N/A	YES	NO	REF.
A333				
A334				
A335				
A336				
A337				
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A339				
A340				
A341				
N203				

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)

During the performance of the engagement, did the auditor:

Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.24-.29)

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of client representations? (AU Sec. 316.25)

Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)

When the auditor's procedures disclosed instances or indications of illegal acts did the auditor (ACNO, Ch. 7, par. 7.03):

Follow up on the illegal acts in accordance with professional standards?
(AU Secs. 316.24-.28 and 317.10)

Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations?
(AU Sec. 317.16)

Communicate directly with the audit committee if the illegal act involved senior management and document that communication and obtain assurance that all other illegal acts that came to the auditor's attention were adequately communicated?
(AU Sec. 317.17)

Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?
(AU Sec. 341.02)

QUES.	N/A	YES	NO	REF.
A343				
A344				
A345				
A346				
A347				
A348				
A349				
A350				

If the auditor believed that there was substantial doubt about the entity’s ability to continue for a reasonable period of time, did the auditor obtain information about management’s plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.11)

If the auditor’s substantial doubt was alleviated, did the auditor consider the need for disclosure of the possible effects, and any mitigating factors, including management’s plans? (AU Sec. 341.03(c))

If the auditor’s substantial doubt was not eliminated, did the auditor’s report include an explanatory paragraph which adequately communicates the auditor’s substantial doubt (e.g., includes the terms "substantial doubt" and "going concern")? (AU Sec. 341)

During the performance of the audit:

If the auditor identified reportable conditions, were they communicated to the audit committee, management and others within the organization on a timely basis (if the communication was oral, was it documented in the working papers)? (AU Sec. 325.09)

Do the auditor’s conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)

If a report was issued on reportable conditions did it indicate the purpose of the audit, include the definition of reportable conditions and include a restriction on distribution? (AU Sec. 325.11)

If the auditor issued a letter that did not include reportable conditions did it not represent that there were no reportable conditions? (AU Sec. 325.17)

If the auditor, subsequent to the date of the report, became aware of facts may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)

QUES.	N/A	YES	NO	REF.
A351				
A352				
A353				
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A356				
A357				
A361				

If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)

Where there is a formal oversight committee, did the auditor (ACNO, Ch. 7, pars. 7.07 and 7.08):

Ensure that the appropriate matters have been communicated to those who have responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)

If the communication was in writing, include a statement that it is intended solely for the use of the audit committee or the board of directors and, if appropriate, management? (AU Sec. 380.01-.02)

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers? (AU Sec. 380.03)

QUES.	N/A	YES	NO	REF.
A362				
A363				
A364				
A365				

III. Audits of Governmental Grantees

NOTE: These questions are derived from the statement on Auditing Standards No. 68, the U. S. General Accounting Office's *Government Auditing Standards* (1988 Revision), and the Office of Management and Budget (OMB) Circular A-133 for federal "awards" and (OMB) Circular A-128 for federal "financial assistance" and AICPA's Statement of Position 92-9 *Audits of Not-for-Profit Organizations Receiving Federal Awards*. Reviewers may wish to consult these documents for more detailed information on standards concerning the audits of governmental grantees.

References to professional and governmental pronouncements have been provided in this section because of recent significant changes in governmental reporting and auditing. The term "GAO" followed by the chapter and paragraph refers to *Government Auditing Standards* (1988 Revision).

Questions found in this section have been primarily excerpted from the *Checklist for Review of State and Local Government Entities* Appendices A and B. These questions can be found within the two consecutive sections in the Audit Summary starting on page 15324.

Does the engagement letter, proposal or contract, if such documents were prepared, include a statement as to what type of engagement is being performed and whether the engagement is intended to meet governmental oversight agency's audit requirements? (AU Sec. 801.03 and SOP 92-9, Ch. 3, par. 3.62; also ACNO Appendix G)

If the auditor became aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement, did the auditor communicate to management and the audit committee (or others with equivalent authority) that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing—if the communication is oral the auditor should document the communication in the working papers.) (AU Sec. 801.05 and SOP 92-9, Ch. 1, par. 1.7, footnote 6)

Does the language in the auditor's reports conform with professional standards (optional for reports on basic financial statements), including references to *Government Auditing Standards* (GAO, Ch. 5, par. 3 and SOP 92-9, Appendix D, Exhibits D-3 through D-18 and Ch. 7, par. 7.4) and appropriately cover the following for the entity as a whole:

QUES.	N/A	YES	NO	REF.
G250				
G257				
G401				

The financial statements?
(OMB Circular A-133, item 15c(1))

The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements that includes, when appropriate (GAO, Ch. 5, par. 17 and AU Sec. 801.33 and SOP 89-6) (SOP 92-9, Ch. 5, par. 5.8 and Ch. 7, par. 7.5 and 7.9):

The controls that were evaluated?
(SOP 89-6, Example 25 and GAO, Ch. 5, pars. 21-22)

Reference to a separate letter, if applicable, describing identified nonreportable conditions?
(GAO, Ch. 5, par. 25)

Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, Ch. 5, pars. 17 and 23)

Compliance with applicable laws and regulations, including a summary of all material instances of non-compliance and/or instances or indications of illegal acts that includes, when appropriate (AU Sec. 801.21, and GAO, Ch. 5, par. 5 and SOP 92-9, Ch. 7, par. 7.13):

A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations?
(AU Sec. 801.26 and GAO, Ch. 5, par. 6)

Presentation of material instances of non-compliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding issuance of a report on compliance?
(GAO, Ch. 5, par. 5, AU Sec. 801.27-.30 and SOP 92-9, Ch. 6, par. 6.71)

Reference to a separate letter, if applicable, describing immaterial instances of non-compliance?
(AU Sec. 801.30 and GAO, Ch. 5, par. 8)

QUES.	N/A	YES	NO	REF.
N301				
G402				
G403				
G404				
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G409				

When illegal acts involve funds received from other governmental entities did the auditor assure himself/herself that the audited entity notified the proper officials, of the entities, within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities? (GAO, Ch. 5, par. 13 and AU Sec. 801.32 and SOP 92-9, Ch. 6, par. 6.15, Ch. 7, pars. 7.17-7.18)

Do the OMB A-133 Reports also include (SOP 92-9):

Auditor's report on the schedule of federal awards? (ASLGU, Ch. 17, par. 29 and Ch. 23, par. 1 and SOP 92-9, Ch. 4 and ACNO Exhibit D1 and D2)

Auditor's report on the internal control structure used in administering federal awards in order to ensure that the entity's internal control structure was designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (SOP 89-6, Example 26 and SOP 92-9, Exhibit D-8):

The controls that were evaluated (considered and tested)? (OMB Circular A-133, Item 15c(2))

The controls that were not evaluated (tested)? (OMB Circular A-133, Item 15c(3))

The material weaknesses identified as a result of the evaluation (considered and tested)? (OMB Circular A-133, Item 15c(3))

Major programs – compliance reports – specific requirements:

An opinion that the entity complied, in all material respects, with specific requirements that, if not complied with, could have a material effect? (AU Sec. 801.80 and SOP 92-9, Exhibit D-9)

QUES.	N/A	YES	NO	REF.
G410				
N302				
N303				
N304				
N305				
N306				
G507				

Nonmajor programs – compliance report:

A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of non-major programs? (AU Sec. 801.89 and SOP 92-9, Exhibit D-18)

Major and nonmajor programs – compliance auditing – general requirement

A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements relating to major programs? (AU Sec. 801.51 e-f and SOP 92-9, Exhibit D-15)

When appropriate, did the auditor properly modify the report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding reporting on performance audits? (AU Sec. 801.51g and .79 and SOP 92-9, Exhibit D-15)

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefor, and the known effect of not following the standard on the audit results? (GAO, Ch. 5, par. 4)

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (AU Sec. 801.32 and SOP 92-9, Ch. 7, par. 7.17)

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (AU Sec. 801.20 and SOP 92-9, Ch. 3, pars. 3.47-3.48)

Did the auditor document his communication of those nonreportable conditions in the internal control structure not included in the required reports? (AU Sec. 801.38-.39, and GAO, Ch. 5, par. 25 and SOP 92-9, Ch. 5, par. 5.26)

QUES.	N/A	YES	NO	REF.
G508				
G509				
G510				
G411				
G412				
G413				
G414				

If the entity is subject to OMB Cir. A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communications?
(AU Sec. 801.95 and SOP 92-9, Ch. 6, par. 6.71)

If a separate communication was prepared to report on instances of immaterial noncompliance, was the communication to the institution in writing?
(AU Sec. 801.95 and OMB Cir. A-133, Item 15(d) and SOP 92-9, Ch. 6, par. 6.71)

If required by contractual obligations, were findings presented in accordance with the guidance in the *Government Auditing Standards* regarding reporting on performance audits? (GAO, Ch. 7)

Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal awards and included those awards within the audit scope?
(AU Sec. 801.56 and ASLGU, Ch. 21, par. 31 and SOP 92-9, Ch. 6, par. 6.17)

Does the schedule of federal award program expenditures present the following (ASLGU, Ch. 23, par. 7 and SOP 92-9, Appendix E):

Identification of each program as indicated in the *Catalog of Federal Domestic Assistance* (CFDA)?

Other federal assistance from programs not included in the CFDA?

Total expenditures for each federal award program by grantor, department, or agency?

Total federal award expenditures?

Other information, either required by federal program managers or otherwise deemed appropriate?

Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-133 (Audits of Institutions of Higher Education and Other Non-profit Institutions), A-21 (Cost Principles for Educational Institutions) and A-110 (Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Institutions)?

QUES.	N/A	YES	NO	REF.
N307				
N308				
G415				
G511				
G512				
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G514				
G515				
G516				
G517				

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance?

(AU Sec. 801.20, fn. 10 and GAO, Ch. 3, par. 41)

Did the auditor perform the required level of internal control structure review, to include: (SOP 92-9, Ch.5)

The consideration and testing of those internal control structure policies and procedures, relating to both specific and general requirements, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level? (SOP 92-7, par. 4.8)

If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering non-major programs, to the same extent as in Question G519 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested? (SOP 92-7, par. 4.9)

A sufficient understanding of the internal control structure sufficient for the systems used in administering other non-major federal financial assistance programs? (SOP 92-7, par. 4.10)

For the categories of controls for which the test of controls were performed:

Do the working papers document the auditor's understanding of the structure? (AU Sec. 319.26)

In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described? (AU Sec. 319)

Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports? (AU Sec. 801.74-.75)

Do the working papers adequately document the work performed and the conclusions reached? (AU Sec. 319)

QUES.	N/A	YES	NO	REF.
G518				
G519				
G520				
G521				
G522				
G523				
G524				
G525				

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial awards program, did the auditor:

Consult appropriate sources, such as the Compliance Supplement for Audits of Institutions and Other Non-Profit Organizations (revised October 1991), statutes regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (AU Sec. 801.58-.62 and SOP 92-9, Ch. 1, pars. 1.23-1.25 and Ch. 6, par. 6.36)

Consider materiality in relation to each major federal awards program? (AU Sec. 801.57)

Select a representative number of charges from each major program? (ASLGU Ch. 22, par. 4)

Perform and document tests to determine whether (AU Sec. 801.58):

The amounts reported as expenditures were allowable under federal regulations and contracts? (AU Sec 801.58a)

Only eligible persons or organizations received services or benefits? (AU Sec. 801.58b)

Matching requirements were met? (AU Sec. 801.58c)

Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements? (AU Sec. 801.58d and ASLGU, Ch. 22, par. 24)

The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program? (AU Sec. 801.58e)

QUES.	N/A	YES	NO	REF.
G526				
G527				
G528				
G529				
G530				
G531				
G532				
G533				

Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (AU Sec. 801.47 and GAO, Ch. 4, par. 22 and SOP 92-9, Ch. 1, pars. 1.26-1.28 and Ch. 6, pars. 6.53-6.61):

Political activity? (AU Sec. 801.47a)

Civil rights? (AU Sec. 801.47c)

Davis-Bacon Act? (AU Sec. 801.47b)

Cash management? (AU Sec. 801.47d)

Relocation assistance and real property acquisition? (AU Sec. 801.47e)

Federal financial reports? (AU Sec. 801.47f)

Allowable costs/costs principles?
(AU Sec. 801.47g)

Drug-free workplace act? (AU Sec. 801.47h)

Administrative requirements?
(AU Sec. 801.47i)

Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (AU Sec. 801.76-.79)

Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance?
(AU Sec. 801.53 and .87)

Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs?
(OMB Cir. A-128, Questions and Answers, par. 20)

Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested?
(AU Sec. 801.87 and .90 and SOP 92-9, Ch. 6, pars. 6.23-6.25)

QUES.	N/A	YES	NO	REF.
G534				
G535				
G536				
G537				
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G541				
G542				
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G544				
G545				
G546				

If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (ASLGU, Ch. 21, pars. 40-41)

Do the working papers contain sufficient information so that supplementary oral explanations are not required, include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer and include documentation of supervisory review? (GAO, Ch. 4, par. 22)

Are appropriate personnel in compliance with the 1988 Yellow Book CPE requirements?
(GAO, Ch. 3, pars. 6-9 and GAO, "Interpretation of Continuing Education and Training Requirements" and SOP 92-9, Ch. 3, par. 3.15)

Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance? (GAO, Ch. 3, pars. 11-25)

Program Specific Audits (SOP 92-9, Ch. 2, pars. 2.28-2.35)

Where the auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements for that particular program? (AU Sec. 801.96)

Did the auditor submit the report(s) to the organization audited within the required time?
(GAO, Ch. 5, par. 34)

Has the auditor established policies or procedures for complying with the additional requirements concerning (ASLGU, Ch. 21, par. 27):

Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?

Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?

QUES.	N/A	YES	NO	REF.
G547				
G416				
G417				
G418				
G420				
N309				
G549				
G550				

IV. Working Paper Areas

NOTE: In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a *key* audit area for that engagement, the reviewer should place an "X" in the box next to the name of the working paper area. (As indicated on page 14706, the reviewer should indicate the reason for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" next to the area.)

Cash Not a key area

Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period? (AU Secs. 313.07 and 560.10-.11)

Do the working papers indicate that the following were considered:

Confirmation of cash balances?

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

Authorization for interfund cash transactions?

Determination that all cash accounts have been identified and appropriately recorded?
(ACNO, Ch. 6, pars. 6.04-6.08)

Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A401				
A402				
A403				
A404				
A405				
A406				
N401				
N402				
A407				

Receivables Not a key area

Were accounts, pledges and grant receivables confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?
(AU Sec. 330.24-.30)

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts, pledges and grant receivables were not confirmed, is there evidence that other auditing procedures were performed? (AU Sec. 330.32)

Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers? (AU Sec. 330.33)

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were procedures performed to provide evidence that pledged receivables are properly recorded in the appropriate funds? (ACNO, Ch. 5, par. 5.07)

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?
(AU Sec. 312.29)

Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?

Was receivable work coordinated with tests of support and revenue, including cut-off tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

QUES.	N/A	YES	NO	REF.
A408				
A409				
A410				
A411				
A412				
A413				
N403				
A415				
A416				
A417				
A418				

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans), carried at the present value of the loans expected future cash flows discounted at the loan's effective interest rate or at the observable market price or the fair value of the collateral if the loan is collateral dependent? (FAS No. 114, par. 13)

Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)

Inventories Not a key area

Do the working papers indicate that there were adequate tests of:

Physical observation, if material?

The clerical accuracy of the inventory?

Costing or valuation methods and substantiation of costs/values used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Based on the assessment of control risk, do the substantive tests of inventories appear adequate? (AU Sec. 319)

Investments Not a key area

Was a summary schedule prepared (or obtained) and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc. of investments?

QUES.	N/A	YES	NO	REF.
A419				
A420				
N404				
A426				
A427				
A428				
A430				
A435				
A436				

Were securities either examined or confirmed?
(AU Sec. 332.04)

When investments are held by an outside custodian, who is authorized by the client to execute transactions without specific authorization of individual transactions, did the auditor consider the guidance in professional standards? (AU Sec. 324.16 and .18)

Do the working papers reflect consideration of changes in the carrying value of marketable securities and other investments and the appropriateness of unrealized gains and losses that were recognized?
(SOP 78-10, pars. 79-81)

Was the computation of realized gains and losses tested by the auditor?

Do the working papers indicate tests of unit market value calculations of pooled investments funds, including the propriety of handling additions to and withdrawals from the pool? (SOP 78-10, par. 116)

Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds? (SOP 78-10, par. 116)

Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use?
(SOP 78-10, pars. 64-66, and VHW, Ch. 2, p. 8)

Do the working papers indicate that risk of loss on repurchase agreements was properly considered?
(SOP 85-2, par. 13, GASB Secs. 150.158 and R10.110-.112)

Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions? (SOP 85-2, par. 13 and GASB Secs. 150.159-.162 and R10.110-.112)

Based on the assessment of control risk, do the substantive tests of investments appear adequate?
(AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A437				
N405				
N406				
A438				
N407				
N408				
N409				
N410				
N411				
A444				

Prepaid Expenses, Intangible Assets,
Deferred Charges, etc. Not a key area

Were adequate tests made for all material:

Prepaid expenses?

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether the accounting for the related loans was appropriate?

Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate?
(AU Sec. 319)

Collections of Works of Art and Similar Items
(ACNO, Ch. 5, pars. 5.10-5.12)

Not a key area

If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value?
(SOP 78-10, pars. 113-114)

If a capitalized collection is considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?
(SOP 78-10, pars. 107-108 and 115)

Whether or not a collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions? (SOP 78-10, par. 114)

If the collection is capitalized:

Were physical inventories observed at all locations where relatively large amounts are located?

QUES.	N/A	YES	NO	REF.
A445				
A446				
A447				
A448				
A449				
A451				
A452				
N412				
N413				
N414				
N415				

Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)?

If the collection is considered inexhaustible and has not been capitalized, do the working papers indicate that the auditor:

Evaluated the internal controls over the collection?

Observed a physical inventory at all locations where relatively large amounts are located?

Property and Equipment Not a key area

Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property and equipment?

Accumulated depreciation?

Do the tests appear adequate and were proper conclusions drawn with respect to:

Additions (e.g., by examining supporting documents and/or physical inspection)?

Retirements, etc. (e.g., including examining miscellaneous income, scrap sales)?

The adequacy of the current and accumulated provisions for depreciation and depletion?

Valuation of assets not previously capitalized? (ACNO, Ch. 5, p. 22)

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

Was a review made to determine that capital expenditures are reported in the proper fund accounts? (ACNO, Ch. 6, p. 27)

Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)

QUES.	N/A	YES	NO	REF.
N416				
N417				
N418				
A453				
A454				
A455				
A456				
A457				
N419				
A459				
N420				
A460				

Liabilities Not a key area

Were accounts payable adequately tested for propriety?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences other postretirement benefits if FAS No. 106 is applicable, or postemployment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated?
(AC Sec. P16, C44 and P40)

Were procedures performed to determine whether tax deferred annuity and life income plans are appropriately calculated to conform with GAAP and IRS regulations? (ACNO, Ch. 6, par. 6.03)

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternate procedures performed?

Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related funds? (ACNO, Ch. 6, p. 25)

Is there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?

Were procedures performed to verify whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?

Is there evidence that the organization is complying with the covenants in its debt obligations?

Was consideration given to any liabilities (including the effect of any timing differences) resulting from the Federal excise tax on investment income of private foundations and any Federal and State taxes on unrelated business income? (SOP 78-10, par. 103)

QUES.	N/A	YES	NO	REF.
A461				
A462				
A464				
N421				
A465				
N422				
N423				
A466				
A467				
N424				

Do the tests of interfund borrowings appear adequate with respect to (ACNO, Ch. 6, pp. 25-26 and SOP 78-10, pars. 118-119):

Legal restrictions, if any, on such borrowings?

Authorization?

Classification?

Collectibility of amounts due from other funds?

Appropriateness of interest accruals and payments?

Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)

Deferred Revenue and Support Not a key area
(ACNO, Ch. 6, pars. 6.09-6.13)

Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and consistent with the donors' or grantors' restrictions?

Was consideration given to matching requirements, if any?

Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support?

Commitments and Contingencies

Not a key area

Do the working papers include indication of the following:

Inspection of minutes of meetings of the governing board and other appropriate committees of the board?

Inspection of contracts, loan agreements, leases, and correspondence from donors, grantors, and governmental agencies, and similar documents?

Accumulation and analysis of confirmation responses from banks and lawyers?

QUES.	N/A	YES	NO	REF.
N425				
N426				
N427				
N428				
N429				
A468				
N430				
N431				
N432				
A476				
A477				
A478				

Inquiry and discussion with management including management's written representations concerning liabilities and litigation, claims, assessments, and regulatory requirements as applicable?
(AU Secs. 333 and 337.05)

Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements?
(AU Sec. 560.10-.12)

Did the auditor consider evidence of the entity's activities (such as lobbying or substantial unrelated business income activities) which might cause the entity to lose its tax exempt status or be subject to penalties or taxes? (ACNO, Ch. 2, pars. 2.07-2.08)

If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income and prohibited activities?
(ACNO, Ch. 2, par. 2.08)

Has adequate consideration been given to loss contingencies in accordance with professional standards?
(AC Sec. C59)

Fund Balance Not a key area
(ACNO, Ch. 6, pars. 6.14-6.17)

Where applicable, were authorizations of changes in fund balances and designated balances examined?

Do the working papers indicate that there were adequate inquiries, where applicable, as to proper classification, description and disclosure of components of the fund balance?

Do the working papers indicate that fund transfers were properly approved and recorded?

If an endowment fund is maintained, do the working papers indicate that fund income is distributed to unrestricted and restricted funds in accordance with donors' stipulations?
(VHW, Ch. 1, p. 3 and Ch. 3, pp. 6-8 and SOP 78-10, par. 73)

QUES.	N/A	YES	NO	REF.
A479				
A481				
N433				
N434				
N435				
N436				
N437				
N438				
N439				

Revenues, Expenses, Support, and Capital Additions

Not a key area

If FAS No. 116 *Accounting for Contributions Received and Made* was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the accountant consider whether:

Contributions received/made including Promises to Give are recognized as revenue/expenses in the period received/made, at their fair values?

Contributions that increase net assets are categorized between permanently restricted, temporarily restricted and unrestricted?

Donor-imposed restrictions which expire are recognized in the period in which they expire?

Contributions for services are recognized only if they create or enhance nonfinancial assets or requires specialized skills that would have been purchased if not provided?

Were revenues, expenses, support and capital additions for the period compared to the budget and the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained? (AU Sec. 329)

Was adequate consideration given to:

The entity's revenue recognition policy? (AC Sec. A10.105)

Income recognition on transactions where the earnings process was not complete?

Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items? (ACNO, Ch. 3, par. 3.04)

QUES.	N/A	YES	NO	REF.
N440				
N441				
N442				
N443				
A488				
A489				
A490				
N444				

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others (ACNO, Ch. 3, par. 3.14-3.18):

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

Were cost reimbursement reports and the underlying support reviewed?

Were appropriate allocations made of indirect costs among the entity's programs?

Do the working papers indicate that the auditor considered actual receipt of, propriety of, valuation method used, and any restrictions placed on amounts received during the current period from:

Cash contributions? (ACNO, Ch. 4, pars. 4.07-4.16)

Donated services? (ACNO, Ch. 4, pars. 4.17-4.19)

Gifts of securities, materials, facilities, and other non-monetary items? (ACNO, Ch. 4, pars. 4.21-4.24)

Future interests and interest free loans? (ACNO, Ch. 4, par. 4.25)

If expenses are classified by function, did the auditor adequately test the classifications and allocations? (ACNO, Ch. 2, pars. 2.01-2.04 and SOP 78-10, pp. 85-88)

If joint costs of multipurpose activities are incurred, were the requirements of SOP 87-2 appropriately considered?

Were fundraising costs expensed in the proper period? (VHW, Ch. 6, p. 26 and SOP 78-10, pp. 92-97)

If grants are awarded to other organizations, did the auditor review (SOP 78-10, pp. 101-102 and ACNO, Ch. 2, par. 2.06):

The classification of the grants?

The effects of the grantees' compliance or non-compliance with performance requirements?

Were tests of payrolls, including account distribution, made, where appropriate?

QUES.	N/A	YES	NO	REF.
N445				
N446				
N447				
N448				
N449				
N450				
N451				
N452				
N453				
N454				
N455				
N456				
A486				

With regard to pension plans, do the tests made of the expense and liabilities appear adequate?

Based on the assessment of control risk, did the substantive tests (review, analysis, and detailed testing) of revenues and expenditures/expense appear adequate? (AU Sec. 319)

Other

Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for?

Were appropriate procedures applied to additional information?

If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336)

Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)

If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship? (ACNO, Ch. 7, par. 7.02)

QUES.	N/A	YES	NO	REF.
N457				
A493				
A494				
A495				
A498				
A499				
N458				

V. Functional Areas

Independence
(QC Sec. 10.07a)

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? (ET Sec. 101)

Have personnel been appropriately advised of the need to observe independence requirements concerning the client or any other nonrelated parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)

Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)

Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)

Assigning Personnel to Engagements
(QC Sec. 10.07b)

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)

Consultation
(QC Sec. 10.07c)

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Were the firm's conclusions consistent with professional standards?

QUES.	N/A	YES	NO	REF.
A601				
A602				
A603				
A604				
A606				
A607				
A608				
A609				
A610				

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)

Does it appear that hours charged by the partner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

 Planning checklist?

 Review of internal control structure:

 Manual system?

 EDP system?

 Audit work programs?

 Financial statement disclosures?

 Working paper and financial statement reviews?

QUES.	N/A	YES	NO	REF.
A611				
A612				
A613				
A614				
A615				
A616				
A617				
A618				
A619				
A620				
A621				

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm’s guidelines for the form and content of audit working papers complied with?

If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas? (AU Sec. 311.10)

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm’s guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
A622				
A623				
A624				
A625				
A626				
A627				
A628				

VI. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
--------------------	------------------------	-----------------------------	---------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

14754

**Page
Number**

**Question
Number**

Explanatory Comments

**Disposition
of Comments**

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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14756

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

VII. Conclusions

Explain Below the Reasons for any "Yes" answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards of *Government Auditing Standards* and the Single Audit Act? YES* NO
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES* NO
3. The auditor's reports, including all reports required by governmental agencies, were not appropriate in the circumstances? YES* NO
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES NO
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES NO

* If this question is answered "yes," see additional guidance contained on pages SECPS §2000.67-.73 of the *SECPS Reference Manual* and PCPS §2000.70-.77 of the *PCPS Reference Manual*.

PRM
14800

Prospective Financial
Statements

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Checklist for Review of Prospective Financial Statement Engagements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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Instructions for Use of the Checklist for Review of Prospective Financial Statement Engagements

This checklist was developed for use by reviewers of prospective financial statement engagements. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of prospective financial statements. All "No" answers must be thoroughly explained in Section IV of this checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to prospective financial statements. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate prospective financial engagements. These additional materials include the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Prospective Financial Statements*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide *Guide for Prospective Financial Information*.

Explanation of References:

- AT Reference to section number in *AICPA Professional Standards* (vol. 1)
- APFI AICPA Audit and Accounting Guide *Guide for Prospective Financial Information*
- ET Code of Professional Conduct *AICPA Professional Standards* (vol. 2)
- SOP AICPA Statement of Position
- QC Quality Control Standards *AICPA Professional Standards* (vol.2)
- SAS AICPA Statement on Auditing Standards

Engagement Profile

Engagement Code No. _____ Office _____

Partner _____ Date of Financial Statements* _____

Manager _____ Date of Report _____

Date Report Released _____

This engagement involves reporting on:

- 1. compiled forecast other prospective financial information
- compiled projection describe _____
- examination of a projection _____
- examination of a forecast

2. that (include) (omit) substantially all required disclosures and

3. that (include) (do not include) supplementary information.

The prospective financial statements are for an entity that is a (an):

- independent entity subsidiary, division or branch
- consolidated or combined group other (explain)

Date that the fee for the prior year's services were paid, if applicable: _____

Type of industry: _____ Complex or troublesome assumptions and key factors: _____

Hours on this engagement:

Partner	_____		
Manager (or equivalent)	_____		
Senior	_____		
Other	_____		
Total this office	_____	Total budgeted	_____

* * * * *

Date Engagement Review Performed _____ Date Checklist Reviewed by Team Captain _____

Reviewer _____ Signature _____

* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

CHECKLIST FOR REVIEW OF PROSPECTIVE FINANCIAL STATEMENT ENGAGEMENTS**TABLE OF CONTENTS**

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I. Report & Financial Statements

QUES. N/A YES NO REF.

Title

For a forecast, does the title describe the nature of the presentation and include the word "forecast" or "forecasted"? (APFI Ch. 8, par. 05)

For a projection, does the title not imply that the presentation is a forecast?

For a projection, is the title descriptive of the presentation?

For a projection, does the title describe or refer to any significant hypothetical assumptions?

Presentation

Are the following minimum financial statement items disclosed? (APFI Ch. 8, par. 06)

- (a) Sales or gross revenues?
- (b) Gross profit or cost of sales?
- (c) Unusual or infrequently occurring items?
- (d) Provision for income taxes?
- (e) Income from continuing operations?
- (f) Discontinued operations or extraordinary items?
- (g) Net income?
- (h) Primary and fully diluted earnings per share?
- (i) Significant changes in financial position?
- (j) A description of what the responsible party intends the financial forecast to present, a statement that the assumptions are based on the responsible party's judgement at the time the prospective information was prepared, and a caveat that the forecasted results may not be achieved? (APFI Ch. 8, par. 28)

P101				
P102				
P103				
P104				
P105				
P106				
P107				
P108				
P109				
P110				
P111				
P112				
P113				
P114				

(k) Summary of significant assumptions?

(l) Summary of significant accounting policies?

If items j or l above are omitted, is the accountant's report modified to reflect this deficiency? (APFI Ch. 8, par. 08)

If item k above is not included as an integral part of these financial statements, did the accountant withdraw from the engagement? (AT Sec. 200.14)

If one or more of the omitted items (a through i, above) cannot be derived from the information presented, was the guidance in SOP 90-1 followed? (APFI Ch. 23)

If the forecast contains a range, is the range narrow enough to insure that the presentation is meaningful to users? (APFI Ch. 8, par. 19)

If the presentation is other than a single-point estimate, is there a clear indication that the presentation does not necessarily represent the best or worst possible alternatives? (APFI Ch. 8, par. 21)

If the forecast is supplemented by a financial projection, are both the forecast and projection clearly labeled? (APFI Ch. 8, par. 20)

Does the responsible party have a reasonably objective basis for presenting a financial forecast (APFI Ch. 8, par. 04) and have the underlying assumptions and other issues affecting prospective financial statements been considered in accordance with SOP 92-2? (APFI Ch. 7)

Disclosure on the Face of Statements

Is each page of the prospective financials referenced to the summaries of significant assumptions and accounting policies? (APFI Ch. 8, par. 10)

Assumptions

Has an introduction preceding the summary of assumptions been provided? (APFI Ch. 8, par. 28)

QUES.	N/A	YES	NO	REF.
P115				
P116				
P117				
P118				
P119				
P120				
P121				
P122				
P123				
P124				
P125				

For a projection, is an introduction presented that clearly explains any special purpose and limitation of the usefulness of the prospective financial statements? (APFI Ch. 8, par. 29P)

Does the introduction include:

A description of what the responsible party intends the financial forecast to present? (APFI Ch. 8, par. 28)

A statement that assumptions are not all-inclusive? (APFI Ch. 8, par. 28)

If the presentation is a range, a statement that the responsible party expects the results to fall within a range although there can be no assurance that they will? (APFI Ch. 8, par. 30)

A statement that the assumptions are based on the responsible party's judgement at the time the prospective information was prepared? (APFI Ch. 8, par. 28)

A caveat that the prospective results may not be attained? (APFI Ch. 8, par. 28)

Was the date of preparation presented in the introduction or elsewhere in the prospective financial statements? (APFI Ch. 8, par. 11)

Do the assumptions disclosed include (APFI Ch. 8, par. 23):

Assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results (sensitive assumptions)?

Assumptions about anticipated conditions expected to be significantly different from current conditions which are not otherwise reasonably apparent?

Other matters deemed important to the prospective information or its interpretation?

For a projection, did the responsible party identify which assumptions in the projection are hypothetical? (APFI Ch. 8, par. 23P)

QUES.	N/A	YES	NO	REF.
P126				
P127				
P128				
P129				
P130				
P131				
P132				
P133				
P134				
P135				
P136				

For a projection, if the hypothetical assumptions are improbable, does the above disclosure so indicate? (APFI Ch. 8, par. 23P)

Does the presentation indicate which assumptions disclosed appeared particularly sensitive at the time of preparation? (APFI Ch. 8, par. 24)

If an updated prospective presentation is issued, is the reason for updating disclosed in the summary of significant assumptions? (APFI Ch. 8, par. 48)

Accounting Principles and Policies

Is the summary of significant accounting policies used in preparing the prospective financials disclosed or cross-referenced to a presentation elsewhere in the document that contains this information? (APFI Ch. 8, par. 12)

If historical financial statements for prospective periods are expected to be prepared on a comprehensive basis of accounting other than generally accepted accounting principles, are the prospective financial statements prepared on the same basis? (APFI Ch. 8, par. 14)

Is the basis used disclosed (including statement titles) along with the fact that the disclosed basis is different from generally accepted accounting principles? (APFI Ch. 8, par. 14)

If a different comprehensive basis of accounting is used for the prospective financial statements than is expected to be used for the historical financial statements for the prospective period, is the use of the different basis disclosed? (APFI Ch. 8, par. 15)

If deemed appropriate, are differences in financial position and results of operations arising from the use of different accounting principles reconciled and disclosed? (APFI Ch. 8, par. 15)

If the prospective financial statements give effect to a change in accounting principle from one used in prior period historical financial statements, is the change reported in the prospective information in the same manner that would be used in the historical financial statements? (APFI Ch. 8, par. 16)

QUES.	N/A	YES	NO	REF.
P137				
P138				
P139				
P140				
P141				
P142				
P143				
P144				
P145				

Reports - Compilation

Does the accountant's standard report on a compilation of prospective financial statements include (AT Sec. 200.16):

An identification of the prospective financial statements presented by the responsible party?

A statement that the accountant has compiled the prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants?

A statement that a compilation is limited in scope and does not enable the accountant to express an opinion or any other form of assurance on the prospective financial statements or the assumptions?

A caveat that the prospective results may not be achieved?

A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?

If a projection, does the accountant's report include a separate paragraph describing the limitations on the usefulness of the presentation? (AT Sec. 200.18)

If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? (AT Sec. 200.19)

Was the date of the completion of the compilation procedures used as date of the report? (AT Sec. 200.20)

If the accountant was not independent, did the accountant specifically disclose a lack of independence after the last paragraph of the standard compilation report? (AT Sec. 200.21)

QUES.	N/A	YES	NO	REF.
P146				
P147				
P148				
P149				
P150				
P151				
P152				
P153				
P154				

If the prospective financial statements were included in a document that also contains historical financial statements and the accountant's report thereon, was a reference to the accountant's report on the historical financial statements made? (AT Sec. 200.22)

If the historical financial statements that appear in the document were summarized and presented with the prospective financial statements for comparative purposes, was a reference to the accountant's report on the historical financial statements made? (AT Sec. 200.22)

If the accountant expands his report to emphasize a matter, was the information presented in a separate paragraph of the accountant's report? (AT Sec. 200.23)

When emphasizing a matter, was the accountant careful not to give the impression that assurance is being expressed or the degree of responsibility was being expanded concerning such information? (AT Sec. 200.23)

If the accountant compiled prospective financial statements that contain presentation deficiencies or omit disclosures other than those relating to significant assumptions, is the deficiency or omission clearly indicated in the report? (AT Sec. 200.24-.26)

If the prospective financial statements are presented on a comprehensive basis of accounting other than generally accepted accounting principles and do not include disclosure of the basis of accounting used, is the basis disclosed in the accountant's report? (AT Sec. 200.25)

Reports - Examination

Does the accountant's standard report on an examination of the prospective financial statements include (AT Sec. 200.31):

An identification of the prospective financial statements presented?

A statement that the examination was made in accordance with AICPA standards and a brief description of the nature of such an examination?

QUES.	N/A	YES	NO	REF.
P155				
P156				
P157				
P158				
P159				
P160				
P161				
P162				

The accountant's opinion that the prospective financial statements are presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions?

A caveat that the prospective results may not be achieved?

A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?

In the examination of a projection, is the opinion regarding assumptions conditioned on the hypothetical assumptions? (AT Sec. 200.33)

Does the report include a separate paragraph that describes the limitations on the usefulness of the presentation? (AT Sec. 200.33)

If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? (AT Sec. 200.34)

Is the date of completion of the accountant's examination procedures used as the date of the report? (AT Sec. 200.35)

If, in the accountant's opinion, the prospective financial statements depart from AICPA presentation guidelines, was a qualified or adverse report issued? (AT Sec. 200.36)

If the presentation, including the summary of significant assumptions, fails to disclose any assumptions that appear to be significant did the accountant describe the assumptions in the report and issue an adverse opinion? (AT Sec. 200.40)

If the accountant believes that one or more significant assumptions do not provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions, was an adverse report issued? (AT Sec. 200.36)

QUES.	N/A	YES	NO	REF.
P163				
P164				
P165				
P166				
P167				
P168				
P169				
P170				
P171				
P172				

If the accountant's examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, was an opinion disclaimed and the scope of the limitation described? (AT Sec. 200.36)

In a qualified opinion, did the accountant state all of the substantive reasons for the modification of the opinion and describe the departure from AICPA presentation guidelines in a separate paragraph of the report? (AT Sec. 200.37)

For the accountant's report (AT Sec. 200.37-.39):

Does the opinion include the words "except" or "exception" as the qualifying language?

Does the opinion paragraph refer to the separate explanatory paragraph?

If a measurement departure, an unreasonable assumption, or a limitation on the scope of the accountant's examination has led the accountant to conclude that an unqualified opinion cannot be issued, was an adverse opinion issued or a disclaimer of opinion made?

If an adverse opinion, did the accountant state all of the substantive reasons for the adverse opinion in a separate paragraph?

If applicable, does the opinion state that the presentation is not in conformity with presentation guidelines?

When applicable, does the opinion paragraph state that, in the accountant's opinion, the assumptions do not provide a reasonable basis for the prospective financial statements?

Reports - Examination of a Forecast - Public Offering

Does the accountant have a reasonable basis to consent to the use of the report in a 1933 Act registration statement as of the consent date? (APFI Ch. 18, par. 04)

QUES.	N/A	YES	NO	REF.
P173				
P174				
P175				
P176				
P177				
P178				
P179				
P180				
P181				

Did the accountant perform the applicable steps below to determine that they had a reasonable basis to consent (APFI Ch. 18, par. 04):

Did the accountant perform procedures for the period from the date of examination up to the consent date and as is reasonable and practical in circumstances?

Did the accountant read the latest interim financial statements, operating reports, and any relevant information such as budgets?

Did the accountant consider prospective results in relation to actual results achieved in the interim period?

Did the accountant inquire whether or not accounting principles used are consistent with the principles used in preparing the forecast?

Did the accountant read the prospectus and other pertinent portions of the registration statement and consider that information in relation to prospective results and summary of significant assumptions?

Did the accountant inquire of and obtain written representations from responsible parties as to whether or not there are any events, plans, or expectations that may require the forecast to be modified, or that should be disclosed in order that the forecast reflect the responsible parties' judgement based on present circumstances of the expected conditions and its expected course of action?

Did the accountant read the minutes of the board of directors and related committees?

Did the accountant make additional inquiries or perform such procedures as was considered necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures?

If the accountant believes that the forecast (including summary of significant assumptions) should be revised as a result of the above procedures, was the client requested to revise its forecast and, if so engaged, examine the revised forecast? (APFI Ch. 18, par. 05)

QUES.	N/A	YES	NO	REF.
P182				
P183				
P184				
P185				
P186				
P187				
P188				
P189				
P190				

If the client does not make appropriate revisions, did the accountant refuse to consent to the use of the report in the registration statement? (APFI Ch. 18, par. 05)

Is the accountant's consent in writing? (APFI Ch. 18, par. 06)

Is the consent for the 1933 Act filing manually signed and dated? (APFI Ch. 18, par. 06)

Is the consent dated at or near the effective date of the registration statement? (APFI Ch. 18, par. 07)

Is the "experts" section of the registration statement worded so that there is no implication that the forecast has been prepared by the accountant or that the forecast is not the direct responsibility of the responsible party? (APFI Ch. 18, par. 09)

QUES.	N/A	YES	NO	REF.
P191				
P192				
P193				
P194				
P195				

II. Working Papers

Are the accountant’s working papers in connection with the compilation or examination of prospective financial statements appropriate in the circumstances? (APFI Ch. 12, par. 11 and AT Sec. 200.15 for compilations and APFI Ch. 15, par. 41 and AT Sec. 200.30 for examinations)

For compilations, do the working papers indicate that (APFI Ch. 12, par. 11 and AT Sec. 200.15):

The work was adequately planned and supervised?

The required compilation procedures were performed as a basis for the compilation report?

For an examination, do the working papers indicate that (APFI Ch. 15, par. 41 and AT Sec. 200.30):

The work was adequately planned and supervised?

The process by which the entity develops its prospective financial statements was considered in determining the scope of the examination?

Sufficient evidence was obtained to provide a reasonable basis for the accountant’s report?

Did the accountant:

Establish an understanding with the client, preferably in writing? (APFI Ch. 12, par. 10 for compilation and APFI Ch. 15, par. 12 for examination procedures)

Obtain knowledge of the entity’s business, accounting principles and key factors upon which its future financial results appear to depend? (APFI Ch. 12, par. 07 or Ch. 15, par. 10)

Perform the appropriate procedures:

For compilations by obtaining a list of the responsible party’s significant assumptions and consider whether there were any obvious omissions in light of the key factors. (APFI Ch. 12, par. 10)

QUES.	N/A	YES	NO	REF.
P201				
P202				
P203				
P204				
P205				
P206				
P207				
P208				
P209				

For examinations by performing those procedures the accountant considers necessary in the circumstances to report on whether the assumptions provide a reasonable basis. (APFI Ch. 15, par. 20)

Perform or test the mathematical accuracy of computations that translate the assumption into the prospective statement? (APFI Ch. 12, par. 10 and Ch. 15, par. 35)

Obtain written representations from the responsible party acknowledging its responsibility for both the presentation and the underlying assumptions? (APFI Ch. 12, par. 10 or Ch. 15, par. 37)

If the work of a specialist was used in an examination, was the guidance provided in SAS 11, "Using the Work of a Specialist" followed? (APFI Ch. 15, par. 39 and AT Sec. 100.10)

QUES.	N/A	YES	NO	REF.
P210				
P211				
P212				
P213				

III. Functional Areas

Independence (QC Sec. 10.07a)

If anything has been noted during the review that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered? (ET Sec. 101)

Have personnel been appropriately advised as to need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)

Was appropriate assurance of independence obtained from other firms engaged to examine segments or component units of the entity? (QC Sec. 90.10)

For non-SEC clients, were the fees (billed/unbilled) for the prior year's services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)

For SEC clients, if the fees (billed/unbilled) for the prior year's services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?

Assigning Personnel to Engagements (QC Sec. 10.07b)

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)

QUES.	N/A	YES	NO	REF.
P301				
P302				
P303				
P304				
P305				
P306				
P307				

Consultation
(QC Sec. 10.07c)

Was there appropriate consultation and documentation:

In situations specified by firm policy?
(QC Sec. 90.14)

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between personnel and/or and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Were appropriate and knowledgeable engagement personnel involved in the planning process?
(APFI Ch. 15, par. 06-.07)

Does it appear that planning was adequately documented in the working papers, including any changes in the original plan? (AT Secs. 200.15 and 200.30)

Did the partner (or manager) approve the overall plan as the final planning step and convey approval or modifications to the engagement staff?
(QC Sec. 90.16)

Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

QUES.	N/A	YES	NO	REF.
P308				
P309				
P310				
P311				
P312				
P313				
P314				
P315				
P316				

Work programs?

Prospective financial statement disclosures?

Working papers and prospective financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm’s guidelines for the form and content of working papers complied with?

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and prospective financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated?
(QC Sec. 90.22)

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm’s guidelines for acceptance and continuance of clients were complied with?
(QC Sec. 90.24)

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
P317				
P318				
P319				
P320				
P321				
P322				
P323				
P324				
P325				

IV. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments *</u>
--------------------	------------------------	-----------------------------	----------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of the MFC form.

14824

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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14826

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------

V. Conclusions

Explain Below the Reasons for any "Yes" Answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe that:

- | | |
|---|--------------------|
| 1. The firm did not perform the engagement in all material respects in accordance with professional standards (see ET 202)? | YES* _____ NO_____ |
| 2. The prospective financial statements were not presented fairly in all material respects and the firm's report was not appropriately modified (see ET 203)? | YES _____ NO_____ |
| 3. The firm's report was not appropriate in the circumstances? | YES _____ NO_____ |
| 4. The documentation on this engagement does not support the firm's report on the prospective financial statements? | YES _____ NO_____ |
| 5. The firm did not comply with its policies and procedures on this engagement in all material respects? | YES _____ NO_____ |

* If this question is answered "yes," see additional guidance contained on pages SECPS §2000.77-.83 of the *SECPS Reference Manual* and PCPS §2000.69-.76 of the *PCPS Reference Manual*.

PRM
14900

Employee Benefit Plan
Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Checklist for Review of Audits of Employee Benefit Plans

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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**Instructions for Use of the Checklist
for Review of Audits of Employee Benefit Plans**

This checklist was developed for use by reviewers of audits of employee benefit plans. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms.* Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at (201)938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of employee benefit plans. All "No" answers must be thoroughly explained in Section V of this checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to employee benefit plans. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate employee benefit plan engagements. These additional materials include the AICPA Financial Reporting Practice Aid, *Checklist for Defined Benefit Pension Plans and Illustrative Financial Statements*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans* (1992).

* **Note:** This checklist has been developed as a stand-alone checklist in the current year. Accordingly, it should not be used in conjunction with the "Checklist for Review of Audit Engagements" (audit checklist).

Engagement Profile

Engagement Code No. _____ Office _____
 Partner _____ Date of Financial Statements* _____
 Manager _____ Date of Report _____
 Concurring Reviewer _____ Date Report Released _____

This engagement involves reporting on:

- Defined Benefit Plan
- Defined Contribution Plan (including profit-sharing and stock bonus plans)
- Health and Welfare Plans
- Limited Scope Audit
- Other

Was the work performed at the request of another office? Yes ___ No ___

Date that the fee for the prior year's engagement was paid _____

Key data reported on by this office for this engagement:

Total assets		\$ _____
Net assets		\$ _____
Total income and contributions		\$ _____
Net increase in net assets available for plan benefits		\$ _____

Complex or troublesome audit areas:

List any nonaudit services performed for the client during the period of the financial statements being reported on and through the date of the auditor's report:

Personnel Continuity:

	<u>Partner</u>	<u>Manager (or equivalent)</u>
Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

14906

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Other	_____			
Total this office	=====	Total budgeted		=====

List of Key Audit Areas Selected by Reviewer

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

* * * * *

Date Engagement Review Performed _____
 Reviewer _____

Date Checklist Reviewed by Team Captain _____
 Signature _____

CHECKLIST FOR REVIEW OF AUDITS OF EMPLOYEE BENEFIT PLANS

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Note: This checklist has been updated through SAS No. 72, SFAS No. 117, and FASB Interpretation No. 38.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AEBP	Audit and Accounting Guide <i>Audit of Employee Benefit Plans</i> (As of May 31, 1993)
AU	Reference to section number of <i>AICPA Professional Standards</i> (vol. 1)
CFR	Code of Federal Regulations
EBPID	Employee Benefit Plans Industry Developments (1993)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
FAS	Financial Accounting Standards Board Pronouncement
QC	Quality Control Standards in <i>AICPA Professional Standards</i> (vol. 2)
SAS	<i>Statement on Auditing Standards</i>
SECPS	SEC Practice Section Reference Manual
SOP	AICPA Statement of Position

I. Report and Financial Statements

Note: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Checklists for Defined Benefit Pension Plans and Illustrative Financial Statements*. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

Auditor's Report

If subject to ERISA and DOL, is the plan required to have an audit? Note: The audit requirement is applied to each separate plan and not each separate trust. (AEBP, ch. 1, par. 1.14 and appendix A)

If the plan is subject to ERISA and DOL regulations and is required to have an audit, is the auditor independent pursuant to DOL regulations? (29 CFR 2509.75-9)

Does the auditor's report conform to the Audit and Accounting Guide — *Audits of Employee Benefit Plans*? (AEBP, ch. 13, pars. 1-36 and appendix A)

Is the report dated in conformity with the requirements of professional standards? (AU Secs. 504.15-.17, 508.08 and .74, .82 and 530)

Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report in the circumstances described in such standards? (AU Secs. 505.08-.10 and 623)

Does the report cover all periods for which financial statements are presented?

If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)

If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AU Secs. 551 and 558)

QUES.	N/A	YES	NO	REF.
BP101				
BP102				
BP103				
A101				
A102				
A103				
A104				
A105				

If the audit was a limited scope audit permitted by DOL rules and regulations with respect to investment information, was this stated and a disclaimer issued? (AEBP, ch. 5, par. 2 and ch. 13, par. 23)

Does the report identify and include an appropriate opinion on supplemental schedules required by ERISA and DOL regulations? (AEBP, ch. 13, pars. 9-16)

Is the report appropriately modified for financial statements presented on a basis other than GAAP that is acceptable under ERISA or DOL regulations? (AEBP, ch. 13, pars. 17-20)

Is the auditor's report on financial statements of defined benefit plans appropriately worded assuming either an End-of-Year Benefit Information Date or Beginning-of-Year Benefit Information Date? (AEBP, ch. 13, pars. 4-5)

Financial Statements and Footnotes

General

Are the financial statements suitably titled? (AU Sec. 623.07 and .24, AEBP, chs. 2, 3, 4, pars. 2.06-.08, 3.09-.11, and 4.07-.09)

Are the presentations appropriate and disclosures adequate regarding:

Significant accounting policies? (AC Sec. A10.105.-108)

Accounting changes? (AC Sec. A06)

Comparative financial statements? (AC Sec. F43)

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)

Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)

QUES.	N/A	YES	NO	REF.
BP104				
BP105				
BP106				
BP107				
A112				
A113				
A114				
A115				
A126				
A127				

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?
(AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)

If there are prior period adjustments:

Are only corrections of an error in the financial statements of a prior period reported as prior period adjustments (excluding the manner of reporting accounting changes retroactively)? Is the disclosure adequate? (AC Sec. A35)

Is the presentation appropriate and disclosure adequate regarding:

Description of method and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? (AEBP, chs. 2, 3, 4, pars. 2.09-.13, 3.12-.16, 4.25a-b)

Description of method and significant assumptions used to determine the actuarial present value of accumulated plan benefits including any significant changes in the method of assumptions during the year? (AC Sec. Pe 5.126b)

Description of plan including its vesting and benefit provisions? (AEBP chs. 2, 3, 4, pars. 2.24a, 3.23a, 4.26a)

Description of significant plan amendments including through the date of the report? (AEBP, chs. 2, 3, 4, pars. 2.24b, 3.23b, 4.26b)

Description of the priority of order of participants' claims to plan assets in the event of plan termination and benefits guaranteed by the Pension Benefit Guarantee Corporation (PBGC)? (AEBP, ch. 2, par. 24c)

Description of funding policy (including minimum funding waiver if granted by the IRS or in pending status)? (AEBP, ch. 2, par. 24d)

QUES.	N/A	YES	NO	REF.
A128				
A137				
BP108				
BP109				
BP110				
BP111				
BP112				
BP113				

Federal income tax status of the plan, IRS tax rulings or determination letter? (AEBP, chs. 2, 3, 4, pars. 2.24f, 3.23f, 4.26e)

Identification of investments that represent 5% of total plan assets for health and welfare plans, 5% of net assets available for benefits for defined contribution and defined benefit plans? (AEBP, chs. 2, 3, 4, pars. 2.24g, 3.23g, 4.26f)

Reporting all real estate, administrative expenses or other transactions with parties-in-interest and related parties regardless of materiality, or was the audit report modified appropriately? (AEBP, chs. 2, 3, 4, 11, pars. 2.24h, 3.23h, 4.26g, 11.01)

Prohibited transactions? (AEBP, ch. 11, par. 12)

Unusual or infrequent events or transactions occurring subsequent to latest benefit information date but before issuance of the financial statements? (AEBP, chs. 2, 3, 4, pars. 2.24i, 3.23n, 4.26h)

If the plan is subject to ERISA reporting requirements are the following schedules attached: assets held for investment (if filing under the alternative method, a schedule of assets acquired and disposed of during the year is also required), nonexempt transactions with parties in interest, loans or fixed income obligations due in default or uncollectible, leases in default or uncollectible, and reportable transactions? (AEBP, chs. 2, 3, pars. 2.04, 3.06)

Have the proper disclosures been made, and the liquidation basis of accounting used for plan terminations? (AEBP, chs. 2, 3, pars. 2.28-.31, 3.27-.29)

Is there a description of the policy regarding the purchase of insurance contracts that are excluded from plan benefits? (AEBP, chs. 2, 3, 4, pars. 2.24e, 3.23e, 4.26d)

Is there a disclosure of amounts allocated to persons who have withdrawn from participation in the earnings and operations of the plan? Are such amounts excluded from liabilities? (AEBP, ch. 3, par. 23m)

QUES.	N/A	YES	NO	REF.
BP114				
BP115				
BP116				
BP117				
BP118				
BP119				
BP120				
BP121				
BP122				

Are the amounts of unallocated assets disclosed? (AEBP, ch. 3, par. 23c)

Is the basis for determining contributions by employers, and the method of determining participant contributions disclosed? (AEBP, chs. 2, 3, pars. 2.24d, 3.23d)

Are investments pledged to secure debt disclosed? (AEBP, ch. 3, par. 23i)

Are guarantees by others of debt of the plan disclosed? (AEBP, ch. 3, par. 23j)

If the plan provides for participant-directed investment options, are the investment programs disclosed on a separate fund basis? (AEBP, ch. 3, par. 23k)

For plans that assign units to participants, is the proper unit information disclosed? (AEBP, ch. 3, par. 23l)

Are changes in the actuarial present value of accumulated plan benefits including amendments, actuarial assumptions, and nature of the plan disclosed? (AEBP, ch. 2, par. 22)

Is a prior-year statement of net assets and changes presented if beginning-of-year benefit information is used? (AC Sec. Pe 5.106)

Is the actuarial present value of accumulated plan benefits including vesting benefits of participants currently receiving payments, other vested benefits, and non-vested benefits presented? (AEBP, ch. 2, pars. 18-21)

If subject to ERISA and DOL, is there a reconciliation between financial statements and Form 5500 amounts, if applicable? (AEBP, appendix A, par. 50a)

Are significant employer absorbed costs of plan administration disclosed? (AEBP, ch. 3, par. 23d)

QUES.	N/A	YES	NO	REF.
BP123				
BP124				
BP125				
BP126				
BP127				
BP128				
BP129				
BP130				
BP131				
BP132				
BP133				

Statement of Net Assets Available for Benefits

Is the presentation appropriate and disclosure adequate regarding:

Investments (identified by type and presented at fair value) (AEBP, chs. 2, 3, 4, pars. 2.09-.13, 3.12-.16, 4.09-.11)?

Information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk? (AEBP, chs. 2, 3, pars. 2.25-27, 3.24-26)

Are unallocated insurance contracts reported on in accordance with ERISA and DOL? (AEBP, chs. 2, 3, 4, pars. 2.12, 3.15, 4.10, AC Secs. 5.110-.111)

Contributions receivable (each component separately disclosed)? (AEBP, chs. 2, 3, 4, pars. 2.14, 3.17, 4.12)

Amounts receivable from brokers for securities sold?

Accrued interest and dividends?

Allowance for estimated uncollectible amounts? (AEBP, chs. 2, 3, pars. 2.14, 3.17)

Assets used in plan operations (e.g., buildings, equipment, furniture and fixtures and leasehold improvements) identified by type and presented at cost, less accumulated depreciation or amortization? (AEBP, ch. 3, par. 18)

For health and welfare plans if significant: accrued experience rating adjustments, insurance premiums payable, deposits with insurance companies and accumulated eligibility credits? (AEBP, ch. 4, pars. 14-17 and 22; appendix H, pars. 23 and 43)

If Statement of Position (SOP) 92-6 was applicable to this engagement (either as a result of the SOP's effective date or early application of the SOP): Information regarding the plan's benefit obligation as of the end of the plan year and certain factors affecting the year-to-year change in the plan's benefit obligations (appendix H, pars. 19-21, 36-49, and 50-51).

QUES.	N/A	YES	NO	REF.
BP134				
BP135				
BP136				
BP137				
BP138				
BP139				
BP140				
BP141				
BP142				
BP143				

For self-insured health and welfare plans, claims reported but not paid and claims incurred but not yet reported? (AEBP, ch. 4, pars. 19, 20, 21)

Notes payable and other debt:

Maturities and rates? (AC Sec. C32.105)

Other terms and covenants?
(AC Sec. C59.120)

Maturities and sinking fund requirements for the next five years? (AC Sec. 32.105)

Other liabilities, including amounts due to brokers for securities purchased, other accounts payable, and accrued expenses?

If subject to ERISA and DOL regulations, are comparative statements of net assets available for benefits presented? (AEBP chs. 2-3, pars. 2.7a., 3.10 and appendix A, par. 50a)

Statement of Changes in Net Assets

Are the presentations appropriate and disclosures adequate regarding:

Net change in fair value for each significant class of investments? (AEBP, chs. 2, 3, 4, pars. 2.17a, 3.20a, 4.23a)

Contributions from employer(s), employees and other identified sources separately stated?
(AEBP, chs. 2, 3, 4, pars. 2.17c, d, e, 3.20c, d, e, 4.23c, d, e)

Payments to insurance companies to purchase allocated contracts, net of related dividend income? (AEBP, chs. 2, 3, 4, pars. 2.17g, 3.20g, 4.23g)

Investment income?
(AEBP, chs. 2, 3, 4, pars. 2.17b, 3.20b, 4.23b)

Benefits paid to participants?
(AEBP, chs. 2, 3, 4, pars. 2.17f, 3.20f, 4.23f)

Payments to insurance companies that are excluded from plan assets? (AEBP, chs. 2, 3, 4, pars. 2.17g, 3.20g, 4.23g)

QUES.	N/A	YES	NO	REF.
BP144				
A160				
A161				
A165				
BP145				
BP146				
BP147				
BP148				
BP149				
BP150				
BP151				
BP152				

14918

Administrative expense? (AEBP, chs. 2, 3, 4,
pars. 2.17h, 3.20h, 4.23i)

QUES.	N/A	YES	NO	REF.
BP153				

II. General Audit Procedures

In planning the audit engagement, did the auditor properly consider:

Matters affecting the plan, such as accounting practices, contractual obligations, economic conditions, and laws and government regulations? (AU Secs. 311.03-.04 and 801.11)

Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08)

Did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts? (AU Secs. 312.12 and 316.05)

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU Sec. 316.05)

Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)

If the auditor succeeded a predecessor auditor, did the auditor:

Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)

QUES.	N/A	YES	NO	REF.
BP201				
A302				
A303				
A304				
A305				
A306				
A307				

Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.08)

Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers? (AU Sec. 315.08)

If consideration was given to the work of internal auditors in determining the scope of the audit, was it done in accordance with professional standards? (AU Sec. 322)

Did the auditor:

Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Sec. 319.16 and AU Sec. 324.07-.10)

Document the understanding of the internal control structure? (AU Sec. 319.26)

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)

If the methods used by the client to process significant accounting information includes the use of a service organization, was consideration given to the internal control structure relating to the accounting applications at the service organization? (AU Sec. 324.06-.10)

If the auditor relied on the internal control structure at a service organization, was a service auditor's report that describes the results of the service auditor's tests obtained; or were tests performed by the auditor at the service organization? (AU Sec. 324.14-.16)

QUES.	N/A	YES	NO	REF.
A308				
A309				
A310				
A311				
A312				
A313				
A314				
A315				
A316				

QUES. N/A YES NO REF.

If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:

Do the instructions to the other office or firm appear adequate? (AU Sec. 311)

Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)

Was there appropriate follow-up of open matters? (AU Sec. 311)

In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation? (AU Sec. 543.10)

Was an appropriately tailored, written audit program prepared?
(AU Sec. 311.05 and applicable AICPA Industry Audit Guide)

Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained during the planning process? (AU Sec. 319.02 and .05)

Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)

If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)

Have all procedures called for in the audit program been signed? (AU Sec. 339)

If statistical or nonstatistical sampling was used in test of controls (AU Secs. 319 and 350):

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations?
(AU Sec. 350.31)

QUES.	N/A	YES	NO	REF.
A317				
A318				
A319				
A320				
A321				
A322				
A323				
A324				
A325				
A326				

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures? (AU Sec. 350.40-.43)

In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details:

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatements, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)

Were the misstatement results of the sample projected to the items from which the sample was selected? (AU Sec. 350.26)

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed? (AU Sec. 350.25)

In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements results from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)

QUES.	N/A	YES	NO	REF.
A327				
A328				
A329				
A330				
A331				
A332				
A333				
A334				
A335				

Was the documentation of the foregoing considerations in accordance with firm policy?

During the performance of the engagement, did the auditor:

Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)

Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)

Has the auditor evaluated the reasonableness of significant accounting estimates made by management?⁽¹⁾
(AU Sec. 342)

Did the auditor obtain a timely and appropriate letter of representation from management?
(AU Secs. 333.01 and 801.91)

Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments? (AU Sec. 337.06)

Have all questions, exceptions, or notes posed during the audit been followed up and resolved?

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period?
(AU Sec. 312.27 and .30)

During the performance of the engagement, did the auditor:

Follow up on errors and irregularities in accordance with professional standards?
(AU Sec. 316.24-.29)

QUES.	N/A	YES	NO	REF.
A336				
A337				
A338				
A339				
A340				
A341				
A342				
A343				
A344				

⁽¹⁾ The auditor has this responsibility under AU Sec. 326 and is given more specific guidance in AU Sec. 342.

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations?
(AU Sec. 316.25)

Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)

When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:

Follow up on illegal acts in accordance with professional standards? (AU Secs. 316.24-.28 and 317.10)

Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations?
(AU Sec. 317.16)

Communicate directly with the audit committee if the illegal act involved senior management, document that communication, and obtain assurance that all illegal acts which come to the auditor's attention are adequately communicated?
(AU Sec. 317.17)

Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?
(AU Sec. 341.02)

If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))

If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of possible effects, and any mitigating factors, including management's plans? (AU Sec. 341.11)

QUES.	N/A	YES	NO	REF.
A345				
A346				
A347				
A348				
A349				
A350				
A351				
A352				

If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph which adequately communicated the auditor's substantial doubt (e.g., includes the terms "substantial doubt" and "going concern")? (AU Sec. 341)

During the performance of the audit:

If there were reportable conditions identified were they communicated to the audit committee, management and others within the organization on a timely basis (if the communication was oral was it documented in the working papers)? (AU Sec. 325.09)

Does the auditor's conclusions in the working papers regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)

If the report was issued on reportable conditions did it indicate the purpose of the audit, include the definition of reportable conditions and include the restriction on distribution? (AU Sec. 325.11)

If the auditor issued a letter that did not include reportable conditions did it not represent that there were no reportable conditions? (AU Sec. 325.17)

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)

If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)

QUES.	N/A	YES	NO	REF.
A353				
A354				
A355				
A356				
A357				
A361				
A362				

Where there is a formal oversight committee or the client is an SEC engagement, did the auditor:

Ensure that appropriate matters were communicated to those with responsibility for oversight of the financial reporting process?
(AU Sec. 380.01-.02)

If the communication was in writing, prepare a written report that included a statement that the communication was intended solely for the use of the audit committee or other appropriate parties?
(AU Sec. 380.03)

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?
(AU Sec. 380.03)

QUES.	N/A	YES	NO	REF.
A363				
A364				
A365				

III. Working Paper Areas — Employee Benefit Plans *

Note: In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a *key* area for that engagement, the reviewer should place an "X" in the box next to the name of the working paper area. [As indicated on page 14906, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" next to the area.]

Cash Not a key area

Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?

Do the working papers indicate that the following were considered:

Confirmation of cash balances?

Confirmation of liabilities and contingent liabilities to banks?

Based on the assessment of control risk, do the substantive tests of cash appear adequate?
(AU Sec. 319)

QUES.	N/A	YES	NO	REF.
A401				
A402				
BP301				
A406				
A407				

* Complete only the sections for the key audit areas selected for review.

Investments

For trusted assets, did the audit procedures provide a reasonable basis for the conclusions regarding:

Analysis of changes in investments during the period? (AEBP, ch. 7, par. 12b)

Evidence regarding the existence and ownership of investments, such as direct confirmation (including securities in transit), and review for liens or other security interest? (AEBP, ch. 7, par. 12c, d, f)

Investment transactions, including accrued income? (AEBP, ch. 7, par. 12e, g)

Fair value of investments, including the net change in appreciation or depreciation? (AEBP, ch. 7, par. 12h, i)

Situations where the plan's investments might violate applicable laws or regulations? (AEBP, ch. 7, par. 12j)

Assets in a discretionary trust, an understanding of the related internal control structure sufficient to support transactions executed by the trust? (AEBP, ch. 7, pars. 13-15)

For investments in a common or commingled trust, did the audit procedures consider or include:

Confirming units of participation held by the plan? (AEBP, ch. 7, par. 18a)

Supporting documentation for unit value information? (AEBP, ch. 7, par. 18b, c)

For investments in insurance contracts did the audit procedures consider or include:

Contracts between the contract holder and the insurance company? (AEBP, ch. 7, par. 39a)

QUES.	N/A	YES	NO	REF.
BP302				
BP303				
BP304				
BP305				
BP306				
BP307				
BP308				
BP309				
BP310				

Evidence regarding the existence and ownership of the contract, contributions, premium payments, income credits, etc., such as by direct confirmation? (AEBP, ch. 7, par. 39b)

Unusual circumstances which may affect the market value of the contract? (AEBP, ch. 7, par. 39c)

Deposit Administration Contracts, interest credited and minimum guaranteed interest? (AEBP, ch. 7, par. 40a)

Rate of return for Immediate Participation Guarantee Contracts? (AEBP, ch. 7, par. 40b)

Annuity purchases, rates consistent with contract? (AEBP, ch. 7, par. 40c)

The financial statements of the insurance company? (AEBP, ch. 7, par. 40d)

Expenses charged to the contract? (AEBP, ch. 7, par. 40e)

Investments made in separate, or pooled separate account? (AEBP, ch. 7, par. 41a, b)

Did the audit procedures of the other investments consider investments such as, real estate, loans, and mortgages? (AEBP, ch. 7, par. 44)

For limited-scope audits did the audit procedures consider:

Certified information? (AEBP, ch. 7, par. 45)

Were audit procedures performed in all areas except investments? (AEBP, ch. 7, par. 45)

Was the information certified as to completeness and accuracy, prepared by a bank, similar institution, or insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency? (AEBP, ch. 13, par. 23)

QUES.	N/A	YES	NO	REF.
BP311				
BP312				
BP313				
BP314				
BP315				
BP316				
BP317				
BP318				
BP319				
BP320				
BP321				
BP322				

Contributions Received and Related Receivables

For contributions receivable and related receivable did the audit procedures used provide a reasonable basis for conclusion regarding:

Employers and Employees contributions? (AEBP, ch. 8, par. 3a, b, c, e, f)

Contribution deposits records, and allowance for uncollectible amounts? (AEBP, ch. 8, par. 3d, h)

Actuary reports for defined benefit plans? (AEBP, ch. 8, par. 5a-c)

Contribution provisions of the plan instrument for defined contribution plans? (AEBP, ch. 8, par. 6a-c)

Did the audit procedures consider whether the companies' contributions to the plan were sufficient to meet the minimum funding standards set forth in ERISA? (AEBP, appendix A, pars. 10-13)

Receivables Not a key area

Were amounts receivable from brokers for securities sold confirmed and appropriate follow-up steps taken, including second requests and alternate procedures? (AU Sec. 330.24-.30)

If a significant number and amount of receivables were not confirmed, is there evidence that other auditing procedures were performed? (AU Sec. 330.32)

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers? (AU Sec. 330.33)

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)

Was receivable work coordinated with the tests of revenue, including cutoff tests?

QUES.	N/A	YES	NO	REF.
BP323				
BP324				
BP325				
BP326				
BP327				
BP328				
BP329				
A412				
A415				
A417				

Based on the assessment of control risk, do the substantive tests of receivables appear adequate?
(AU Sec. 319)

Property and Equipment Used in Plan Operations

Not a key area

Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

- Property and equipment used in plan operations?
- Accumulated depreciation?

Do tests appear adequate and were proper conclusions drawn with respect to:

- Additions (e.g., by examining supporting documents and/or physical inspection)?
- Retirements, etc.?
- The adequacy of current and accumulated provisions for depreciation?

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

Based on the assessment of control risk, do the substantive tests of property and equipment appear adequate? (AU Sec. 319)

Liabilities Not a key area

Were other liabilities (including payables for securities purchased) adequately tested for propriety?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was consideration given to expenditures and expenses that might require accrual (e.g., third-party administrator fees), and to whether accrued expenses were reasonably stated?
(AC Secs. P16, C44 and P40)

QUES.	N/A	YES	NO	REF.
A420				
A453				
A454				
A455				
A456				
A457				
A459				
A460				
A461				
A462				
A464				

Were significant notes and bonds payable, together with interest rates and repayment periods, etc. confirmed or, alternative procedures performed?

Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rate?

Is there evidence of testing of the plan's compliance with covenants to debt obligations?

Based on the assessment of control risk, do the substantive tests of liabilities appear adequate?
(AU Sec. 319)

Benefit Payments and Claims Payable

For selected participants receiving benefit payments did the audit procedures consider or include:

The propriety, required approvals, eligibility, cash disbursements (including long outstanding checks)? (AEBP, ch. 9, par. 3a-c)

Payments made by third party administrators?
(AEBP, ch. 9, par. 4)

For defined contribution plans, did the audit procedures include or consider a comparison of disbursements to participants' records? (AEBP, ch. 9, par. 3d)

For health and welfare plans, did the audit procedures include accrued benefits payable? (AEBP, ch. 9, par. 3e)

Commitments and Contingencies Not a key area

Do the working papers include indication of the following:

Inspection of minutes of meetings of relevant committees or boards?

Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?

QUES.	N/A	YES	NO	REF.
A465				
A466				
A467				
A468				
BP330				
BP331				
BP332				
BP333				
A476				
A477				

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable?
(AU Secs. 337.05 and 333)

Other contingent liabilities or possible guarantees?

Were procedures performed to determine whether events subsequent to the date of the financial statements should be recorded or disclosed? (AU Sec. 560.10-12)

Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)

Participant Data

For participant data, did the audit procedures consider or include:

Demographic data, payroll data, and benefits data? (AEBP, ch. 10, pars. 4, 5)

Multi-employer plans, employer contribution reports to participant data? (AEBP, ch. 10, par. 5)

Multi-employer plans, if participant data cannot be reviewed were other procedures performed? (AEBP, ch. 10, par. 6)

For defined benefit plans, did the audit procedures consider or include:

Participant data compared with information given to the actuary? (AEBP, ch. 10, par. 8)

Actuary data? (AEBP, ch. 10, pars. 18-23)

For defined contribution plans, did the audit procedures consider or include:

Allocation of company and individual contributions, demographic data used to determine eligibility and vesting, and terminations? (AEBP, ch. 10, pars. 9-11)

QUES.	N/A	YES	NO	REF.
A478				
A479				
A480				
A481				
A482				
BP334				
BP335				
BP336				
BP337				
BP338				
BP339				

Allocation of income or loss, forfeitures, etc.? (AEBP, ch. 10, par. 26a-e)

For health and welfare benefit plans, did the audit procedures consider or include:

Claims information? (AEBP, ch. 10, pars. 12c, 29)

Claims incurred but not paid? (AEBP, ch. 10, pars. 30, 32)

Premiums paid, and actuary data? (AEBP, ch. 10, pars. 28, 32)

Other Considerations

Did the audit procedures consider or include:

ERISA requirements, applicable sections of the Internal revenue code, related DOL and IRS regulations and the potential effect on the plan? (AEBP, ch. 5, par. 15)

Risk areas, such as valuation of non readily marketable securities or specialized investments? (AEBP, ch. 5, pars. 16-19)

Plan transactions with parties-in-interest including a basis for identification, understanding and evaluation of parties-in-interest? (AEBP, ch. 11)

If the auditor concluded that a party-in-interest transaction resulted in an illegal act, did the audit procedures adequately consider the effect on the financial statements as well as other aspects of the audit? (AEBP, ch. 11, pars. 9-13)

Reviewing the tax status of the plan and IRS determination letters? (AEBP, ch. 12, pars. 1-3)

Administrative expenses? (AEBP, ch. 12, pars. 8-9)

Reading the other information contained in the Form 5500? (AEBP, ch. 12, pars. 12-14)

Reading the actuary report, and reviewing the actuarial assumptions? (AEBP, ch. 10, pars. 18-23)

QUES.	N/A	YES	NO	REF.
BP340				
BP341				
BP342				
BP343				
BP344				
BP345				
BP346				
BP347				
BP348				
BP349				
BP350				
BP351				

Comparing the plan provisions to the plan instrument and changes in provisions by the Internal Revenue Code in effect as of the plan year-end? (AEBP, chs. 1, 8, 10, 12, pars. 1.18, 8.6a-c, 10.25a, 10.26a, 12.3)

If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336.05-.12)

If the firm issued an engagement letter on the audit engagement reviewed, did the language about the firm's responsibility with respect to the detection of errors and irregularities conform with the requirements of SAS No. 53 (AU Sec. 316, pars. 5-8)?

If SAS No. 70 was effective (either as a result of the SAS's effective date or an early application of the SAS), consideration of the effect of a service organization on the internal control structure of a user organization and the availability of audit evidence? (AU Sec. 324 pars. 6-21)

QUES.	N/A	YES	NO	REF.
BP352				
BP353				
BP354				
BP355				

IV. Functional Areas

Independence
(QC Sec. 10.07a)

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered?
(ET Sec. 101)

Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)

Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)

For non-SEC clients, were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement?
(ET Sec. 191.103-.104)

For SEC clients, if the fees (billed/unbilled) for the prior years' services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?

Assigning Personnel to Engagements
(QC Sec. 10.07b)

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?
(QC Sec. 90.12)

QUES.	N/A	YES	NO	REF.
A601				
A602				
A603				
A604				
A605				
A606				
A607				

Consultation
(QC Sec. 10.07c)

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between personnel and/or and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)

Supervision
(QC Sec. 10.07d)

Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)

Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

QUES.	N/A	YES	NO	REF.
A608				
A609				
A610				
A611				
A612				
A613				
A614				
A615				
A616				

Review of internal control structure:

Manual system?

EDP system?

Audit work programs?

Financial statement disclosures?

Working papers and financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm's guidelines for the form and content of audit working papers complied with?

If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas?
(AU Sec. 311.10)

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

Advancement
(QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

Acceptance and Continuance of Clients
(QC Sec. 10.07h)

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?
(QC Sec. 90.24)

QUES.	N/A	YES	NO	REF.
A617				
A618				
A619				
A620				
A621				
A622				
A623				
A624				
A625				
A626				
A627				

14940

Professional Development
(QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)

QUES.	N/A	YES	NO	REF.
A628				

V. Explanation of "No" Answers and Other Comments

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
--------------------	------------------------	-----------------------------	---------------------------------

* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

14942

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
--------------------	------------------------	-----------------------------	--------------------------------

14944

Page
Number

Question
Number

Explanatory Comments

Disposition
of Comments

VI. Conclusions

Explain Below the Reasons for Any "Yes" Answers. *Be Specific.*

Based on the work performed, did anything come to your attention that caused you to believe that:

- | | | |
|--|------------|----------|
| 1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202)? | YES* _____ | NO _____ |
| 2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? | YES* _____ | NO _____ |
| 3. The auditor's report was not appropriate in the circumstances? | YES* _____ | NO _____ |
| 4. The documentation on this engagement does not support the firm's opinion on the financial statements? | YES _____ | NO _____ |
| 5. The firm did not comply with its policies and procedures on this engagement in all material respects? | YES _____ | NO _____ |

* If this question is answered "yes," see additional guidance contained on pages SECPS §2000.77-.83 of the *SECPS Reference Manual* and PCPS §2000.69-.76 of the *PCPS Reference Manual*.

SUMMARY ENGAGEMENT REVIEW CHECKLISTS

TABLE OF CONTENTS

<u>SECTION</u>		<u>PAGE</u>
15100	Summary Checklist for Reviews of Compilations of Financial Statements.	15101
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15300	Summary Checklist for Reviews of Audit Engagements.	15301

PRM
15100

Summary Compilation
Checklist

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Summary Checklist for Reviews of Compilations of Financial Statements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE PRM §13100.17-.21 THE "INSTRUCTIONS FOR
USE OF THE PEER REVIEW PROGRAM GUIDELINES")

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I. Report and Financial Statements

Accountant's Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards, if appropriate?

Does the report cover all periods for which financial statements are presented?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking?

Does each page of financial statements that have been compiled include a reference to the accountant's report?

Financial Statements and Footnotes

General

Are the financial statements suitably titled?

QUES.	Engagement Code					MFC Ref*
C101						
C102						
C103						
C104						
C105						
C106						
C107						

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Do the financial statements appear to be free from material error?

Are the presentations appropriate and disclosures adequate regarding:

 Significant accounting policies?

 Accounting changes?

 Comparative financial statements?

 Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements?

Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?

Are required disclosures made concerning related party transactions?

Are required disclosures made regarding significant dependence on one or more major customers or suppliers?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

QUES.	Engagement Code					MFC Ref*
C108						
C109						
C110						
C111						
C112						
C113						
C114						
C115						
C116						
C117						
C118						
C119						
C120						
C121						

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are other contingencies and commitments adequately disclosed?

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern?

Is the required information on defined benefit pension plans adequately disclosed?

Are all other pension plans adequately disclosed?

Is the required information on defined benefit postretirement plans adequately disclosed?

If FAS No. 106 has not yet been adopted, are postretirement health care and life insurance benefits properly disclosed under FASB No. 81?

If FAS No. 112 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) and if an obligation for post employment benefits is not accrued because the amount cannot be reasonably estimated, do the financial statements disclose that fact?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

Do the financial statements, where required, include appropriate disclosures of futures contracts?

QUES.	Engagement Code					MFC Ref*
C122						
C123						
C124						
C125						
C126						
C127						
C128						
C129						
C130						
C131						
C132						

Balance Sheet

Are the presentations appropriate and disclosures adequate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only), trading, or available-for-sale, and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholders' equity?

Accounts and Notes Receivable:

Unbilled receivables?

Loans and related origination fees?

Effect of interest rates that do not reflect market rates?

Receivables related to troubled debt restructurings?

Other receivables?

QUES.	Engagement Code					MFC Ref*
C133						
C134						
C135						
C136						
C137						
C138						
C139						
C140						
C141						
C142						
C143						

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are the recorded investment in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed?

Inventories?

Investments accounted for on the equity method?

Property and equipment, including accounting for assets of discontinued operations, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?

Pledged assets?

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?

Current liabilities?

Short-term liabilities expected to be refinanced?

Notes payable and other debt:

Maturities and rates?

Other terms and covenants?

QUES.	Engagement Code					MFC Ref*
C144						
C145						
C146						
C147						
C148						
C149						
C150						
C151						
C152						
C153						
C154						
C155						

Effect of interest rates that do not reflect market rates?

Effect of troubled debt restructurings?

Effect of early extinguishment of debt?

Maturities and sinking fund requirements for the next five years?

Capital leases of lessees?

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?

Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?

Treasury stock?

Stock option and stock purchase plans?

Stock subscriptions receivable?

Retained earnings, including appropriations thereof and restrictions on dividends?

Changes in stockholders' equity?

Redemption requirements on capital stock for the next five years?

Income Statement

Are the important components of the income statement separately disclosed?

Are the presentations appropriate and disclosures adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

QUES.	Engagement Code					MFC Ref*
C156						
C157						
C158						
C159						
C160						
C161						
C162						
C163						
C164						
C165						
C166						
C167						
C168						
C169						
C170						

Gains and losses, realized and unrealized from marketable equity securities?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) is the information relating to realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented and disclosed in accordance with the statement?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has the right to return the product?

Product financing arrangements?

Operating leases and rent expense of lessees?

Income taxes:

The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset?

QUES.	Engagement Code					MFC Ref*
C171						
C172						
C173						
C174						
C175						
C176						
C177						
C178						
C179						
C180						
C181						
C182						
C183						
C184						

Significant components of income tax expense, including the current tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

For publicly held companies, reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items need be disclosed.)

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

Other information concerning tax expenses, benefits and the effect of income taxes?

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from customary relationship between income and taxes?

Discontinued operations?

Extraordinary and unusual items?

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

Does it report cash provided or used by investing, financing, and operating activities?

QUES.	Engagement Code					MFC Ref*
C185						
C186						
C187						
C188						
C189						
C190						
C191						
C192						
C193						

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed?

Do components of the financial statements appear to have been shown at "gross" and not "net" amounts?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities?

Other

If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?

Summary

Does it appear that disclosures in the financial statements are reasonably adequate?

QUES.	Engagement Code					MFC Ref*
C194						
C195						
C196						
C197						
C198						
C199						
C200						
C201						

II. General Procedures

Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing.)

Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)?

If the engagement was originally intended to be an audit or review, rather than a compilation, did the accountant consider:

The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?

The additional effort required to complete the audit or review?

The estimated additional cost to complete the audit or review?

QUES.	Engagement Code					MFC Ref*
C205						
C206						
C207						
C208						
C209						

Did the accountant read the compiled financial statements and considered whether such financial statements appeared to be appropriate in form and free from obvious material errors?

If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information?

Have all questions, exceptions or notes, posed during the work been followed up and resolved?

If the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?

If the prior period accountant's report contains a changed reference to a departure from generally accepted accounting principles, does the current report have an explanatory paragraph indicating the date of the previous report, circumstances or events that caused the reference to be changed, and if applicable, that the financial statements of the prior period have been changed?

QUES.	Engagement Code					MFC Ref*
C210						
C211						
C212						
C213						
C214						

III. Functional Areas

Independence

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? If the accountant was not independent, was the report appropriately modified?

Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?

Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the current year's report?

Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?

Consultation

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

QUES.	Engagement Code					MFC Ref*
C301						
C302						
C303						
C304						
C305						
C306						
C307						

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

Supervision

Does it appear that engagement planning was appropriate?

Were forms, checklists, or questionnaires, if any, *required by firm policy* (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies for compilation engagements?

Were the firm's guidelines for the form and content of working papers complied with?

Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?

QUES.	Engagement Code					MFC Ref*
C308						
C309						
C310						
C311						
C312						
C313						
C314						
C315						
C316						
C317						

Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

QUES.	Engagement Code					MFC Ref*
C318						
C319						
C320						

**IV. Appendix A - Questions for Use on Compilation Engagements
That Omit Substantially all Disclosures**

Accountants' Reports

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards including appropriate language describing any modification from professional standards, if appropriate?

Does the report cover all periods for which financial statements are presented?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

If supplementary information accompanies the basic financial statements, does the accountants' report describe the degree of responsibility, if any, the accountants are taking?

Does each page of financial statements that have been compiled include a reference to the accountants' report?

Financial Statements

General

Are the financial statements suitably titled?

Do the financial statements appear to be free from material error?

QUES.	N/A*	YES	NO	REF.**
C101				
C102				
C103				
C104				
C105				
C106				
C107				
C108				

* The N/A column should be used when the item either does not exist or is not material.

** All "No" answers must be explained on the pages provided at the end of this checklist.

Balance Sheet

Is the presentation appropriate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?

Income Statement

Are the important components of the income statement separately stated?

Is the presentation appropriate regarding:

Gains and losses, realized and unrealized, from marketable equity securities?

Income and income taxes on investments in securities accounted for on the equity method?

Discontinued operations?

Extraordinary and unusual items?

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

Does it report cash provided or used by investing, financing and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amount of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Do components of the financial statements appear to have been shown at "gross" and not "net" amounts?

Other

If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format and statements consistent with the guide?

QUES.	N/A	YES	NO	REF.
C133				
C169				
C171				
C173				
C189				
C190				
C191				
C192				
C193				
C194				
C197				
C199				

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Summary Checklist for Reviews of Reviews of Financial Statements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE PRM §13100.17-.21 THE "INSTRUCTIONS FOR
USE OF PEER REVIEW PROGRAM GUIDELINES")

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I. Report and Financial Statements

Accountants' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards, if applicable?

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?

Does the report cover all periods for which financial statements are presented?

If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking?

Does each page of financial statements that have been reviewed include a reference to the accountant's report?

Financial Statements and Notes

General

Are the financial statements suitably titled?

QUES.	Engagement Code					MFC Ref*
R101						
R102						
R103						
R104						
R105						
R106						
R107						

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Do the financial statements appear to be free from material error?

Are the presentations appropriate and disclosures adequate regarding:

 Significant accounting policies?

 Accounting changes?

 Comparative financial statements?

 Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements?

Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?

Are required disclosures made concerning related party transactions?

Are required disclosures made regarding significant dependence on one or more major customers or suppliers?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

QUES.	Engagement Code					MFC Ref*
R108						
R109						
R110						
R111						
R112						
R113						
R114						
R115						
R116						
R117						
R118						
R119						
R120						
R121						

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued?

Are other contingencies and commitments adequately disclosed?

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entities ability to continue as a going concern?

Is the required information on defined benefit pension plans adequately disclosed?

Are all other pension plans adequately disclosed?

Is the required information on defined benefit postretirement plans adequately disclosed?

If FAS No. 106 has not yet been adopted, are postretirement health care and life insurance benefits under FASB No. 81?

If FAS No. 112 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) and if an obligation for post employment benefits is not accrued because the amount cannot be reasonably estimated, do the financial statements disclose that fact?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

Do the financial statements, where required, include appropriate disclosures of futures contracts?

QUES.	Engagement Code					MFC Ref*
R122						
R123						
R124						
R125						
R126						
R127						
R128						
R129						
R130						
R131						
R132						

Balance Sheet

Are the presentations appropriate and disclosures adequate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

Marketable equity securities?

Other marketable securities?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only,) trading, or available-for-sale and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholder's equity?

Accounts and Notes Receivable:

Unbilled receivables?

Loans and related origination fees?

Effect of interest rates which do not reflect market rates?

Receivables related to troubled debt restructurings?

Other receivables?

QUES.	Engagement Code					MFC Ref*
R133						
R134						
R135						
R136						
R137						
R138						
R139						
R140						
R141						
R142						
R143						

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are the recorded investment loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed?

Inventories?

Investments?

Property and equipment, including accounting for assets of discontinued operations, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?

Pledged assets?

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?

Current liabilities?

Short-term liabilities expected to be refinanced?

Notes payable and other debt:

 Maturities and rates?

 Other terms and covenants?

 Effect of interest rates which do not reflect market rates?

QUES.	Engagement Code					MFC Ref*
R144						
R145						
R146						
R147						
R148						
R149						
R150						
R151						
R152						
R153						
R154						
R155						
R156						

Effect of troubled debt restructurings?

Effect of early extinguishment of debt?

Maturities and sinking fund requirements for the next five years?

Capital leases of lessees?

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

Treasury stock?

Stock option and stock purchase plans?

Stock subscriptions receivable?

Retained earnings, including appropriations thereof and restrictions on dividends?

Changes in stockholders' equity?

Redemption requirements on capital stock for the next five years?

Income Statement

Are the important components of the income statement separately disclosed?

Are the presentations appropriate and disclosures adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

Gains and losses, realized and unrealized, from marketable equity securities?

QUES.	Engagement Code					MFC Ref*
R157						
R158						
R159						
R160						
R161						
R162						
R163						
R164						
R165						
R166						
R167						
R168						
R169						
R170						
R171						

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) is the information relating to realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented and disclosed in accordance with the statement?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Compensatory stock issuance plan?

Deferred compensation agreements?

Sales transactions in which the buyer has a right to return the product?

Product financing arrangements?

Operating leases and rent expense of lessees?

Income Taxes:

The types of temporary differences that cause significant portions of a deferred tax liability or asset?

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

QUES.	Engagement Code					MFC Ref*
R172						
R173						
R174						
R175						
R176						
R177						
R178						
R179						
R180						
R181						
R182						
R183						
R184						
R185						

For publicly held companies reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items need to be disclosed.)

Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?

Other information concerning tax expense, benefits and the effect of income taxes?

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from customary relationship between income and taxes?

Discontinued operations?

Extraordinary and unusual items?

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

Does it report cash provided or used by investing, financing, and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree to the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financing activities disclosed?

QUES.	Engagement Code					MFC Ref*
R186						
R187						
R188						
R189						
R190						
R191						
R192						
R193						
R194						
R195						
R196						

If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed?

Do components of the financial statements appear to have been shown at "gross" and not "net" amounts?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities?

Other

If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?

Summary

Does it appear that disclosures in the financial statements are reasonably adequate?

QUES.	Engagement Code					MFC Ref*
R197						
R198						
R199						
R200						
R201						

II. General Review Procedures

Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional Standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing.)

Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)?

If the engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider:

The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?

The additional audit effort required to complete the audit?

The estimated additional cost to complete the audit?

Did the accountant's inquiries and analytical procedures consist of the following:

Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?

QUES.	Engagement Code					MFC Ref*
R205						
R206						
R207						
R208						
R209						
R210						

Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?

Analytical procedures designed to identify relationships and individual items that appear to be unusual?

Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?

Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?

Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?

Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?

If the accountant became aware that information that came to the accountant's attention was incorrect, incomplete, or otherwise unsatisfactory, did the accountant perform

QUES.	Engagement Code					MFC Ref*
R211						
R212						
R213						
R214						
R215						
R216						

additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles?

Do the accountant's working papers adequately reflect:

The matters covered in inquiry and analytical procedures?

Unusual matters that were considered during the performance of the review, including their disposition?

Did the accountant obtain a representation letter from members of management whom the accountant believes are responsible for and knowledgeable, directly or through others in the organization, about the matters covered in the representation letter? Did the accountant obtain a representation letter from the owner, manager, or chief executive officer, does it appear to be appropriate in the circumstances? (Note: Under the early application of the Omnibus Statement on Standards for Accounting and Review Services, the accountant is required to obtain a representation letter.)

If any circumstances were encountered by the accountant that precluded the accountant from performing inquiries and analytical procedures as deemed necessary, or the client did not provide the accountant with a representation letter:

Did the accountant consider whether these circumstances would have resulted in an incomplete review and therefore afford the accountant an inadequate basis for issuing a review report?

Did the accountant consider whether these same circumstances would also preclude the accountant from issuing a compilation report on the entity's financial statements?

QUES.	Engagement Code					MFC Ref*
R217						
R218						
R219						
R220						
R221						
R222						

Do such determinations by the accountant appear to be proper?

Have all questions, exceptions, or notes, posed during the work been followed up and resolved?

If there is an indication that the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?

If the prior period accountant's report contains a changed reference to a departure from generally accepted accounting principles, does the current report have an explanatory paragraph indicating the date of the previous report, circumstances or events that caused the reference to be changed, and if applicable, that the financial statements of the prior period have been changed?

QUES.	Engagement Code					MFC Ref*
R223						
R224						
R225						
R226						

III. Functional Areas

Independence

If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?

Have personnel been appropriately informed as to the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?

Was appropriate assurance of independence obtained from other firms engaged to perform segments of the engagement?

Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the current year's report?

Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?

Consultation

Was there appropriate consultation and documentation thereof:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

QUES.	Engagement Code					MFC Ref*
R301						
R302						
R303						
R304						
R305						
R306						
R307						
R308						

Were the firm’s conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

Supervision

Does it appear that engagement planning was appropriate?

Did the partner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?

Does it appear that the involvement by partner and manager were both adequate and appropriately timed to provide for any planning and supervision as the job progressed?

Were forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm’s policies applicable to a review?

Were the firm’s guidelines for the form and content of working papers for a review complied with?

QUES.	Engagement Code					MFC Ref*
R309						
R310						
R311						
R312						
R313						
R314						
R315						
R316						
R317						
R318						
R319						

Was an appropriate review made of the working papers, report and financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?

Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

Acceptance and Continuance of Clients

Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?

Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

QUES.	Engagement Code					MFC Ref*
R320						
R321						
R322						
R323						

As Revised November 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

Summary Checklist for Reviews of Audit Engagements

(For Peer Reviews Beginning on or after April 1, 1994)

(SEE PRM §13100.17-.21 THE "INSTRUCTIONS FOR
USE OF PEER REVIEW PROGRAM GUIDELINES")

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SUMMARY CHECKLIST FOR REVIEWS OF AUDIT ENGAGEMENTS

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I. Report and Financial Statements

Report and Disclosure Considerations Applicable to All Audit Engagements

Auditors' Report

Is the report dated in conformity with the requirements of professional standards?

Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report in the circumstances described in such standards?

Does the report cover all periods for which financial statements are presented?

If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph?

If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking?

For special reports, have professional standards been complied with regarding:

Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?

QUES.	Engagement Code					MFC Ref*
A101						
A102						
A103						
A104						
A105						
A106						

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

Specified elements, accounts or items of a financial statement?

Compliance with aspects of agreements or regulatory requirements relating to audited financial statements?

Financial presentations to comply with contractual agreements or regulatory provisions?

Financial information in prescribed forms or schedules?

For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards?

Financial Statements and Notes

General

Are the financial statements suitably titled?

Are the presentations appropriate and disclosures adequate regarding:

 Significant accounting policies?

 Accounting changes?

 Comparative financial statements?

 Business combinations?

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?

If an individual or entity controls a group of related entities, did the auditor consider the need for combined financial statements?

QUES.	Engagement Code					MFC Ref*
A107						
A108						
A109						
A110						
A111						
A112						
A113						
A114						
A115						
A116						
A117						
A118						

Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?

Are required disclosures made concerning related party transactions?

Are required disclosures made regarding significant dependence on one or more major customers or suppliers?

Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions accounted for and disclosed?

With respect to contingencies and commitments:

Are loss contingencies disclosed and/or accrued as appropriate?

Are other contingencies and commitments adequately disclosed?

Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

Is the required information on defined benefit pension plans adequately disclosed?

Are all other pension plans adequately disclosed?

Is the required information on defined benefit postretirement plans adequately disclosed?

If FAS No. 106 has not yet been adopted, are postemployment health care and life insurance benefits properly disclosed under FAS No. 81?

QUES.	Engagement Code					MFC Ref*
A119						
A120						
A121						
A122						
A123						
A124						
A125						
A126						
A127						
A128						
A129						
A130						
A131						
A132						

If FAS No. 112 was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) and an obligation for post-employment benefits is not accrued because the amount cannot be reasonably estimated, do the financial statements disclose that fact?

If the entity is or has been a "development stage enterprise," are adequate disclosures made?

Do the financial statements, where required, include appropriate presentations of:

Segment information?

Futures contracts?

If there are prior period adjustments:

Are only corrections of an error in the financial statements of a prior period and adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries reported as prior period adjustments (excluding the manner of reporting accounting changes retroactively)? Is the disclosure adequate?

If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated?

Balance Sheet

Are the presentations appropriate and disclosures adequate regarding:

Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?

Valuation allowances?

Restricted cash, including compensating balances?

QUES.	Engagement Code					MFC Ref*
A133						
A134						
A135						
A136						
A137						
A138						
A139						
A140						
A141						

Marketable equity securities?

Other marketable securities?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only), trading, or available-for-sale, and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholders' equity?

Accounts and Notes Receivable:

Unbilled receivables?

Loans and related origination fees?

Effect of interest rates that do not reflect market rates?

Receivables related to troubled debt restructurings?

Other receivables?

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are the recorded investment in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and the creditor's income recognition policy disclosed?

Inventories?

Investments accounted for on the equity method?

Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest?

Sales-type, direct financing, and operating leases of lessors?

QUES.	Engagement Code					MFC Ref*
A142						
A143						
A144						
A145						
A146						
A147						
A148						
A149						
A150						
A151						
A152						
A153						
A154						

Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges?

Pledged assets?

Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?

Current liabilities?

Short-term liabilities expected to be refinanced?

Notes payable and other debt:

 Maturities and rates?

 Other terms and covenants?

 Effect of interest rates that do not reflect market rates?

 Effect of troubled debt restructurings?

 Effect of early extinguishment of debt?

 Maturities and sinking fund requirements for the next five years?

Capital leases of lessees?

Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

Stock option and stock purchase plans?

Stock subscriptions receivable?

QUES.	Engagement Code					MFC Ref*
A155						
A156						
A157						
A158						
A159						
A160						
A161						
A162						
A163						
A164						
A165						
A166						
A167						
A168						
A169						
A170						

Retained earnings, including appropriations thereof and restrictions on dividends?

Changes in stockholders' equity?

Redemption requirements on capital stock for the next five years?

Income Statement

Are the important components of the income statement separately disclosed?

Are the presentations appropriate and disclosures adequate regarding:

Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?

Gains and losses, realized and unrealized, from marketable equity securities?

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), is the information relating to realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments presented and disclosed in accordance with the statement?

Income and income taxes on investments in securities accounted for on the equity method?

Research and development costs?

Computer software costs?

Interest costs?

Discount or premium on notes receivable or payable?

Depreciation?

Compensatory stock issuance plans?

Deferred compensation agreements?

QUES.	Engagement Code					MFC Ref*
A171						
A172						
A173						
A174						
A175						
A176						
A177						
A178						
A179						
A180						
A181						
A182						
A183						
A184						
A185						

Sales transactions in which the buyer has a right to return the product?

Product financing arrangements?

Operating leases and rent expense of lessees?

Income taxes, computed under the early application of AC Sec. 125 (FAS No. 109), to include:

The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset?

Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?

For publicly held companies, reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (If a nonpublic company, only the estimated amount and nature of significant reconciling items need to be disclosed)

Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?

Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?

Discontinued operations?

QUES.	Engagement Code					MFC Ref*
A186						
A187						
A188						
A189						
A190						
A191						
A192						
A193						
A194						

Extraordinary and unusual items?

Earnings per share information?

Statement of Cash Flows

Is a statement of cash flows presented for each period for which results of operations are provided?

Does it report cash provided or used by investing financing, and operating activities?

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?

Does it provide a reconciliation between net income and net cash flow from operating activities?

Are noncash investing and financial activities disclosed?

If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?

Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity value of three months or less? Is the enterprise's policy for determining which items are treated as cash equivalents disclosed?

Do the financial statements avoid reporting cash flows per share?

Do the components of the cash flow statement appear to have been shown at "gross" and not "net" amounts?

QUES.	Engagement Code					MFC Ref*
A195						
A196						
A197						
A198						
A199						
A200						
A201						
A202						
A203						
A204						
A205						

If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification; and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities?

Other

If the industry in which the client is operating is covered by an audit and accounting guide, are the format, statements, and disclosures consistent with the guide?

QUES.	Engagement Code					MFC Ref*
A206						
A207						

Report and Disclosure Considerations Unique to State or Local Governmental Entities

Auditor's Reports

Do (does) the auditor's report(s) on the general purpose or component unit financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and cash flows of proprietary and non expendable trust funds?

Financial Statements and Notes

General

Are the following general purpose or component unit financial statements presented:

Combined Balance Sheet—All Fund Types and Account Groups?

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds?

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental funds types for which annual budgets have been legally adopted)?

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and similar trust funds?

Combined Statement of Cash Flows—All Proprietary Fund Types and Non Expendable Trust Funds?

Do the combined financial statements contain all funds and account groups that comprise the financial reporting entity, as defined in the notes?

QUES.	Engagement Code					MFC Ref*
G101						
G102						
G103						
G104						
G105						
G106						
G107						

If totals by account are presented in the General Purpose Financial Statements, are the totals noted as memorandum only?

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles?

Do interfund receivables equal interfund payables or are the differences explained in the notes?

Are transfers to other funds recorded either as residual equity or operating transfers, as appropriate?

Are special assessments receivables offset by deferred revenues when appropriate?

Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectable receivables?

If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed?

If a general fund is presented:

Are the statements prepared on the modified accrual basis?

Are significant sources of general fund revenues disclosed?

Are expenditures classified by function?

If special revenue funds are presented:

Are the statements prepared on the modified accrual basis?

Do the statements disclose the significant revenues and expenditures?

QUES.	Engagement Code					MFC Ref*
G108						
G109						
G110						
G111						
G112						
G113						
G114						
G115						
G116						
G117						
G118						
G119						

If debt service funds are presented:

Are the statements prepared on the modified accrual basis?

Do the statements disclose the significant revenues and expenditures?

If capital project funds are presented:

Are the statements prepared on the modified accrual basis?

Do the statements disclose the significant revenues and expenditures?

If enterprise funds are presented:

Are the statements prepared on the accrual basis?

Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements?

Are the restricted assets, liabilities payable from restricted assets, and portion of retained earnings required to be segregated for debt service separately disclosed?

Are operating and nonoperating revenues and expenses separately classified?

Are property, plant and equipment properly reported on the balance sheet?

If internal service funds are presented:

Are the statements prepared on the accrual basis?

Do the financial statements present the net billings to other funds as revenues and the related costs as expenses?

Are long-term advances segregated from current amounts payable to other funds?

Are property, plant and equipment properly reported on the balance sheet?

QUES.	Engagement Code					MFC Ref*
G120						
G121						
G122						
G123						
G124						
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G129						
G130						
G131						
G132						

If nonexpendable and/or pension trust funds are presented:

Are the statements prepared on the accrual basis?

Are the principal and income portions of trust fund equity classified in accordance with the trust document?

If Agency Funds are presented:

Are the balance sheets prepared on the modified accrual basis?

If Expendable Trust Funds are presented:

Are the statements prepared on the modified accrual basis?

Do the financial statements disclose the significant revenues and expenditures of each fund?

If a general fixed assets account group is presented:

Are land, buildings, equipment, and construction-in-progress separately classified?

Where general fixed assets are depreciated, does the statement show the accumulated depreciation?

If General Long-Term Debt Account Group is presented:

Are general obligation term bonds and serial bonds separately disclosed?

Are other long-term liabilities (accrued vacation, leases, workers compensation, etc.) separately disclosed?

Are the amounts reported as amounts available for long-term debt and amounts to be provided properly stated?

Questions G143 through G170 should be answered only if the combining or individual fund financial statements are presented as primary

QUES.	Engagement Code					MFC Ref*
G133						
G134						
G135						
G136						
G137						
G138						
G139						
G140						
G141						
G142						

financial statements. The reviewer should evaluate whether the fund statements were complete in presentation for each fund or account group. Are the following financial statements presented if necessary:

General fund:

Balance sheet?

Statement of revenues, expenditures and changes in fund balance?

Statement of revenues, expenditures and changes in fund balance—budget vs. actual?

Special revenue funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

Debt service funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

Capital project funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

QUES.	Engagement Code					MFC Ref*
G143						
G144						
G145						
G146						
G147						
G148						
G149						
G150						
G151						
G152						
G153						
G154						

Enterprise funds:

Balance sheet?

Statement of revenues, expenses and changes in retained earnings?

Statement of cash flows?

Internal service funds:

Balance sheet?

Statement of revenues, expenses and changes in retained earnings?

Statement of cash flows?

Nonexpendable and pension trust funds:

Balance sheet?

Statement of revenues, expenses and changes in fund balances?

Statement of cash flows?

Agency funds:

Balance sheet?

Combining statement of changes in assets and liabilities, if appropriate?

Expendable trust funds:

Balance sheet?

Statement of revenues, expenditures and changes in fund balances?

Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

If required, is a statement of changes in general fixed assets presented?

If required, is a statement of changes in general long-term debt presented?

QUES.	Engagement Code					MFC Ref*
G155						
G156						
G157						
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G164						
G165						
G166						
G167						
G168						
G169						
G170						

Other Note Disclosures

Are the presentations appropriate and are disclosures adequate regarding the following significant accounting policies:

Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity and specific reasons for excluding agencies that meet that criteria?

If GASB No. 14 was applicable to this engagement (either as a result of the GASB's effective date or an early application of the GASB), are individual component unit disclosure included within the General Purpose Financial Statements, as well as a brief description of the component units, their relationship to the primary government and how the separate financial statements for the individual component units may be obtained?

Basis of accounting applied to each fund type?

Revenue recognition policies, including:

Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types?

Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not?

Accounting for fixed assets concerning:

Classification in proprietary funds or general fixed assets account group?

Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?

QUES.	Engagement Code					MFC Ref*
G171						
G172						
G173						
G174						
G175						
G176						
G177						

Depreciation methods and lives, including whether depreciation is reported on general fixed assets?

Capitalization of interest costs during construction?

Method of accounting and reporting for encumbrances?

Claims and judgments?

Interfund eliminations not apparent?

Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, and special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.)

Valuation basis and significant or unusual accounting treatment for other assets, liabilities, and fund equity?

Significant accounting policies on expenditures?

Statement that the "total" columns, if any, on GPFS or CUFS are presented for analytical purposes only?

Basis on which each budget is prepared, including:

Treatment of encumbrances?

Whether appropriations lapse at year end?

Explanation of the differences, if any, between the budgetary basis and the basis used for financial reporting of governmental funds?

Whether presented budgetary information has been amended?

Separate summary of significant accounting polices for discrete presentations?

QUES.	Engagement Code					MFC Ref*
G178						
G179						
G180						
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G182						
G183						
G184						
G185						
G186						
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G188						
G189						
G190						
G191						

Are the presentations appropriate and are disclosures adequate regarding the following:

Classified balance sheets, where appropriate?

Deferred compensation plans adopted under IRC 457?

Capital leases of lessees?

Operating leases and rent expense of lessees?

Detail of the government's property tax calendar, including the lien, levy, due and collection dates?

Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations?

Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by professional standards?

Terms or circumstances concerning repurchase or reverse repurchase agreements?

Receivables:

Loans or advances to other funds of the governmental units?

Taxes receivable?

Grant and other receivables from other governments?

Joint ventures and other investments?

Pooled cash and investment account?

QUES.	Engagement Code					MFC Ref*
G192						
G193						
G194						
G195						
G196						
G197						
G198						
G199						
G200						
G201						
G202						
G203						
G204						

If this entity has public entity risk pools (cooperative group of governmental entities) did the entity:

Recognize pool premiums as revenue over the contract period?

Recognize claims costs in the period in which the event triggers coverage under the policy?

Report the estimated loss of a claim if it is both probable and reasonably estimable?

Fixed assets, including changes during the period and capitalized interest?

Are the operating lease revenues accounted for under the accrual method?

For leases entered into beginning June 30, 1990, are operating leases with scheduled rent increases accounted for in a systematic and rational manner? If terms are artificially low has the entity used either the straightline or estimated fair value method?

Notes payable, bond, tax, and revenue anticipation notes, and other debt:

Special assessment debt and related activities?

Loans or advances from other funds of the governmental unit?

Debt service requirements to maturity?

Changes during the period including advance refundings resulting in defeasance of debt?

Unpaid debt that has been fully defeased?

Sinking fund contributions required as of year end?

Demand notes?

QUES.	Engagement Code					MFC Ref**
G205						
G206						
G207						
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G209						
G210						
G211						
G212						
G213						
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G215						
G216						
G217						

Compensation for future absences and special termination benefits for employees?

Designation or reservations or other restrictions of fund balances or retained earnings?

Revenues, expenses and expenditures:

 Grants, entitlements, and shared revenue?

 Investment income?

Deficit fund balances or retained earnings of individual funds?

Interfund receivables and payables?

Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having year ends properly disclosed?

Are the financial statements adjusted, where appropriate, for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

If the statement of cash flows is presented, does it report cash provided by investing, noncapital financing, capital and related financing and operating activities?

QUES.	Engagement Code					MFC Ref*
G218						
G219						
G220						
G221						
G222						
G223						
G224						
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G226						

Appendix A—Questions for Use When the Engagement Is Subject to Government Auditing Standards

Does the language in the auditor’s reports conform with professional standards (optional for reports on basic financial statements), including references to *Government Auditing Standards* and appropriately cover the following for the entity as a whole:

The internal control structure related matters based solely on the auditor’s understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements that includes, when appropriate:

The controls that were evaluated?

Reference to a separate letter, if applicable, describing identified nonreportable conditions?

Which matters are reportable conditions and which of the reportable conditions are material weaknesses?

Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts that includes, when appropriate:

A presentation of a reasonable basis for the auditor’s conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations?

Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding issuance of a report on compliance?

QUES.	Engagement Code					MFC Ref*
G401						
G402						
G403						
G404						
G405						
G406						
G407						
G408						

Reference to a separate letter, if applicable, describing immaterial instances of noncompliance?

When illegal acts involve funds received from other governmental entities did the auditors assure themselves that the audited entity notified the proper official, of those entities, within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities?

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefor, and the known effect of not following the standard on the audit results?

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts?

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives?

Did the auditor document his communication of those nonreportable conditions in the internal control structure not included in the required reports?

If required by contractual obligations, were findings presented in accordance with the guidance in the *Government Auditing Standards* regarding reporting on performance audits?

Do the working papers contain sufficient information so that supplementary oral explanations are not required, include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer and include documentation of supervisory review?

QUES.	Engagement Code					MFC Ref*
G409						
G410						
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G416						

Are appropriate personnel in compliance with the 1988 Yellow book CPE requirements?

Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance?

If the auditor (firm) is a CPA or PA, did he/she meet the licensing requirements of the jurisdiction where the auditee is located?

Program Specific Audits

Where an auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements for that particular program?

QUES.	Engagement Code					MFC Ref*
G417						
G418						
G419						
G420						

Appendix B—Questions for Use When the Engagement Is Subject to the Single Audit Act of 1984

NOTE: Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

Does the language in the auditor’s reports conform with professional standards, including references to *Government Auditing Standards* and OMB circular A-128?

Do the Single Audit Act Reports also include:

Auditor’s report on the schedule of federal financial assistance?

Auditor’s report on internal controls over federal financial assistance program identifying the entity’s internal control structure and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including:

QUES.	Engagement Code					MFC Ref*
G501						
G502						
G503						

The controls that were evaluated (considered and tested)?

The controls that were not evaluated (tested)?

The material weaknesses identified as a result of the evaluation (considered and tested)?

Major programs – compliance reports specific requirements:

An opinion that the entity complied, in all material respects, with specific requirements that, if not complied with, could have a material effect?

Major and nonmajor programs – compliance report – specific requirements:

A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of non-major programs?

Major and nonmajor programs – compliance auditing – general requirements:

A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements?

When appropriate, did the auditor properly modify the report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in *Government Auditing Standards* regarding reporting on performance audits?

QUES.	Engagement Code					MFC Ref*
G504						
G505						
G506						
G507						
G508						
G509						
G510						

Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope?

Does the schedule of federal financial assistance program expenditures present the following:

Identification of each program as indicated in the *Catalog of Federal Domestic Assistance* (CFDA)?

Other federal assistance from programs not included in the CFDA?

Total expenditures for each federal financial assistance program by grantor, department, or agency?

Total federal financial assistance?

Other information, either required by federal program managers or otherwise deemed appropriate?

Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 (Audits of State and Local Governments), A-87 (*Cost Principles Applicable to Grants and Contracts*), and "common rule" under A-102 (*Uniform Requirements for Assistance to State and Local Governments*)?

Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance?

QUES.	Engagement Code					MFC Ref*
G511						
G512						
G513						
G514						
G515						
G516						
G517						
G518						

Did the auditor perform and document the required level of internal control structure review, to include:

The consideration and testing of those internal control structure policies and procedures, relating to both specific and general requirements, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level?

If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering non-major programs, to the same extent as in Question G519 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested?

A sufficient understanding of the internal control structure for the systems used in administering other non-major federal financial assistance programs?

For the categories of controls for which the tests of controls were performed:

Do the working papers document the auditor's understanding of the structure?

In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?

Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports?

Do the working papers adequately document the work performed and the conclusions reached?

QUES.	Engagement Code					MFC Ref*
G519						
G520						
G521						
G522						
G523						
G524						
G525						

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:

Consult appropriate sources, such as the Compliance Supplement for Single Audits of State and Local Governments (revised September 1990), statutes, regulations and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test?

Consider materiality in relation to each major federal assistance program?

Select a representative number of charges from each major program?

Perform and document tests to determine whether:

The amounts reported as expenditures were allowable under federal regulations and contracts?

Only eligible persons or organizations received services or benefits?

Matching requirements were met?

Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?

The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program?

Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning:

Political activity?

Civil rights?

QUES.	Engagement Code					MFC Ref*
G526						
G527						
G528						
G529						
G530						
G531						
G532						
G533						
G534						
G535						

Davis-Bacon Act?

Cash management?

Relocation assistance and real property acquisition?

Federal financial reports?

Allowable costs/cost principles?

Drug-free workplace act?

Administrative requirements?

Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs?

Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance?

Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs?

Where transactions related to non-major federal assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested?

If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems?

Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time?

QUES.	Engagement Code					MFC Ref*
G536						
G537						
G538						
G539						
G540						
G541						
G542						
G543						
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G546						
G547						
G548						

Has the auditor established policies or procedures for complying with the additional requirements concerning:

Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?

Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?

QUES.	Engagement Code					MFC Ref*
G549						
G550						

Report and Disclosure Considerations Unique to Not-for-Profit Organizations

Financial Statements and Notes

If FAS No. 116 *Accounting for Contributions Received and Contributions Made* was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the financial statements disclose:

Collection Items not Capitalized?

Receipts of Contributed Services?

Promises to Give?

If FAS No. 117 *Financial Statements of Not-for-Profit Organizations* was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the financial statements include the following statements:

A Statement of Financial Position presenting total assets, total liabilities and net assets?

A Statement of Activity containing the changes in the organization's net assets?

A Statement of Cash Flows containing the changes in the cash and cash equivalents?

Are the net assets classified?

Are the three categories of net assets (permanently restricted, temporarily restricted and unrestricted) disclosed on the Statement of Financial Position and is the amount of change categorically reported on the Statement of Activities?

Is there a classification of revenues, expenses, gains and losses?

QUES.	Engagement Code					MFC Ref*
N101						
N102						
N103						
N104						
N105						
N106						
N107						
N108						
N109						

If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles?

If the financial statements represent a component, such as a branch of an existing organization, a separate operation, a separate fund, do the financial statements or footnotes disclose the following:

Existence and nature of affiliated or controlling entities?

Nature and volume of material transactions (individually or in the aggregate) with related entities?

Allocations of common expenses?

Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed?

If appropriate, are the financial statements prepared on a fund accounting basis and adequate disclosures made of the following:

Unrestricted resources?

Resources restricted by the donor?

Balance Sheet

Is the presentation appropriate and disclosure adequate regarding:

Cash?

Terms or circumstances concerning repurchase or reverse repurchase agreements?

QUES.	Engagement Code					MFC Ref*
N110						
N111						
N112						
N113						
N114						
N115						
N116						
N117						
N118						

Receivables:

Legally enforceable pledges?

Interfund receivables?

Collections of works of art and similar items?

Fixed Assets:

Purchased fixed assets?

Donated fixed assets?

Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets?

Major classes of depreciable assets?

Accumulated depreciation, as well as a general description of the method used in computing depreciation?

Capitalized interest?

Restrictions on use or disposal imposed by donor?

Notes payable and other debt:

Interfund payables?

Statement of Activity

Are unrestricted revenues, expenses, and fund balances clearly distinguishable from restricted items?

If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and supporting activity)?

Does the Activity Statement include all the funds of the organization?

QUES.	Engagement Code					MFC Ref*
N119						
N120						
N121						
N122						
N123						
N124						
N125						
N126						
N127						
N128						
N129						
N130						
N131						
N132						

Is the presentation appropriate and disclosure adequate regarding:

Service fees, such as subscription and membership income?

Sales of publications and other items?

Third-party reimbursements of costs for services provided?

Investment income?

Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any?

Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?

Contributions?

Donated services, materials and facilities?

Gifts of future interests?

Other gifts, grants, pledges, etc.?

Interfund transfers?

Other revenue or capital additions?

Allocation of functional expenses to programs and supporting services?

Fund raising expenses, including joint costs of informational materials and activities allocated between fund raising and other functional expense categories?

Grants to other organizations?

Remittances to national organizations?

Prior period adjustments?

QUES.	Engagement Code					MFC Ref*
N133						
N134						
N135						
N136						
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N144						
N145						
N146						
N147						
N148						
N149						

Additional Financial Statements

For not-for-profit organizations accounted for under SOP 78-10, is a statement of changes in financial position or cash flows presented as a basic financial statement for each period for which an activity statement and balance sheet are presented?

If a statement of changes in financial position was presented, does it disclose all important aspects of financing and investing activities?

For voluntary health and welfare organizations, is a statement of functional expenses presented as a basic financial statement for each period for which an activity statement is presented?

If the organization's tax-exempt status is in question by the IRS, is the potential impact disclosed in a footnote?

QUES.	Engagement Code					MFC Ref*
N150						
N151						
N152						
N153						

II. General Audit Procedures

Procedures Applicable to All Audit Engagements

In planning the audit engagement, did the auditor properly consider:

Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes?

Matters affecting the entity's business, such as organization and types of products and services and contractual obligations?

Preliminary judgment about materiality levels?

Did the auditor:

Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?

Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?

Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?

Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures?

QUES.	Engagement Code					MFC Ref*
A300						
A301						
A302						
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A305						
A306						

If the auditor succeeded a predecessor auditor did the auditor:

Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity’s management on accounting or auditing matters and consider the implications of such matters in accepting the client?

Make other inquiries of the predecessor auditor on significant matters?

Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor’s working papers?

If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with professional standards?

Did the auditor:

Obtain a sufficient understanding of the entity’s internal control structure to plan the audit?

Document the understanding of the internal control structure?

Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level?

Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level?

QUES.	Engagement Code					MFC Ref*
A307						
A308						
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A314						

If the methods used by the client to process significant accounting information includes the use of a service organization, was consideration given to the internal control structure relating to the accounting applications, if any, at the service organization?

If the auditor relied on the internal control structure at a service organization, was a service auditor's report that describes the results of the service auditor's tests obtained, or were tests performed by the auditor at the service organization?

If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:

Do the instructions to the other office or firm appear adequate?

Does it appear that control exercised over the work of others through supervision and review was adequate?

Was there appropriate follow-up of open matters?

In those cases where another firm was used, were appropriate inquiries made regarding its independence and professional reputation?

Was an appropriately tailored, written audit program prepared?

Was the audit program responsive to the needs of the engagement and the understanding of the internal control structure obtained during the planning process?

Was consideration given to the applicable assertions in developing audit objectives and in designing substantive tests?

If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances?

Have all the procedures called for in the audit program been signed?

QUES.	Engagement Code					MFC Ref*
A315						
A316						
A317						
A318						
A319						
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A322						
A323						
A324						
A325						

If statistical or nonstatistical sampling was used in test of controls:

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of over-reliance, and likely rate of deviations?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?

In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing?

Was the documentation of the foregoing considerations in accordance with firm policy?

If statistical or nonstatistical sampling was used for substantive tests of details:

In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatement, acceptable level of risk of incorrect acceptance, and characteristics of the population?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the misstatement results of the sample projected to the items from which the sample was selected?

QUES.	Engagement Code					MFC Ref*
A326						
A327						
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A333						

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?

In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement results from all audit sampling applications and to all known misstatements from nonsampling applications?

Was the documentation of the foregoing considerations in accordance with firm policy?

During the performance of the engagement, did the auditor:

Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests?

Use analytical procedures in the overall review stage of the audit?

Has the auditor evaluated the reasonableness of significant accounting estimates made by management?

Did the auditor obtain a timely and appropriate letter of representations from management?

Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments?

Have all questions, exceptions, or notes posed during the audit been followed up and resolved?

QUES.	Engagement Code					MFC Ref*
A334						
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A342						

Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period?

During the performance of the engagement, did the auditor:

Follow-up on errors and irregularities in accordance with professional standards?

Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of client representations?

Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but inconsequential irregularities identified during the engagement?

When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:

Follow up on the illegal acts in accordance with professional standards?

Consider the implications of the detected illegal act in relation to other aspects of the audit, including the reliability of client representations?

Communicate directly with the audit committee if the illegal act involved senior management, and document that communication and obtain assurance that all other illegal acts that came to the auditor's attention were adequately communicated?

Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?

QUES.	Engagement Code					MFC Ref*
A343						
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A350						

If the auditor believed that there was substantial doubt about the entity's ability to continue for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented?

If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of the possible effects, and any mitigating factors, including management's plans?

If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph that adequately communicated the auditor's substantial doubt (i.e., included the terms "substantial doubt" and "going concern")?

During the performance of the audit:

If the auditor identified reportable conditions, were they communicated to the audit committee, management and others within the organization on a timely basis (If the communication was oral was it documented in the working papers)?

Do the auditor's conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate?

If a report was issued on reportable conditions, did it indicate the purpose of the audit, include the definition of reportable conditions, and include a restriction on distribution?

If the auditor issued a letter that did not include reportable conditions, did it not represent that there were no reportable conditions?

QUES.	Engagement Code					MFC Ref*
A351						
A352						
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A357						

If the auditor was engaged to prepare or perform procedures on interim financial information filed with a specified regulatory agency and the auditor became aware of matters that caused the auditor to believe such information was probably materially misstated as a result of a departure from generally accepted accounting principles, did the auditor:

Discuss the matter with the appropriate level of management?

Timely inform the audit committee or others with equivalent authority and responsibility, if management did not respond appropriately or timely?

Evaluate whether to resign or remain as the client's auditor, if the audit committee did not respond appropriately or timely?

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?

If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit in the then existing circumstances were omitted from the audit of the financial statements, did the auditor consider the guidance in professional standards in determining an appropriate course of action and does the matter appear to be properly resolved?

Where there is a formal oversight committee, or the client is an SEC engagement, did the auditor:

Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process?

QUES.	Engagement Code					MFC Ref*
A358						
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A363						

If the communication was in writing, include a statement that it was intended solely for the use of the audit committee or the board of directors, and if appropriate, management?

If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?

QUES.	Engagement Code					MFC Ref*
A364						
A365						

Procedures Unique to Audits of State or Local Governmental Entities

In planning the audit engagement, did the auditor properly consider:

That the engagement letter, proposal or contract, if such documents were prepared, include a statement as to:

What type of engagement is being performed and whether the engagement is intended to meet governmental oversight agency's audit requirements?

The firm's responsibility to conform with professional standards with respect to the detection of errors and irregularities?

Definition of the reporting entity indicating the related organizations, functions, and activities which are either included or excluded from the financial statements in accordance with professional standards?

Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service?

For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity?

If the principal auditor did not refer to the other auditor in his or her report, did the principal auditor perform one or more of the additional procedures contained in AU Sec. 543.12 to assess the adequacy of the work performed by the other auditor?

Was an appropriately tailored, written audit program prepared?

If applicable, were adequate tests of compliance with applicable laws and regulations that have a material effect on the financial statements performed and documented?

QUES.	Engagement Code					MFC Ref*
G250						
G251						
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G255						
G256						
G257						

If the auditor became aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement, did the auditor communicate to management and the audit committee (or others with equivalent authority) that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory to contractual requirements? (Communication may be oral or in writing – if the communication is oral the auditor should document the communication in the working papers.)

If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse and illegal expenditures and acts, did the auditor:

Either obtain management’s approval to extend audit steps and procedures to identify the effect on the entity’s financial statements or consider issuing a disclaimer of opinion because of a scope limitation and disclose any reservations regarding compliance with applicable laws and regulations?

Give prompt notice to the appropriate management officials above the level of involvement?

Were all reportable conditions and material weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented?

Appropriately reported in accordance with applicable standards?

QUES.	Engagement Code					MFC Ref*
G258						
G259						
G260						
G261						
G262						

Procedures Unique to Audits of Not-for-Profit Organizations

Did the auditor consider the applicability of OMB Circular A-133?

Was an appropriately tailored, written audit program prepared?

Have all questions, exceptions, or notes posed during the audit been followed up and resolved including consideration of the views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?

Does the language in the auditor's reports conform with professional standards (optional for reports on basic financial statements), including references to Government Auditing Standards and appropriately cover the following for the entity as a whole:

The financial statements?

Do the OMB A-133 Reports also include:

Auditor's reports on the schedule of federal financial awards?

Auditors report on internal control structure used in administering federal awards in order to ensure the entity's internal control structure was designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulation including:

The controls that were evaluated (considered and tested)?

The controls that were not evaluated (tested)?

The material weaknesses identified as a result of the evaluation (considered and tested)?

QUES.	Engagement Code					MFC Ref*
N201						
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If the entity is subject to OMB Cir. A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communication?

If a separate communication was prepared to report on instances of immaterial noncompliance, was the communication to the institution in writing?

Did the auditor submit the report(s) to the organization audited within the required time?

QUES.	Engagement Code					MFC Ref*
N307						
N308						
N309						

III. Working Paper Areas

Working Paper Areas Applicable to All Audit Engagements

Cash

Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period?

Do the working papers indicate that the following were considered:

Confirmation of cash balances?

Restrictions on cash balances?

Confirmation of bank credit arrangements such as compensating balances?

Confirmation of liabilities and contingent liabilities to banks?

Based on the assessment of control risk, do the substantive tests of cash appear adequate?

Receivables

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?

If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?

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Were significant notes receivable confirmed as of the balance sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?

Was collateral (if any) for receivables examined with respect to existence, ownership and value?

Were adequate tests of discounts and allowances made?

Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?

Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?

Was receivable work coordinated with the tests of revenue, including cut-off tests?

Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loan's expected future cash flows discounted at the loan's effective interest rate or at the observable market price or the fair value of the collateral if the loan is collateral dependent?

Based on the assessment of control risk, do the substantive tests of receivables appear adequate?

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Inventories

Where the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory transactions between the inventory date(s) and the balance sheet date?

Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the counts reflected in the final inventory)?

Were physical inventories observed at all locations where material amounts are located?

Where physical inventory in the hands of others was not observed, were inventory confirmations received [i.e., inventory in public warehouses, on consignment, etc.]?

If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the accounts?

Do the working papers indicate that there were adequate tests of:

The clerical accuracy of the inventory?

Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?

Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?

Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO?

QUES.	Engagement Code					MFC Ref*
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Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

Were inquiries concerning purchase and sales commitments made, including consideration of any possible adverse effects?

Were appropriate inventory cut-off tests performed?

Where applicable, were analytic procedures employed to check the overall valuation of inventories?

Do the working papers indicate that steps were performed to determine if any inventory is pledged?

Based on the assessment of control risk, do the substantive tests of inventory appear adequate?

Investments

Was a summary schedule prepared (or obtained) and details examined with respect to the description, purchase price and date, changes during period, income, market value, etc. of investments?

Were securities either examined or confirmed?

Was the computation of realized gains and losses tested by the auditor?

Do the working papers reflect that consideration was given to the appropriateness of the carrying values of securities and their classification?

Was an investigation and possible impairment of the carrying value of long-term investments made?

Do the working papers reflect that consideration was given to whether investments were pledged, restricted, or had limitations on their immediate use?

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For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the note disclosures made?

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?

Based on the assessment of control risk, do the substantive tests of investments appear adequate?

Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

Were adequate tests made for all material:

Prepaid expenses?

Intangible assets?

Deferred charges?

Other?

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

Were reviews made of the continuing value of goodwill and other intangible assets?

If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether the accounting for the related loans was appropriate?

Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate?

QUES.	Engagement Code					MFC Ref*
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Property, Plant and Equipment

Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

Accumulated depreciation?

Do the tests appear adequate and were proper conclusions drawn with respect to:

Additions (e.g., by examining supporting documents and/or physical inspection)?

Retirements, etc. (including examining miscellaneous income, scrap sales)?

The adequacy of the current and accumulated provisions for depreciation and depletion?

Status of idle facilities?

Do the working papers indicate that the auditor considered the possibility that property was subject to liens?

Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate?

Liabilities

Were accounts payable adequately tested for propriety?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was the payables work coordinated with the testing of the purchases cut-off?

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Was consideration given to expenses that might require accrual (e.g., pensions, compensated absences, other postretirement benefits if FAS No. 106 is applicable, or post-employment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated?

Were significant notes and bonds payable, together with interest rates, repayment periods, etc., confirmed, or alternative procedures performed?

Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rates?

Is there evidence that the company's complying with the covenants in its debt obligations?

Based on the assessment of control risk, do the substantive tests of liabilities appear adequate?

Deferred Credits

Do the working papers indicate that:

The basis of deferring income is reasonable and consistent from year to year?

Deferrals have been established on a reasonable basis?

Income Taxes

Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures performed?

Were adequate auditing procedures performed regarding the adequacy of the valuation allowance related to any deferred tax assets?

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Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:

Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?

Possible assessments, penalties or interest including similar adjustments applicable to years not yet examined?

Based upon the review of the financial statements and working papers, and if necessary, discussions with engagement personnel, does it appear as though substantive tax matters applicable to this engagement were given adequate consideration?

Commitments and Contingencies

Do the working papers include indication of the following:

Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?

Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?

Accumulation and analysis of confirmation responses from banks and lawyers?

Inquiries of and discussions with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable?

Procedures regarding other contingent liabilities (such as buy/ sell agreements) or guarantees?

QUES.	Engagement Code					MFC Ref*
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Were procedures performed to determine whether events subsequent to the date of the financial statements should be recorded or disclosed?

Have all material contingencies been properly considered, documented, and reported?

Capital Accounts

Were changes in capitalization checked to authorizations?

Do the working papers indicate that there were adequate inquiries about stock options, warrants, rights, redemptions and conversion privileges?

Based on the assessment of control risk, do the substantive tests of the capital accounts appear adequate?

Income and Expenses

Were tests of payrolls, including account distribution, made where appropriate?

Do the tests of the pension and profit sharing (including the effects of ERISA), expenses and liabilities appear adequate?

Were revenue and expenses for the period compared to the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained?

Was adequate consideration given to:

The client's revenue recognition policy?

Income recognition on transactions where the earnings process was not complete?

Unusual sales transactions?

Income recognition when the right of return exists?

QUES.	Engagement Code					MFC Ref*
A481						
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A492						

Based on the assessment of control risk, did the substantive tests (review, analysis, and detailed testing) of revenue and expenses appear adequate?

Other

Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for?

Were appropriate procedures applied to supplemental information?

Review of Interim Financial Information:

Were appropriate procedures performed?

If required by firm policy, was a checklist containing the procedures used?

If the work of a specialist was used, did the auditor apply the guidance in professional standards?

Were specific procedures for determining the existence of related parties and examining identified related party transactions applied?

If consolidated statements are presented:

Have intercompany balances and transactions been eliminated?

If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effect of intervening events that materially affect financial position or results of operations?

Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion?

Was appropriate consideration given to the accounting for (including the disclosure of) futures, forwards, and standby contracts?

QUES.	Engagement Code					MFC Ref*
A493						
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If FAS No. 116 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), did the auditor determine whether:

Contributions made were recognized as expenses in the period made and measured at the fair values of the assets given, or if made in the form of a settlement or cancellation of a donee's liabilities, at the fair value of the liabilities cancelled?

QUES.	Engagement Code					MFC Ref*
A504						

Working Paper Areas Unique to Audits of State or Local Governmental Entities

Cash

Do the working papers indicate that the following were considered:

- Approval of interfund cash transactions?
- Verification of collateral required of depository institutions for public funds?
- Compliance with the laws and regulations governing the deposit of public funds?
- Determination that all cash accounts have been identified and appropriately recorded?
- Review of repurchase security transactions for consistency with the disclosures on the terms or circumstances of the transactions?

Receivables

Were procedures performed to provide evidence that taxes receivable and the related revenues were recorded in the correct period?

Inventories

Do the working papers indicate that there were adequate tests of:

- Physical observation, if material?

QUES.	Engagement Code					MFC Ref*
G301						
G302						
G303						
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G305						
G306						
G307						

Investments

For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related note disclosures?

Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policies?

Were income, gains and losses from investments examined for proper allocation to the individual funds?

Fixed Assets

Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements?

Liabilities

Were procedures performed to determine whether deferred compensation plans are appropriately disclosed?

Was an examination made to determine that:

New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group?

Debt restrictions, guarantees and other debt commitments are properly disclosed?

Do the tests of interfund borrowings appear adequate with respect to:

Legal restrictions, if any, on such borrowings?

Authorization?

QUES.	Engagement Code					MFC Ref*
G308						
G309						
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G313						
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G316						

Classification?

Appropriateness of interest accruals and payments?

Deferred Revenue

Where applicable, was consideration given to matching requirements, if any?

If there were grants, entitlements or shared revenues received but not expended, where expenditure is the prime factor for determining eligibility, were the funds properly reported as deferred revenue?

Commitments and Contingencies

Do the working papers include indication of the following:

Consideration of prior audits of federal financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance?

Inspection of long-term contracts with non-governmental entities, such as construction contractors?

Fund Equity

Where appropriate, were authorizations of changes in reserves and designated balances examined?

Do the working papers indicate that there were appropriate inquiries, where applicable, as to proper classification, description and disclosures of components of fund equity?

Do the working papers indicate that fund transfers were properly approved and recorded?

QUES.	Engagement Code					MFC Ref*
G317						
G318						
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G325						

Revenues and Expenditures/Expenses

Do the working papers indicate that revenues and interfund transactions have been recognized in the accounting period in which they became available and measurable under the applicable basis of accounting?

Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities?

Has it been determined that:

Expenditures are in accordance with the approved budget as to amounts and purpose?

Encumbrances are properly identified, supported and recorded?

Indirect cost allocations are in accordance with OMB A-87?

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

Were cost reimbursement reports and the underlying support reviewed?

Was the reasonableness of the indirect cost allocation plan reviewed and the propriety of the amounts allocated to grant programs determined?

Was the effect of audits, either required or performed by third party grantors, considered?

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

QUES.	Engagement Code					MFC Ref*
G326						
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G335						

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The effects of the grantees' compliance or noncompliance with performance requirements?

QUES.	Engagement Code					MFC Ref*
G336						

Working Paper Areas Unique to Audits of Not-for-Profit Organizations

Cash

Do the working papers indicate that the following were considered:

Authorization for interfund cash transactions?

Determination that all cash accounts have been identified and appropriately recorded?

Receivables

Were procedures performed to provide evidence that pledged receivables are properly recorded in the appropriate funds?

Inventories

Do the working papers indicate that there were adequate tests of:

Physical observation, if material?

Investments

When investments are held by an outside custodian, who is authorized by the client to execute transactions without specific authorizations of individual transactions, did the auditor consider the guidance in professional standards?

Do the working papers reflect consideration of changes in the carrying value of marketable securities and other instruments and the appropriateness of unrealized gains and losses that were recognized?

Do the working papers indicate tests of unit market value calculations of pooled investment funds, including the propriety of handling additions to and withdrawals from the pool?

QUES.	Engagement Code					MFC Ref*
N401						
N402						
N403						
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N407						

Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds?

Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use?

Do the working papers indicate that risk of loss on repurchase agreements was properly considered?

Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions?

Collections of Works of Art and Similar Items

If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value?

If a capitalized collection is considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?

Whether or not a collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions?

If the collection is capitalized:

Were physical inventories observed at all locations where relatively large amounts are located?

Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)?

QUES.	Engagement Code					MFC Ref*
N408						
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If the collection is considered inexhaustible and has not been capitalized, do the working papers indicate that the auditor:

Evaluated the internal controls over the collection?

Observed a physical inventory at all locations where relatively large amounts are located?

Property and Equipment

Do tests appear adequate with respect to:

Valuation of assets not previously capitalized?

Was a review made to determine that capital expenditures are classified in the proper fund accounts?

Liabilities

Were procedures performed to determine whether tax deferred annuity and life income plans are appropriately calculated to conform with GAAP and IRS regulations?

Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related reserve funds?

Is there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?

Was consideration given to any liabilities (including the effect of any timing differences) resulting from the Federal excise tax on investment income of private foundations and any Federal and State taxes on unrelated business income?

QUES.	Engagement Code					MFC Ref*
N417						
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Do the tests of interfund borrowings appear adequate with respect to:

Legal restrictions, if any, on such borrowings?

Authorization?

Classification?

Collectibility of amounts due from other funds?

Appropriateness of interest accruals and payments?

Deferred Revenue and Support

Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and consistent with the donors' or grantors' restrictions?

Was consideration given to matching requirements, if any?

Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support?

Commitments and Contingencies

Did the auditor consider evidence of the entity's activities (such as lobbying) which might cause the entity to lose its tax exempt status or be subject to penalties or taxes?

If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income and prohibited activities?

Has adequate consideration been given to loss contingencies in accordance with professional standards?

QUES.	Engagement Code					MFC Ref*
N425						
N426						
N427						
N428						
N429						
N430						
N431						
N432						
N433						
N434						
N435						

Fund Balance

Where appropriate, were authorizations of changes in reserves and designated balances examined?

Do the working papers indicate that there were adequate inquiries, where applicable, as to proper classification, description and disclosure of components of the fund balance?

Do the working papers indicate that fund transfers were properly approved and recorded?

If an endowment fund is maintained, do the working papers indicate that fund income is distributed to unrestricted and restricted funds in accordance with donors' stipulations?

Revenues, Expenses, Support, and Capital Additions

If FAS No. 116 *Accounting for Contributions Received and Made* was applicable to this engagement (either as a result of the statement's effective date or an early application of the statement) did the accountant consider whether:

Contributions received/made including Promises to Give are recognized as revenue/expenses in the period received/made, at their fair values?

Contributions that increase net assets are categorized between permanently restricted, temporarily restricted and unrestricted?

Donor-imposed restrictions which expire are recognized in the period in which they expire?

QUES.	Engagement Code					MFC Ref*
N436						
N437						
N438						
N439						
N440						
N441						
N442						

Contributions for services are recognized only if they create or enhance nonfinancial assets or requires specialized skills that would have been purchased if not provided?

Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items?

If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?

Were cost reimbursement reports and the underlying support reviewed?

Were appropriate allocations made of indirect costs among the entity's programs?

Do the working papers indicate that the auditor considered actual receipt of, propriety of, valuation method used for, and any restrictions placed on amounts received during the current period from:

Cash contributions?

Donated services?

Gifts of securities, materials, facilities, and other nonmonetary items?

Future interests and interest free loans?

If expenses are classified by function, did the auditor adequately test the classifications and allocations?

If joint costs of multipurpose activities are incurred, were the requirements of SOP 87-2 appropriately considered?

Were fundraising costs expensed in the proper period?

QUES.	Engagement Code					MFC Ref*
N443						
N444						
N445						
N446						
N447						
N448						
N449						
N450						
N451						
N452						
N453						
N454						

If grants are awarded to other organizations, did the auditor review:

The classification of the grants?

The effects of the grantees' compliance or noncompliance with performance requirements?

With regard to pension plans, do the tests made of the expense and liabilities appear adequate?

Other

If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship?

QUES.	Engagement Code					MFC Ref*
N455						
N456						
N457						
N458						

IV. Functional Areas

Independence

If anything has been noted which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its effects appropriately considered?

Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any other related non-client parent, investor, investee, subsidiary or affiliate?

Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity?

For non-SEC clients, were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement?

For SEC clients, if the fees (billed/unbilled) for the prior years' services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?

Assigning Personnel to Engagements

Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?

Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?

QUES.	Engagement Code					MFC Ref*
A601						
A602						
A603						
A604						
A605						
A606						
A607						

Consultation

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Were the firm's conclusions consistent with professional standards?

If the engagement records indicated a difference of opinion between engagement personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?

Supervision

Were appropriate and knowledgeable engagement personnel involved in the planning process?

Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?

Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff?

Does it appear that hours charged by the partner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

QUES.	Engagement Code					MFC Ref*
A608						
A609						
A610						
A611						
A612						
A613						
A614						
A615						
A616						

Review of internal control structure:

Manual system?

EDP system?

Audit work programs?

Financial statement disclosures?

Working paper and financial statement reviews?

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

Were the firm’s guidelines for the form and content of audit working papers complied with?

If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas?

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

Advancement

If required by firm policy, was the staff on this engagement appropriately evaluated?

Acceptance and Continuance of Clients

Does it appear that the firm’s guidelines for acceptance and continuance of clients were complied with?

QUES.	Engagement Code					MFC Ref*
A617						
A618						
A619						
A620						
A621						
A622						
A623						
A624						
A625						
A626						
A627						

Professional Development

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)?

QUES.	Engagement Code					MFC Ref*
A628						

V. Procedures Unique to Audits of SEC Engagements
 (as defined in SECPS §1000.37 of the *SECPS Reference Manual*)

If required by firm policy, was an SEC checklist or other specialized checklist used?

Were the disclosures required by SEC Regulation S-X appropriate?

Did the auditor, prior to consenting to the inclusion of his or her report in a registration statement (including when a form 10-K is incorporated by reference into a previously filed registration statement)

Obtain and read the document containing the audited financial statements?

Inquire of and obtain written representations from management about whether any events had occurred that had a material effect on the audited financial statements or that should have been disclosed to keep those financial statements from being misleading?

Perform the procedures described in AU 560.12?

Was a concurring review by a partner other than the audit partner in charge of the engagement conducted prior to the issuance of the report, in conformity with the firm's requirements?

If a concurring partner review was performed:

Was the review conducted by a partner with sufficient technical expertise and experience?

Were the nature, extent, and timing of the review procedures adequate in the circumstances?

Did the engagement files contain evidence that the firm's policies and procedures for the concurring review were complied with?

QUES.	Engagement Code					MFC Ref*
A701						
A702						
A703						
A704						
A705						
A706						
A707						
A708						
A709						

Was the concurring partner review effective?

If a comfort letter to an underwriter was issued, is it in accordance with professional standards?

Have letters of comments or verbal comments received from the SEC or other regulatory agencies been appropriately considered?

Has there been rotation of the audit partner in charge of the engagement in conformity with the requirements of the SEC Practice Section?

If management advisory services were performed during the year under audit, was the firm in compliance with the Section's requirements:

Proscribing the performance of certain management advisory services?

Requiring an annual report to the audit committee or board of directors of the client, describing the types of such services rendered and the amount of the related fees received? (such matters may be reported orally, if so, is the communication in the working papers?)

If the client-auditor relationship with an SEC registrant subsequently ceased, was the Office of the Chief Accountant of the SEC notified within 5 business days, in conformity with the requirements of the SEC Practice Section?

QUES.	Engagement Code					MFC Ref*
A710						
A711						
A712						
A713						
A714						
A715						
A716						

PRM
16900

Report Review Program

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

GUIDELINES FOR A REPORT REVIEW

FOR FIRMS THAT ISSUE COMPILATION OR REVIEW
REPORTS BUT PERFORM NO AUDITS

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PRIVATE COMPANIES PRACTICE SECTION

GUIDELINES FOR REPORT REVIEW

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PRM
16100

Instructions

**INSTRUCTIONS TO FIRMS HAVING A REPORT REVIEW
UNDER THE PCPS PEER REVIEW PROGRAM**

.01 A report review is available to firms that do not perform audits of historical or prospective financial statements but that do provide compilation and/or review services to their clients. Report reviews are administered by the AICPA Quality Review Division. The Quality Review Division will contact your firm to make arrangements for the conduct of the review. Firms have the option of selecting a reviewer on their own (a firm-on-firm review), or an association of CPA firms authorized by the PCPS peer review committee to arrange and carry out report reviews, or having a reviewer selected by the AICPA on behalf of the PCPS peer review committee (a committee-appointed review team or a CART review). In preparation for the review, you should read the applicable sections of "Guidelines for a Report Review" (See PCPS §2600) issued by the Private Companies Practice Section (PCPS) peer review committee.

.02 Prior to the review, the reviewer will ask you to provide summarized information showing the number of review and compilation clients and the level of service provided to those clients, classified into major industry categories and broken down by each proprietor, partner or shareholder of the firm who is responsible for the issuance of review or compilation reports. The firm will also be asked to provide the reviewer with a list of personnel, continuing professional education records, evidence of payment of membership dues to the AICPA and the PCPS and its most recent annual report (See PCPS §2600.12).

.03 Discuss with the reviewer the twelve-month period to be covered by the review. The period ordinarily should end within six months of the performance of the review.

.04 Based on that information, the reviewer will select the engagements to be reviewed. As a general rule, the reviewer will review one review or compilation engagement involving a report on a complete set (i.e., including disclosures) of historical or prospective financial statements for each proprietor, partner or shareholder who is responsible for the issuance of such reports — but not less than two for the firm as a whole — and one compilation engagement for the firm as a whole involving reports on financial statements that omit substantially all required disclosures. If the firm's practice consists only of compilation engagements that omit substantially all disclosures, ordinarily at least two such engagements will be selected.

.05 Within 30 days of being notified by the reviewer of the engagements selected for review, the firm should submit the following information for each engagement selected —

- a. A copy of the financial statements and accountant's report. The client's name may be deleted and, if that is done, the engagements should be assigned code numbers by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer during the course of the review.
- b. A completed "engagement questionnaire" (see PRM §16200).

.06 The engagements selected should have been issued within the agreed-upon review year. However, if a more recent report has been issued that falls outside the review year, that more recent report should be selected.

.07 During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

.08 Upon receipt of the report on the review and letter of comments, if any, the firm should prepare a letter of response to the findings and recommendations noted in the letter of comments. The firm's letter of response should be addressed to the PCPS peer review committee and should describe the actions taken or planned with respect to each matter discussed in the letter of comments. (See PCPS §2300.02 for additional information.) The report, letter of comments, and the firm's response, if any, should be submitted to the AICPA Quality Review Division within 30 days of the date the firm received the report and letter of comments from the reviewer.

.09 The report review documents will not be placed in the public files until accepted by the PCPS peer review committee. These documents should not be distributed by the firm to its personnel, clients or others until the firm has received a formal notification that they have been accepted by the PCPS peer review committee.

PRM
16200

Reviewed Firm Checklists

AICPA Division For CPA Firms
Private Companies Practice Section
Report Review Program

Checklist for Firms Having a Report Review

The purpose of this checklist is to assist firms that elect to have a report review to comply with the membership requirements of the private companies practice section.

Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division (QRD) staff member who initially contacted you or to the QRD at (201) 938-3030.

I. Prior to the Review

1. Advise the QRD staff of the firm’s intention to undergo a report review and your preference for the type of review (CART, firm-on-firm, or association sponsored). (This should be done by responding on a timely basis to a request the firm will receive from the staff for information on the scheduling of a required review.)
2. The reviewing entity ordinarily will prepare an engagement letter setting forth the terms and conditions of the report review. Sign and return a copy of the engagement letter to the reviewing entity.
3. Submit to the reviewer upon request and on a timely basis (PCPS §2600.12. "Guidelines for a Report Review"):
 - a. A list of the firm’s professional staff showing name, position, length of service, and whether the individual is a CPA and a member of the AICPA.
 - b. Summary of CPE participation of all professionals in the firm for the three most recent educational years of the firm or since its membership in the section, whichever is less.
 - c. Evidence of payment of AICPA membership dues for all the partners in the firm eligible for membership and its dues to the AICPA Division for CPA Firms (the section).

Initial	Date

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
REPORT REVIEW PROGRAM
ENGAGEMENT QUESTIONNAIRE

(To Be Completed by Reviewed Firm)

FIRM NAME _____

General Data

Engagement Name or Code No. _____ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

Period covered by financial statements	_____	Total assets	\$ _____
Date of report	_____	Long-term debt	\$ _____
Date report released	_____	Equity	\$ _____
Date prior year fee paid	_____	Net sales	\$ _____
		Net income	\$ _____

Major lines of business _____

	<u>Name</u>	<u>Hours on Engagement</u>	<u>Estimated Number of Years on Job</u>
Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner)	_____	_____	_____
Accountant in charge of field work (for example, manager, supervisor, or senior accountant)	_____	_____	_____
Other personnel (Number only)	_____	_____	_____

16204

Nature of Entity:

- Independent entity
- Consolidated or combined group
- Subsidiary, division or branch
- Other (explain) _____

Nature of Service:

- Review engagement
- Compilation engagement
- Compilation engagement — Substantially
all required disclosures omitted
- Other (explain) _____

Financial Statements included:

- Balance sheet
- Income statement
- Statement of cash flows
- Statement of changes in equity
- Supplementary information (describe) _____

- Other (explain) _____

Accounting Basis for Financial Statements:

- Generally accepted accounting principles
- Cash basis
- Income tax basis
- Other (explain) _____

Commentary on Engagement Questions

Question
Number

Commentary

Commentary on Engagement Questions

<u>Question Number</u>	<u>Commentary</u>
-----------------------------------	--------------------------

NOTE: Attach additional sheets if required.

PRM
16300

Reviewer Checklists

AICPA Division For CPA Firms
Private Companies Practice Section
Report Review Program

Reviewer’s Checklist for Report Reviews

This checklist should be used for report reviews conducted by reviewers in conjunction with other guidance material issued to implement the report review program of the Private Companies Practice Section of the AICPA Division for CPA Firms.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the AICPA Quality Review Division (QRD) staff member who initially contacted you or to the QRD at (201) 938-3030.

I. Prior to the Review

1. If the review is performed by a committee-appointed review team, confirm that the firm has returned a signed copy of the engagement letter to the QRD.
2. Review background information furnished by the firm and obtain additional information, if needed. Inquire whether the firm has had a previous peer or quality review, and if so, request a copy of the report, letter of comments, letter of response and the letter accepting those documents from the reviewed firm.
3. Select the types of engagements to be submitted for review and advise the firm of those types.
4. Obtain the financial statements, reports, and completed engagement questionnaires from the firm for the engagements selected. If certain engagements selected were excluded by the firm, determine the reasonableness of the explanation. Consider what other actions may be appropriate in the circumstances (such as selecting additional engagements) and whether there has been a limitation on the scope of the review.
5. If the firm was previously reviewed, consider whether matters discussed in the letter of comments, if any, and the firm’s response thereto require additional emphasis in the current review, and document your decision in the working papers.

Initial	Date

II. During the Review

NOTE: THE REVIEW OF SELECTED ENGAGEMENTS IS EXPECTED TO BE MADE WITHIN 15 DAYS OF THE DATE THE MATERIALS IN PART I ARE RECEIVED.

1. Perform the required procedures utilizing the engagement review checklists for report reviews. Make any inquiries deemed necessary to consider whether the financial statements and accountant's report appear to conform with the requirements of professional standards. (Requests for working papers should not be necessary if the reviewed firm has properly completed the engagement questionnaire and can respond to any needed inquiries.)
2. Consult with QRD staff (and indicate name and date below) whenever any significant problems or unusual situations arise, including:

AICPA Technical Manager Consulted:

Name _____ Date _____

 - a. When you are uncertain as to the nature of the report to be issued, or the matters to be included in the letter of comments, if any.
 - b. When there is a disagreement as to the action that should be taken to prevent future reliance on a previously issued report.
3. Ascertain that all items considered to be significant are included on a "Matter for Further Consideration" (MFC) form.
4. Review all matters, including the reviewed firm's responses, summarized on MFC forms. Make sure the reviewed firm agrees with the facts or that its reasons for disagreement are explained. Document on each MFC form its disposition, including the reasons for inclusion in or excluding the letter of comments.
5. Complete the "Checklist for Review of a Firm's Compliance with Other Membership Requirements of the Section."
6. Notify QRD staff if there is a change in timing for completion of the review.

Initial	Date

**AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION**

REPORT REVIEW PROGRAM

**Checklist for Review of
a Firm's Compliance With Other
Membership Requirements of
the Section**

Firm	Period Ending
------	---------------

<u>Procedures</u>	<u>Findings</u>		<u>Comments</u>
	<u>Yes</u>	<u>No</u>	
1. Has the requirement as to hours of continuing professional education been met by all professional staff based upon copies of records submitted for the firm's three most recent educational years?	_____	_____	
2. Has the firm paid its dues to the Section for the current year?	_____	_____	
3. Has the firm filed its most recent annual report?	_____	_____	
4. Are a majority of the proprietors, partners, or shareholders of the firm CPAs?	_____	_____	
5. Are all of the proprietors, partners or shareholders that are eligible for AICPA membership members of the AICPA?	_____	_____	

Signature _____

Date _____

AICPA DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

REPORT REVIEW PROGRAM

SUMMARY REVIEW MEMORANDUM

Reviewed Firm's Name _____

Reviewed Firm's Address _____

Review Year-End _____

Reviewer's Name _____

Firm Affiliation _____ Position _____

A. Description of Firm

1. Professional Staff Profile:

	<u>TOTAL</u>
Sole practitioner or partners	
Supervisory personnel (or equivalent)	
Other professionals	_____

2. Accounting Statistics:

	<u>NUMBER OF ENGAGEMENTS</u>			<u>SELECTED</u>		
	<u>INTERIM</u>	<u>YEAR-END</u>	<u>TOTAL</u>	<u>INTERIM</u>	<u>YEAR-END</u>	<u>TOTAL</u>
Reviews						
Compilations—full disclosure						
Compilations—substantially all disclosures omitted						
Other accounting services	_____	_____	_____	_____	_____	_____
	=====	=====	=====	=====	=====	=====

3. Indicate extent of industry specializations, if any: _____

B. Reviewer's Representation on Scope

1. Were you requested not to review any engagements? Yes ___ No ___. If yes, describe the reason for the request and whether you were satisfied as to the reason and the effect on the scope of the review.

2. Did you find it necessary to increase the scope of the review? Yes ___ No ___. If yes, describe the extent and reasons for the increase (including the type and number of engagements).

C. Overall Findings and Conclusions:

1. Did the review disclose any situations which led the reviewer to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the accountant's report was not appropriately modified (AR section 100.42 and AR Section 9100.13)? Yes ___ No ___. If yes:

- a. Describe such situations fully. _____

b. Indicate whether the firm considered the matter. _____

c. Describe the actions the firm has taken or plans to take. _____

d. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate. _____

e. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

d. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. _____

e. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. _____

3. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review.

4. Was a letter of comments issued? Yes ___ No ___. If yes, attach a copy. If no, give reason why no letter of comments was issued.

- 5. If a letter of comments was issued, were there any matters included in the letter that did not result in a qualified or adverse report for which the report reviewer considered qualifying the report? Yes ___ No ___. If yes, describe such matters fully, including the basis for the conclusion that a report qualification was not warranted.

- 6. Describe the nature and extent of each matter discussed with the owners of the firm that was not deemed of sufficient significance to include in a letter of comments.

- 7. Attach a copy of the report issued.

Reviewer's Signature _____

Date _____

AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
REVIEW COMPLETION NOTIFICATION FORM

Date: _____

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

From: _____
(Name of the Reviewer)

Re: Review of _____
Firm Number _____ Review Number _____

- 1. On what date was the firm-wide exit conference held?
2. When was the report mailed to the reviewed firm?
3. What was the general nature of the report?*
4. If the report was qualified or adverse, what were the reasons for the qualifications?*
5. a. CART Review: When will the working papers be shipped to the AICPA Quality Review Division?
b. Firm-on-firm or association sponsored review: When will copies of the reviewer's checklist, the summary review memorandum and related attachment, and the MFC forms be mailed to the AICPA Quality Review Division?

* * * * *

Reviewer Signature _____

* Please use the report codes on reverse.

REPORT CODES

GENERAL NATURE OF THE REPORT

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Qualified—Quality Control System (only)
- 4 Qualified—Membership Requirements of the Division for CPA Firms (only)
- 5 Qualified—Scope Limitation (only)
- 6 Qualified—Quality Control System and Membership Requirements of the
Division for CPA Firms
- 7 Adverse

REASONS FOR QUALITY CONTROL SYSTEM QUALIFICATIONS

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

PRM
16400

Engagement Review
Checklists

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AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
REPORT REVIEW PROGRAM

*Engagement Review Checklist for Review
and Full Disclosure Compilation Engagements*

Engagement Code No. _____ Review _____ Date _____

A. Accountant's Report

1. Is the report properly dated in conformity with the requirements of professional standards?
(AR Secs. 100.15 and .33)
2. Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards including appropriate language describing any modification from professional standards, if appropriate?
(AC Secs. 100.14-.18, .32-.41)
3. Does the report cover all periods for which financial statements are presented?
(AR Sec. 200.02)
4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 9100.41-.45)

N/A*	YES	NO	REF.**

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers must be explained on the pages provided at the end of this Checklist

	N/A*	YES	NO	REF.**
e) Other marketable securities? (AC Sec. 189.103)				
f) If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement), are investments in debt and equity securities appropriately classified as either held-to-maturity (debt securities only), trading, or available-for-sale, and are unrealized holding gains and losses on available-for-sale securities presented in a separate component of shareholders' equity? (FASB No. 115, pars. 6 and 13)				
g) Receivables—				
(i) Unbilled receivables? (AC Sec. Co5.108)				
(ii) Loans and related origination fees? (AC Sec. L20.104-.106 and .120)				
(iii) Effect of interest rates that do not reflect market rates? (AC Sec.169.109)				
(iv) Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)				
(v) Other receivables?				
h) If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are the recorded investment in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed? (FASB No. 114, par. 20)				
i) Inventories? (AC Secs. B05.105 and .178)				

	N/A *	YES	NO	REF. **
j) Investments accounted for on the equity method? (AC Secs. I82.109-.110 and I89.101-.107)				
k) Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest? (AC D40.105, I13.108, I67 and I32)				
l) Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)				
m) Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges? (AC Secs. I60, Co2.106-.110, and I27.140)				
n) Pledged assets? (AC Sec. C59.120)				
o) Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?				
p) Current liabilities? (AC Sec. B05.108-.109 and .118)				
q) Short-term liabilities expected to be refinanced? (AC Sec. B05. 112-.117 and .138-.139)				
r) Notes payable and other debt—				
(i) Maturities and rates? (AC Sec. C32.105)				
(ii) Other terms and covenants? (AC Sec. C59.120)				
(iii) Effect of interest rates that do not reflect market rates? (AC Sec. I69)				

	N/A*	YES	NO	REF.**
(iv) Effect of troubled debt restructurings? (AC Sec. D22.121)				
(v) Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)				
(vi) Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)				
s) Capital and operating leases of lessees? (AC Secs. L10.106 and .112)				
t) Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, and special termination benefits to employees? (AC Secs. C44.104 and .108 and I27.140)				
u) Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?				
v) Treasury Stock? (AC Sec. C23)				
w) Stock option and stock purchase plans? (AC Sec. C47)				
x) Stock subscriptions receivable? (EITF 85-1)				
y) Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)				
z) Changes in stockholders' equity? AC Secs. C08.102 and A35.103, .105 and .107)				
aa) Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)				
<u>Income Statement</u>				
24. Are the important components of the income statement separately disclosed?				

	N/A *	YES	NO	REF.**
l) Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)				
m) Product financing arrangements? (AC Sec. D18.106-.107)				
n) Income Taxes:				
(ii) The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.142)				
(ii) Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I27.144)				
(iii) For publicly held companies, reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items need to be disclosed.) (AC Sec. I27.146)				
(iv) Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. I27.146)				
(v) Other information concerning tax expense, benefits and the effect of income taxes? (AC Sec. I27)				

33. If FAS No. 115 was applicable to this engagement (either as a result of the statement's effective date or the early application of the statement) are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (FASB No. 115, par. 18)

Other

34. If the industry in which the client is practicing is covered by an audit and accounting guide, are the format, statements, and disclosures consistent with the guide?

Summary

35. Does it appear that disclosures in the financial statements are reasonably adequate?

N/A *	YES	NO	REF.**

EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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* The nature of the disposition of comments may vary, such as:

- Note MFC number as a reference to the specific MFC form which should indicate the disposition of the matter.
- Note "resolved" and the manner of resolution, where appropriate.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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Note: Attach additional sheets if required.

REVIEWER'S CONCLUSIONS

Explain Below The Reasons For Any "Yes" Answers To Question 1. *Be Specific.*

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:

a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects?

YES* _____ NO _____

b. The report issued by the firm did not conform with professional standards?

YES* _____ NO _____

Explain Below The Reasons For A "No" Answer To Question 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the report review or that should be communicated to the reviewed firm as a matter that may require corrective action?

N/A _____ YES _____ NO _____

**AICPA DIVISION FOR CPA FIRMS
PRIVATE COMPANIES PRACTICE SECTION
REPORT REVIEW PROGRAM**

***Engagement Review Checklist for Compilation Engagements
That Omit Substantially All Disclosures***

Engagement Code No. _____ Reviewer _____ Date _____

A. Accountants' Report

1. Is the report properly dated in conformity with the requirements of professional standards? (AR Sec. 100.15)
2. Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards, including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.14-.17, .19-.21 and .39-.41)
3. Does the report cover all periods for which financial statements have been presented? (AR Sec. 200.02)
4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR. Secs. 100.20 and 9100.41-.45)

N/A *	YES	NO	REF. **

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers must be explained on the pages provided at the end of this checklist.

Statement of Cash Flows

- 6. Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)
- 7. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. 25.112-.122)
- 8. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)
- 9. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)
- 10. Do components of the cash flow statements appear to have been shown at "gross" and not "net" amounts?

Other

- 11. If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format and statements, consistent with the guide?

N/A*	YES	NO	REF.**

EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

Page Number	Question Number	Explanatory Comments	Disposition of Comments*
------------------------	----------------------------	-----------------------------	-------------------------------------

* The nature of the disposition of comments may vary, such as:

- Note MFC number as a reference to the specific MFC form which should indicate the disposition of the matter.
- Note "resolved" and the manner of resolution, where appropriate.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
--------------------	------------------------	-----------------------------	--------------------------------

Note: Attach additional sheets if required.

REVIEWER'S CONCLUSIONS

Explain Below The Reasons For Any "Yes" Answers To Question 1. *Be Specific.*

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:

a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects?

YES* _____ NO _____

b. The report issued by the firm did not conform with professional standards?

YES* _____ NO _____

Explain Below The Reasons For A "No" Answer To Question 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the report review or that should be communicated to the reviewed firm as a matter that may require corrective action?

N/A _____ YES _____ NO _____

**PRM
17000**

**Reviews of Firms
With No A&A Practice**

AICPA DIVISION FOR CPA FIRMS

PEER REVIEW PROGRAMS

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AICPA DIVISION FOR CPA FIRMS**Peer Review Programs****Instructions to Firms With No Accounting and Auditing Practice That Desire an Exemption from the Peer Review Requirement**

.01 The purpose of these instructions is to provide guidance to firms with *no* accounting and auditing practice (including no compilation and review engagements) in obtaining an exemption from the membership requirement for a triennial peer review. Section 2000 in the *SECPS Reference Manual* and *PCPS Reference Manual*, "Standards for Performing and Reporting on Peer Reviews," clearly indicates that peer reviews relate solely to a firm's accounting and auditing practice. Questions regarding this information should be directed to the AICPA quality review division staff at (201) 938-3030.

.02 Six months before the end of the period for which a peer review would otherwise be required, submit to the AICPA a letter of representation that states—

- a. The firm has no accounting and auditing practice, including no compilation and review engagements.
- b. The firm will notify either the SEC practice section or the private companies practice section immediately if it begins an accounting or auditing practice.*

.03 Along with the representation letter, submit the following evidential matter supporting the firm's compliance with the applicable section's membership requirements:

- a. Photocopies of all required records of continuing professional education for qualified professional staff for the three most recent educational years, including proof of attendance.
- b. A list of the firm's proprietors, partners or shareholders and an indication of whether or not they are CPAs and members of the AICPA.
- c. For firms that are members of the SEC practice section, a copy of the written statement of broad principles that influence the firm's quality control and operating policies and procedures ("Statement of Firm Philosophy") [Membership requirement SECPS §1000.08(l)].

.04 The peer review committee has the option of reviewing any portion of the material required to be submitted supporting compliance with the membership requirements. (See PRM §17000.03 above.)

* A peer review would be required within one year from the date of the acceptance of an accounting or auditing client.

AICPA DIVISION FOR CPA FIRMS

Peer Review Programs

**Exhibit A - Program for AICPA Staff to Ascertain that
a Firm is Exempt from Peer Review and Has Met the
Other Membership Requirements of the Applicable Section**

Firm	Period		
<u>Procedures</u>	<u>Findings</u>		
MATTERS RELATIVE TO FIRM'S PRACTICE:	<u>YES</u>	<u>NO</u>	<u>COMMENTS</u>
1. Does the representation letter submitted by the firm state that:			
a. The firm has no accounting and auditing practice, including no compilation and review engagements?	_____	_____	_____
b. The firm will notify either the SEC practice section or the private companies practice section immediately if it begins an accounting or auditing practice?	_____	_____	_____
DOCUMENTATION SUPPORTING MEMBERSHIP REQUIREMENTS:			
1. Based on the information submitted, has each member of the professional staff met the CPE requirements?	_____	_____	_____
2. Has the firm paid its dues to the Sections?	_____	_____	_____
3. Are a majority of the proprietors, partners, or shareholders of the firm CPAs?	_____	_____	_____
4. Are all of the proprietors, partners or shareholders that are eligible for AICPA membership members of the AICPA?	_____	_____	_____
5. Has the firm filed its annual report for the most recent year?	_____	_____	_____
6. Does the statement of firm philosophy meet the minimum requirements of the Section? (Members of the SEC practice section only)	_____	_____	_____

Exhibit B

Staff Letter to be Prepared
for Firms with No Accounting
and Auditing Practice

[AICPA Letterhead]

(Date)

To the Members of the SECPS or PCPS
Peer Review Committee*

I have reviewed the representation letter of (John Smith, CPA) stating that the firm has no accounting and auditing practice and have reviewed the documentation supporting the firm's conformity with the membership requirements of the (SEC practice or private companies practice section)* for the year ended (June 30, 19__.)

In my opinion, (John Smith, CPA) is exempt from the peer review requirement and is in conformity with the other membership requirements of the section in all material respects.

Committee Coordinator
Quality Review Division

*Insert whichever is appropriate.

**PRM
18000**

**Guidance for Performing
an Inspection**

AICPA DIVISION FOR CPA FIRMS

GUIDANCE FOR PERFORMING AN INSPECTION

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**AICPA Division
for CPA Firms**

**GUIDE FOR PERFORMING
INSPECTIONS**

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American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas, New York, NY 10036-8775**

GUIDE FOR PERFORMING INSPECTIONS

This guide has been developed by the AICPA Division for CPA Firms' Private Companies Practice Section and SEC Practice Section Peer Review Committee and the AICPA Quality Review Executive Committee to assist firms in achieving the benefits to be derived from an effective inspection program. It is not intended to, and does not, establish standards for the performance of an inspection.

The approach to selecting engagements and, if applicable, offices for review during a peer or quality review is being revised to require reviewers to base their selections on comprehensive risk assessment of the reviewed firm's accounting and auditing practice. This approach has not been reflected in this document since the change is not effective until April 1, 1993 although earlier application is encouraged.

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18100 Guide for Performing Inspections

Appendixes

- A. Checklist for Coordinating an Inspection Program
- B. Program for Inspection of Compliance With Policies and Procedures Related to the Elements of Quality Control
- C. Optional Program for Review of Compliance with Division for CPA Firms' Membership Requirements
- D. Sample Inspection Report

Examples

- 1. Firm With 2 Partners and 6 Professional Staff
- 2. Sole Practitioner Without Staff
- 3. Sole Practitioner With 1 Part-Time Professional Staff Person

Exhibit

- 1. Sample Completed Inspection Report

GUIDE FOR PERFORMING INSPECTIONS**Introduction**

- .01 Statement on Quality Control Standards No.1, *System of Quality Control for a CPA Firm*, (SQCS No. 1) requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The statement and related interpretations can be found in the AICPA Professional Standards, Vol. 2, QC section 10.
- .02 SQCS No. 1 identifies nine elements of quality control and states that a firm shall consider each of these elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. The statement recognizes that the nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice and its organization, and appropriate cost-benefit considerations.
- .03 One of the nine elements of quality control is inspection. This guide has been developed to assist firms in achieving the benefits to be derived from an effective inspection, especially small firms and sole practitioners. It is not intended to, and does not, establish standards for performance of an inspection.

Objectives of an Inspection

- .04 The objectives of an inspection are to determine if a firm is complying with its quality control policies and procedures and conforming with professional standards during a specified period of time, and to identify on a timely basis areas where improvements may be necessary.
- .05 When performing its inspection, a firm may wish to expand its testing to accomplish additional objectives, such as evaluating engagement efficiency, training supervisory staff to effectively review engagements, or testing compliance with requirements of membership organizations or regulatory bodies.
- .06 An inspection includes the following basic procedures:
 - a. Reviewing and testing the firm's compliance with the quality control policies and procedures that make up the firm's quality control system (compliance testing).
 - b. Reviewing selected engagements of the firm, including relevant working papers and reports (engagement testing).
 - c. Summarizing the findings from the review of engagements and tests of compliance with quality control policies and procedures.
 - d. Determining any corrective actions to be taken and improvements to be made with respect to the specific engagements reviewed or quality control system as a whole.

- e. Communicating the inspection findings and the planned corrective actions to appropriate firm personnel.
 - f. Following-up to make sure that the planned corrective actions were taken.
- .07 The nature, extent, and timing of an inspection will be largely influenced by environmental factors such as the following:
- a. Size of the firm
 - b. Style of management and methods of internal communication
 - c. Level of involvement of senior firm personnel in decision making
 - d. The types and mix of accounting, auditing, tax, and other services provided
 - e. Industry concentrations and specializations
 - f. Background and experience of professional personnel
 - g. Extent of appropriate continuing professional education taken by professional personnel
 - h. Extent to which others outside the firm are consulted
 - i. The results of the firm's last peer review, quality review, or inspection

Determining Who Should Perform the Inspection

- .08 The assignment of individuals to perform an inspection should be made with the same due care that would be used in assigning personnel to an engagement. In making such assignments, the firm should emphasize the productive nature of the assignment. The importance placed on an inspection will determine how productive it is and the benefits the firm derives.
- .09 Depending on the size of a firm, the nature of its practice, and other environmental factors, an inspection may be performed by one individual or by a group of individuals. In either case, the primary responsibility for the inspection should be assigned to an owner of the firm. This person may delegate part or all of the testing procedures to qualified assistants.
- .10 In assigning assistants to a task, consideration should be given to the degree of technical training and proficiency required in the circumstances. Some tests of administrative procedures can be performed by nonprofessional staff, but only qualified professional personnel who are knowledgeable in accounting and auditing matters should be involved in the review of engagements. Inspection of engagements, therefore, should be carried out by persons who would qualify as reviewers under the standards governing the practice-monitoring program in which the firm is enrolled. At a minimum, inspectors of engagements should be CPAs and have sufficient experience in the industries and functional areas which they are inspecting to be able to challenge material accounting, auditing or reporting issues.

- .11 Individuals assigned to the inspection team should be objective when performing their tasks. Although not a requirement, it is desirable, whenever possible, to assign individuals who were not otherwise involved in the performance of the engagements they are to inspect. A checklist that may be used when coordinating an inspection program is included in Appendix A.
- .12 Depending on the size of a firm and the environmental factors previously discussed, a firm may wish to consider having someone from outside the firm perform the inspection rather than using internal personnel. Some firms have found this advantageous because the outsider can provide a fresh perspective and may be more objective when performing the various procedures. Unlike peer reviews and quality reviews, inspections may be performed on a reciprocal basis because independence is not an issue that must be considered.
- .13 If a firm decides to use inspectors from outside the firm, it should consider the qualifications for inspectors discussed above in making the selection of the individual(s). In such circumstances, an owner of the firm should be given responsibility for coordinating the inspection efforts and ensuring that all appropriate steps are taken, including determining whether necessary corrective actions are taken.

Timing of the Inspection Program

- .14 The inspection program should be timely and it should cover each year between peer reviews or quality reviews. (A firm may elect to have its peer review or quality review substitute for an inspection for the year covered by the review.) Timeliness is important so that any necessary corrective action, especially actions that affect the performance of a subsequent audit, review or compilation, can be implemented before a deficiency, if one took place, is repeated.
- .15 Most firms carry out an inspection as if it were a mini-peer or quality review. The review of the firm's compliance with its quality control policies and procedures and review on a post-issuance basis of selected engagements are performed at a fixed time during the year. Some firms, however, prefer to coordinate the review of engagements more closely with other procedures they might have established. Flexibility in timing is entirely appropriate, subject to these two guidelines:
 - a. The supervisory review of the working papers, files and reports carried out by the engagement partner before an audit, review or compilation report is issued never qualifies as an inspection procedure.
 - b. A firm needs to summarize and take action on inspection findings on engagements on a timely basis. Therefore, if a firm reviews selected or all engagements over a period of time, findings should be summarized periodically, not just once a year. This summarization should be based on review notes or point sheets prepared for that purpose, not just on memory.
- .16 Firms that inspect engagements at other than one time during the year often do so as part of an ongoing procedure for carrying out an additional preissuance review of the report, financial statements, and working papers by someone not associated with the engagement,

such as a second partner or a report review department. (See AICPA Professional Standards, Vol. 2, QC Section 10-1.18.)

- .17 Some firms may choose to perform an inspection of selected engagements prior to beginning engagement planning. It is particularly important to be certain that the review of the engagement is the equivalent to the review that would have been performed as an inspection procedure after issuance of the report, not just the review that is made under SAS No. 22, "Planning and Supervision," and that the inspection findings are taken into account in planning and carrying out the subsequent engagement.

How to Perform the Inspection

- .18 The scope of an inspection should be similar to that of a peer review or quality review. Sufficient testing should be performed to allow the inspectors to evaluate whether the firm is effectively applying its procedures as they relate to the other eight elements of quality control.

Review of Compliance With Policies and Procedures

- .19 An inspection should address, to the extent applicable, each of the other eight elements of quality control. Firms may choose to address many of the policies and procedures relating to elements such as supervision, consultation, professional development, advancement, assigning personnel to engagements, acceptance and continuance of clients, and hiring during the review of engagements.
- .20 Appendix B includes suggested procedures to test compliance with the firm's quality control policies and procedures.
- .21 The general procedures to be performed for each of the applicable elements of quality control include:
 - a. A review of the firm's policies and procedures and an evaluation of their continuing appropriateness.
 - b. A review of the administrative files and interviews of appropriate individuals to verify compliance with and understanding of the firm's policies and procedures.
 - c. Testing of compliance with the policies and procedures within the firm's system and/or on selected engagements.

Review of Engagements

- .22 Firms ordinarily place considerable emphasis during an inspection on the review of engagements. In selecting engagements, a firm may find it helpful to consider the guidelines contained in the standards governing the practice monitoring program in which it is enrolled. These standards provide that the selection should include a reasonable cross section of the firm's auditing and accounting practice. Effective for SECPS peer reviews performed on or after April 1, 1993, the SECPS peer review standards have been revised to require reviewers

to select engagements and offices for review based on a comprehensive risk assessment of the reviewed firm's accounting and auditing practice much like the risk assessment approach to an audit. This new approach, which can be found on pages 2001 to 2058 of the SEC Practice Section Reference Manual, has not as yet been incorporated in this guide even though its earlier application is encouraged. The SECPS Peer Review Committee believes that the peer review guidance can be and should be considered when selecting engagements and, if applicable, offices to be inspected.

- .23 An inspection should include work performed by a cross section of the firm's personnel involved in the accounting and auditing function. In addition, the selection of engagements to be reviewed should take into consideration—
 - a. Industry concentrations
 - b. Large, complex, and high risk engagements
 - c. Governmental engagements
 - d. Initial engagements
 - e. Engagements with a significant public interest (such as SEC engagements and audits conducted pursuant to the Employee Retirement Income Security Act)
 - f. Engagements that have not previously been inspected or reviewed
- .24 As a general rule, at least 5 to 10% of the firm's accounting and auditing hours should be reviewed during the inspection. The engagements subject to review will be those with years ending during the period under review. However, if a more recent engagement has been performed, that engagement should be reviewed.
- .25 The objectives of the review of engagements are to evaluate whether the firm is complying with its quality control policies and procedures and conforming with professional standards, including generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS), standards for accounting and review services (SSARS), standards for financial forecasts and projections, and standards for financial and compliance audits contained in governmental auditing standards (the "yellow book"). To achieve these objectives, the review should include a review of reports, financial statements, accompanying footnotes, related working papers, correspondence and, where appropriate, discussions with professional staff.
- .26 The depth of review of working papers should be left to the judgment of the inspector(s). However, the review of working papers ordinarily should include a review of all "key areas" on an engagement. It does not need to be a review of every working paper. The key areas are the most critical sections in an engagement. Examples of some of the key areas for a manufacturing engagement would be inventory, accounts receivable, accounts payable, sales and cost of sales.

- .27 In reviewing engagements, many people find it useful to use engagement review checklists, such as the ones developed by the AICPA for use on peer reviews and quality reviews. However, any other comprehensive reporting, disclosure, and working paper review checklists can be used. (See the section on "Alternative Approaches to Documenting An Inspection.")
- .28 Under the AICPA practice monitoring programs, checklists and supplements have been developed specifically for general audits, audits of governmental, not-for-profit, and banking entities, and compilation and review engagements. The engagement checklists may require modification for engagements involving other specialized industries, such as construction and insurance. Checklists and quality control system questionnaires are available in the AICPA Quality Review Program Manual and the Division for CPA Firms' peer review manual.
- .29 For each engagement reviewed, the inspector should evaluate whether anything came to the individual's attention that caused the inspector to believe that --
- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles or an other comprehensive basis of accounting, if applicable, or the report was appropriately modified.
 - b. The firm did not have a reasonable basis under the applicable standards (GAAS, SSARS, or governmental auditing standards) for the report issued.
 - c. The report was not appropriate in the circumstances.
 - d. The documentation does not support the report issued.
 - e. The firm did not comply with its quality control policies and procedures.
- .30 Should an inspector believe that the firm may have issued an inappropriate report on a client's financial statements or omitted necessary procedures, the firm should investigate the matter and determine what action, if any, should be taken pursuant to AU sections 561 and 390 and AR Sections 9100.13-.15 of the AICPA's Professional Standards.

Other Review Procedures

- .31 During an inspection, many firms test compliance with the membership requirements of the various organizations to which they or their members belong—the AICPA, state CPA societies, PCPS, and SECPS—even though this is not required by quality control standards. As a practical matter, many of these membership requirements are covered by the firm's quality control policies and procedures and are tested during other phases of the inspection. For example, compliance with the AICPA's and the Division for CPA Firms' continuing professional education requirements (CPE) may be tested when the firm's policies and procedures for professional development are inspected. Appendix C includes a program for testing compliance with certain of the Division for CPA Firms' membership requirements.

Summarizing Inspection Findings

- .32 At the conclusion of the various inspection procedures, each finding should be evaluated in conjunction with the other findings noted during the inspection for the implications to the firm's quality control system as a whole. For example, on one engagement a minor disclosure may have been omitted that results in a note to the file reminding the engagement personnel to make sure that the disclosure is made in next year's financial statements. If the deficiency is noted on several engagements, corrective action also may be needed on a firm-wide basis to prevent the recurrence of these deficiencies.
- .33 Regardless of when engagements are inspected, inspection findings should be summarized in a manner that enables a firm to best determine the necessary corrective actions. Some firms use the summary review engagement checklists from the peer review and quality review manuals for summarizing engagement related inspection findings. Other firms scan the findings and summarize them informally; this is common when the number of engagements reviewed is small and/or the number of findings is minimal.

Reporting on Inspection Findings

- .34 Appropriate documentation requirements should be established by each firm to demonstrate compliance with its policies and procedures for inspection (see the next section on "Alternative Approaches to Documenting An Inspection"). At a minimum, a report or memorandum should be prepared on the scope of the inspection, the inspection findings, and the recommendations of the inspectors. A sample report that a firm may use for this purpose has been developed and is included in Appendix D, or the firm may develop its own reporting format. For multi-office firms, consideration should be given to preparing a separate report for each office inspected.

Determining Necessary Corrective Actions

- .35 Upon receipt of the inspection report, the owner(s) of the firm should evaluate what corrective actions, if any, should be taken in connection with the recommendations of the inspector(s). Corrective actions can include:
- a. Additional staff training in specific areas or industries.
 - b. Changes in quality control policies and procedures.
 - c. Updates or additions to technical manuals and practice aids.
 - d. More careful monitoring of compliance with the policies and procedures.
 - e. Appropriate corrective actions on specific engagement deficiencies.
- .36 There should be a record of the corrective actions and improvements planned by the firm to address the findings and appropriate assignment of responsibility for implementing the recommendations.

Communicating Inspection Findings and Corrective Actions

- .37 After the necessary corrective actions have been decided, the inspection findings and the changes being made as a result of those findings should be communicated orally or in writing to the owners and employees of the firm (if any).

Following-Up on Planned Corrective Actions

- .38 Timely and effective follow-up on the steps taken to implement planned corrective actions is critical to an effective inspection program. Within a reasonable period of time after the firm was scheduled to take the planned corrective actions, steps should be taken to determine whether the planned corrective actions have been acted upon and whether they have achieved the objectives for which they were designed.

Retention of Inspection Documents

- .39 At the conclusion of an inspection, only the inspection summary or report should be retained until the team captain on the firm's next peer or quality review has the opportunity to review that summary or report. Typically, all detailed working papers should not be retained after that summary or report is prepared. However, the detailed working papers on an inspection may be retained for a longer period if the firm expects the peer reviewer or quality reviewer to consider the inspection program to reduce the scope of the peer review or quality review. (Typically, reviewers of smaller firms will give little or no consideration to inspection due to the scope requirements and cost/benefit considerations.)

Alternative Approaches to Documenting an Inspection

- .40 The size and nature of a firm and the environment in which it practices will affect the extent of documentation prepared regarding the inspection procedures, findings, and corrective actions. A formal or an informal documentation approach can be used.
- .41 Under the **formal approach** to inspection documentation, inspector(s) will—
- a. Complete the quality control compliance program in Appendix B or develop and complete other comprehensive program(s).
 - b. Complete comprehensive engagement review checklists, such as those used by peer reviewers and quality reviewers while performing the review of reports, financial statements, footnotes and working papers on selected engagements.
 - c. Prepare summaries of findings on compliance tests and reviews of engagements.
 - d. Prepare an inspection report such as the one in Appendix D.
- .42 Generally, the **formal approach** is preferable for all CPA firms regardless of size.
- .43 Under the **informal approach** to inspection documentation, inspector(s) will—

- a. Review compliance with its quality control policies and procedures without preparing or completing a quality control compliance program.
 - b. Review selected reports, financial statements, and working papers without formally completing comprehensive engagement review checklists such as those used by peer reviewers and quality reviewers. (In these cases, the firm will usually make reference to such a checklist to make sure that all appropriate matters are considered.)
 - c. Keep notes (or summaries) reflecting the deficiencies noted during the performance of inspection procedures.
 - d. Prepare an inspection report such as the one in Appendix D.
- .44 The **informal approach** has only been found to be effective for sole practitioners without professional staff and firms with very small accounting or auditing practices.
- .45 Examples of the application of the approaches to the inspection and the documentation thereof are included in Examples 1 through 3 at the end of this document along with a description of the environmental factors influencing the inspection program.

Relationship of Consulting Reviews to Inspections

- .46 Some firms may have a consulting review before their initial quality review or peer review. Consulting reviews are confidential, "trial-run" reviews during which a reviewer, who has experience relevant to the firm undergoing the review, will visit the firm, usually for 1 day, to identify strengths and/or weaknesses and give the firm advice on how to prepare for the review. The review includes a cursory review of the working papers, financial statements, and reports prepared by the firm.
- .47 A firm planning to have a consulting review may wish to consider whether the consulting review it plans to have should be expanded to satisfy the firm's annual inspection requirement for the year. Depending on the size of the firm, an inspection may be performed instead of a consulting review for only a little more money.

Benefits of an Inspection

- .48 An inspection can assure a firm that it has an effective quality control system in place and that the firm's quality control system is being complied with. It also ensures that the firm will have the chance to make improvements or changes in its quality control system on a timely basis. Oftentimes, the professionals know the strengths and weaknesses of their firm. However, time does not always permit the firm to focus on these areas and make necessary changes. An inspection allows the firm to allocate time at least once a year to focus on its strengths and weaknesses with the intent of improving the overall quality of the firm and the services it provides.

[The next page is 18115]

Appendix A

Checklist for Coordinating an Inspection Program

	Initial	Date
1. Determine who will coordinate the inspection program for the firm.		
2. Determine who will perform the inspection.	_____	_____
3. Establish the approach and timetable for performing the inspection procedures.	_____	_____
4. Determine forms and checklists to be used during the inspection and the extent of documentation required.	_____	_____
5. Make a selection of engagements for review.	_____	_____
6. Review administrative files for compliance with the firm's quality control policies and procedures.	_____	_____
7. Review the selected engagements.	_____	_____
8. Summarize the inspection findings and determine what corrective actions should be taken.	_____	_____
9. Prepare an inspection report covering the scope of the inspection, the inspection findings, and the recommended corrective actions.	_____	_____
10. Decide how long to retain detailed inspection working papers.	_____	_____
11. Review the recommended corrective actions and reach final conclusions on the actions to be taken.	_____	_____
12. Communicate the inspection findings and the planned corrective actions to the other members of the firm (if any).	_____	_____
13. Follow-up on planned corrective actions to determine whether the actions were taken as planned and whether they achieve the objective(s) for which they were planned.	_____	_____

[The next page is 18117]

Appendix B

Program for Inspection of Compliance With Policies and Procedures Related to the Elements of Quality Control

Period Covered _____

	Findings, Including Extent of Testing	Done by
<p>Independence</p>		
<p>1. Identify a sample of situations in which independence questions arose during the period being inspected and consider whether the resolution of such questions appears appropriate.</p>		
<p>2. Review the written independence confirmations obtained by the firm for a sample of professional personnel, if required by firm policy.</p>		
<p>3. Determine by review of appropriate documentation and by discussions with selected staff that the firm has advised all professional personnel on a timely basis of entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.</p>		
<p>4. Determine by a review of selected engagements whether fees were paid for the prior year's services prior to the issuance of the current year's report.</p>		
<p>Consultation</p>		
<p>1. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis.</p>		
<p>2. On the engagements reviewed, determine whether consultation took place and was documented in accordance with the firm's policies.</p>		

	Findings, Including Extent of Testing	Done by
<p>3. If sufficient testing of consultation policies and procedures was not performed in 2 above, determine through inquiry or review of subject files whether consultations took place and were correctly applied.</p>		
<p>Supervision</p>		
<p>1. On the engagements reviewed:</p> <ul style="list-style-type: none"> a. Determine whether the technical materials (audit manuals, standardized forms, checklists, and questionnaires) that are required by firm policy were used. b. Evaluate whether the technical materials are sufficiently comprehensive and up-to-date. c. Determine whether the firm complied with its policies and procedures for the review of engagement working papers, reports and financial statements. d. Determine whether the firm’s procedures for resolving differences of opinions among members of the engagement team were followed and are appropriate. 		
<p>Professional Development</p>		
<p>1. Review the firm’s CPE records on a test basis and consider whether:</p> <ul style="list-style-type: none"> a. They appear adequate to demonstrate compliance with AICPA, state board, and state society requirements and whether they indicate that the firm’s plans for CPE were carried out. b. Professional personnel have complied with the CPE requirements set forth in <u>Government Audit Standards</u> (if applicable). c. Professional personnel have complied with the Section’s requirements (if the firm is a member of either the PCPS or the SECPS). 		

Findings, Including Extent of Testing	Done by
--	---------

Assigning Personnel to Engagements

1. Determine whether staffing and scheduling requirements were identified on a timely basis and approved by appropriate personnel.
2. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate.

Hiring

1. Determine by reviewing personnel files of recently hired employees whether:
 - a. The background information and other documentation required by firm policy were obtained.
 - b. The individuals possessed the desired attributes, achievements, and experience and, if not, why an exception was made.

Advancement

1. Determine by reviewing personnel files whether personnel have been evaluated and promoted in accordance with the firm's policies and procedures.

Acceptance and Continuance of Clients

1. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its policies and procedures and with professional standards.

Inspection

1. Determine whether appropriate corrective actions were taken, including effective follow-up, with respect to the prior period's inspection findings.

[The next page is 18121]

Appendix C

Optional Program for Review of Compliance with the
Division for CPA Firms' Membership Requirement

Period Covered _____

	Findings, Including Extent of Testing	Done by
<p>I. Requirements for Members of the PCPS and SECS</p>		
<p>1. Determine whether each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership, is a member of the AICPA.</p>		
<p>2. Determine whether a majority of the members of the firm are CPAs (a separate determination may not be necessary, depending on the results of the previous step).</p>		
<p>3. Determine whether the firm filed its most recent annual report with the section.</p>		
<p>II. Additional Requirements for Members of SECS</p>		
<p>1. Determine whether the firm has complied with the requirements for rotation of partners on SEC engagements SECS §1000.08(e).</p>		
<p>2. Determine whether a concurring review was performed, prior to the issuance of any audit report on the financial statements of SEC clients, of the audit reports, financial statements and selected working papers by a partner qualified to do such review, who is other than the audit partner in charge of the engagement SECS §1000.08(f).</p>		
<p>3. Determine whether the firm has refrained from performing those management advisory services that are proscribed by the Section SECS §1000.08(h).</p>		
<p>4. Determine whether the firm maintains documentation in the working papers of its annual report to the audit committee or board of directors of each SEC audit client on the total fees received from the client for management advisory services during the year and a description of the types of services rendered SECS §1000.08(i).</p>		

- 5. Determine whether the firm has reported to the Quality Control Inquiry Committee on a timely basis litigation or other actions against it or its personnel in situations required by the Section SECPS §1000.08(k).
- 6. Determine whether the firm communicated in writing on a timely basis to an SEC registrant and the Office of the Chief Accountant of the SEC when the client-auditor relationship with the SEC registrant ceased SECPS §1000.08(m).
- 7. Determine whether the firm has developed a statement of firm philosophy and communicated that statement to professional personnel on a periodic basis SECPS §1000.08(l).

Findings, Including Extent of Testing	Done by

Appendix D

Sample Inspection Report

Inspection period from _____ to _____

Name of inspectors _____

Timing of Inspection _____

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). _____

Scope of engagements reviewed:

	<u>Firm Totals*</u>		<u>Engs. Reviewed*</u>	
	<u>Hrs.</u>	<u>No. of Engs.</u>	<u>Hrs.</u>	<u>No. of Engs.</u>
Audit				
Reviews				
Compilations				
Other Accounting Services	—	—	—	—
Total	==	==	==	==
Percentage of A&A Practice Reviewed			==%	==%

Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? If yes, describe the situation and the action taken by the firm. _____

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached.

Inspection Coordinator Signature _____ Date _____
 Approved _____ Date _____

[The next page is 18125]

* Approximate totals may be used.

**Example 1
of the Application of the Inspection Guidelines***

DESCRIPTION OF THE FIRM

Size of Firm	2 Partners 6 Professional staff other than the partners 1 Office	
Background	Each of the partners has 15 years of public accounting experience; the last 5 years have been spent as partners.	
Nature of Practice	8 Audits 20 Reviews 40 Compilations with disclosures 90 Compilations omitting substantially all disclosures	1500 hours 800 hours 600 hours 600 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	The major concentrations are construction, not-for-profit organizations, and school districts. The firm also has clients in: manufacturing, retail, and professional services. The firm does no audits of SEC clients.	
Environment	<ul style="list-style-type: none"> ● While each partner has auditing and accounting clients, one partner performs the majority of the auditing and accounting engagements. ● On certain larger engagements, one partner will review the financial statements prepared in connection with the other partners' clients. ● The partner responsible for the 4 school district audits is responsible for ensuring that he and the primary staff on those audits have the necessary CPE under <u>Government Auditing Standards</u>. ● The firm periodically holds in-house CPE for the staff which is taught by one of the partners. 	

* This is an example of the application of the inspection guidance contained in this document. Practitioners should not assume that following this example or the other examples in this document will automatically satisfy the objectives of an inspection. Careful attention must be given to making sure that these objectives are achieved.

Inspection Procedures

Timing of Inspection	All inspection procedures will be performed during November since the 4 school district audits are not completed until September. This timing is believed to be the most effective and efficient. (The partners recognized that they could expand their preissuance review procedures if they so desired.)
Documentation Approach	<p>The partners have agreed that the formal documentation approach should be adopted since the committees governing the AICPA practice-monitoring programs believe that the formal documentation approach is more effective. The formal approach will include the completion of:</p> <ul style="list-style-type: none">● Appendix B of this document when testing the applicable elements of quality control.● The engagement review checklists used in performing quality reviews and peer reviews. The partners believe that these checklists act as good "memory joggers" for accounting issues that they encounter on an infrequent basis.
Summarization	After the sample of engagements is inspected and the applicable elements of quality control have been tested, the deficiencies will be summarized and the coordinating partner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.
Reporting	After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.
Retention Policy	After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.
Follow-Up	4 months after the inspection report is prepared and the planned corrective actions are identified, the coordinating partner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.

**Example 2
of the Application of the Inspection Guidelines**

DESCRIPTION OF THE FIRM

Size of Firm	Sole practitioner without staff	
Background	The sole practitioner has 15 years of public accounting experience of which the last 5 have been spent as a sole practitioner.	
Nature of Practice	2 Audits	300 hours
	5 Reviews	200 hours
	10 Compilations with disclosures	200 hours
	44 Compilations omitting substantially all disclosures (generated by a computer)	220 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	None. However, the firm does have clients in the following areas: manufacturing, wholesale distribution and professional services. The firm does no audits of SEC or governmental clients.	
Environment	<ul style="list-style-type: none"> ● The sole practitioner is a member of an informal group of sole practitioners that meets twice a month to discuss issues of common interest and concern (including accounting, auditing, tax, and management topics). ● The practitioner is active in state CPA society activities and frequently attends CPE sessions held by the society. ● The practitioner consults with others when unsure about the approach to be taken on an accounting, auditing, or tax issue. 	

Inspection Procedures

Timing of Inspection	The practitioner believes that he can be more efficient by performing an inspection of engagements immediately before he plans the next year's engagements.
Documentation Approach	<p>A combination of the two approaches has been chosen as described below:</p> <ul style="list-style-type: none"> ● Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each November immediately before the practitioner's busy season.

Documentation
Approach (cont.)

- A preplanning engagement checklist has been developed that addresses the objectives of inspection. Inspection procedures will include a review of the report, financial statements, and working papers on last year's engagement to determine whether—
 - a. The report and financial statements conform with applicable professional standards.
 - b. The engagement was performed in accordance with applicable professional standards (statements on auditing standards, statements on accounting and review services, etc.).
 - c. The engagement has been performed in accordance with the firm's policies and procedures.

Although comprehensive engagement review checklists—such as those used by peer and quality reviewers—will not be completed, the practitioner plans to periodically make reference to those checklists while performing the inspection procedures.

Summarization

While any deficiencies noted on engagements are corrected when the next year's engagement is performed, summaries of the findings are kept in an Inspection Finding Folder. (The names of the clients are not retained on the summaries.) Each May and November, the practitioner summarizes the findings and evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.

Reporting

In May and November, the inspection report contained in Appendix D of this document will be completed.

Retention
Policy

After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.

Follow-Up

5 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions indicated in the inspection report have been taken and whether they have achieved their objectives.

Example 3
of the Application of the Inspection Guidelines

DESCRIPTION OF THE FIRM

Size of Firm	Sole practitioner with 1 part-time professional staff person	
Background	The sole practitioner has 25 years of public accounting experience of which the last 15 have been spent as a sole practitioner.	
Nature of Practice	2 Audits	250 hours
	2 Reviews	75 hours
	2 Compilations with disclosures	40 hours
	11 Compilations omitting substantially all disclosures	60 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	None. However, the firm does have clients in the following areas: manufacturing, construction, and not-for-profit organizations. The firm does no audits of SEC or governmental clients.	
Environment	<ul style="list-style-type: none"> ● The practitioner takes various continuing professional education (CPE) courses offered by the state CPA society, primarily in the tax area; the practitioner takes very few CPE courses on accounting or auditing topics except for an annual auditing and accounting update course. ● The practitioner takes a majority of his courses in a self-study format. ● The practitioner rarely finds the need to consult with individuals outside his firm on accounting or auditing issues. 	

Inspection Procedures

Timing of Inspection	Because of the practitioner’s focus on tax practice, he believes that more can be gained by performing a detailed review of engagements at one time during the year; this also will allow him to more readily focus on the objectives of an inspection. The practitioner believes that he can perform his own inspection since his auditing and accounting practice is not very complex. However, he recognizes that he could use someone from outside the firm (perhaps on a reciprocal basis) if he so desires.
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Documentation Approach	<p>Due to the practitioner's limited accounting and auditing related CPE, the formal approach will be chosen as described below:</p> <ul style="list-style-type: none">● Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each July.● The engagement review checklists used in performing quality reviews and peer reviews will be completed to document the review of the selected engagements.
Summarization	<p>After the sample of engagements is inspected, the deficiencies will be summarized and the practitioner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.</p>
Reporting	<p>After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.</p>
Retention Policy	<p>After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.</p>
Follow-Up	<p>6 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.</p>

Exhibit 1

Sample Completed Inspection Report

Inspection period from: October 1, 19XX to September 30, 19X1

Name of inspectors: John Smith
James Doe

Timing of Inspection: November 19X1

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). Appendix B of the Guide for Performing Inspections was used to test compliance with our quality control policies and procedures and the engagement review checklists contained in the Division for CPA Firms' Peer Review Manual were used when reviewing engagements. A representative sample of engagement was selected, including audit, review, and compilation engagements. The engagements covered our major industry concentrations (school districts, not-for-profit organizations, construction). Appendix C of the Guide for Performing Inspections was used to test compliance with the Division for CPA Firms' membership requirements.

Scope of engagements reviewed:

	Firm Totals*		Engs. Reviewed*	
	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Audit	1500	8	350	2
Reviews	800	20	80	2
Compilations	1200	130	80	4
Other Accounting Services	—	—	—	—
Total	<u>3500</u>	<u>158</u>	<u>510</u>	<u>8</u>
Percentage of A&A Practice Reviewed			<u>14.6%</u>	<u>5%</u>

Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? Yes x, No —. If yes, describe the situation and the action taken by the firm. In error, a management representation letter was not obtained from an audit client. This letter has now been obtained.

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached. SEE ATTACHED.

Inspection Coordinator Signature _____ Date _____
Approved _____ Date _____

* Approximate totals may be used.

Inspection Findings and Recommendations

Finding: On some of the engagements reviewed, we noted a few disclosure deficiencies that would have been caught if the firm had required the completion of a comprehensive reporting and disclosure checklist.

Recommendation: The firm should adopt a policy requiring that a comprehensive reporting and disclosure checklist be completed on all engagements on which the firm reports on year-end financial statements.

Finding: On several engagements reviewed, we noted that the working papers did not document the extent of testing of related party transactions and review of subsequent events. However, we are satisfied that the necessary procedures were performed on each engagement.

Recommendation: The firm should expand its standard audit program to include procedures for testing related party transactions and reviewing subsequent events.

Finding: On one audit engagement, the firm failed to obtain a management representation letter even though such letters are required under auditing standards. Our testing was expanded to cover all of the firm's audit clients to ensure that this was an isolated occurrence.

Recommendation: The firm should develop a final report routing sheet that documents all procedures that have not been performed at the time that a report is submitted for typing. The firm should establish procedures to ensure that all of the procedures outlined on the routing sheet are performed before the report is issued.

Finding: While the firm circularizes independence confirmations among its staff on an annual basis, two individuals failed to sign the confirmations.

Recommendation: The partner-in-charge of obtaining the independence confirmations should monitor receipt of the confirmations and report to the other partners when they have all been returned.

Guide for Performing Inspections

Preface

- .01 A system of quality control includes policies and procedures designed to provide a firm with reasonable assurance that its accounting and auditing engagements are performed in accordance with professional standards. Statement on Quality Control Standards No. 1 (SQCS 1) states that a quality control system should include inspection policies and procedures designed to provide the firm with reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied.
- .02 The benefits to be derived from a properly designed and executed inspection program include:
- a. An evaluation of overall firm compliance with established policies and procedures.
 - b. A basis for the evaluation of the effectiveness and applicability of established policies and procedures.
 - c. An identification of system and reporting deficiencies as they relate to specific engagements.
 - d. An opportunity to inaugurate and/or revise and implement, on a timely basis, new policies and procedures to replace those which are ineffective or obsolete and institute corrective actions as deemed appropriate based on inspection findings.
- .03 To assist firms in achieving the benefits to be derived from an inspection program, the peer review committees have developed the accompanying guide for performing inspections. The guide is intended to enhance understanding of the inspection process and make suggestions for developing an effective inspection program. Inspection guidance is discussed under three sections as follows:
- a. Section I - A general description of an inspection program, including such matters as the objectives, timing and scope of an inspection program.
 - b. Section II - Questions and answers concerning the inspection program.
 - c. Section III - Sample work programs, including an illustrative summary inspection report.
- .04 This guide is not intended to, nor does it, establish standards for the performance of an inspection. Inspection procedures should be based upon the quality control procedures established by the firm and the assignment of responsibilities within the firm.

Guide for Performing Inspections

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SECTION I
GUIDE FOR PERFORMING INSPECTIONS

SECTION I

GUIDE FOR PERFORMING INSPECTIONS

Objectives of an Inspection

- .01 The objectives of an inspection are to determine if a firm is complying with its system of quality control and conforming with professional standards, and to identify areas where improvements may be necessary.
- .02 To accomplish these objectives a firm should evaluate on a timely basis whether its policies and procedures, assignment of responsibilities, and communication of policies and procedures continue to be appropriate.
- .03 An inspection should be a self-examination of a firm's compliance with its quality control policies and procedures and its conformity with professional standards. The inspection procedures performed should enable the inspectors to evaluate whether the firm's quality control system is being complied with. When performing its inspection, a firm may wish to expand its testing to accomplish additional objectives, such as evaluating engagement efficiency or the firm's compliance with the Section's membership requirements.

Qualifications of Inspectors

- .04 The assignment of individuals to perform an inspection should be made with the same due care that would be used in assigning personnel to an engagement. In making such assignments, the firm should emphasize the productive nature of the assignment rather than the common perception that something has to be done just to comply with the quality control standards. The importance placed on an inspection will determine how productive it is and the benefits the firm derives.
- .05 Depending on the size of a firm and the nature of its practice, an inspection may be performed by one individual or by a group of individuals (an inspection team). In either case, an inspection should be under the direction of a partner who should be assigned responsibility for the work performed and the findings (henceforth "the supervisory partner"). This partner may delegate part or all of the testing procedures to qualified assistants.
- .06 Assistants assigned to a task should possess the degree of technical training and proficiency required in the circumstances. In the review of certain elements of quality control, some of the tests can be performed by nonprofessional staff. However, only qualified professional personnel should be involved in evaluating the judgmental factors on engagements (see PCPS §2000.27-.32 of the PCPS Reference Manual on qualifications for reviewers.)

- .07 Individuals assigned to the inspection team should be objective when performing their tasks. Accordingly, although not a requirement, it is desirable, whenever possible, to assign individuals who were not otherwise involved in the performance of the engagements they are to inspect. In multi-office firms, consideration should be given to assigning personnel from other offices to perform the inspection procedures at a particular practice office.
- .08 A firm may choose to hire inspectors from outside the firm. In such cases, the firm should consider the criteria discussed previously when selecting the outside inspectors. It is important to remember that, even when using outside inspectors, the work of the inspection team should be under the direction of a partner who should be assigned responsibility for the work performed and the findings.

Timing

- .09 To provide the firm with continuing assurance that it is operating in a truly professional manner, an inspection should be performed at least annually.¹ While a firm is not expected to adhere to a rigid timetable, inspections should ideally be performed within the same time frame each year. Also, a firm may decide to inspect its compliance with the policies and procedures relating to the various elements of quality control at different times of the year. In such cases, the firm should take any necessary corrective actions on a timely basis.
- .10 To facilitate the engagement review portion of an inspection, many firms find it helpful to select an inspection year. Engagements subject to selection for review would be those with years ending during the inspection year unless a more recent report has been issued. In selecting an inspection year, the firm should choose a current period so that the most recent work of the firm is reviewed. Firms that plan to have their peer review fulfill the firm's annual inspection requirement for the year covered by the peer review may find it helpful to use the same year-end for inspections as for their peer review.
- .11 An appropriately timed inspection may enable a peer review team to significantly reduce the procedures it performs when reliance can be placed on a reviewed firm's internal inspection procedures. Therefore, the inspection performed in the year of the peer review should ordinarily be completed sufficiently in advance of the peer review to allow the peer reviewers to review and test the inspection findings. In order to complete the inspection on a timely basis, a firm that plans to perform an inspection in the year of the peer review should consider covering an inspection year-end

¹ Interpretation 2.03 of quality control standards (Appendix B, PCPS \$10,000 of the PCPS Reference Manual) states that an inspection should be performed at least annually.

that is a few months prior to its peer review year-end. In large, multi-office firms, the reviewer may wish to observe the inspection process.

Scope of the Inspection

- .12 Firms have generally perceived an adequate inspection as one which places heavy reliance on the review of working papers, reports and financial statements and minimizes the review of the firm's compliance with policies and procedures for the other elements of quality control. The scope of an inspection should, in fact, be similar to that of a peer review.² Sufficient testing should be performed to allow the inspection team to evaluate whether the firm is effectively applying its procedures as they relate to the other eight elements of quality control. Accordingly, an inspection should, at a minimum, consist of a review of:
- a. Selected administrative and personnel files.
 - b. Selected engagement files, including working papers, reports and financial statements.

Review of Compliance with Policies and Procedures Relating to the Elements of Quality Control

- .13 The inspection program should address each of the other eight elements of quality control. Some firms may find, however, that they may be unable to inspect compliance with procedures for certain elements since they may not have been applicable during the period inspected. For example, if no additional staff were hired during the period being inspected, the firm cannot (and need not) inspect compliance with policies and procedures relating to hiring.
- .14 Suggested review procedures relating to each element of quality control are included in the "Program for Inspection of Compliance with Policies and Procedures Relating to the Elements of Quality Control" contained in Section III of this guide. Policies and procedures relating to many of the elements, such as assignment of personnel, consultation, supervision and acceptance and continuance of clients, may also be inspected during the review of engagement files.

Review of Engagements

- .15 As previously mentioned, firms ordinarily place greater emphasis during an inspection on the review of engagements. In selecting engagements for review, a firm may find it helpful to consider the guidelines contained in the standards for peer reviews.³ These guidelines provide that the selec-

² See PCPS §2000.40-.46 in the PCPS Reference Manual.

³ See PCPS §2000.62-.68 in the PCPS Reference Manual.

tion should include a reasonable cross section of the accounting and auditing practice being reviewed, including concentrations of engagements in specialized industries. Greater weight should be given to selecting engagements that are:

- a. Audits of publicly-held companies.
 - b. Large, complex, or high-risk.
 - c. The reviewed firm's initial audits of clients.
 - d. Audits conducted subject to the Government Auditing Standards.
- .16 Engagements selected for review should normally, over a three-year period, include work performed by a majority of the accounting and auditing partners and other supervisory staff.
- .17 The objectives of the review of engagements are to evaluate whether the firm is complying with quality control policies and procedures and conforming with professional standards, including generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS) and the standards for accounting and review services (SSARS). To achieve these objectives, the review should include an examination of reports, financial statements, related working papers and correspondence and, where appropriate, discussions with professional staff. The review should be directed primarily to the key areas of an engagement.⁴
- .18 Inspectors usually find it helpful to use engagement checklists, such as those included elsewhere in this loose-leaf peer review manual, as an aid in performing the review.
- .19 The findings on each engagement reviewed should be discussed with the engagement supervisory personnel. For each engagement reviewed, the inspection team should evaluate whether anything came to its attention that caused it to believe that (1) the financial statements were not presented in all material respects in accordance with generally accepted accounting principles and (2) the firm did not have a reasonable basis under the applicable standards (GAAS or SSARS) for the report issued. These conclusions should be documented. One way of documenting these conclusions is to utilize forms such as those included in Section III of this guide.
- .20 Should any of the inspection team members, during the conduct of the inspection, believe that the firm may have issued an inappropriate report on a client's financial statements or omitted a necessary audit procedure, the supervisory partner should be informed promptly. In such circumstances, the firm should investigate the matter questioned by the inspec-

⁴ See PCPS §2000.69-.76, .130 in the PCPS Reference Manual for further discussion of the "extent of engagement review."

tion team member and determine what action, if any, should be taken pursuant to AU sections 390 and 561 of the AICPA Professional Standards.

Review of Compliance with the Membership Requirements

- .21 While not required by the quality control standards, many firms test compliance with the membership requirements of the Section during an inspection. As a practical matter, those membership requirements that are covered by the firm's quality control policies and procedures may be covered during other phases of the inspection. For example, compliance with the Section's continuing professional education requirements may be tested when the firm's policies and procedures for professional development are inspected.

Reporting Inspection Findings

- .22 At the conclusion of the inspection, written inspection reports should be prepared covering the following matters:
- a. Scope of the review.
 - b. Conclusions with respect to the conformity of individual engagements reviewed with professional standards.
 - c. Recommendations that will result in substantial improvement in the firm's quality control policies and procedures, including a description of the findings that resulted in the recommendations.
 - d. Noncompliance in more than infrequent situations with a significant quality control policy or procedure, or with professional standards or, if inspected, with a membership requirement.
- .23 In multi-office firms, a report should be prepared for each office inspected. The inspection reports should be submitted to the appropriate level of management within the firm, one that has the authority to implement corrective actions.

Documentation of Inspection Procedures

- .24 A firm should establish appropriate documentation to demonstrate compliance with its policies and procedures for inspection. To assist firms in this regard, the following materials have been developed and are included in Section III of this guide--
- a. Illustrative summary inspection report (see Exhibit A).
 - b. Report of firm's corrective actions taken or planned (see Exhibit B).
 - c. Program for inspection of compliance with policies and procedures relating to the elements of quality control (see Exhibit C).

- d. Optional program for the review of compliance with the membership requirements (see Exhibit D).
 - e. Sample conclusion pages for engagements reviewed (these pages need not be retained after inspection findings have been summarized) (see Exhibit E).
- .25 Firms may utilize these materials, or they may develop their own, for performing and documenting their inspections.
- .26 These materials are based on typical policies and procedures that may be established by a firm. Since a firm's policies and procedures will vary from those contained in these materials, the supervisory partner should tailor the materials as appropriate.

Follow-up on Inspection Findings

- .27 The objectives of an inspection are to determine if a firm is complying with its system of quality control and conforming with professional standards, and to identify areas where improvements may be necessary. The inspection report issued should be responsive to these objectives. It is the responsibility of the firm's management to plan corrective actions based upon the findings and recommendations of the inspection team. Corrective actions can be in the form of changes in quality control policies or procedures, updates or additions to technical manuals and practice aids, additional staff training in specific areas, or more stringent enforcement of policies already in place. The corrective actions planned should be responsive to the underlying causes of the deficiencies found in the inspection and should be communicated to appropriate personnel.
- .28 In a multi-office firm, appropriate corrective actions should be implemented by each office inspected. Inspection findings, however, should also be evaluated for firm-wide implications. If the same problems were noted in several offices or if the inspectors recommended changes that would result in significant improvement in the firm's overall quality control system, action should be taken on a firm-wide basis.
- .29 Within a reasonable period of time after the firm has taken the planned corrective actions, firm management should take whatever steps are necessary to determine that the planned corrective actions have achieved their objectives.

SECTION II
QUESTIONS AND ANSWERS

SECTION II

QUESTIONS AND ANSWERS

Objectives

- .30 Q. What is the relationship between inspection and monitoring?
- A. The objective of monitoring is to determine that the firm's quality control policies and procedures continue to be appropriate. Inspection procedures are performed to determine compliance with quality control policies and procedures in effect during a period of time. Inspection procedures may contribute to the monitoring function by providing information regarding policies and procedures that may require changing. Likewise, monitoring procedures may contribute to the inspection function by pointing out certain areas needing additional emphasis in a firm's inspection program. (See also Interpretations 1.01 and 1.02 of Quality Control Standards, Appendix B, PCPS 10,000, in the PCPS Reference Manual.)
- .31 Q. Are there any circumstances where monitoring procedures may be incorporated into the annual inspection?
- A. Yes. A firm may choose to utilize on-going monitoring procedures as part of its inspection procedures. Such monitoring procedures may be in the form of a second review of personnel files or continuing professional education records when inspection is not the main purpose of the second review. For example, a managing partner may choose to examine the files of newly hired personnel to become familiar with their background and experience. The examination of these files may be utilized as an inspection procedure. In such cases, the managing partner, or individual examining the files, should initial the inspection program as having performed the procedures. Any deficiencies noted should be summarized (at least annually) and included in an inspection report.
- .32 Q. Should inspection procedures test for compliance with the firm's quality control policies and procedures or for conformity with professional standards?
- A. An inspection should be designed to test for both compliance with the firm's policies and procedures and for conformity with professional standards. The procedures performed should enable the reviewers to evaluate whether the firm's quality control system is appropriately designed and whether it is being complied with.
- .33 Q. What steps should be taken when an inspection uncovers deficiencies?
- A. Each deficiency should be evaluated as to its effect on the specific engagement or the area being reviewed. Each deficiency should also be evaluated in conjunction with the other findings regarding the implica-

tions to the firm's quality control system as a whole. For example, an inspector may find that a minor disclosure has been omitted. This may result in a memo being sent to the engagement team reminding them to make sure that the disclosure is made in next year's financial statements. If the deficiency is noted in numerous files, corrective action may also be needed on a firm-wide basis. Firm-wide corrective action may include revising a disclosure checklist, participating in additional CPE, or circulating a memorandum to all professional staff.

- .34 Q. If a peer review has similar objectives to an inspection, is it necessary to perform an inspection in the year of peer review?
- A. No. Interpretation 2.07 of Quality Control Standards states that "a firm's inspection policies and procedures may provide that a peer review conducted under the AICPA Division for CPA Firms fulfills the firm's annual inspection requirements for the year covered by the peer review."⁵ However, if an inspection is performed and documented prior to the peer review, the peer reviewers may be able to rely upon the inspection procedures and reduce the scope and, therefore, the cost of the peer review.

Qualifications

- .35 Q. What should the role of the supervisory partner be?
- A. The role of the supervisory partner in an inspection should be similar to the role of an audit engagement partner. Therefore, the supervisory partner's involvement will vary depending on the size and nature of a firm's practice and the qualifications of other individuals involved in the inspection. In some firms, the partner may be actively involved in performing review procedures, in evaluating and discussing findings, and in preparing the inspection report(s). In other firms, the partner's role may be limited to planning the inspection, approving the program, and reviewing the inspection working papers and report(s).
- .36 Q. What tasks can be assigned to non-professional staff?
- A. Some inspection procedures, particularly those involving the review of compliance with policies and procedures relating to certain elements of quality control, consist of checking files for completed forms. For example, the examination of personnel files to verify that independence representations, required hiring forms, annual performance evaluations, and continuing professional education records are present and in order can often be performed by nonprofessional staff.
- .37 Q. Can sole practitioners (with or without professional staff) and smaller firms inspect their own work?

⁵ See Appendix B, PCPS §10,000 in the PCPS Reference Manual.

- A. Yes. A sole practitioner may inspect his own work by utilizing checklists and programs similar to those provided in this guide and elsewhere in this manual. Some sole practitioners and smaller firms have found it desirable to arrange for reciprocal inspections, whereby two or more firms will inspect each other's practices. In addition, some firms have utilized the services of state society committees that will review and critique reports and financial statements submitted. It should be noted, however, that these services generally do not include a review of working papers. (See also Interpretations 2.09 through 2.13 of Quality Control Standards in Appendix B, PCPS \$10,000 in the PCPS Reference Manual.)
- .38 Q. When hiring outside inspectors, what qualifications should a firm consider?
- A. In evaluating the qualifications of individuals from outside the firm, a firm should consider many of the same criteria that would be considered in selecting a firm to perform its peer review. These include:
- a. Experience of the outside inspectors.
 - b. Areas of expertise.
 - c. Familiarity with quality control and professional standards.
- .39 Q. Can individuals who are not currently active in public accounting (e.g., college professors or retired practitioners) be used to perform an inspection?
- A. Yes. It is not required that inspectors be currently active in the practice of public accounting or be from a firm that is a member of the AICPA Division for CPA Firms. However, the individuals should possess current knowledge of accounting and auditing matters. Use of individuals currently active in practice may provide more meaningful results and greater benefits to the firm.

Timing

- .40 Q. When should an inspection be scheduled?
- A. Many of the procedures followed in assigning personnel to client engagements are applicable when planning an inspection. Consequently, some firms find it helpful to identify the timing and staffing requirements for the inspection at the same time that client engagements with a similar year end are being scheduled. By following similar procedures, a firm can ensure that (1) an inspection is performed on a timely basis; (2) sufficient time is provided to conduct an adequate inspection; and (3) individuals possessing the appropriate technical training and proficiency are assigned to the inspection team.

- .41 Q. What criteria should a firm use to determine if its inspection has been completed on a timely basis?
- A. An important aspect of an inspection is to take corrective actions on the findings and recommendations of the inspection team. Accordingly, an inspection should allow a firm sufficient time to make any necessary changes to its policies and procedures before the procedures are to be performed again. For example, a firm's inspection might disclose deficiencies in the firm's policies and procedures for annually evaluating the staff. The timing of the inspection should be such as to allow the firm sufficient time to implement new policies and procedures before employees are due to be evaluated again.
- .42 Q. What should a firm do if it is unable to perform an inspection during the time frame normally set aside?
- A. If a firm is unable to perform an inspection during the period normally set aside, the firm should perform an inspection as soon as possible, keeping in mind the need to have corrective action in place for the upcoming year. The inspection documentation should include a statement as to why the normal timing guidelines were not met. Failure to perform a timely inspection may result in a modified report on the firm's next peer review.
- .43 Q. Can the inspection of engagement files be performed on an on-going basis throughout the year?
- A. Yes. The ongoing review should be equivalent to a review that would normally be performed during an inspection. The scope and findings of these reviews should be periodically, but at least annually, summarized and considered by appropriate management personnel. (See Interpretation 2.17 of Quality Control Standards in Appendix B, PCPS \$10,000 of the PCPS Reference Manual.)
- .44 Q. If a firm performs its inspection procedures at various times during the year, when should the results be reported?
- A. The inspection findings should be documented no less frequently than once a year; however, the findings should be communicated to management on a timely basis so that corrective actions can be implemented promptly.

Scope of Inspection

- .45 Q. When inspecting an office in a multi-office firm, should the inspection team review for compliance with policies and procedures relating to all the elements of quality control?
- A. If an inspected office has responsibility for complying with certain aspects of a quality control element, compliance with those aspects should be inspected at that office.

- .46 Q. Must the inspection team review for compliance with the aspects of an element of quality control that are not controlled by the offices selected for review?
- A. Yes. Inspection procedures should be performed for compliance with all aspects of an element of quality control even if an office with sole responsibility for an aspect of a quality control element has not otherwise been selected for review of compliance with all other aspects of quality control, in a particular year.
- .47 Q. How can inspection programs of small firms (or practice offices) achieve appropriate engagement coverage without spending excessive time?
- A. By applying the "key audit area" concept carefully to all selected engagements, the inspection team should be able to keep the time spent within reasonable limits. In some cases, the inspectors may decide not to review all key areas. (See discussion in Appendix C, PCPS §2000.130 in the PCPS Reference Manual.)
- .48 Q. Should different criteria be used in selecting audit, review, and compilation engagements for inspection?
- A. While the same selection criteria generally would apply to each type of engagement, the guidance provided in this guide suggests that greater weight be given to complex engagements. This would naturally result in more weight being given to audit engagements. However, final selection should give consideration to the nature of the firm's practice; thus, review and compilation engagements should be reviewed during a firm's inspection when reviews and compilations represent a significant portion of the firm's accounting and auditing practice.
- .49 Q. In a single office firm with only one large complex engagement, must that particular engagement be inspected each year?
- A. No. It is not normally desirable to select any one engagement each year, unless deficiencies continue to be noted on that engagement during each successive inspection. Depending on the size and nature of a firm's practice, a firm might use a three year approach in planning its inspection programs, thus, a single complex engagement should be covered no more frequently than once every three years. However, in a multi-office firm, when more than one office performs a significant portion of an engagement, a different office's portion may be selected for review each year.

SECTION III
ILLUSTRATIVE MATERIALS FOR
PERFORMING INSPECTIONS

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Exhibit A	Illustrative Summary Inspection Report 18225
Exhibit B	Corrective Actions Taken or Planned 18229
Exhibit C	Program for Inspection of Compliance with Policies and Procedures Relating to the Elements of Quality Control 18231
Exhibit D	Optional Program for the Review of Compliance with the Membership Requirements 18235
Exhibit E	Sample Conclusion Pages for Engagements Reviewed 18237

EXHIBIT AAICPA DIVISION FOR CPA FIRMS
ILLUSTRATIVE SUMMARY INSPECTION REPORT*I. Planning the Inspection

A. Inspection period _____

B. Composition of Inspection Team:

1. Captain _____ Position _____

2. Team Member _____ Position _____

3. Team Member _____ Position _____

C. Indicate matters that may require additional emphasis in the inspection and explain why.

D. Development of Inspection Program:

1. Describe programs used and indicate any deviations therefrom.

2. Describe basis for selection of engagements:

*This report has been developed as a guide for CPA firms. A firm is not required to use this report to document its inspection program. This report may also be used for the review of a practice office of a multi-office firm.

E. Timing of Inspection:

Commencement _____

Completion of field work _____

Issuance of report _____

II. Scope of Work Performed

A. Indicate elements of quality control not addressed and give reasons.¹

B. Engagements Reviewed:

	<u>Firm Totals</u>		<u>Engs. Reviewed</u>	
	<u>Hrs.</u>	<u>No. of Engs.</u>	<u>Hrs.</u>	<u>No. of Engs.</u>
Audits:				
SEC Clients				
Government ²				
Other				
Reviews				
Compilations				
Other Accounting Services				
	_____	_____	_____	_____
	_____	_____	_____	_____
Percentage of A&A Practice Reviewed			_____	_____

Comments: _____

¹ All elements of quality control should normally be covered during an inspection. See discussion on Review of Compliance with Policies and Procedures Relating to the Elements of Quality Control, PRM §18200.13-.14.

² Includes only audits conducted pursuant to the Single Audit Act of 1984.

III. Engagement Conclusions:

A. Did the inspection disclose any situation that led the reviewers to conclude that the firm or office should consider:

1. Taking action to prevent future reliance on a previously issued report, pursuant to AU section 561 of AICPA Professional Standards? Yes ___ No ___

2. Performing additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to AU section 390 of AICPA Professional Standards? Yes ___ No ___

B. Did the inspection team conclude in any instances that the firm or office lacked a reasonable basis under the standards for accounting and review services for the report issued? Yes ___ No ___

If any of the answers above are yes, attach a description of such situations, including actions the firm or office has taken or plans to take.

IV. Findings and Recommendations:

Attach a copy of any reports issued, including a summary of any inspection findings and recommendations for improvement or list such findings and recommendations below.

Supervisory Partner _____

Date _____

EXHIBIT B

AICPA DIVISION FOR CPA FIRMS

FIRM'S CORRECTIVE ACTIONS TAKEN OR PLANNED*

INSPECTION TEAM'S
RECOMMENDATIONS

CORRECTIVE ACTIONS
TAKEN OR PLANNED

* Attach additional pages as necessary

Signature _____

Date _____

EXHIBIT C

AICPA DIVISION FOR CPA FIRMS

PROGRAM FOR INSPECTION OF COMPLIANCE WITH POLICIES
AND PROCEDURES RELATING TO THE ELEMENTS OF QUALITY CONTROL*

 Period Covered
INDEPENDENCE

1. Have memorandums of inquiry, written representations, or other appropriate documentation been obtained, evidencing:

- a) Communication of firm policies and procedures relating to independence?
- b) Monitoring of compliance with those policies and procedures?

2. Have independence questions which have arisen been appropriately resolved and, where necessary, have appropriate authorities been consulted?

ASSIGNING PERSONNEL TO ENGAGEMENTS

1. Have the firm's policies and procedures been followed to provide reasonable assurance that personnel are assigned to engagements in a manner that attempts to achieve a balance between the complexity of the engagement, the qualifications of the staff and individual development?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

*This program has been designed primarily for single office firms.

CONSULTATION

1. Does the firm's reference library contain technical manuals and recent pronouncements, including those relating to particular industries and other specialties, that meet the needs of the practice?
2. On engagements reviewed, was consultation made and documented in accordance with firm policy?
3. If sufficient testing of consultation policies and procedures was not performed in 2 above, were consultations that took place appropriately and correctly applied? (This may be accomplished through inquiry or review of subject files.)

SUPERVISION

1. On engagements reviewed, have the required technical materials, (audit manuals, standardized forms, checklists and questionnaires) been used?
2. Based on the engagements reviewed:
 - a) Are the technical materials sufficiently comprehensive and up-to-date?
 - b) Are the firm's policies and procedures for the review of engagement working papers, reports and financial statements appropriate?
 - c) Are the firm's procedures for resolving differences of opinion among members of the engagement team appropriate?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

PROFESSIONAL DEVELOPMENT

1. Do the firm's professional development records meet the requirements of the firm and of the Section?
2. Has the professional development program for the last year been reviewed to determine if it fulfills the firm's needs for personnel with expertise in specialized areas and industries?

HIRING

1. Has the firm planned for its personnel needs in accordance with its policies and procedures?
2. Does the firm's hiring program satisfy its needs?
3. Do personnel files of recently hired employees contain appropriate evidence that the individuals meet the firm's personal, educational, and experience requirements?
4. Have new personnel been notified of the policies and procedures that apply to them?

ADVANCEMENT

1. Based on a review of personnel files, personnel evaluations, or other documentary evidence, have personnel been evaluated and promoted in accordance with the firm's policies and procedures?

ACCEPTANCE AND CONTINUANCE OF CLIENTS

1. Do new client files contain documentation of compliance with the firm's policies and procedures for acceptance of clients?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

2. On engagements reviewed, was the firm's policy for continuance of clients, including required documentation, complied with?

INSPECTION

1. Were appropriate corrective actions taken, including effective follow-up, with respect to the prior period's inspection findings?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

Reviewer

Date

Supervisory Partner

Date

EXHIBIT D

AICPA DIVISION FOR CPA FIRMS

PRIVATE COMPANIES PRACTICE SECTION

OPTIONAL PROGRAM FOR THE REVIEW OF COMPLIANCE
WITH THE MEMBERSHIP REQUIREMENTS

Period Covered

Suggested review steps

1. Is each proprietor, shareholder, or partner of the firm residing in the United States and eligible for AICPA membership a member of the AICPA?
2. Are a majority of the members of the firm CPAs (a separate determination may not be necessary, depending on the results of the previous step)?
3. Has the firm filed its most recent annual report with the section?

<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>

Reviewer

Date

Supervisory Partner

Date

EXHIBIT E-1

CONCLUSIONS - AUDIT ENGAGEMENTS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202)? YES ____ NO ____
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES ____ NO ____
3. The auditor's report was not appropriate in the circumstances? YES ____ NO ____
4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES ____ NO ____
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ____ NO ____

EXHIBIT E-2

CONCLUSIONS - REVIEW ENGAGEMENTS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with standards for accounting and review services (ET 202)? YES ___ NO ___
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (AR 300.04 and ET 203)? YES ___ NO ___
3. The review report was not appropriate in the circumstances? YES ___ NO ___
4. The documentation on this engagement does not evidence compliance with professional standards? YES ___ NO ___
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ___ NO ___

EXHIBIT E-3

CONCLUSIONS - COMPILATION ENGAGEMENTS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe:

1. The firm did not perform the engagement in all material respects in accordance with standards for accounting and review services (ET 202)? YES ___ NO ___
2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the compilation report was not appropriately modified (AR 300.04 and ET 203)? YES ___ NO ___
3. The compilation report was not appropriate in the circumstances? YES ___ NO ___
4. The documentation on this engagement does not evidence compliance with professional standards? YES ___ NO ___
5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES ___ NO ___

PRM Section 19000

19001

AICPA DIVISION FOR CPA FIRMS

OTHER MATTERS

This Section will contain other matters
relevant to the peer review program

AICPA DIVISION FOR CPA FIRMS

TEAM CAPTAIN NEWS

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AUGUST 1992



Team Captain News

AICPA Division For CPA Firms Peer Review Programs

Beginning with this issue, the "Team Captain News" has been expanded to cover both the PCPS and SECPS peer review programs. Additional information relating to the practice-monitoring programs may be obtained by calling (201) 938-3030.

*Guidance on When to Modify for Deficiencies on SSARS Engagements

Oftentimes, reviewers are unsure about how to report deficiencies on engagements performed in accordance with SSARS. Following are some guidelines to help team captains distinguish between unqualified and modified reports:

- If a firm has recurring GAAP deficiencies in interim financial statements that were not correctly reported on in the accountant's report, then the peer review report should be modified for the compilation and/or review practice. Examples include: not accruing income taxes or adjusting inventory and the accountant's report does not mention the GAAP departure, or the issuance of OCBOA financial statements with a GAAP accountant's report.
- If the financial statements are presented correctly and the SSARS problems relate only to routine reporting matters, then only a LOC finding is needed on the matter. Examples include: the accountant's report not covering all the periods presented in the financial statements, or supplemental information not being covered by the report.

*Required Team Captain Training for SECPS Peer Reviewers Due to Scoping Changes in the SECPS Peer Review Standards

Effective April 1, 1993, the SECPS peer review standards require that a team captain on a SECPS peer review attend a peer review training course in 1992 or later. Both the introductory AICPA training course titled "How to Conduct a Review Under the AICPA Practice-Monitoring Programs" and the advanced AICPA course titled "Current Issues in Practice-Monitoring" will fulfill this requirement.

The SECPS Peer Review Committee implemented this peer review training requirement because of major changes in the SECPS peer review standards effective for SECPS peer reviews performed on or after April 1, 1993, requiring a risk-based approach

*These items are new additions to the Newsletter.

for selecting offices and engagements for review. Though the new standards are not required to be implemented until April 1, 1993, earlier application is encouraged.

A recommendation was made recently by a joint task force of the three practice-monitoring committees to require that team captains participate in eight hours of CPE in practice-monitoring issues every five years. The three committees will consider making this change to their respective standards in the fall.

*Engagements Reported on the Summary Review Memorandum

The "number of engagements" reported in the Summary Review Memorandum should include all monthly, quarterly and annual audits, reviews and compilations for which reports were issued.

*Retention of Peer Review Working Papers

Team captains should retain only the peer review report, the LOC and the firm's response (if applicable), the letter accepting the peer review report, and the letter documenting the firm's compliance with actions taken as a result of the committee's consideration of the report until the completion of the subsequent review required for continued membership or until the time for such review has elapsed. All other materials should not be retained—**PCPS**: 90 days after the committee issues a letter accepting the peer review report; **SECPS**: 90 days after acceptance by the peer review committee.

Letter of Comments

To help decrease the number of letters of comments being revised before acceptance by the Committees, team captains should consider the following guidelines:

- Be careful not to write comments that appear to set accounting and auditing standards that are higher than those mandated by professional standards. For example, findings should not be

worded to state "The firm does not provide its professional staff with reporting and disclosure checklists for use on review and compilation engagements. As a result . . ." This incorrectly implies that reporting and disclosure checklists are required by SSARS on compilation and review engagements.

- Be careful not to overemphasize the use of standardized forms and checklists as part of a firm's quality control system. Although forms and checklists may be helpful in many circumstances, their use will not cure all deficiencies. Think carefully about the cause of the deficiency and whether a more effective recommendation would provide a cure.
- Do not recommend the use of specific quality control materials in the letter of comments. Recommend that outside quality control materials be purchased without mentioning the name of a vendor.
- *• Don't be too general when writing a finding in the letter of comments. Be specific and describe, for example, the areas in which documentation was lacking or the type of disclosure deficiencies. When findings are specific, it helps both team captains and the peer review committees in determining whether a finding is a repeat comment.
- *• Don't include "Matters That Did Not Result in a Modified Report" in the LOC if the report is unqualified.
- *• Sign the report and LOC for firm-on-firm reviews in the reviewed firm's name, not the team captain's name.

Reviewed Firm's Letter of Response

Frequently, a firm's letter of response (LOR) does not directly address the recommendations contained in the letter of comments (LOC), and this slows down the acceptance process. To assist firms being reviewed, the Committees suggest that team captains consider the following:

- At the exit conference, make sure the reviewed firm understands the nature of each finding included in the LOC.
- Refer the firm to "Suggestions for Writing a Response to a Letters of Comments" contained in the *PCPS Reference Manual*, PCPS §2300 and *SECPS Reference Manual*, SECPS §2300.
- Offer to review a draft of the reviewed firm's LOR before it is submitted to the Quality Review Division.
- *• Remind the reviewed firm that the letter of response should (a) contain a statement that the

*These items are new additions to the Newsletter.

firm will give emphasis to the items discussed in the LOC during its next inspection, and (b) be signed in the firm name. The signature on the letter of response should be signed in the same manner as on auditors' and accountants' reports.

Inspection

Reviewers and firms should be aware that all periods must be covered by either an inspection or the peer review.

PCPS: A modified report is not automatic whenever a member firm has not completed an inspection. For member firms who should have completed an inspection, team captains should follow these guidelines for dealing with the deficiency:

- If the other findings on the peer review are relatively insignificant, discussion of the failure to perform an inspection should be limited to the exit conference.
- If it is likely that other findings would have been detected if the firm had performed an inspection, the matter should be reported in the letter of comments.
- If the other findings on the peer review are significant and an inspection would have detected those deficiencies, then the team captain should consider including inspection as one of the findings modifying the report.

***SECPS:** The lack of performing an inspection should always result in a LOC finding regardless of the other findings on the peer review. In addition, the guidance included in the third bullet above under PCPS, is also applicable to SECPS.

*SECPS Concurring Partner Review

If a qualifying review was not performed on all SEC engagements of the firm, then the peer review report should automatically be modified for SECPS membership requirements. To qualify, a review must be performed on a pre-issuance basis and include selected engagement working papers. The Committee has determined that a principal of a firm does not qualify as a concurring reviewer under the membership requirement.

Team Captain's Responsibility on "Closing the Loop" and Reporting on Substandard Engagements Noted During a Peer Review

When a team captain encounters situation(s) of substandard engagements, missing or incomplete disclosures, or documentation deficiencies that are reported in the LOC, the reviewer would ordinarily

“close the loop” to indicate to the Committee and other users of the peer review documents, that necessary corrective actions, if any, were taken.

PCPS: If a reviewer is able to draw a conclusion to “close the loop” on a finding then s/he should do so; however, if a reviewer is unable to reach this conclusion, then the reviewed firm is obligated to indicate a resolution through its letter of response. Notwithstanding this, on all substandard engagements the team captain is obligated to discuss the matter in the Summary Review Memorandum, outline the firm’s course of action to correct the deficiency and indicate whether s/he agrees with the firm’s action. Therefore, when referring to substandard engagements in the letter of comments, it is expected that the team captain will be able to “close the loop.” During the acceptance process, the Committee will consider whether follow-up action is necessary to resolve any matters that are not already completed. **SECPS:** The team captain is expected to review the corrective action(s) taken by the firm on any substandard engagements discovered during the peer review. If, when the review is accepted by the SECPS Peer Review Committee, the firm has not completed the corrective action or the team captain has not completed such review, then the peer review documents will be accepted with the understanding that the firm agree to permit the outside party to perform the review and a due date will be assigned.

Scope of Engagement Selection on Reviews

In setting the scope of the review, just like the scope of an audit, the reviewed firm’s quality control system should be understood, review risk evaluated, and a review approach and program developed.

*Effective for 1992 reviews and after, the peer review committees agreed that on reviews of firms with ten or fewer professionals, the reviewer may limit his/her review of certain functional areas.

PCPS: allows reviewers to limit the review to specific tests of independence, supervision, consultation, professional development, and inspection. **SECPS:** adds acceptance and continuance of clients as a functional area that must be reviewed.

PCPS: The *Standards* contained in the *PCPS Reference Manual* indicate that a review team should generally select 5–10% of the accounting and auditing hours of a firm. In some instances, reviewers have followed the above guidelines but did not achieve the goal of reviewing a reasonable cross section of the firm’s practice.

*These items are new additions to the Newsletter.

The guidance contained in “Appendix C—Selecting Engagements for Review” (*PCPS Reference Manual*, PCPS §2000.130) focuses the reviewer’s attention on obtaining adequate engagement coverage through consideration of the “key area” concept. The Committee suggests reviewers focus on QUALITATIVE, rather than quantitative, aspects when selecting engagements to be reviewed.

Also, team captains are reminded that interim compilations are subject to selection (e.g., computer-generated compilations that omit substantially all disclosures) and a representative sample should be selected if the firm performs more than an infrequent number of these engagements.

Government Audits

Peer reviewers have frequently found that certain reports relating to internal controls and legal compliance have not been issued on audit engagements performed under *Government Audit Standards*. Since these *Standards* require that the reports be issued, practitioners have a responsibility to issue them whether or not the cognizant agency wants or specifies them. This finding is typically reported under “Consultation.” Some other commonly found deficiencies on governmental engagements are:

- Issuing an inappropriate opinion.
- Omitting required reports or submitting incomplete reports.
- Citing GAAP when non-GAAP was used.
- Failing to adequately test internal controls and/or compliance.
- Failing to obtain an adequate understanding of the major programs during the planning phase, which resulted in poorly designed plans and inadequate identification or testing of controls.
- Failing to adequately document all procedures performed during the audit as required by *Government Audit Standards*, including tests of internal controls and compliance testing.

Interpretation of “Professionals” for the Membership Requirements on CPE

Quality Review Division staff receive numerous phone calls from practitioners seeking guidance as to whether particular individuals in their firms fall within the Section’s CPE membership requirements for “professional” staff (*PCPS Reference Manual*, PCPS §6000 and *SEC Practice Section Reference Manual*, SECPS §8000). The quality control element of professional development obligates firms to provide appropriate education to enable all their personnel to fulfill the responsibilities assigned. The decision as to which individuals are

considered “professionals” should be left to the firm. Team captains should only review this decision for reasonableness within these guidelines:

- CPAs and individuals qualified to seek that status fall within the Section’s CPE membership requirements.
- Part-time professional employees who work on a year-round basis would usually be required to take CPE but the number of required hours can depend on various factors.
- Seasonal employees are not required to have participated in a minimum number of CPE credit hours.
- Non-accountant professionals who are employed by CPA firms (actuaries, systems analysts, etc.) are professionals for purposes of the membership requirement, and should be provided with appropriate CPE in their field.
- Individuals that provide client service regardless of their education could be considered “professionals” in certain circumstances depending on the duties they perform.

Qualifications for Service as Reviewers and Reviewing Firms

The Committees have received numerous requests from firms and individuals asking for exemptions to the qualifications of reviewers and reviewing firms in the *PCPS and SECPS Standards for Performing and Reporting on Peer Reviews*. Exemptions requested are primarily in three categories:

- Individuals in firms that have not yet been reviewed.
- Firms with no A&A practice that were established primarily to provide consulting services to CPA firms.
- Firms that have had a quality review and take the special election to have their quality review documents placed in the public file and be treated as the equivalent of a PCPS or SECPS peer review.

The Committees agreed that the interest of the firms are best served by not allowing any exceptions to the *Standards*.

Scheduling

The team captain checklist asks reviewers to make certain that the reviewed firm has received a letter

from the Quality Review Division confirming that it has received the information about the firm and the review team. If the letter has not been received, team captains are asked to contact the Quality Review Division to ensure that the review has been properly scheduled. Whenever there is a change in the exit conference date, the team captain should notify the Quality Review Division (QRD) as soon as the change is known.

SECPS: It is important to timely notify the QRD staff of changes in the exit conference date because team captains in that Section are now required to mail or FAX an “Early Notification Form” to the QRD within three days of holding the exit conference. This form will alert the QRD staff of any unresolved issues on the review that will cause the team captain to delay issuing the peer review report and letter of comments.

Extensions

The Committees approved guidelines for the Quality Review Division staff and the Chairmen to follow when considering requests for extensions of peer review due dates. These guidelines will significantly reduce the number of extension requests that are considered by the Committees:

- Extensions will not be granted beyond the end of a calendar year except under extreme circumstances.
- Extensions will be considered when a firm has had a significant change in its organizational structure during or subsequent to the peer review year.

Timetable for Peer Review Report Acceptance Process

After completing a review, a team captain has 30 days from the exit conference date to issue the final report and LOC. Upon receipt, the reviewed firm is allowed 30 days to write its response and submit the report, LOC and LOR to the Quality Review Division. The QRD then performs its technical review of the materials on behalf of the Committee. Reviewers should communicate to firms that this process takes a minimum of 90 days from the exit conference date before a report is considered by the peer review committee.

*These items are new additions to the Newsletter.

Last Update Letter



November 1993

To Member Firms of the AICPA Division for CPA Firms

Update No. 5 to the Division for CPA Firms Peer Review Manual

Enclosed is the update to the Division for CPA Firms Peer Review Manual. Separate filing instructions are enclosed. The following is a description of the major changes and additions reflected in these materials:

Instructions to Reviewers

This section was reissued as two sections to clarify instructions to reviewers performing PCPS and SECPS peer reviews. PRM Section 11200.49 "Appendix 1—Revisions to Instructions for Reviewers for team captains who elect early implementation of the revised SECPS Peer Review Standards on Scoping," issued in April 1992, is now incorporated in PRM Section 11250, "SEC Practice Section—Instructions to Reviewers."

(PRM Sections 11210 and 11250)

Team Captain Checklists

The SECPS and PCPS Review Team Captain Checklists have been revised to require team captains to inquire whether the firm has had a previous peer or quality review and request a copy of the report, letter of comments, letter of response, and the letter accepting those documents from the reviewed firm.

It has also been revised to reflect the requirement that a least one audit of a federally insured depository institution engagement with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act be included in the scope of a peer review, if the review is intended to satisfy the requirement established by the Federal Deposit Insurance Corporation Improvement Act of 1991.

(PRM Sections 12120, 12160, 12220 and 12250)

Peer Review Program Guidelines

Sections 1 and 2 of the Peer Review Program Guidelines have been revised to conform with the terminology set forth in SAS No. 55 "Consideration of the Internal Control Structure in a Financial Statement Audit."

(PRM Sections 13200 and 13300)

Engagement Review Checklists

All of the engagement review checklists were revised this year to reflect newly issued or effective pronouncements. The "Supplemental Checklist for Review of Audits of Employee Benefits Plans" was revised to incorporate additional questions in the areas of audit working papers, financial statement reporting and disclosures, functional areas of quality control and conclusions. This checklist is now known as the "Checklist for Review of Audits of Employee Benefit Plans."

(PRM Section 14900)

Guidelines for A Report Review

The instructions, reviewed firm checklists, and reviewer checklists have been revised to conform with the new performance and reporting requirements described in PCPS Section 2600, "Guidelines for a Report Review" of the *Private Companies Practice Section Reference Manual*. These materials should be used for reviews beginning on or after April 1, 1994, unless the reviewed firm elects early adoption.

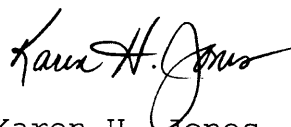
(PRM Sections 16100, 16200 and 16300)

Please write if you have any questions about update No. 5.

Sincerely,



R. Bruce Brasell, CPA
Senior Technical Manager
Quality Review



Karen H. Jones, CPA
Senior Technical Manager
Quality Review

**Instructions for Filing Update No. 5 to the
Division for CPA Firms Peer Review Manual**

The following materials in the loose-leaf manual should be removed and replaced in accordance with the filing instructions below.

Division for CPA Firms Peer Review Manual	<u>Pages to Remove</u>	<u>Pages to Insert</u>
	Title page/ copyright page	Title page/ copyright page
	Table of Contents	Table of Contents
<hr/>		
Section 11000		
<i>Introduction</i>	11003 - 11004	11003 - 11004
<i>Instructions to Firms</i>	11103 - 11111	11103 - 11111
<i>Instructions to Reviewers</i>	11201 - 11221	11201
- PCPS	---	11211 - 11224
- SECPS	---	11251 - 11269
<hr/>		
Section 12000		
<i>Team Captain Checklists - SECPS</i>	12121 - 12154	12121 - 12156
	12161 - 12170	12161 - 12170
	12173 - 12185	12173 - 12185
	12189 - 12192	12189 - 12192
<i>Team Captain Checklists - PCPS</i>	12221 - 12244	12221 - 12244
	12249 - 12276	12249 - 12278
<hr/>		
Section 13000		
<i>Peer Review Program Guidelines</i>	13213 - 13216	13213 - 13216
	13227 - 13228	13227 - 13228
	13315 - 13316	13315 - 13316
	13337 - 13338	13337 - 13338
	13365 - 13366	13365 - 13366
	13377 - 13378	13377 - 13378
<hr/>		
Section 14000		
<i>Engagement Review Checklists</i>	Table of Contents 14001	Table of Contents 14001
<i>Instructions</i>	14101 - 14104	14101 - 14104
<i>Compilation Engagement Checklist</i>	14201 - 14229	14201 - 14229
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**Instructions for Filing Update No. 5 to the
Division for CPA Firms Peer Review Manual
(Continued)**

	<u>Pages to Remove</u>	<u>Pages to Insert</u>
Section 14000 (continued)		
<i>Review Engagement Checklist</i>	14301 - 14325	14301 - 14327
<i>Audit Engagement Checklist</i>	14401 - 14447	14401 - 14449
<i>Employee Benefit Plan Engagement Checklist</i>	14540.1 - 14540.16	Insert the tab marked PRM Section 14900 "Employee Benefit Plan Checklist" immediately after page 14827 followed by pages 14901 - 14945
<i>Audit Engagement Supplements</i>	Table of Contents 14501	Table of Contents 14501
<i>Depository Institution Engagements</i>	14510.1 - 14510.13	14510.1 - 14510.16
<i>Voluntary Health and Welfare Organizations Engagements</i>	14520.1 - 14520.9	14520.1 - 14520.11
<i>Construction Contractor Engagements</i>	14530.1 - 14530.10	14530.1 - 14530.10
<i>Common Interest Realty Association Engagements</i>	14550.1 - 14550.11	14540.1 - 14540.10
<i>Providers of Health Care Service Engagements</i>	14560.1 - 14560.13	14550.1 - 14550.14
<i>HUD Engagements</i>	14570.1 - 14570.21	14560.1 - 14560.41
<i>Governmental Engagement Checklist</i>	14601 - 14665	14601 - 14665
<i>Not-for-Profit Engagement Checklist</i>	14701 - 14757	14701 - 14757
<i>Prospective Financial Statement Engagement Checklist</i>	14801 - 14827	14801 - 14827
<hr/>		
Section 15000		
<i>Summary Compilation Checklist</i>	15101 - 15115	15101 - 15120
<i>Summary Review Checklist</i>	15201 - 15217	15201 - 15218
<i>Summary Audit Checklist</i>	15301 - 15376	15301 - 15384
<hr/>		
Section 16000		
<i>Guidelines for a Report Review</i>	16001 - 16003	16001 - 16003
<i>Instructions to Firms Having a Report Review</i>	16101 - 16102	16101 - 16102
<i>Report Review Program Reviewed Firm Checklists</i>	16201 - 16209	16201 - 16209
<i>Reviewer Checklists</i>	16301 - 16314	16301 - 16314
<i>Engagement Review Checklists</i>	16411 - 16423	16411 - 16424
	16431 - 16437	16431 - 16437
<hr/>		
Last Update Letter	---	Update Letter No. 5



Division for CPA Firms

American Institute of Certified Public Accountants

Harborside Financial Center
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Jersey City, NJ 07311-3881
(201) 938-3030 Facsimile: (201) 938-3056

March 1993

To Member Firms of the AICPA Division for CPA Firms

Update No. 4 to the Division for CPA Firms Peer Review Manual

Enclosed is the update to the Division for CPA Firms Peer Review Manual. Separate filing instructions are enclosed. The following is a description of the major changes and additions reflected in these materials:

Team Captain Checklists

The SECPS and PCPS Review Team Captain Checklists have been revised to require that regulatory restrictions be considered since the firm joined the Division for CPA Firms rather than just the applicable practice section. In addition, the SECPS Summary Review Memorandum has been revised to describe actions the team captain should take in connection with corrective actions taken by the firm on a substandard engagement.

Engagement Review Checklists

The Supplemental Checklist for Banking Engagements has been revised for use on audits of depository institutions including banks, savings institutions, etc., and to reflect newly issued or effective pronouncements. This supplemental checklist is now known as the **Supplemental Checklist for Review of Depository Institutions Audit Engagements** to reflect its expanded scope.

In addition, two new checklists have been added: **Supplemental Checklist for Review of Providers of Health Care Service Engagements** and the **Supplemental Checklist for Review of Audits of HUD Engagements**.

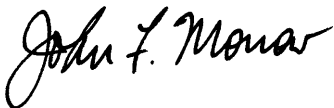
Member Firms
March 1993
Page 2

PCPS Peer Review Program Guidelines

Section 4 of the PCPS Peer Review Program Guidelines has been revised to allow the team captain to document his/her conclusions on the reviewed firm's compliance with the membership requirements of the Section.

Please write if you have any questions about update No. 4.

Sincerely,

A handwritten signature in cursive script that reads "John F. Morrow".

John F. Morrow, CPA
Director
Peer Review Programs

**Instructions for Filing Update No. 4 to the
Division for CPA Firms Peer Review Manual**

The following materials in the loose-leaf manual should be removed and replaced in accordance with the filing instructions below.

	<u>Pages to Remove</u>	<u>Pages to Insert</u>
Division for CPA Firms Peer Review Manual	Title page/ copyright page	Title page/ copyright page
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Section 11000		
<i>Instructions to Reviewers</i>	11203 - 11204	11203 - 11204
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Section 12000		
<i>Team Captain Checklists - SECPS</i>	12121 - 12130	12121 - 12130
	12141 - 12142	12141 - 12142
	12161 - 12170	12161 - 12170
	12181 - 12182	12181 - 12182
<i>Team Captain Checklists - PCPS</i>	12223 - 12224	12223 - 12224
	12251 - 12254	12251 - 12254
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Section 13000		
<i>Peer Review Program Guidelines</i>	13215 - 13216	13215 - 13216
	13229 - 13230	13229 - 13230
	13365 - 13366	13365 - 13366
	13379 - 13380	13379 - 13380
	13529 - 13530	13529 - 13530
	13559	13559 - 13560
<hr/>		
Section 14000		
<i>Audit Engagement Supplements</i>	Table of Contents 14501	Table of Contents 14501
<i>Depository Institutions Audit Engagements</i>	14511 - 14520	14510.1 - 14510.13
<i>Providers of Health Care Service Engagements</i>	---	14560.1 - 14560.13
<i>HUD Engagements</i>	---	14570.1 - 14570.21
<hr/>		
Last Update Letter	---	Update Letter No. 4



Division for CPA Firms

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December 1992

To the Managing Partners of Member Firms of the
AICPA Division for CPA Firms

Update No. 3 to the Division for CPA Firms Peer Review Manual

Enclosed is the update to the *Division for CPA Firms Peer Review Manual*. Separate filing instructions are enclosed. The following is a description of the major changes reflected in these materials:

Team Captain Checklists

The SECPS and PCPS team captain checklists have been revised to require team captains to inquire whether or not the firm or its personnel have had any restrictions or limitations placed upon them by a regulatory, monitoring or enforcement body that were in effect during the period since the firm's last peer review.

Engagement Review Checklists

All of the engagement review checklists were revised this year to reflect newly issued or effective pronouncements, including two new checklists: **Checklist for Review of Prospective Financial Statement Engagements** and **Supplemental Checklist for Review of Common Interest Realty Associations**.

Certain checklists are not included in this package, but will be distributed in March 1993 - **Supplemental Checklist for Bank Audit Engagements** and **Supplemental Checklist for Review of Providers of Health Care Service Engagements**.

Please write if you have any questions about update No. 3.

Sincerely,

John F. Morrow, CPA
Director
Peer Review Programs

**Instructions for Filing Update No. 3 to the
Division for CPA Firms Peer Review Manual**

The following materials in the loose-leaf manual should be removed and replaced in accordance with the filing instructions below.

Division for CPA Firms Peer Review Manual	<u>Pages to Remove</u>	<u>Pages to Insert</u>
	Title page/ copyright page	Title page/ copyright page
Section 11000		
<i>Introduction</i>	11003 - 11004	11003 - 11004
<i>Instructions to Firms</i>	11101 - 11111	11101 - 11111
Section 12000		
<i>Team Captain Checklists - SECPS</i>	12121 - 12126	12121 - 12126
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	12161 - 12170	12161 - 12170
	12189 - 12192	12189 - 12192
<i>Team Captain Checklists - PCPS</i>	12221 - 12248	12221 - 12250
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	12275 - 12276	12275 - 12276
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<i>PCPS Peer Review Program Guidelines</i>	13367 - 13368	13367 - 13368
	13385	13385
Section 14000		
<i>Engagement Review Checklists</i>	Table of Contents 14001	Table of Contents 14001
<i>Compilation Engagement Checklist</i>	14201 - 14227	14201 - 14229
<i>Review Engagement Checklist</i>	14301 - 14327	14301 - 14325
<i>Audit Engagement Checklist</i>	14401 - 14449	14401 - 14447

**Instructions for Filing Update No. 3 to the
Division for CPA Firms Peer Review Manual (Continued)**

Section 14000 (continued)	<u>Pages to Remove</u>	<u>Pages to Insert</u>
<i>Audit Engagement Supplements</i>	Table of Contents 14501	Table of Contents 14501
<i>Voluntary Health and Welfare Organizations Engagements</i>	14531 - 14539	14520.1 - 14520.9
<i>Construction Contractor Engagements</i>	14551 - 14560	14530.1 - 14530.10
<i>Audits of Employee Benefit Plans</i>	14571 - 14585	14540.1 - 14540.16
<i>Common Interest Realty Association Engagements</i>	---	14550.1 - 14550.11
<i>Governmental Engagement Checklist</i>	14601 - 14663	14601 - 14665
<i>Not-for-Profit Engagement Checklist</i>	14701 - 14755	14701 - 14757
<i>Prospective Financial Statement Engagement Checklist</i>	---	Insert the tab marked PRM Section 14800 "Prospective Financial Engagement Checklist" immediately after 14757.
	---	Insert 14801 - 14827 immediately after tab PRM Section 14800.
<hr/>		
Section 15000		
<i>Summary Compilation Checklist</i>	15101 - 15115	15101 - 15115
<i>Summary Review Checklist</i>	15201 - 15217	15201 - 15217
<i>Summary Audit Checklist</i>	15301 - 15374	15301 - 15376
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Section 16000		
<i>Report Review Program Reviewed Firm Checklists</i>	16201 - 16202	16201 - 16202
<i>Reviewer Checklists</i>	16301 - 16302	16301 - 16302
	16313 - 16314	16313 - 16314
<i>Engagement Review Checklists</i>	16411 - 16424	16411 - 16423
	16431 - 16440	16431 - 16437
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Section 17000		
<i>Reviews of Firms With No A&A Practice</i>	17003 - 17005	17003 - 17005
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Section 19000		
<i>TC Newsletter</i>	19101	19101
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<hr/>		
Last Update Letter	---	Update Letter No. 3

**Instructions for Filing Update No. 2 to the
Division for Firms Peer Review Manual
(Loose-leaf Edition)**

The following materials in the loose-leaf manual should be removed and replaced with the contents of this package, according to the following filing instructions:

- | | |
|---|---|
| Title Page | <ul style="list-style-type: none">● Remove the title page and copyright page and replace with the enclosed title page and copyright page. |
| Table of Contents | <ul style="list-style-type: none">● Remove the Table of Contents and replace with the enclosed Table of Contents. |
| <u>PRM Section 11200</u>
Instructions to
Reviewers | <ul style="list-style-type: none">● Remove the Table of Contents and replace with the enclosed Table of Contents.● Remove pages 11215 and 11216 and replace with the enclosed pages 11215 through 11221. |
| <u>PRM Section 12100</u>
SECPS Team Captain
Checklists | <ul style="list-style-type: none">● Remove pages 12101 through 12194 and replace with the enclosed pages 12101 through 12192. |
| <u>PRM Section 12200</u>
PCPS Team Captain
Checklists | <ul style="list-style-type: none">● Remove pages 12201 through 12278 and replace with the enclosed pages 12201 through 12276. |
| <u>PRM Section 13000</u>
Peer Review Program
Guidelines | <ul style="list-style-type: none">● Table of Contents: Remove page 13003 and replace with the enclosed page 13003. |
| <u>PRM Section 13100</u>
Instructions | <ul style="list-style-type: none">● Remove pages 13101 through 13105 and replace with the enclosed pages 13101 through 13106. |
| <u>PRM Section 13200</u>
Section 1: Quality
Control Questionnaire | <ul style="list-style-type: none">● Remove page 13201 and replace with the enclosed page 13201.● Remove pages 13203 through 13215 and replace with the enclosed pages 13211 through 13233. |
| <u>PRM Section 13300</u>
Section 2: Peer Review
Program Procedures | <ul style="list-style-type: none">● Remove page 13301 and replace with the enclosed page 13301.● Remove pages 13303 through 13328 and replace with the enclosed pages 13311 through 13385. |

PRM Section 13400
Section 3: Staff
Interview Questionnaire

- Remove page 13401 and replace with the enclosed page 13401.
- Remove pages 13403 through 13407 and replace with the enclosed pages 13411 through 13416.

PRM Section 13500
Section 4: Conclusions

- Remove page 13501 and replace with the enclosed page 13501.
- Remove pages 13503 through 13521 and replace with the enclosed pages 13511 through 13559.

PRM Section 14000
Engagement Review
Checklists

- Table of Contents: Remove page 14001 and replace with the enclosed page 14001.

PRM Section 14200
Compilation Engagement
Checklist

- Remove pages 14201 through 14226 and replace with the enclosed pages 14201 through 14227.

PRM Section 14300
Review Engagement
Checklist

- Remove pages 14301 through 14328 and replace with the enclosed pages 14301 through 14327.

PRM Section 14400
Audit Engagement
Checklist

- Remove pages 14401 through 14446 and replace with the enclosed pages 14401 through 14449.

PRM Section 14600
Governmental
Checklist

- Remove pages 14601 through 14660 and replace with the enclosed pages 14601 through 14663.

PRM Section 14700
Not-for-Profit
Checklist

- Remove pages 14701 through 14753 and replace with the enclosed pages 14701 through 14755.

PRM Section 14500
Audit Engagement Supplements

Table of Contents

- Remove page 14501 and replace with the enclosed page 14501.

PRM Section 14510
Bank Audit Engagements

- Remove pages 14511 through 14520 and replace with the enclosed pages 14511 through 14520.

PRM Section 14530
Voluntary Health and
Welfare Organizations
Engagements

- Insert pages 14531 through 14539 immediately after page 14520. Pages 14521 through 14530 are intentionally missing.

PRM Section 14550
**Construction Contractor
Engagements**

- Insert pages 14551 through 14560 immediately after page 14539. Pages 14540 through 14550 are intentionally missing.

PRM Section 14570
**Audits of Employee
Benefit Plans**

- Insert pages 14571 through 14585 immediately after page 14560. Pages 14561 through 14570 are intentionally missing.

**Summary Engagement Review
Checklists**

PRM Section 15100
**Summary Compilation
Checklist**

- Remove pages 15101 through 15115 and replace with the enclosed pages 15101 through 15115.

PRM Section 15200
**Summary Review
Checklist**

- Remove pages 15201 through 15217 and replace with the enclosed pages 15201 through 15217.

PRM Section 15300
**Summary Audit
Checklist**

- Remove pages 15301 through 15378 and replace with the enclosed pages 15301 through 15374.

PRM Section 16000
Report Review Program

- Remove pages 16101 and 16102 and replace with the enclosed pages 16101 and 16102.
- Remove pages 16201 and 16202 and replace with the enclosed pages 16201 and 16202.
- Remove pages 16301 through 16304 and replace with the enclosed pages 16301 through 16303.
- Remove pages 16431 and 16432 and replace with the enclosed pages 16431 and 16432.

PRM Section 18000
**Guidance for
Performing an Inspection**

- Table of Contents: Remove page 18001 and replace with the enclosed page 18001.

PRM Section 18100
SECPS

- Remove title page and copyright page and replace with the enclosed title page and copyright page.
- Remove tab marked PRM Section 18100 "SECPS" and pages 18103 through 18141.
- Insert the enclosed pages 18103 through 18132 immediately after the Title page.

PRM Section 18200
PCPS

- Remove title page and copyright page.
- Remove tab marked PRM Section 18200 "PCPS" and pages 18203 through 18232.

PRM Section 19100
TC Newsletter

- Insert tab marked "PRM Section 19100 - TC Newsletter" immediately after page 19001.

Last Update Letter

- Insert tab marked "Last Update Letter" immediately after page 19112.
- Insert the cover letter and these instructions immediately after the Last Update Letter tab as a record of the revisions made.