1987

Guide for Performing Inspections

American Institute of Certified Public Accountants. Private Companies Practice Section

AICPA Division
for CPA Firms

Private Companies
Practice Section

Guide for Performing Inspections

PREFACE

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.

The benefits to be derived from a properly designed and executed inspection program include:

- An evaluation of overall firm compliance with established policies and procedures.
- A basis for the evaluation of the effectiveness and applicability of established policies and procedures.
- An identification of system and reporting deficiencies as they relate to specific engagements.
- 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.

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:

- Section I - A general description of an inspection program, including such matters as the objectives, timing and scope of an inspection program.
- Section II - Questions and answers concerning the inspection program.
- Section III - Sample work programs, including an illustrative summary inspection report.

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.

CONTENTS

		PAGE
I	Guide for Performing Inspections	IG-7
II	Questions and Answers	IG-15
III	Illustrative Materials for Performing Inspections	IG-23
	Exhibit A - Illustrative Summary Inspection Report	IG-25
	Exhibit B - Firm's Corrective Actions Taken or Planned	IG-29
	Exhibit C - Program for Inspection of Compliance with Policies and Procedures Relating to the Elements of Quality Control	IG-31
	Exhibit D - Optional Program for the Review of Compliance with the Membership Requirements	IG-35
	Exhibit E-1 - Conclusions - Audit Engagements	IG-37
	Exhibit E-2 - Conclusions - Review Engagements	IG-38
	Exhibit E-3 - Conclusions - Compilation Engagements	IG-39

SECTION I

GUIDE FOR PERFORMING INSPECTIONS

SECTION I

GUIDE FOR PERFORMING INSPECTIONS

OBJECTIVES OF AN INSPECTION

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.

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.

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

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.

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.

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 page 2-10 of the PCPS Peer Review Manual on qualifications for reviewers).

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.

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

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.

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.

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 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

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:

- Selected administrative and personnel files.

---

[1] Interpretation 2.03 of quality control standards on page A-10 of the PCPS Peer Review Manual states that an inspection should be performed at least annually.

[2] See page 2-12 and 2-13 in the PCPS Peer Review Manual.

- Selected engagement files, including working papers, reports and financial statements.

Review of Compliance with Policies and Procedures Relating to the Elements of Quality Control

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.

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

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 selection 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:

- Audits of publicly-held companies.
- Large, complex, or high-risk.
- The reviewed firm's initial audits of clients.
- Audits conducted pursuant to the Single Audit Act of 1984.

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.

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]

---

[3]See page 2-19 in the PCPS Peer Review Manual.

[4]See pages 2-20 and 2-54 in the PCPS Peer Review Manual for further discussion of the "extent of engagement review."

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.

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.

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 inspection 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

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 pol-icies 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

At the conclusion of the inspection, written inspection reports should be prepared covering the following matters:

- Scope of the review.
- Conclusions with respect to the conformity of individual engagements reviewed with professional standards.
- 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.
- 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.

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

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--

- Illustrative summary inspection report (see Exhibit A).
- Report of firm's corrective action taken or planned (see Exhibit B).
- Program for inspection of compliance with policies and procedures relating to the elements of quality control (see Exhibit C).
- Optional program for the review of compliance with the membership requirements (see Exhibit D).
- Sample conclusion pages for engagements reviewed (these pages need not be retained after inspection findings have been summarized) (see Exhibit E).

Firms may utilize these materials, or they may develop their own, for performing and documenting their inspections.

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

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 (see Exhibit B).

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.

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

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 on page A-9 in the PCPS Peer Review Manual.)

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.

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.

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 implications 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.

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[1] 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." 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

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).

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.

Q. Can sole practitioners (with or without professional staff) and smaller firms inspect their own work?

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 the peer review loose-leaf manuals. 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 on page A-11 in the PCPS Peer Review Manual.)

---

[1]See page A-10 in the PCPS Peer Review Manual.

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:

- Experience of the outside inspectors.
- Areas of expertise.
- Familiarity with quality control and professional standards.

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

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.

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.

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.

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 on page A-12 of the PCPS Peer Review Manual.)

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

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.

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.

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 on page 2-54 in the PCPS Peer Review Manual.)

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.

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

Exhibit A	Illustrative Summary Inspection Report
Exhibit B	Corrective Actions Taken or Planned
Exhibit C	Program for Inspection of Compliance with Policies and Procedures Relating to the Elements of Quality Control
Exhibit D	Optional Program for the Review of Compliance With the Membership Requirements
Exhibit E	Sample Conclusion Pages for Engagements Reviewed

EXHIBIT A

AICPA 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:

	Firm Totals		Engs. Reviewed	
	Hrs.	No. of Engs.	Hrs.	No. of Engs.
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 on page IG-11 of this guide.

[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

	Yes	No	N/A	Extent of Testing
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?				
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?				

*This program has been designed primarily for single office firms.

	Yes	No	N/A	Extent of Testing
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?				
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?				

	Yes	No	N/A	Extent of Testing
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?				
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?				

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	Yes	No	N/A	Extent of Testing
1. Is each proprietor, shareholder, or partner of the firm resident 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 and annual education reports with the section?				

_____ 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 204)? 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 204)? 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 ___